Disaster Planning: Steps for Guarding Your Assets

By Elaine Floyd, CFP® and Amy Buttell

As super storms and natural disasters continually remind us, it's important to have an emergency plan ready to go so when disaster strikes, your most valuable assets are protected.

Financial planning typically involves anticipating future expenditures like retirement, for example, or paying college tuition bills, and then implementing savings and investment strategies to achieve these goals. But recent events remind us that disaster planning—an often neglected aspect of financial planning—is also necessary for protecting yourself, your family, and your assets in case of sudden emergencies.

Anticipating what might go wrong isn't always a pleasant exercise. However, it can be informative when it's done in the spirit of examining your fears, identifying where you and the family might be vulnerable financially, and devising solutions to cope with any potential financial or natural disasters.

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Everyone needs a disaster plan and risk management tools that will help navigate through potential calamities or rough financial patches. To get a handle on what resources you'll need to cope with a disaster, make a list of the risks on one side and the remedy for that risk on the other.

Remedies for these risks could include beefing up emergency funds, examining and improving insurance coverage, updating important documents, ensuring access to critical paperwork and contact information, and devising an emergency plan.

EMERGENCY FUNDS

The typical emergency fund consists of three to 12 months worth of living expenses, which should, of course, be immediately accessible. Immediately accessible means in a savings or money market account that you can withdraw from within 24 hours. Within this rule of thumb, your specific circumstances might mean a larger or smaller fund.

Think about what types of emergencies might happen. A retiree doesn't need to worry about job loss, but a family breadwinner does—unless that breadwinner owns a business, which translates into an entirely different set of risks. An executive with a secure job, a large salary and a hefty emergency fund doesn't have to worry about running out of money, but a retiree with limited funds and rising health care expenses might.

Consider the potential recovery time associated with each emergency to gauge how much to put set aside in an emergency in an emergency fund. Natural disasters such as super storm Sandy can force victims to rely on their own savings for months until insurance policies pay off. A major car repair, on the other hand, could cost a couple of thousand of dollars, which is reasonable unless there isn't much of an emergency fund at all. Long-term disability of a family breadwinner could wipe out savings.

Other factors to consider when deciding on the size of an emergency fund include job security, expenses, and whether a backup exists to the emergency fund. A two-income family may be able to get by with a smaller emergency fund than a one-income family. Families with less predictable expenses usually need a larger emergency fund than those with predictable expenses.

OTHER EMERGENCY RESOURCES

Besides emergency funds, there are other options when a financial emergency looms. In some cases, these resources should be considered as stopgap measures. In others, they can provide longer-term financial security. Consider the following:

- **Family assets.** If you have family money or parents or grandparents with large amounts of assets, you may have the ability to draw on a future inheritance—or not, depending on how parents or grandparents feel about sharing assets with family members. If this is something you might need at some point, it's a good idea to initiate a discussion along the lines that this isn't a request for money, but an assurance that the parents can be counted on to lend a hand in case of an emergency.

- **Home equity.** Once you've been in your home for a number of years, you've likely built up some home equity, unless you've already tapped that equity or live in an area where home values fell significantly. If home equity is available, it might be a good idea to open a line of credit for possible emergencies. A line of credit can be a good backup plan and provide peace of mind since funds can usually be accessed quickly. However, accessing home equity will deplete a home's value and it will have to be paid back.

- **Reverse mortgages.** If you're 65 or older and have a substantial amount of equity in your home—or it is paid off—consider applying for a reverse mortgage. If you meet the age requirement and have enough equity, approval is automatic. Make arrangements to receive the equity as a line of credit and keep it there as an emergency back up.

  Reverse mortgages, like a home equity line of credit, must eventually be paid back—usually when the homeowners die or move into some kind of nursing care—and using it depletes the value of the home, so it is better not to access it unless absolutely necessary.

- **Other assets.** Identify other assets that could be sold or borrowed against such as a vacation home, a boat, a coin collection, jewelry, and so forth. These can be either sold or borrowed against if necessary, although that cash can take time to access unless a sale is made at fire sale prices.

- **Retirement plans.** Borrowing from a retirement plan should be one of the last options considered. Retirement plans are meant to be vehicles for saving money, not a source for loans or emergency cash. If you must borrow against your retirement plan, be sure to review the terms for paying it back. Unpaid loans can turn into retirement plan withdrawals with penalties and fines if you run afoul of the rules.

INSURANCE COVERAGE

Depending on your financial situation and assets, you likely have several different kinds of insurance coverage. Insurance is a relatively low cost method of transferring risk to a third party like an insurance company.

The first place to start is to examine the types of insurance available through your employer. Many companies offer health insurance as well as some type of life and disability insurance.

Check with your insurance agent regarding your other policies which typically include car and homeowners insurance. It's a good idea to periodically review those policies with your agent to make sure you have enough coverage, especially if your financial situation has changed. Your insurance agent can also help you decide if you need additional life and disability coverage over and above what an employer provides.

If you don't have an umbrella policy, consider one that can help protect against unforeseen liability claims. Long-term care insurance can help protect family assets in case extended nursing home care is needed in old age.

For those living near the water, a flood insurance policy is a good idea. Many consumers mistakenly believe that homeowner's insurance covers floods, but that isn't the case. The National Flood Insurance Program subsidizes all flood insurance, since insurance companies are wary of footing the bill. Although flood insurance is an expense in addition to homeowner's insurance, it is worth it to protect what is one of your largest investments.

UPDATING AND ACCESSING PAPERWORK

Periodically, it's a good idea to take a look at estate planning documents, including wills and trusts, to make sure they reflect your current circumstances and wishes. If there are children in the picture, designate guardians and at what point the children would receive access to their inheritance. Living wills, durable powers of attorney, and other documents should also be periodically reviewed with an experienced estate planning attorney.

These documents—and others—should be accessible in some place other than a file in your house in case of emergency. Many estate-planning attorneys will keep a record of wills, trusts, durable powers of attorney, and living will documents at their offices.

Other documents, including life and health insurance documents, notes on funeral arrangements, titles for assets such as cars, home and boats, birth certificates and passports and financial institution account numbers can be stored in a fire-proof safe, in a safety deposit box, and/or backed up online. Consider scanning treasured photos and storing them online in case of disaster. Also take pictures of furniture and objects in your house in case you need evidence for a future insurance claim.

EMERGENCY PLANS

In the case of a disaster, every family should have a plan that tells them where to meet and how to contact each other. Be sure to include phone numbers of relatives and friends that could be a good contact if family members get separated. Cell phone service may not always be available. Prepare an emergency kit of important documents and possessions in case you have to pack and leave in a hurry. And don't forget to consider back up care for your pets in case of an emergency.

A FINAL WORD

Emergency planning may not be your favorite type of financial planning, but by taking the time to deal with fears, risks, and potential solutions, you'll feel more prepared should something happen. Consult with your financial advisor for help in creating your plan. They often have a number of resources and ideas that can help you protect your assets and your family in case disaster strikes.

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