

Recovering Financially: *How to recover financially from a natural disaster*

A disaster can cause significant financial loss. Your apartment or home may be severely damaged or destroyed. You may be forced to live in temporary housing. Income may be cut off or significantly reduced. Important financial records could be destroyed. Take the time now to assess your situation and ask questions. Start with your local Red Cross chapter. It can provide assistance in a disaster and/or refer you to others in your community who could be of help.

First things first

Three steps to take immediately when disaster strikes.

Conduct an inventory

Making sure you get paid for what you've lost.

Reconstruct lost records

Resources you can use to establish fair value for your possessions.

Notify creditors and employers

Let the people you do business with know what has happened.

File an insurance claim

Tips for ensuring a fair and rapid settlement of your insurance claims.

Obtain loans and grants

Find out if you qualify for emergency financial assistance.

Avoid contractor rip-offs

Taking these steps can help prevent problems with contractors.

Reduce your tax bite

Some losses qualify for tax reductions--here's how to find out about yours.

First things first

Take these steps immediately after a disaster strikes:

1. Make sure your residence is safe to enter. If it is, remove any valuables to a safe place.
2. Be aware of potential hazards--avoid these areas until you have a chance to stabilize them. Make temporary repairs to prevent further damage, such as patching a roof, boarding up windows, or tearing down a damaged chimney. Keep receipts of repairs, since most insurance companies will pay for them. The Red Cross or other voluntary organizations may assist in helping you obtain materials to make temporary home repairs after a disaster.
3. Notify your insurance company of your loss and get advice about making emergency repairs. Ask the insurance company if it will pay for living expenses, such as a motel, food, and laundry, if you are unable to live in your home. It may give you a check up front. Also find out if this payment for living expenses will reduce the amount you ultimately receive for damage to your property or possessions.

Conduct an inventory

If you have insurance for renters or homeowners, you'll want to make sure the insurance company pays you fairly for all covered property and possessions damaged or destroyed in the disaster. To do that, you'll need to prove that a loss took place and confirm the value of that loss. The following steps will help you give the company an accurate list of the damage:

- Make a preliminary list of damaged property and the degree of damage to each item. If possible, photograph or videotape the damage.
- Check this list against any list of property and possessions you may have made before the disaster occurred.
- If you don't have a pre-disaster inventory list, make one from observation and memory as soon as possible. To jog your memory for items you had before the disaster, you might walk the aisles of your local discount or department store or leaf through a catalog or the classified ads section of your local newspaper.
- Review any surviving photographs or videos taken in and around your home.
- Ask friends and family for photographs or videotapes they may have taken of your home.
- Draw floor plans and sketches of your home's interior. Repeat this process in two or three weeks. You're likely to remember additional items.
- Collect all available receipts, canceled checks, credit card statements, and invoices to prove the value of lost possessions, including big-ticket items such as antiques or jewelry.
- Don't consider your list to be final. You may remember additional items later.

Reconstruct lost records

Records are often lost or destroyed in a disaster. But you may need to reconstruct some of those records if you plan to file an insurance claim, take a tax deduction for your loss, or apply for government aid. Here are some tips for recreating financial records and determining the value of your possessions:

- Look through catalogs or want ads to establish a fair value for your damaged or destroyed items. Insurance for renters or homeowners may pay only the actual cash value for your possessions (replacement cost discounted for age or use).
- Use a Blue Book (available at banks) or consult a car dealer to determine the current value of vehicles. Get a copy of the escrow papers for your home from your real estate agent, the title company, the escrow company, or the bank that handled the purchase. Go to your county assessor for property tax records to determine the value of the land versus the value of the building.
- Contact lenders and contractors to determine the value of home improvements you have made.

- Check court records for the probate values of property you may have inherited.
- File Form 4506, Request for Copy or Transcript of Tax Form, with the IRS to obtain copies of previous federal income tax returns. A small fee may be charged for this service.

Notify creditors and employers

You may not be able to get to work because of a disaster. Be sure to notify your employer.

- Notify creditors as soon as possible about lost bills or difficulties in paying bills. Explain the situation and try to negotiate an agreement to reduce payments or spread them out over a longer period. Most creditors will probably be willing to do this, especially if they have other customers affected by the same disaster.
- Notify the utility company if your residence is unlivable or has been destroyed so they can stop billing immediately. Often, a utility company will transfer service to a new address and waive initial connection charges.

File an insurance claim

Whether you rent or own, the following tips may be helpful:

- Gather together all policy numbers and insurance company telephone numbers.
- Find out how the company wants to process claims. In the event of a widespread disaster, the company may set up special procedures and send in extra personnel and claims adjusters.
- File claims as promptly as possible. Claims generally are settled in the order received, although the most severe cases may receive the highest priority.
- Erect an identifying sign on your property if destruction is widespread. Because it can be difficult for insurance companies to identify your property, a sign with your name, street number, insurance company, and a way for the company to reach you can speed up your claim.
- File a claim even if your home is not specifically covered for the type of disaster that occurred. For example, a standard policy for homeowners will not cover structural damage caused by an earthquake--but it often will cover fire, water, and other damage resulting from an earthquake.

Work with claims adjusters

If losses are small, you only may be required to provide the insurance company with a simple written estimate for the cost of repairs or replacement. More extensive losses usually are handled by a claims adjuster. If that's the case, the following suggestions can help ensure that the adjuster's estimate of damages is complete and accurate:

- Provide the adjuster with your list of damages, but note in writing that it's only a partial list. You may remember more later.
- Fully explain all losses and be sure the explanations are written down by either you or the adjuster.
- Take notes of all conversations with adjusters and follow up with letters to the insurance company confirming the conversations. This increases the chances for getting a fair settlement, but it may also delay a settlement.
- Compare notes with neighbors. What are their adjusters saying? Remember policies and coverage vary.

These suggestions will cost you more and may cause a settlement delay:

- Bring in additional adjusters if you're not satisfied with initial damage estimates. If necessary, hire a structural engineer.
- Consider using an independent claims adjuster if it is a special situation. These professionals can spot claims that homeowners might overlook, especially if the claim is complex or involves a lot of money. Generally, they charge 10% of a settlement. Use the same care and caution in hiring a claims adjuster as you would in choosing any other contractor.

Settle a claim

- Use your list of damaged property and possessions to be sure the settlement offer is fair.
- Appeal an adjuster's settlement offer to higher company management if you feel it's necessary. If that still isn't satisfactory, try settling through independent mediation or arbitration.
- Don't rush to settle with your insurance company. Don't accept settlement checks as "final." You may need to file additional claims later. Keep your right to future payments open until time limits set by your policy require a final settlement. Consider seeking legal advice before signing any waiver that addresses accidents or mishaps other than natural disasters.
- Put your settlement money into short-term certificates of deposit or money market funds. Don't invest the money in financial assets that could fluctuate in value, such as stocks or mutual funds. You will need the money soon--all of it!

Obtain loans and grants

Although *not* meant to replace or duplicate insurance, numerous government, nonprofit, and private loans and grants may be available following a disaster. Watch your TV or newspaper for announcements of their availability. Program sources include:

- The Federal Emergency Management Agency (FEMA)

- The Small Business Administration (despite the agency's name, homeowners or owners of personal property may apply for an SBA disaster-relief loan)
- Your local city or county government (loans or assistance such as property tax relief may be available)
- Private lenders
- American Red Cross disaster relief
- Other voluntary organizations

Avoid contractor rip-offs

Be extremely cautious about contractors you hire to repair or rebuild damaged property. Unfortunately, a few dishonest contractors take advantage of people caught in the wake of a disaster. Also, in cases where federal or state aid may be available, the agency involved may require that an assessment of the damaged property be completed before any repairs are made.

- Try not to rush into starting repair work.
- Get estimates from more than one licensed, bonded, reputable contractor. Don't grab the first person who comes along. Call your local Better Business Bureau to check out a contractor.
- Find out what neighbors are paying for similar work.
- Be wary of contractors claiming "I can get to you right away and do it cheap."
- Write down the license plate number and driver's license number of someone offering services.
- Ask to see proof of the necessary contractor's licenses and building permits.
- Make certain the contractor shows you a certificate of insurance covering liability and workers' compensation--otherwise, you could be sued if a worker is injured while working on your property.
- Get a contract in writing. It should cover what is to be done, when work starts, cost and payment schedules, and the quality of materials to be used.
- Make sure repairs are done according to local building codes.
- Be careful that your signature on a contractor's bid is not an authorization to begin work.
- Don't pay more than 20% down for the contractor to begin work. Then pay periodically, according to the progress of the work.
- If the contractor insists on payment for materials up front, then go with him to buy them or pay the supplier yourself.
- Have the contractor sign a release of lien when the work is done and paid for; this will prevent the contractor from making legal claims against your property in the event of a dispute later.
- Don't make final payment until the job is finished--and you are satisfied with it.

- Be sure all work requiring city or county inspection is officially approved in writing before making final payment to the contractor. You may even want a structural engineer to double-check major repairs before you make a final payment.
- Don't sign over an insurance settlement check to the contractor.

Reduce your tax bite You may be eligible for important tax refunds or deductions (called casualty loss deductions) or other tax benefits that are available for any property or possessions damaged or destroyed in a disaster.

- Rules regarding casualty losses are complex. You may want to work with an advisor such as a Certified Financial Planner[®] licensee, tax accountant, or certified Public Accountant. These experts along with other information sources could help you be aware of changes in tax laws and rules.
- In general, you may deduct losses if the total amount of losses in one year is more than \$100 and more than 10% of your adjusted gross income.
- You must be able to prove that a loss took place, verify its amount, establish that it was due to a specific disaster, and prove that you own the damaged property or are liable for it.
- Keep in mind that some costs of documenting your loss, such as appraisals or photographs, may be deductible.
- You cannot take a deduction for property that has been paid for, or is eligible to be paid for, by your insurance
- Special casualty loss rules apply in a federally declared disaster area. For example, you can amend your previous year's tax return to report current losses instead of waiting to report the losses on your current year's return. This gives you a quick refund (generally within 45 days) of taxes you've already paid. Also, tax filing deadlines and payment schedules may be extended in a federal disaster area.

Take a deep breath

That is a lot of information to digest! You may not be able to do everything that is suggested. That's OK--do what you can. Taking even limited action now will go a long way toward restoring your financial health as fully and as quickly as possible *after* a disaster has occurred. For more information, contact your local Red Cross or office of emergency management. They can provide valuable information and assistance in the event of a disaster. The Red Cross and the Federal Emergency Management Agency also have a brochure that gives you tips on how to prepare financially before a disaster strikes. To find more information on the Internet, contact. . .

FEMA -- www.fema.gov

NEFE -- www.nefe.org

This information is made available through your local American Red Cross and the Federal Emergency Management Agency. It is provided as a public service of the Red Cross and the Public Education Center of the Denver-based National Endowment for Financial Education. All Red Cross disaster relief is free of charge--a gift of the American people. The Federal Emergency

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