

Floods: Managing Risk

Effectively managing risk is important in dealing with and recovering from a disaster. This explains how to manage risk through insurance and other disaster programs in order to recover from a disaster as quickly and easily as possible.

Risk Identification

The first step in managing risk for a disaster is to identify the type and probability of a disaster occurring in an individual's area. Those who aren't sure whether their home or business is at risk from disasters caused by natural hazards can check with local building officials, city engineers, or planning and zoning administrators. These officials can tell whether an individual or business is in an area where hurricanes, floods, earthquakes, wildfires, or tornadoes are likely to occur. County extension agents also can tell how to protect individuals, homes, businesses, and other property from different types of hazards such as earthquakes, floods, and hurricanes.

Homeowner's Insurance

Those who own their home undoubtedly have homeowner's insurance. Many people are unaware, however, of the limits on the protection a homeowner's insurance policy offers. For example, a homeowner's policy does not cover damage caused by floods. It may offer some protection from loss caused by wind, rain, hail, snow, lightning, and freezing temperatures.

Increasingly, policies for homes in hurricane zones exclude wind damage, or if the coverage is offered, it's available only in separate policies at a higher cost. Homeowner's policies also might have a higher deductible for hurricanes. In some areas, private insurance is not available, and property owners can obtain insurance only through a state insurance program that may provide minimal coverage, also at a higher cost.

It is very important to review your policy every year and to contact your insurance agent to update your policy before a disaster occurs! A good rule of thumb is to be sure the coverage amount is always at least 80 percent of the current replacement cost of the home. Otherwise, a policyholder may not be paid the full cost of replacing even a partial loss.

For example, an older home that was purchased for \$100,000 many years ago might cost well over \$200,000 to rebuild today. If the homeowner hasn't updated the homeowner's insurance since purchasing the house, coverage may be only up to \$80,000 (80 percent of the initial purchase price of \$100,000). At least another \$120,000 would be needed to rebuild.

Most homeowner's policies also pay for losses to contents (furniture, appliances, clothes, and so forth) on an actual cash value basis (replacement cost minus depreciation for age or wear and tear). Appliances or other electronic equipment (computers, TVs, stereos, and so on) over three years old lost in a disaster might have a current cash value far less than what it would cost to buy new equipment. A better option might be to buy replacement-cost coverage that pays the full cost to replace personal property at today's prices.

Although the cost is higher, the extra protection is usually worth it.

A standard homeowner's policy does not cover cars, most recreational vehicles, watercraft, animals, birds, or fish. While homeowner's insurance does not cover losses from rising water, it usually does cover water damage from such things as leaking roofs, broken windows, and broken pipes but excludes mold damage. Most policies do not cover sewer backup unless a sewer backup endorsement is purchased.

Those in a designated special flood hazard area whose structure is substantially damaged by any force (wind, water, fire) may be required by the local permit office to meet the flood damage prevention requirements for new construction; for residential structures this usually means elevation—that is, rebuilding the residence above the expected high-water mark. Owners of structures in special flood hazard areas can partially insure themselves for the added expense by purchasing a Code Compliance endorsement on their homeowner's policy.

Flood Insurance

Losses caused by rising floodwater are not covered under most homeowner's insurance policies. People don't need to live near water to be flooded. Floods are caused by storms, melting snow, hurricanes, and water backup due to inadequate or overloaded drainage systems, dam or levee failure, and similar causes. The Federal Emergency Management Agency's (FEMA) Federal Insurance Administration makes the National Flood Insurance Program (NFIP) available to residents of communities that adopt and enforce floodplain management ordinances that represent sound land use practices.

Those who have purchased coverage through the National Flood Insurance Program at least thirty days before being affected by a flood will be protected against property damage caused by such flooding. Insured individuals also may be partially reimbursed for steps they take to prevent flood damage, even if the flood never reaches their building. Flood insurance policies include an endorsement called Increased Cost of Compliance (ICC). This coverage will pay up to \$30,000 for elevating or relocating an insured dwelling so that it is above the flood protection elevation required for new construction.

Other Assistance Programs

FEMA and other federal, state, local, and volunteer agencies offer forms of disaster assistance in order to manage risk.

Low-Interest Loans

Most, but not all, federal assistance is in the form of low-interest loans to cover expenses not covered by state or local programs, or private insurance. People who do not qualify for loans may be able to apply for a cash grant.

These agencies offer low-interest loans to eligible individuals, farmers, and businesses to repair or replace damaged property and personal belongings not covered by insurance. • Farm Service Agency (FSA), <http://www.fsa.usda.gov/pas/disaster/emloan.htm> • Small Business Administration (SBA), <http://www.sba.gov/disaster/loans.html>

Individual and Family Grant (IFG) Program

IFG provides cash grants for up to \$14,800 adjusted annually for inflation. The average grant is in the \$2,000 to \$4,000 range. For more information, visit <http://www.fema.gov/about/process/>.

Individuals may be eligible for grants to help recover necessary expenses and pay for serious needs that cannot be met through insurance or other forms of disaster assistance. Examples are housing, personal property, medical, dental, funeral, transportation, and required flood insurance premiums incurred as a result of the disaster.

Veterans Benefits

The Department of Veterans Affairs provides death benefits, pensions, insurance settlements, and adjustments to home mortgages for veterans. For more information, visit <http://www.va.gov>.

Temporary Housing Assistance

This program assures that people whose homes are damaged by disaster have a safe place to live until repairs can be completed. This program is designed to provide funds for expenses that are not covered by insurance for homeowners and renters who are legal residents of the United States and are displaced by the disaster.

- Home repair assistance
- Rental assistance
- Mortgage and rental assistance (MRA)
- Referral to other government housing programs, if necessary

For more information, visit <http://www.fema.gov/about/process/>.

Tax Refunds

The Internal Revenue Service (IRS) allows certain casualty losses to be deducted on federal income tax returns for the year of the loss or through an immediate amendment to the previous year's return.

- Internal Revenue Service (IRS) Publication 584 - Casualty, Disaster, and Theft Loss Workbook (Personal-Use Property), <http://www.irs.gov/pub/irs-pdf/p584.pdf>
- Internal Revenue Service (IRS) Publication 2194B - Disaster Losses Kit For Businesses: Help From the IRS, <http://www.irs.gov/pub/irs-pdf/p2194b.pdf>

Excise Tax Relief

Businesses may file claims with the Bureau of Alcohol, Tobacco, and Firearms (ATF) for payment of federal excise taxes paid on

alcoholic beverages or tobacco products lost, rendered unmarketable, or condemned by a duly authorized official under various circumstances, including where the President has declared a major disaster. For more information, visit

<http://www.fema.gov/doc/rrr/whendisasterstrikes.doc>.

Unemployment Benefits

Disaster unemployment assistance and unemployment insurance benefits may be available through the state unemployment office and supported by the U.S. Department of Labor. For more information, visit <http://workforcesecurity.doleta.gov/unemploy/disaster.asp>.

Applying for Disaster Rehabilitation Assistance

After a disaster, individuals may need to seek financial assistance to restore their home or farm. There are many sources of assistance, but everyone will be required to provide certain information. The lists below can help in assembling the necessary information before meeting with any agents.

What will be needed for most grants or loans:

- Itemized list of losses
- Estimates of the repair or replacement cost of each item
- Estimates of new flood insurance premiums
- Federal income tax returns from the last three years (copies)
- Deed, mortgage, or renter's lease (copy)
- Previous insurance policy or insurance settlement (copy)

For personal loss:

- Proof of monthly income (stubs, statements)
- Driver's license and Social Security number

Business or farm loss:

- A brief history of the business or farm
- Personal and business financial statements
- Loan repayment schedule
- List of bills owed
- Agricultural Stabilization and Conservation Service information on farm crop base and assigned yields

Resources used for this document

“Individual Assistance Programs from FEMA,” The National Disaster Handbook, IFAS Extension

“Financial Recovery and Risk Management,” Louisiana State University Extension

Federal Emergency Management Agency, <http://www.fema.gov>

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