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Insurance is expensive, but losing home to quake could cost far more

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Mercury News

Article Launched: 11/04/2007 01:41:22 AM PDT

The 5.6 earthquake that rattled the Bay Area on Tuesday offered the most powerful reminder since the 1989 Loma Prieta quake that Mother Nature can shake your home and your finances off their foundation at any moment.

That's a wake-up call many Californians would be wise to heed, experts say. Only about 12 percent of the state's homeowners have purchased earthquake insurance, down from 20 percent a decade ago. It's even lower in the Bay Area, even though our history is scarred by the devastating 1906 and Loma Prieta quakes, according to the California Earthquake Authority.

Homeowners give many reasons for passing up quake coverage. Premiums are expensive. Deductibles are too high. The government will bail out victims. Insurance companies might fold if disaster struck. And many Californians are simply in denial.

Here's a primer to help you examine whether you should buy earthquake insurance.

Q Do I really need quake insurance?

A You're a candidate for quake insurance if your home comprises a whopping chunk of your net worth and you're counting on living in it or selling it when you retire. If your home were leveled, could you afford to rebuild on your own? If not, keep reading.

"People forget what insurance is for," said Libby Mihalka, a financial planner who heads Altamont Capital Management in Livermore. "You buy insurance for the worst day you can imagine."

Mihalka compares buying insurance to rigging safety nets as you walk the tightrope to retirement.

"It could be you'll walk perfectly and never fall, and then you'll say, 'Why did I spend all the money?' That's the wrong question. The question is: 'Aren't you glad you didn't need it?' "

Q Where do I buy insurance?

A Start by calling the insurer that sold you homeowners coverage. It's required by law to offer quake coverage. But you also can shop around.

Most companies basically act as the intermediary for policies underwritten by the quasi-governmental California Earthquake Authority. The agency provides coverage to about three-fourths of the fraction of homeowners who buy quake coverage. Use the authority's coverage as a baseline for comparison.

Q What is the CEA coverage like?

A The earthquake authority's menu starts with a bare-bones "mini-plan." It comes with a 15 percent deductible, meaning you'd pay that share

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before the insurance pays a cent. It also insures only $5,000 of personal belongings in your home, and provides only $1,500 for living expenses if you have to move out of your home temporarily.

But this coverage can be upgraded. You can elect to lower the deductible to 10 percent, and cover up to $100,000 of personal property and $15,000 for living expenses. You also can buy up to $20,000 coverage to fix your home according to current building codes, a necessity that can blindside owners of older homes.

Even so, state Insurance Commissioner Steve Poizner is prodding the earthquake authority and companies that underwrite their own coverage to offer a greater variety of policies, particularly ones that offer lower deductibles.

"From my point of view, I don't think the California Earthquake Authority product is very attractive," he said. "It has a high deductible, and it's pretty expensive. A lot of people in the market have evaluated it and turned it down."

Q How much insurance do I need?

A Quake insurance is tied to the amount covered by your homeowners policy. Insurers often come up with that number by asking you to fill out a detailed questionnaire that fleshes out the likely cost of rebuilding. Is it a wood-frame house or brick? Is it bolted to a foundation or on a slab? How many baths, bedrooms, stories and square feet does your home have?

The insurer also will want details that will dictate whether your home might cost more to rebuild than your neighbor's. For example, do you have the original avocado-colored Formica or did you remodel with granite backsplashes? Insurers also base their calculations on the cost of labor and building materials in your area.

Experts advise homeowners to revisit this exercise annually. Some homeowners are underinsured, they warn. Some skimped on insurance in the first place, while others haven't accounted for costs or improvements they've made.

Q How are insurance premiums determined?

A It starts with that real estate adage: location, location, location. Insurers run computer models to gauge the risk of quakes throughout the state, so expect to pay more if you live along a fault line. (To check your neighborhood quake risk, go to www. abag.ca.gov/bayarea/eqmaps/mapsba.html.)

But premiums also will be shaped by the particulars of your home. You'll typically pay more if your home is built on a raised foundation rather than on a slab, is more than one-story tall, and is built with unreinforced masonry. Conversely, you might qualify for a discount if you've taken preventive actions such as strapping your home to the foundation.

Q How much does quake insurance cost?

A The price will vary from region to region, neighborhood to neighborhood, home to home. The earthquake authority's average policy costs $634 a year. But its online premium calculator (www. earthquakeauthority.com) indicates bills easily can run twice as high, especially if you lower the deductible and boost coverage.

For example, premiums could run more than $2,000 if you own a 1930s two-story home that would cost $350,000 to rebuild, according to the

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calculator. Still, use the calculator only for estimating. Contact your insurer to work out the cost to cover your home.

Q I own a condominium. Do I need quake insurance?

A Don't assume you're covered. Check to see whether your condo association has a master policy, or whether you're responsible for the structures. Financial planner Mihalka also warns that some condo associations have pared back coverage to keep annual costs in line.

The condo association's coverage typically will not cover quake damages to your personal property or fixtures inside your home, nor will your regular insurance. You also might consider a policy that will kick in if your condo association imposes an assessment against its members to pay for quake repairs.

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Mercury News Staff Writer Steve Johnson contributed to this report.

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