

Managing Financial Losses from a Natural Disaster

Laura Connerly
Family and Consumer
Sciences Associate



Earthquake



Tornado



Flood

Managing financial losses after a natural disaster – flooding, earthquake, tornado or other windstorms – is difficult. Preparing for possible financial losses now will ease your post disaster recovery.

Plan Ahead Before Disaster Strikes

Are you prepared? An emergency fund, adequate insurance and being organized are keys to any pre-disaster financial plan.

Establish an emergency fund.

\$ You will need funds to cover deductibles and co-payment clauses in your homeowners, flood, automobile or health insurance policies. Earthquake insurance riders also have deductible clauses.

\$ You may need funds for small, uninsured losses.

Review your Insurance policies now to avoid misunderstandings later.

\$ Know what is covered and what is not. Read your policies and ask questions. Do you have adequate coverage? Purchase needed insurance now.

\$ Separate policy protection is required for losses due to an earthquake or flooding.

Practice damage control.

\$ Keep up your property. Perform needed repairs. For example, secure shingles, fix door hinges, strap-down your water heater and install earthquake resistant cupboard latches to prevent unnecessary destruction.

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Update your records.

\$ Inventory your personal property. Keep records in a safe place to help with any insurance settlement.

Insure Your Risks

Homeowners Insurance

Homeowners insurance protects your home and/or your personal possessions against certain risks. Check your policy for the list of risks which are included. If you rent, live in a condominium or mobile home, you can purchase a homeowners-type policy.

Coverage includes damages to the dwelling, other structures and your personal property (check for exemptions and reimbursement limits on specific items such as jewelry and guns). Coverage also includes additional living expenses and/or reimbursements for some or all of your costs for temporary housing while your damaged home is repaired or replaced.

Your homeowners policy may protect against perils such as fire and lightning or have extended coverage for damages from windstorm or hail, explosions, riot, other aircraft or vehicles, glass breakage or smoke. If you have Broad Form coverage, 17 perils are covered. Most home insurance policies do not cover losses and damages due to earthquakes or floods.

Policies, premiums and services provided by different insurance companies will vary. When shopping for homeowner's insurance, consider the following.

- \$ Protect yourself against catastrophic rather than small losses.
- \$ Cut premiums by increasing your deductibles.
- \$ Compare coverage with at least three different insurance companies.
- \$ Choose a carrier with a good reputation for claims service.
- \$ Ask about discounts and special rates. Nonsmokers, homes with smoke alarms, use

of dead bolt locks and fire extinguishers often qualify for lower rates.

- \$ If you buy homeowners and automobile insurance from the same company, you may receive a discount.

Earthquake Insurance

Most insurance policies do not cover any loss resulting from any form of earth movement. However, coverage against loss resulting from any earthquake activity may be added to your homeowners insurance by an earthquake damage rider. Earthquake activity includes earthquake and volcanic eruptions, explosions or effusions (from earthquakes or volcanoes) that begin during the policy period.

The premium for an earthquake rider will depend on the location, structure and value of the home. In most cases, reimbursement for losses is subject to a deductible. Earthquake deductibles can be either a percentage of your total coverage or a dollar amount. Often there are separate deductibles – one for structural damages and another for damage to contents. If earthquake tremors occur at distinctly different times, reimbursements for damage from the second, third, etc., tremors may be subject to new deductibles. Check your policy.

Ask if the earthquake rider will cover the structure and the contents or just the contents. If you have a homeowners-type policy for your rental unit, check to see if you can purchase an earthquake rider on your possessions. Since each company is different, ask questions so that you understand the terms of your own policy.

Flood Insurance

Standard homeowners policies do not cover flood losses. If your house is located in a flood-prone community which has a flood plain management program in compliance with the National Flood Insurance Program (NFIP), you may be eligible to purchase low-cost flood insurance. If so, you can purchase a separate flood insurance policy for your home, condominium, mobile home, farm or rental unit and also the contents. Flood insurance will be subject to a deductible, a standard \$500 on buildings and an additional \$500 deductible on contents of building.

Don't delay. There is a 30-day waiting period for the policy to become effective. Note, if your home is not in a flood-prone area, you cannot purchase flood insurance. For additional information, contact your insurance agent.

You May Need Both Earthquake and Flood Insurance

Regions in Arkansas close to the New Madrid fault may also be subject to flooding in the event of strong earthquake activity. For example, levees could be disturbed or drains could be broken and water released. Too late, you may learn you needed both flood and earthquake insurance to cover losses. Ask your insurance agent how you may be affected.

Automobile Insurance

Car damage is covered for windstorm, earthquakes, falling objects, missiles, explosions, hail, water and flooding if you have comprehensive coverage in your personal automobile policy. Check with your insurance agent.

What to Do After a Disaster

Insurance Settlements

The insurance industry plays an important role after a catastrophe. Insurance representatives will be on the scene immediately following a major disaster to speed up the handling of claims. Notify your insurance representative of any losses. Leave word of where you can be contacted. Hardship cases are a first priority – with service promised to all policyholders as soon as possible. And finally, don't assume your settlement will be the same as your neighbor's.

Some policy owners may find the insurance company will complete a follow-up visit to your home. The company wants to know if you used your claims check to complete your repairs.

Property Losses and Income Taxes

Casualty write-offs from an earthquake or flood are equal to the amount of your losses not covered by insurance minus both a \$100 deductible and 10 percent of your adjusted gross income (AGI). Suppose your AGI is \$20,000 and your loss is \$10,000. You could deduct a loss of \$7,900 ($\$20,000 \times 10\% = \$2,000 + \$100 = \$2,100$; $\$10,000 - \$2,100 = \$7,900$).

Government Assistance

In Arkansas, disaster relief begins at the city and county level. Depending on the severity of the disaster, local officials may request state assistance from the Governor, through the Arkansas Office of Emergency Services. The Governor may also request a presidential disaster declaration to secure federal assistance.

Individuals and families must apply for available governmental disaster assistance programs to determine eligibility. Before a disaster, store records in a safe place so you will have the information you need to complete the required paperwork. With today's coordinated efforts after a natural disaster, representatives from local, state, federal and volunteer relief programs will operate from a central location in your community to process applications and prevent duplication of effort.

At the state level, Temporary Housing Assistance Grants are available for one to three months for families whose homes were destroyed or uninhabitable after a disaster. Persons with additional living expenses coverage from a homeowners policy are not eligible. Individual and family grants to assist disaster victims with uninsured losses from a disaster are available. Grants can be used for medical expenses, limited home repair, repair/replacement of furniture, appliances, transportation, insurance deductibles and food.

If your damaged community receives a presidential disaster declaration, the federal Individual and Family Grant (IFG) Program may authorize funds for such needs as housing,

personal property, medical/dental, funeral and transportation. Each application is reviewed to determine specific needs and eligibility.

Assistance By Volunteer Agencies

Churches, American Red Cross, Salvation Army and Mennonite Disaster Service provide food, clothing, shelter, workers, medicines and medical supplies and other emergency services and funds for immediate needs of disaster victims. These volunteer agencies have formed the National Voluntary Organizations Active in Disaster (NVOAD), www.nvoad.org, to coordinate resources with each other and government agencies.

For more information on organizing your financial affairs, the following publications are available at your county Extension office.

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| FSHEC75 | A Sample Filing System |
| FSHEC52 | Family Advisors |
| FSHEC15 | Important Family Records
What to Keep and Where |
| FSHEC45 | Replacing Valuable Papers |
| FSHEC51 | Safe Deposit Box Inventory |

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LAURA CONNERLY is family and consumer sciences associate, University of Arkansas Division of Agriculture, Cooperative Extension Service, Little Rock.

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