

What Californians Need To Know To Financially Prepare For 'The Big One'

Forbes

It's an unnerving time to be in California. With two large earthquakes hitting Southern California within 34 hours, along with thousands of aftershocks, it feels like the big one is right around the corner – literally. In fact, the US Geological Society is predicting a greater than 99% chance of a moderate earthquake (magnitude 5.0) within the next week. While Californians are inundated with ideas on how to plan for a large earthquake, many remain underprepared.

This lack of preparation also extends to the financial considerations. If a devastating earthquake were to strike, there are many areas in California where it would take weeks to get help. Further, given other natural disasters that have impacted the Golden State, residents need to be prepared for a number of issues ranging from fires to floods to loss of property.

"Most importantly, recognize that a serious earthquake could upend your life as you know it, so put some time into making a realistic plan," says Amy Bach, Executive Director of United Policyholders, a 501(c)(3) based in California that advocates for insureds.

While earthquake kits are integral, there are some basic financial planning ideas that could make the difference.

Cash Is King

In the event of a large earthquake, Californians need to anticipate that power will be cut off creating an impasse in the financial system will be at an impasse. ATMs will not work. Stores and gas stations will not be able to handle credit cards or any electronic payments.

As a result, cash is going to be crucial and Californians should keep a cash reserve in case of earthquake. At a minimum, there should be \$1,000 in this reserve and it should be kept in a place that is accessible such as the earthquake kit or an in-home safe.

Compile an Inventory

In the event of a loss, Californians must be able to provide details to be properly compensated by insurance companies. That's where taking the time to inventory your home and property can be key.

“United Policyholders recommends walking around the inside and outside of your home and making a video with your cell phone or camera, describing your home and possessions as you go,” says Bach. “Save the file where you’ll be able to access it. Secure breakable valuables with quake putty or straps to minimize damage to artwork and flat screen TVs.”

Having detailed records will help ensure you are able to get an accurate settlement on any claims you file.

The Complexity of Insurance

Many Californians may also be considering earthquake insurance, which typically provides three types of coverage: dwelling coverage, personal property coverage and loss of use. Unfortunately, when seismic activity starts, obtaining earthquake coverage is not always possible.

But all is not lost if a homeowner doesn’t have earthquake coverage.

“Earthquake insurance remains a tough sell,” says Bach. “The typical 15% deductible means your home needs to sustain A LOT (\$100,000 plus) of damage before you collect benefits. For most people that makes the purchase a non-starter in light of the typical \$2,000 plus price tag on top of your home insurance.”

However, if Californians do not have earthquake coverage, they need to be aware that most earthquake damage is excluded from their homeowner’s policy. The one exception to this is that in the event the earthquake causes a fire, your homeowner’s policy will cover that damage. For many Californians it would be a good idea to speak with your insurance agent or broker to understand where your coverage risks are before disaster strikes.

Further, Californians can take some proactive steps by understanding the risks their properties face by looking at your home construction and the soil you have built on.

“If you don’t feel you can assess your property’s risk on your own, get a structural engineer out to advise you. Shear panels and foundation bolting are relatively inexpensive enhancements you can make instead of, or in addition to, buying earthquake insurance,” advises Bach.

Waiting for The Big One

Ultimately, Californians need to be proactive in their earthquake planning for their finances. Being prepared for your financial challenges will make a difference if the big one hits. And with the activity we have seen in recent days, it’s not a matter of if, but when.