

Should I carry Earthquake Insurance?

The answer to this question depends on how comfortable you are with the risks involved in not having insurance versus the peace of mind that having the coverage gives you. This article will explore some of the things to consider in making this decision.

Since 1996, most earthquake insurance policies in California have been written through the California Earthquake Authority. Policies issued by the CEA cover a specified dollar amount, rather than insuring the replacement cost value of your home. Additionally, the deductible is 15 percent of the amount of coverage on the home and only the cost of rebuilding the home is included (other structures such as detached garages, pools, patios, landscaping, walkways, and fences are excluded from coverage). Other coverages for personal property and loss of use are minimal.

Recently, more insurance companies have started offering earthquake insurance in California. Some of these policies are available with 10 percent deductibles, and higher coverages for personal property and loss of use may also be available.

Even if you carry earthquake insurance, you may have significant out-of-pocket expenses in the event of damage to your home. Assume a home that is carrying \$200,000 in earthquake insurance suffers the following damage in an earthquake:

One corner of the house's foundation collapses, costing \$40,000 to repair. The detached garage collapses, costing \$30,000 to replace. The swimming pool cracks, costing \$10,000 to repair.

With a 15 percent deductible, the first \$30,000 in repairs must be paid by the homeowner. Damage to the pool and garage is not covered, so the homeowner must also pay these expenses. In this case, the insurance policy covers \$10,000, and the homeowner pays \$70,000.

Whether you carry earthquake insurance or not, there are some things that you can do to reduce the risk of damage to your property in the event of an earthquake.

- Make sure that your house is bolted to its foundation.
- Secure the water heater and gas appliances to the wall studs.
- Limit exposure of falling objects by securing the objects and top-heavy furniture to the wall studs.
- Brace or replace high chimneys.

It may be advantageous to carry earthquake insurance when you have a large amount of equity in your property, if you feel that your risk of suffering a significant loss in an earthquake is high, or if you just sleep better at night knowing that you are covered.