



THE STATE
of **ALASKA**
GOVERNOR MIKE DUNLEAVY

**Department of Commerce,
Community, and Economic
Development**

DIVISION OF INSURANCE
Anchorage Office

550 West Seventh Avenue, Suite 1560
Anchorage, Alaska 99501-3567
Main: 907.269.7900
Fax: 907.269.7910

BULLETIN B 24-07

**TO: ADMITTED INSURERS WRITING PROPERTY AND CASUALTY BUSINESS
IN THE STATE OF ALASKA**

RE: DEPRECIATION OF LABOR

The Division of Insurance has discovered that some property insurance policies include a definition for “actual cash value” (ACV) that includes subjecting labor to depreciation. When valuing the damaged part of the property at the time of loss, the ACV calculation cannot include the depreciation of labor. As of January 1, 2025, all new or renewing policies that include property coverage cannot include depreciation of labor in the definition of “actual cash value”. Policies that include “depreciation of labor” language must be amended via endorsement.

When property damage occurs under an insurance policy that is covered at ACV, the insurance company investigates the loss, values the damage, and then issues an ACV payment. The ACV payment is replacement cost less depreciation. Besides applying depreciation to the loss of value due to wear and tear, deterioration, and obsolescence to physical material items, some insurance companies are applying depreciation to the labor costs associated with the repair process.

The practice of depreciating labor costs on property damage claims floats a significant part of the labor repair costs to the consumer and their repair contractor. This unfairly shifts a burden to the consumer during the repair process.

The basic objective in property insurance claims is to restore an insured to the same financial position after the loss as they were prior to the damaging event. This means the cost to repair or replace the damaged property with material of like kind and quality that was damaged, less depreciation of the property (3 AAC 26.090). Depreciation is the reduction in value or price because of a physical decline in the material’s condition. In property loss, labor does not lose value and remains unaffected by any material property decline. Labor does not physically deteriorate and cannot be subjected to depreciation.

Questions related to this bulletin can be referred to Sian Ng-Ashcraft, Property and Casualty Supervisor at sian.ng-ashcraft@alaska.gov.

Dated May 7th, 2024.

A handwritten signature in blue ink that reads "Lori Wing-Heier".

Lori Wing-Heier
Director of Insurance