The 80% Rule Nobody Explained: How “Fully Insured” Homeowners End Up Six Figures Short

Your dwelling limit is a number someone guessed years ago. If it’s below today’s rebuild cost, the shortfall is yours. Here’s the 20-minute check.

The Number Someone Guessed Years Ago

One number on your policy decides whether you get your house back: **Coverage A**, your dwelling limit — the most your insurer will pay to rebuild. Not what you paid. Not what Zillow says. What it costs, in *today’s* dollars, to build your house back from the foundation up.

That number was set once — and then it mostly sat there while rebuild costs climbed. When the two drift apart, the gap doesn’t belong to your insurer. It belongs to you — and you find out on the worst day of your life, unless you check on an ordinary one.

Two Houses, Two Very Different Checks

Two identical homes, both destroyed, both “fully insured.” The first owner’s limit matched the rebuild cost — $480,000 to rebuild, $480,000 in coverage. They rebuild. The second owner’s Coverage A was set at $340,000 back when that seemed plenty; rebuilding now costs $480,000. The insurer pays the limit — and the other **$140,000 is theirs to find.**

Same house. Same fire. Both “fully insured.” One rebuilds; one eats a six-figure shortfall — because of a single number nobody had looked at in years.

The Rules Hiding in the Word “Enough”

The total-loss shortfall: if your home is a total loss and your limit is below the rebuild cost, you get the limit — full stop. No penalty, just a cap set too low and never updated. This is the version a fire exposes.

The 80% rule — the partial-loss penalty: most policies expect you to insure to at least 80% of full replacement cost. Fall below and the insurer can pay only a *proportion* of even a partial claim: (carried ÷ required) × loss, minus deductible. Carry $300,000 against a $400,000 requirement, and a $100,000 kitchen fire pays about **$75,000** — before your deductible.

Why good people get caught: insuring to *market value*. But market value includes land and location — which don’t burn down. Rebuild cost is a different number, and often the higher one.

The 20-Minute Self-Check: The Playbook

Find your Coverage A limit. It’s on your declarations page. (Can’t find your policy in two minutes? That’s its own problem.)

Get an honest rebuild estimate. A local builder, or your agent’s replacement-cost estimator. Cost to *reconstruct* — not market value, not what you paid.

Compare the two numbers. Is your limit at or above the rebuild estimate? At least above 80% of it? If not, you’ve found your gap while it’s still fixable.

Put it to your agent in writing. “Is my dwelling coverage enough to fully rebuild at today’s costs — yes or no?” Get it in an email. A phone call is a memory; an email is a paper trail.

Ask for the two endorsements by name. Extended Replacement Cost pays a set percentage (often 25–50%) above your limit. **Guaranteed Replacement Cost** rebuilds your home whatever it costs, no cap — the strongest protection there is. Ask if you qualify.

Don’t create your own gap. Finished a basement, added a bath, upgraded a kitchen? Every renovation raises your rebuild cost. Tell your agent and move your limit with it.

The Five-Minute Prevention Audit

Find your Coverage A limit and write it down · get one rebuild estimate · confirm your limit is at least 80% of it (ideally 100%) · ask which of Extended or Guaranteed Replacement Cost you have or can add · and re-check the number at every renewal — because rebuild costs move each year and your policy won’t warn you when you’ve fallen behind.

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