

The Big One Is Coming: Should Californians Get Earthquake Insurance?

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In disaster movies, California gets hit hard: The Golden Gate Bridge has fallen umpteen times. Los Angeles has been flattened by megaquakes and monstrous destruction. And let's not even talk about the damage wrought by cyborgs sent back in time to ensure a nuclear holocaust. Thanks, Arnie.)

But the truth may be stranger—and more dramatic—than fiction. California is facing a major earthquake, say scientists, and residents of the Golden State should be prepared.

Yeah, yeah, we get it, say Californians. We know where to hide—we're ready. But are they really? Well, if earthquake insurance is any indicator of readiness, the answer is a big, fat "NO": Only about 10% of California homeowners have ponied up for the separate policy. The excuses for not having quake insurance are many: inertia due to long stretches between quakes, a mistaken belief that homeowner insurance has them covered, and, of course, cost.

None of this is exactly new. But since last month, it's become far more vital. That's because in March a U.S. Geological Survey report revealed there's near certainty that in the next 30 years California will be hit by a quake with a magnitude of 6.7 or greater. That's at least as powerful as the Northridge quake of 1994.) The odds of a quake with a magnitude of 8.0 or greater—bigger than San Francisco's famed 1906 temblor—have increased from 4.7% to 7%.

"The message to homeowners is simply a reminder of what they should already know—that California is earthquake country and they should live every day like it could be the day of a big one," said Ned Field, a USGS scientist and lead author of the most recent report.

Field's certainty about the state's seismic future is matched by Californians' uncertainty about how earthquake insurance actually works. Even insurers aren't clear on it.

"Trust me, it's not intuitive," said Glenn Pomeroy, CEO of the California Earthquake Authority.

Earthquake insurance as a separate policy is a relatively new thing. The Northridge quake was the catalyst for policies to protect against damage from quakes.

The Southern California shaker resulted in 57 deaths and about 9,000 injuries, and it was the costliest

earthquake in U.S. history. Homeowners cashed in to the tune of \$10 billion—which led many insurers to limit or stop covering the state due to such unexpectedly high payouts.

Long story short, the CEA was formed in 1996 as a public-private partnership that provides policies in California through 75% of major insurance companies. For example, if you receive an Allstate earthquake insurance bill, you'll notice that the policy is actually from the CEA.

But even with the option for insurance and the increased likelihood of a megaquake, the number of policyholders has remained minuscule.

"Whether or not to buy earthquake insurance, that is an individual financial decision," said Emily Cabral of United Policyholders, a nonprofit insurance information resource for consumers. "While it is important to get quotes and see if you can afford earthquake insurance, it is also important to see if you can afford not to have it. Ask yourself what would you do if your home was severely damaged by an earthquake. Where would you get the money to repair or rebuild?"

Rebuilding after an earthquake can be pricy—major repairs can cost over \$50,000. And if you're not insured, you'll pay a "100 percent deductible," as the organization's website puts it.

Cabral suggests a "risk profile" to help homeowners decide. California residents can enter their street address or city name into an interactive map and get a quake forecast.

Don't leave it to FEMA

Take the August 2014 quake in Napa. According to Pomeroy of the CEA, only about 5% to 6% of homeowners in the area held policies—which is even lower than the statewide average. After the disaster, 504 people filed claims and over \$1.2 million was paid out, with 95% of claims closed so far. That's a measly drop in the bucket compared to the total damage, which was estimated at around \$400 million in September 2014, according to SFGate.

The U.S. government did step in and release some cash, but only \$30.8 million of the total bill qualified for federal relief—grants and small-business loans—leaving many more with large rebuilding costs.

"Don't assume that Federal Emergency Management Agency, the Small Business Association, and/or private charities will bail you out with funds to rebuild after a major disaster," Cabral said. "FEMA has very limited funds and strict eligibility criteria. SBA loans must be repaid. Private charities are being severely stretched by an ever-increasing demand for their services."

So what's it gonna cost me?

On average, the cost for an annual premium is around \$800, although Pomeroy pointed out that the cost will vary depending on where you live and the age of your home. To get a better sense for your situation, check out the CEA's premium calculator.

How much you'll actually pay if your home is damaged by an earthquake also depends on your

circumstances.

First, there's a sliding scale of deductibles, usually in the range of 10% to 15% of the total amount of damages. But if you're insured, you won't necessarily pay out of pocket if disaster strikes. "The deductible really just represents the amount of damage to the insured value to the home that must be caused before we start paying claims," Pomeroy said.

Your insurance also covers \$1,500 for emergency repairs and up to \$25,000 for expenses if you can't live in your house after the quake—no deductible required.

Eyes glazed over yet? You're not alone.

"A lot of agents who are selling a policy are surprised it works this way. We work really hard to make earthquake insurance as affordable and valuable as possible," Pomeroy said.

Go retrofitting

Another upfront cost to prepare for a possible earthquake: retrofitting your home. That's what USGS researcher Morgan Page did.

"My husband and I recently bought a 100-year-old house in Pasadena," Page said. "We do not have earthquake insurance because we decided to retrofit instead. Before moving in, we had the cripple walls braced and the house bolted to the foundation. This is strong protection from structural damage in the event of an earthquake."

She added, "In our case, the cost of a retrofit was comparable to a few years' worth of insurance premiums but protects our family for much longer. Different homeowners may choose differently depending on their premium costs and the amount of risk they are willing to tolerate."

There is a statewide program currently in beta) that covers up to \$3,000 for certain types of retrofit work that can lessen potential earthquake damage. But even the state's website admits that \$3,000 generally won't cover all work, which can run as high as \$10,000.

There are low-cost ways to protect your home. "We can't control or predict earthquakes, but we can prepare and protect ourselves," Page said. "Strapping down heavy furniture—bookshelves and TVs—is inexpensive and could just save your life."

That's not just idle speculation: A 65-year-old Napa woman died in last year's quake when she was hit by a falling television.

And don't forget to stock up. "Everyone should have seven days of food and water on hand," Page added.

It's not as glamorous as the movies, but it could keep you safe. And that's the happy ending we're all after.