

[Quake near D.C. can help us prepare for the 'Big One'](#)

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It's been an interesting year as fellow Americans on the East Coast have faced more than their fair share of natural disasters. And the most shocking revelation was the false assumption that earthquakes are exclusive to the West Coast. But this summer's earthquake centered in Virginia provided a forceful reminder that more than 75 million Americans in 39 states live near active earthquake faults.

If there is a positive outcome from these events, it is that federal officials share what has long been a California perspective regarding natural disasters. Since this summer's quake, leaders in Washington have called for the need to have a crisis plan in place to respond and rebuild. And on a recent radio show we took notice of the edict and discovered an obvious remedy that limited government can produce. Here, in the Golden State that often shakes, the California Earthquake Authority is charged with helping homeowners prepare for and recover after a quake. For those that don't know, the CEA is a publicly managed, privately funded organization that provides residential earthquake insurance and encourages Californians to reduce their risk of earthquake loss. Today, CEA is the largest provider of earthquake insurance in America and has accumulated almost \$4.3 billion in capital. The funds are separate from the California state budget, and the state cannot take, borrow or otherwise use them for other means. That's the good news. But there is also bad news.

While nobody disputes the value of earthquake insurance, only 10 percent to 12 percent of Californians are covered today - that's down from 25 percent in 1994 following the massive Northridge quake. When one considers that 80 percent of California's residents live on or near a fault, and that scientists estimate there is almost a 100 percent chance that we'll be hit by a massive quake in the next 30 years, the state's ability to help families rebuild will be severely compromised.

Most people believe that government will bail them out or that they'll simply escape, but that's nothing more than playing Russian roulette with your most important personal asset. The truth is that the federal government is not - should never be - in the business of rebuilding homes, a fact that we've discussed continually on radio which has become crystal clear in the aftermath of Hurricane Katrina and more

recent U.S. natural disasters.

Then there is the other, more prevalent barrier to earthquake insurance – the simple cost of the policy. I’ve come to find out that the CEA has to purchase expensive reinsurance so that it has the necessary capital to pay claims in the event of a major catastrophe. For every dollar homeowners pay in policy premiums, 40 cents goes to pay for reinsurance. Since 1996, CEA has paid reinsurers \$2.9 billion, yet reinsurers have paid only \$250,000 in claims since that time. The math doesn’t add up as it taps the resources for residents to rebuild.

There seems to be a solution, but it requires action by the federal government. Democratic Sen. Dianne Feinstein has introduced the Earthquake Insurance Affordability Act to expand access to earthquake insurance. It is also supported by a few lead Republicans. It provides a limited federal guarantee of private-market debt, and its passage would allow the CEA to save \$100 million in reinsurance expenses each year. These savings would go directly to CEA policyholders, dropping their premiums by as much as 20 percent and allowing more homeowners to afford earthquake insurance in what is a completely voluntary market.

Here’s the best news. The Earthquake Insurance Affordability Act is a fiscally sound solution that will help families recover and rebuild without federal subsidies. Preliminary estimates by the nonpartisan Congressional Budget Office conclude that its cost to the federal government and taxpayers is zero. Compare that to the fact that federal taxpayers were on the hook for more than \$9.5 billion after the Northridge quake, while California’s taxpayers chipped in more than half a billion dollars more. When Congress reconvenes, California Republicans intend to introduce the act in the House of Representatives as a bipartisan companion to Feinstein’s bill. The legislation has already been endorsed by a host of nonpartisan organizations including the California State Association of Counties, the California Taxpayers Association, the California Building Industry Association, United Policyholders (a consumer watchdog) and Mercury Insurance.

Recent earthquakes in Virginia and Colorado – as well as catastrophic earthquakes in Japan, New Zealand and Haiti – have delivered a major wake-up call to American homeowners and federal taxpayers. We have only ourselves to blame if we don’t rise up, protect our homes and our future as we wean ourselves from the idea that the only solution to disaster comes in the form of a government bailout.