



Financial Considerations Before a Natural Disaster

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When preparing for a natural disaster, people most often think of creating an emergency kit, planning exit routes, or finding flashlights. Your finances are not likely to be the first thing to come to mind. However, a little planning can go a long way toward making sure you are prepared to cover costs that could arise in case of an emergency. Whether you face a tornado, flood, ice storm, or any other type of disaster, the following tips will help you and your family financially prepare for the unexpected.

Build Emergency Savings

One of the most important things you can do to safeguard your family in case of a disaster is to create an emergency savings fund. Building emergency savings will help your family cover unexpected costs that can result from emergencies, disaster, or loss. Ideally, an emergency savings fund will have between three- and six-months' worth of living expenses. However, any amount of money will be helpful if disaster strikes. Living expenses include critical needs such as housing, food, monthly utility bills, and other necessities such as medicine and health-care costs. Non-critical expenses that are not crucial to your livelihood can

be excluded, such as entertainment, vacations, and nonessential shopping.

To calculate your emergency savings needs, estimate your family's critical expenses for one month and multiply the total by three (and then six) to estimate a range for a first savings goal. It is best to begin saving before an emergency arises. Because emergencies often come with little warning, you want to be prepared. Your emergency savings fund should be a separate account from your regular savings, as it is strictly for emergencies. The money in this account should be "liquid," meaning you should be able to access it easily. If an emergency occurs, you want to be able to retrieve your money quickly without a penalty for withdrawal. Consider placing your emergency savings in a high-yield savings account, which will earn interest. Be sure to select a choice with no monthly fees, minimum balance, or deposit requirements.

Pay Down Debt

In the same spirit as saving, paying down debt is an important tool in preparing for a financial emergency. If you have high balances on consumer debt like credit cards, student loans, automobile loans, or a mortgage payment, it can chip away quickly at your disposable income or emergency fund. In case of a disaster, you don't want your money tied up in debt or interest payments. Also, make sure you have available credit on revolving lines, such as credit cards, so you can use it if needed. This is a reason to keep your credit card balances low – and it should help improve your credit score as well. Paying off credit card debt monthly will help you avoid costly interest.

Budget

Before a disaster occurs, create a monthly budget to help you better distribute your income. This will allow you to pay off debt and reach your savings goals faster. A budget is a list of income and expenses. When expenses are greater than income, debt occurs. However, when income is greater than

expenses, you can control your money. As you look over your expenses (including occasional, daily, monthly, quarterly, and annual bills and purchases), think about ways to reduce expenses. This might mean cutting back on eating out, clipping coupons when grocery shopping, or canceling streaming services your family doesn't watch anymore.

Also, when budgeting, practice "paying yourself first" by setting up an automatic payment to your emergency savings account. You can do this through a payroll deduction or through your bank or credit union. A rule of thumb when building an emergency fund is to set aside 20% of your take-home income for savings and investments. Within that, 5% to 10% of your take-home income should go to building an emergency fund until the savings goal is met, with the rest going toward investments and retirement savings.

Keep Cash on Hand

In the digital age, cash on hand is becoming less common. However, it is a good idea to keep some cash at home in smaller bills that you can grab quickly if an emergency occurs. This is especially helpful if online networks are down and businesses or gas stations cannot accept credit or debit cards, or if there is a power outage. Consider having enough cash on hand to cover transportation, food, and lodging costs if you have to evacuate or relocate quickly. You want to store this cash in a secure location that also is easy to get to, such as a fireproof and waterproof safe.

If severe weather is predicted, make sure you have gas in your vehicle in case gas stations close. The time to buy generators and chargers is well before the storm. The demand for them afterward may mean they will disappear quickly or be overpriced. If you have advance warning of severe weather that could cause a power outage or the need for you to shelter in place, charge up your electronic devices and power banks, and turn on battery-saving features to extend their usefulness. Even if the internet is down, you may still be able to make calls or send texts to check on loved ones or to get weather updates.



Gather Important Documents

As you make financial preparations for emergencies, also gather your records and important documents in a protected central location. This is wise for both estate planning and emergency preparedness. If disaster strikes, there are many papers you may need to access for proof of identity, to apply for aid, or to file insurance claims. These may include a photo ID and social security card; insurance policies; banking information; property deeds or titles; tax statements; certificates of birth, death, marriage, or divorce; or physician and health-care records. It also helps to have a list of financial contacts and account numbers. If a disaster occurs, you may need to stop or start services or request to delay payments.

The Federal Emergency Management Agency (FEMA) offers an Emergency Financial First Aid Kit at <https://www.fema.gov/emergency-financial-first-aid-kit>. This toolkit offers more tips on financial wellness and financial emergency preparedness, and it includes a fillable PDF option that offers a place to record important information digitally or to print it for your records.

Once you have gathered your important documents, it is important to store them safely.

Keep paper copies and/or a flash drive in a waterproof, fireproof container, such as a safe, folder, or bag. Make sure you protect digital copies on your computer or in the cloud with a strong password. Also, consider making a second copy that you could keep in another location such as a bank safe-deposit box or with a trusted relative in the event a flood, fire, or storm directly affects your home.

Update Insurance Coverage

Everyone should review their homeowner's or renter's insurance coverage annually. This is important because it helps you understand your policy and what it covers. Often flood or earthquake insurance is sold separately and is not covered under a standard home insurance policy. Talk to your insurance agent to make sure your home and property are insured at 80% of their current replacement cost. You also want to make sure detached structures are properly insured, as well as particularly valuable belongings such as jewelry or electronics that may have a dollar limit specified. Review your policy and ask for clarification about any wording, disclaimer, or fine print you don't understand.

In general, a standard homeowner's policy is based on the value of the main house. For insurance to provide coverage for a complete loss, the amount of the policy should be for at least 80% of the home's value. A house is typically insured at 80% of its current replacement cost. Replacement cost is simply the amount of money it would take to rebuild a similar home based on today's construction prices. Unfortunately, if you bought your homeowner's policy several years ago and have not updated the policy amount as construction prices have increased, or do not have inflation protection as part of your policy, you may be underinsured. If your home is insured for less than 80% of the replacement cost, you may receive a prorated or reduced amount on your claims. The difference between the replacement cost of repairs and amount you received from insurance will be an out-of-pocket expense.

Inventory Your Home

As you review your insurance coverage, also take the time to document what you own — especially anything of value or importance. If you ever need to file a claim because of damage or theft, it will help to have documentation of your belongings. Begin by touring your home and recording the value of the major items inside. You could choose to inventory your belongings room-by-room, or by categories such as appliances. Your list could be handwritten in a notebook, or you could use digital tools such as a spreadsheet or app. Include as much detail as possible, such as the item's value, date of purchase, and model or serial number. Take photos or videos of your belongings as you go, and securely store the digital files or hard copies with your other important documents in a protected location.

Finally, as you inventory your home, rethink where items are stored. If you live in an area prone to flooding, for example, do not store sentimental or valuable items in the basement unless they are in waterproof containers. Similarly, do not store paperwork near anything flammable. Consider a safe spot for jewelry or other valuables. Also, consider making digital copies of special photographs or special items you can't replicate, such as handwritten recipes.

While we hope unexpected disasters and events never happen, it's best to be prepared in the event they do. In addition to these tips, find out more about the services and response teams in your community who will work to keep you and your family safe. Following a few proactive steps, you can become more financially prepared for a natural disaster.

Resources and References:

The Ready Campaign. "Financial Preparedness Tips." (2021). <https://www.ready.gov/financialpreparedness>

The Kentucky Department of Insurance. "Household Inventory." (2022). <http://insurance.ky.gov/ppc/Documents/HouseholdInventory051310.pdf>

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- Protecting Your Family and Home After a Natural Disaster
- Considerations for Food and Water Before a Natural Disaster
- Keeping Food and Water Safe After a Natural Disaster
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