

**UPPER NEW YORK ANNUAL CONFERENCE
of the United Methodist Church**

**Modified Replacement Cost Casualty Insurance Coverage
Information You Should Know**

Modified Replacement Cost (MRC), also known as Functional Replacement Cost, is a way of valuing property for insurance purposes. Instead of insuring to restore damaged property to its original state, MRC insures for enough to repair damage using commonly available materials and construction techniques in the case of partial loss, or to build or purchase another property with enough space and amenity to suit the needs of the congregation in case of total loss. ***The aim of MRC is to restore functionality rather than replicate historic quality, detail, or size.***

Not all properties are alike; not all congregations are alike. Your casualty insurance coverage should be appropriate for your property, your use of it, and your intentions for ministry in the future. While Full Replacement Cost coverage, our Conference standard, offers the most coverage at the lowest rate:

Modified Replacement Cost coverage may be appropriate if:

1. Your congregation is certain that in case of total loss of your current facility, it would rebuild or purchase and refit a substantially less expensive building in which to continue ministry *because your future ministry needs can be satisfactorily housed in a smaller, and/or less ornate, and/or different kind of building than the one you currently occupy.*
2. Your congregation is certain that in case of partial loss it would be satisfied with repairs that do not match existing historical materials or details.
3. Replacement value is very disproportionate to market value
4. The building in question has a full replacement value of more than \$375,000.
5. A responsibly derived Modified Replacement Cost value is at least 30% less than your current Full Replacement Cost value.
6. Your current building is in good repair.

Modified Replacement Cost coverage probably is NOT appropriate if:

1. Your building has National, New York State, or local historic designation - the rules for some such designations do not allow MRC coverage.
2. Your congregation fully uses or anticipates growing to need all of the space and amenity available in your current facility.
3. Your congregation would want to replicate your current facility.
4. The market value of your building is close to the replacement value.
5. Your building is inadequately maintained.
6. The building in question is a residence. Parsonages are not eligible for MRC.

Valuation

Modified Replacement Cost value must be researched by the local congregation, affirmed at the district level, and then negotiated with Church Mutual. To do this, the local congregation needs to carefully determine what kind of building they would develop in the

event of a total loss of their current structure. Planning should include the type of construction, the size, the number of rooms and whatever amenities would need to be included. From this, an informed estimate should be derived, preferably with the help of a building professional. In most cases, Church Mutual will accept this estimate as long as it is reasonable and backed up with good information showing how it was derived.

Additional cost considerations include the following:

Demolition coverage - There is no provision for demolition costs in Modified Replacement Coverage. This would need to be purchased separately and is a requirement if you choose MRC coverage.

To aid your initial consideration of whether MRC may make sense for your congregation, Church Mutual offers the following: It can be difficult to estimate the amount of money which might be required to demolish a building. A rule of thumb is to take 50% of the building area of all floors (excluding the basement) and multiply it by a sq. ft. cost of:

<u>Construction Type</u>	<u>Sq. Ft. Demolition Cost</u>
Fire Resistive	\$4.70
Masonry Noncombustible	\$5.55
Brick	\$3.60
Frame	\$3.05

These costs assume there is no salvage value in the building to be demolished.

If asbestos is present, add an additional cost of \$32/square foot for areas containing asbestos. Other factors which could increase demolition costs include, but are not limited to, a building location in a congested area or large city, local regulations, and building design. *This calculation information is not intended to take the place of establishing an actual demolition coverage amount in collaboration with a qualified professional.*

Building Ordinance coverage - Modified Replacement Cost coverage does not include Building Ordinance coverage. . This means that upgrades required by State or local building codes are not covered in case of partial loss. It is assumed that your replacement value will be set to enable building a fully code compliant building which meets your functional requirements if you suffer a total loss. However, if you experience a partial loss such as a heavily damaged kitchen, MRC only provides for replacement with modern day materials of whatever existed, not necessarily additional outlets or fire prevention systems that might be required to regain a Certificate of Occupancy. (Our standard Full Replacement Cost coverage includes a \$100,000 allowance for this purpose)

Higher Rate - In general, the premium for Modified Replacement Cost coverage is based on a higher rate per \$100 of coverage than a Full Replacement Cost policy. Savings are derived from purchasing a significantly lower amount of coverage.

Planning Costs - There may be a cost to developing the thorough and informed estimate necessary to establish Modified Replacement Cost value.

Benefits of choosing Modified Replacement Cost coverage may include:

An insurance value that is more appropriate for the needs of your ministry

Partial claims paid at the full cost of repair or replacement using modern materials and readily available labor, up to the MRC limit

Enabling replacement based on your specifications about size, construction type and level of amenity needed, again up to the MRC limit (the coverage amount you've chosen)

A premium reduction

Drawbacks to choosing Modified Replacement Cost coverage may include:

No claims paid above the MRC limit

The premium savings may not be enough to justify the additional exposure and additional costs.

Great care must be taken to choose a value that provides adequate coverage for your needs, and to communicate adequately with your congregation about the changes.

MRC values may need to be reviewed more frequently than FRC values.