



# Cash Settlements: What to Consider

If you accept a cash settlement your insurer will ask you to sign an agreement discharging them from any further responsibility regarding your claim. The insurer will then consider your claim as closed.

Our homes are our largest asset and our largest debt. Cash settlements from an insurer may be one of the largest influxes of money that the average family will receive and have to manage in a lifetime.

Financial management can be difficult at the best of times, and beneficiaries have reported that it is far more difficult following a catastrophic event. Such events can also have a psychosocial impact on ones wellbeing and can make complex decision making more difficult. **If you need assistance for psychosocial support contact us at 833-456-4566.**

**ADDITIONAL SUPPORTS:** Disasters and emergencies can cause significant disruption and add stress to your life. If you experience stress reactions that make it impossible to function normally over a long period of time, seek help. One option is to contact your local health facility, or a local crisis support line. For immediate **assistance support** anywhere in Canada, **please call Crisis Services Canada** at 1-833-456-4566.

## NOT PROFESSIONAL ADVICE

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# Consider the Following



Upfront, total cash settlements requires the **owner to manage funds throughout the rebuild** or relocation process including replacement of home contents (such as beds and couches) and payment for the costs of being displaced (under your policy this expense is called Additional Living Expenses).



If you have a mortgage **you will still have to pay your mortgage payments** (even if the house is destroyed) **plus the cost of a rental or hotel** for the length of time you are displaced. However displacement costs (up to a maximum) should be covered as an Additional Living Expense under your policy.



Your Mortgage Lender has a right and interest in settlements paid by your insurer because they have loaned funds for the purchase of the home. If you accept a gross cash settlement, the bank may take the outstanding mortgage amount out of the settlement, once rebuilding is planned and approved a new mortgage can be obtained. Alternatively, the bank may hold funds in trust to satisfy the loan and/or make the payments to contractors directly against a schedule in the case of a rebuild. The financial institution will not vet or investigate the contractor chosen. If there are issues with the contractor after funds have been disbursed, you will likely be out of pocket for these funds and still responsible for rebuilding the home.



Thinking of not rebuilding? Many mortgages require that the homeowner repair, restore or rebuild the home if economically feasible. If you have a mortgage, make sure you **check the terms and talk to your bank** prior to making a decision on not rebuilding or repairing.



The Red Cross has found that it is not unusual for complete **rebuids to take between 1.5 to 2 years** following a catastrophic event.

*See our tip sheet on **Rebuilding and Repair: You, the Contractor, the Bank and your Insurer***

## How it Works

Item	+/-	Amount
Cash Settlement from Insurer for <b>Cost to Replace or Rebuild</b>	+	440,000
Remitted to Mortgage Lender for payment of balance owing on home's mortgage	-	300,000 on basis of 20 year mortgage
Interest and penalties from the lender	-	85,000
<b>This is your net payout to purchase a new home, rent, or start with a new lender</b>	=	<b>55,000</b>

Plug in your actual numbers to calculate your net payout.

Item	+/-	Amount
Cash Settlement from Insurer for <b>Cost to Replace or Rebuild</b>	+	
Remitted to Mortgage Lender for payment of balance owing on home's mortgage	-	
Interest and penalties from the lender	-	

**This is your net payout to purchase a new home, rent, or start with a new lender** =

*\*\*If there is a balance, this amount remains owing to the mortgage lender even if the home is never rebuilt.*

My Notes

# Why is my cash settlement amount different from the cost or value of my home?

The cost or financial value of a home is different depending on the criteria you are using – the cost of what you purchased it for, how much it would have sold for (**market value**), versus the **cost to replace or rebuild**.

You may have purchased the home in a strong market and home values may have gone down; or you may have purchased a home prior to the market increasing. This can result in a large dollar value difference between purchase price and a potential sale price.

This is different than replacement value from an insurance perspective. **Replacement value** is the cost to rebuild and excludes the cost of the land.

For example, someone may be able to sell their home for 200,000 (which includes land value), but it may only cost 100,000 to rebuild.

For more information on types of insurance see the Red Cross information package **Understanding Your Insurance Policy– Homeowner**. 

In terms of cost of the home, consider also the cost to purchase a new home, at a different location.

The cost to rebuild my property exceeds my policy limit - what now? If your policy does not provide a Guaranteed Replacement Cost endorsement, the most your insurer will pay to cover the cost of your rebuild is the policy limit. This means you will need to find the remaining funds to complete the rebuild elsewhere.

## Good to Remember

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- ✓ Cash settlements should not be confused with a cash payout surpassing your policy limit. If your insurer decides to provide you with a cash payout (as your claim is exceeding your policy limits) then it is likely that they will request a quote for rebuild and GST/HST may be considered within that payment. If your insurer offers you a cash settlement HST/GST will likely not be included in that settlement amount.
- ✓ Deductibles usually have to be subtracted from the final settlement amount. For example, if your deductible is \$2,500, that is deducted from your settlement amount.
- ✓ If your policy is an “actual cash value” (ACV) policy, your settlement will only be for the depreciated value of each asset. For example, a driveway may have cost \$5,000 when you put it in, but under this type of policy you may only get \$4,000 (assuming a depreciation of 20% over the two years).
- ✓ Many policies are guaranteed replacement cost (GRC). Guaranteed replacement cost coverage permits you to rebuild or replace your property, even if the damage exceeds your policy's limits, as long as you are rebuilding your home at the same location with your insurer's involvement (i.e. no cash payout whether as a cash settlement or payout as your claim is exceeding your policy limits). The benefit to this method is that you have up to 2 years following your claim to submit further expenses. If the rebuild costs are significantly higher than your policy limits your insurer could investigate your costs.
- ✓ If you take a cash payout as your claim exceeds your policy limits and the cost to rebuild your home and replace contents exceeds that payout amount, you may find that you are unable to afford to complete your rebuild. In this scenario you are responsible for budgeting your own project and this should inform your financial management and overall choices during repair and rebuild.
- ✓ If your insurance policy does not have coverage for building code upgrades and unexpected changes to bylaws (which require your home be rebuilt to a condition considered greater than it was in when you purchased insurance) may leave you open to incurring the cost of these upgrades yourself.

## Contact

### Alberta

1-888-800-6493

### British Columbia

1-888-800-6493

### Manitoba

1-888-800-6493

### New Brunswick

1-800-222-9597

### Newfoundland and Labrador

1-800-222-9597

### Nova Scotia

1-800-222-9597

### Northwest Territories

1-888-800-6493

### Nunavut

1-888-800-6493

### Ontario

1-416-209-0432

In the GTA:

416-676-8559

### Prince Edward Island

1-800-222-9597

### Quebec

1-877-362-2433

### Saskatchewan

1-888-800-6493

### Yukon

1-888-800-6493

[www.redcross.ca](http://www.redcross.ca)

**This tip sheet is provided for information purposes only. The Red Cross recommends all beneficiaries to review their policies and contracts in detail and speak directly with their insurance provider, mortgage lender and other stakeholders as each policy, term sheet and loan may differ. It is also recommended to seek independent, expert advice when possible.**