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Mitigating Natural Disasters

As we mark the 25th anniversary of the magnitude 6.9 Loma Prieta earthquake, it seems like a golden opportunity to focus on some less frequently utilized insurance options. In this newsletter we will discuss the facts regarding earthquake and flood insurance. As an added bonus we include information on dealing with some common household pests, specifically ants (we hate ants!) and termites.

First, a confession. We don't currently carry earthquake insurance – but we are seriously thinking about it! For a long time we believed the **myth** that earthquake insurance was onerously expensive. While it is true that the deductible is high at 10% or 15% of your home's insured value, the premium typically falls between $100-$200/month including insurance for damage to personal property and loss of use. With local construction costs easily topping $300/sq. ft., a typical 2,000 sq. ft. ranch home could cost in excess of $600,000 to rebuild if destroyed in "the big one." And no, a fire resulting from an earthquake will **not** be covered by your existing homeowner's policy, and no, the federal government will **not** come to the rescue of the uninsured!

One good place to start in evaluating whether earthquake insurance is right for you is the California Earthquake Authority website, http://www.earthquakeauthority.com. They have a Premium Calculator that allows you to compare the costs of the various coverage options based on the location and age of your home. For example, for our one story home in Ladera built in the 1950s, a $600,000 insured home value including personal property and loss of use coverage would cost us $123/month with a 15% deductible or $167/month with a 10% deductible.

Unlike earthquake insurance which is optional, flood insurance may be *required* in certain FEMA designated flood hazard areas for new home buyers, new construction or extensive remodels whenever a loan is involved.

Two recent developments have made flood insurance much more relevant. First, the local flood maps were revised and in many cases expanded to encompass a greater area. Secondly, the federal government has taken steps to get out of the business of subsidizing flood insurance. The cost increases associated with the latter especially have taken many people by surprise.

According to Steve Fox, a flood specialist with Allied Brokers in Palo Alto, flood insurance is still federally subsidized, but those carrying flood insurance should expect 18% annual premium increases until full risk rates are reached. The good news is that private insurers like Lloyd's of London offer less expensive flood insurance policies for qualifying customers. The bad news is that if your home falls below the base flood elevation a FEMA policy may be your only option. Currently, local policies typically cost between $1,600 and $1,800 per year.

For most of us, insurance is something we hope we never have to use. However, depending on your personal risk tolerance, having an earthquake or flood insurance policy in place may help you sleep a little more soundly.

Best Regards,

Janie and John

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