

New car replacement insurance: How it works

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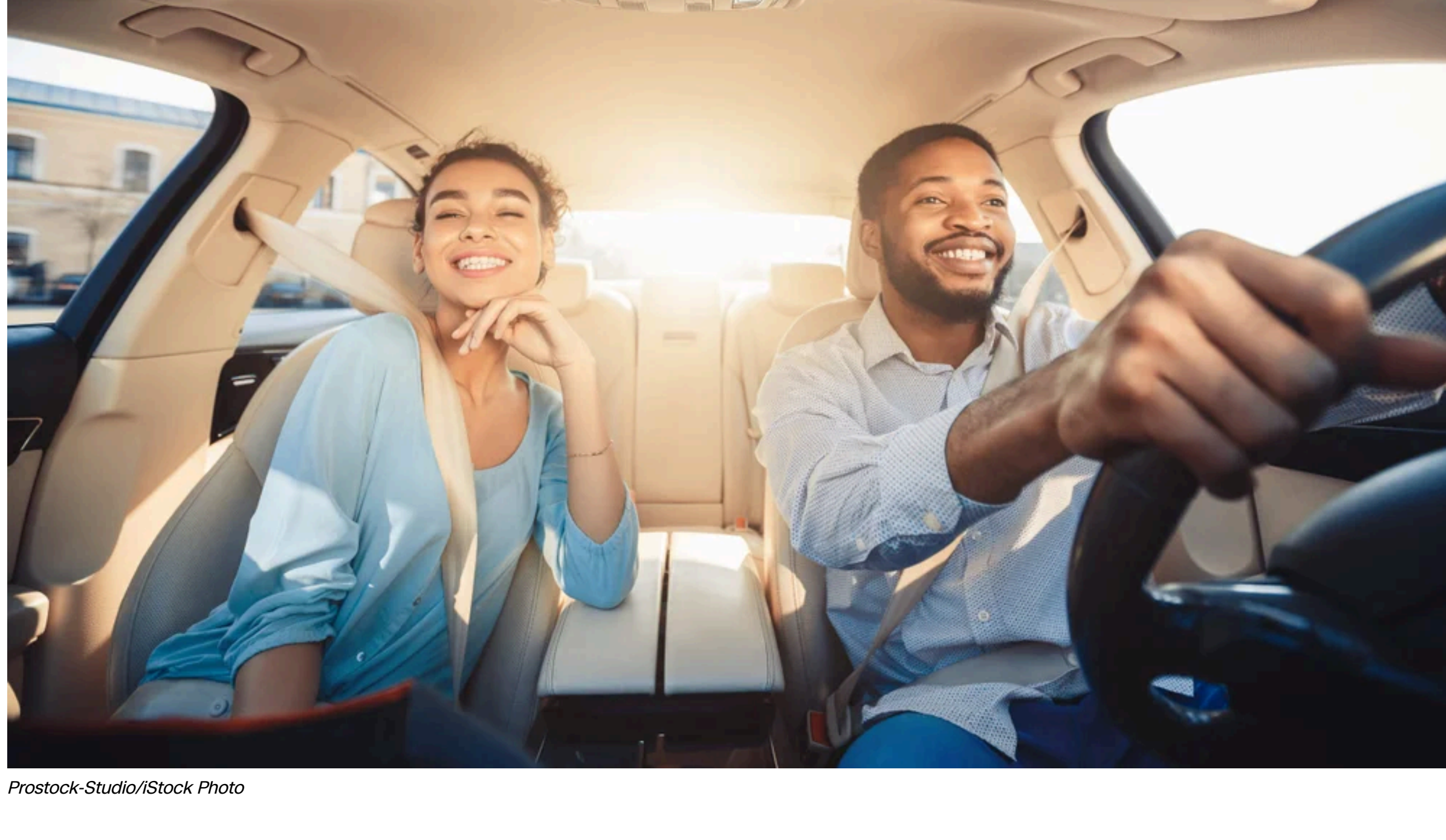


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After months of watching reels about the Ford Maverick, you decided to take the plunge and buy the newest model. You're scared to death of getting in an accident; it's a new car, after all, and you want to keep it as long as you can. That's where new car replacement insurance could be a great fit.

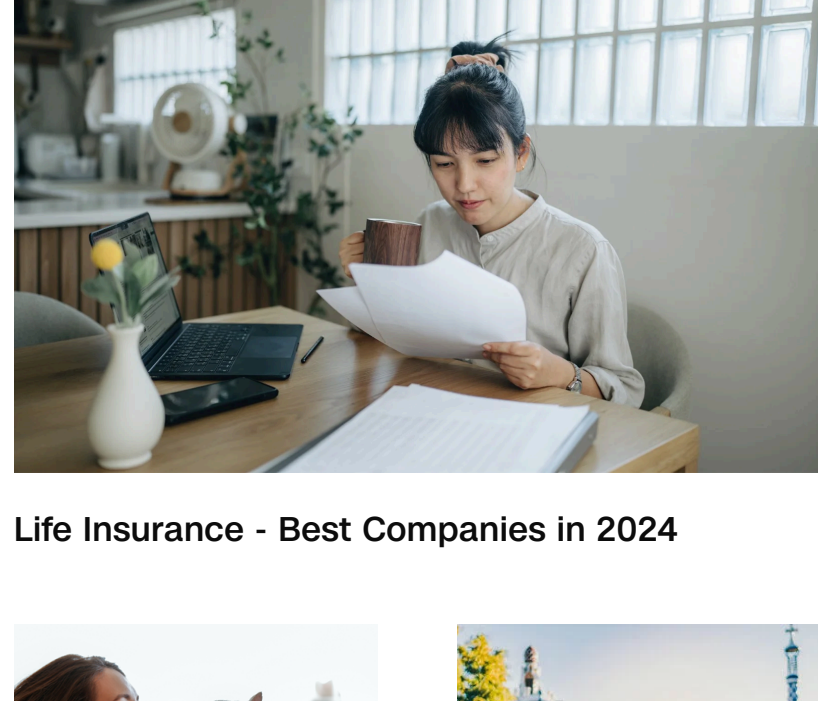
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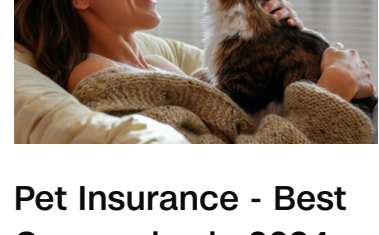
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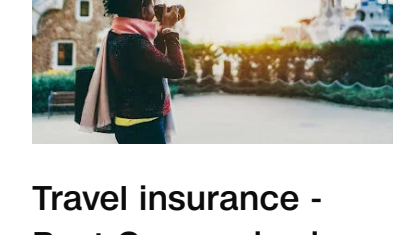
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What is new car replacement insurance?

New car replacement insurance is a type of coverage that replaces a [totaled new vehicle](#) with one of the same make and model. Some insurers' new car replacement coverage applies to stolen vehicles, too. It's typically not included in a standard car insurance policy, so you have to buy it as an add-on to your policy.

How does new car replacement insurance work?

Insurance companies offer new car replacement coverage for vehicles that are two to five years old or less, depending on the insurer. Insurers sometimes impose a mileage limit, such as 15,000 miles. New car replacement coverage only pays if your automobile is totaled or stolen.

Let's say one year after you drive your new Ford Maverick off the lot, someone rear ends you at a stop light and causes you to smash into the car in front of you. Your insurer declares it a total loss; you have to get a [new car](#).

Even though your car is only a year old, its actual cash value (ACV) — the value of the vehicle when you subtract wear and tear — is considerably less than what you paid for your truck just one year ago: \$21,000 versus \$27,000.

If you didn't have new car replacement insurance, your insurer would likely pay you for the car's ACV (before accounting for your deductible): \$21,000. Unfortunately, you can't buy the same truck brand-new because your insurance payout is lower than the cost of a new Maverick.

However, you'd likely be in a better position if you had new car replacement insurance. The coverage would pay to replace your vehicle with the newest version of the same make and model, leaving you with a new Maverick.

Eligibility and limitations

While the concept of new car replacement coverage is simple, there are some rules in place that make it slightly more complicated. That being said, here are some typical new-car replacement coverage features:

- It's usually only available if you are the automobile's original owner.
- Vehicle age and mileage limits apply.
- Coverage is generally only available for owned and financed vehicles, not leased cars.
- Insurers can require you to carry [collision](#) and comprehensive coverages to qualify.
- Replacement is usually limited to vehicles of the same make and model.

Limits can vary widely between insurers. Generally speaking, Farmers offers new car replacement coverage for cars up to two years old and a maximum of 24,000 miles. In contrast, Liberty Mutual's main new car replacement coverage is good for cars less than one year old with a maximum of 15,000 miles.

How much is new car replacement insurance?

Generally, new car replacement coverage increases your [car insurance premium](#) by 5% to 20%. However, costs can vary widely depending on the insurer. Your rates can also vary based on numerous insurance rating factors, including your:

- Age
- Annual mileage
- Driving experience
- Past accidents and violations
- Claims history
- Credit history
- Deductibles
- Gender (some locations)
- Marital status
- Previous insurance coverage
- Vehicle type

Is new car replacement insurance worth it?

Buying new car replacement coverage makes sense if you own or finance a new vehicle instead of a used one. A new vehicle's market value can depreciate by about 10% during the first months of ownership. Between paying a deductible and receiving your car's ACV from your insurer, you might not be able to replace your vehicle.

"Despite its availability for only a limited time, having new car replacement coverage can mean the difference between a full replacement vehicle and a significantly lesser payout based on a depreciated value," said John Espenschied, CEO of Insurance Brokers Group. "For any new car owner who has invested considerably in their vehicle, this protection can provide tremendous financial relief."

Michael Ryan, a Florida-based financial advisor, pointed out that the coverage tends to be most worth it during the first one to two years you own your vehicle.

"After this period, standard insurance coverage tends to be sufficient for most owners' needs," Ryan said.

Who offers new car replacement insurance?

Many major auto insurance companies offer new car replacement insurance or similar coverage. For example, more than half of the insurers in our analysis of the [best car insurance companies](#) offered new car replacement coverage or something similar.

"New car replacement insurance is not uniformly available from all carriers, which makes it an important option for consumers to explore when shopping for car insurance," Espenschied said.

Deductibles for new car replacement insurance claims

[Car insurance deductibles](#) apply to new car replacement coverage (a deductible is what you pay out of pocket to make a claim). Let's say you total your vehicle in a traffic accident. If your policy gives you \$25,000 to replace your new car and has a \$1,000 collision insurance deductible, you'll receive \$24,000.

New car replacement insurance vs. gap insurance

Although new car replacement coverage and [gap coverage](#) provide valuable protection for new vehicles, they serve two distinct purposes.

- New car replacement coverage:** If your new car is stolen or totaled, new car replacement coverage will pay to replace it with a newer version of the same make and model.
- Gap coverage:** If your new vehicle is totaled or stolen, gap insurance will pay the difference between your vehicle's ACV and the amount you still owe on a car lease or loan. For example, if the insurance company issues a \$30,000 payment and you still owe the lender \$32,000, gap coverage will help pay the additional \$2,000.

"One key difference from gap insurance is that new car replacement focuses on getting you the latest model of your vehicle, while gap insurance pays the difference between the value of your totaled car and what you still owe on your loan," Ryan said.

Typically, providers will not allow you to buy new car replacement insurance and gap protection for the same automobile. You can only choose one of the coverages. However, if your new car replacement insurance expires, your vehicle might still qualify for gap coverage.

Frequently asked questions (FAQs)

What types of cars are eligible for new car replacement insurance? You can buy new car replacement insurance for an owned or financed vehicle that meets specific eligibility criteria related to the vehicle's age, the number of miles on it and whether it's a one-owner car.

You must carry collision and comprehensive coverages to qualify for new car replacement insurance. New car replacement only covers your automobile if it's totaled in a covered accident or stolen.

Does new car replacement insurance cover leased cars?

How soon can I purchase new car replacement insurance after acquiring a new vehicle?

When is new car replacement insurance not valid?

How do insurance companies determine the replacement value of a new car?

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