Thank you, Mrs. Melvin. I am Frances Jefferson, Region Administrator for [Women’s Bureau] Region VIII in Denver, Colorado. Join me in welcoming Mr. Brent Neiser, Certified Financial Planner, Director of Collaborative Programs of the 135 million Denver-based National Endowment for Financial Education (NEFE), an independent non-profit foundation committed to educating Americans about personal finance and empowering them to make positive and sound decisions to reach financial goals. Mr. Neiser.

Thanks very much. It’s a pleasure to be here. I’m going to talk about some general top-down themes but also go into some specifics as well and really try to take, as Meloni has begun, a financial planning point of view to this opportunity. And this is really what it is.

Let’s step back a second. We’re talking about two catastrophic storms and then even collateral damage that came from a subsequent flood after the initial impact of the storms that was very tragic. But other types of hazards have been alluded to in the media, and this includes terrorism. So back a few years ago when
Secretary Ridge of Homeland Security talked about preparing for that inevitability, many of the principles that apply to disaster planning--natural disasters--could apply to, God forbid, a terrorist attack.

But to look on the bright side, most of what we’re talking about applies to your personal financial life anyway. So you could actually get triple duty. You could help yourself and your family and your children with financial education through going through some of these steps. You will prepare for a natural disaster but also a man-made or some type of national security threat as well.

So I’m going to talk about linkages and a little bit of legacy. The linkages are that anything you do to one aspect to prepare for a disaster will affect various aspects of your financial life. Meloni talked about the importance of cash in the situation. That really would require you to look at your budget and to save up for an emergency fund to plan for such an event, to have the cash or assets that you might need in different ways that you can access them.

Risk management, and I’ll go into some more specifics about that in a second. Dealing with the risk that you face -- life insurance -
having adequate coverage there for the wage earners; disability insurance, which could occur even more frequently than a death; property insurance, including renters insurance. If you or a family member rents, that’s very important. And the kind of insurance in the property area is very important. There are several things that can happen. You have a deductible where you sort of decide, “How much do I want to self-insure to keep my premiums at certain levels?” The higher the deductible, the lower the cost of the insurance.

What hazards does the insurance cover? We all know from watching the news, flood insurance is not an automatic. You have to electively seek that out. The way to do that, to know if you’re vulnerable in your area, is to go to [www.floodsmart.gov] and that might be able to tell you if you’re in a flood-prone area. Also, mortgage companies often require flood insurance as a condition of holding and offering a mortgage.

Another aspect of insurance is to get a guaranteed replacement policy coverage. This allows the full value for what you have in terms of building that home back or replacing the items that have been properly inventoried, to the limits of the policy, but also to what those values might be. That’s something you should see.
You also should work with high-quality insurance companies as well.

[Editor’s note: According to Mortgage News Daily, a guaranteed replacement cost policy is one in which you will be paid the cost to rebuild your home in the event of total destruction regardless of the limit of liability. If your home is totally destroyed by fire and will cost $500,000 to replace, a guaranteed replacement policy will pay the $500,000 even if your home is only insured for $400,000. In such a case it is wise to document with pictures any really special features in the home, just in case an adjuster is a little suspicious of your claim for jade fittings in the master bath.

Even short of a total loss, the replacement cost versus actual cash value is a wrinkle that can throw policy holders into cardiac arrest. A replacement cost policy will pay for replacement or repairs based on the real life, real time price of materials and labor. For example, if a strong wind rips a large section of 25 year asbestos roofing shingles from your house, under an RC or replacement cost policy the insurance adjuster will process your claim as 20 squares (100 square feet each) of roofing shingles and roofing felt at $1,880 including labor. Great, go out, hire a contractor, and get that roof patched or replaced (and insurance companies will
usually take into account the matching factor; i.e., if the repaired roof is going to look sloppy due to color match or aging, they will pay to replace the entire roof.) However, if you have an actual cash value (ACV) policy the bottom line will be quite different.

If the insurance company determines that the roof is 12 years old they will figure you have had the companionship and protection of those 25 year roofing shingles for close to one half of their useful life and would certainly have to replace them in 12 to 15 years. Thus the insurance company is only willing to compensate for the remaining and assumed 13 years or so of life and will discount their payout according to a formula that takes that age into account. This could well result in a claim payment of $670 for replacement of that aged roof rather than the $1,880 indicated above.

Replacement versus ACV applies to kitchen cabinets, furnaces, appliances, and most household contents. It does not, however, apply to the cost of removing and disposing of damaged materials nor does it apply to those portions of a house that do not "wear out" such as framing, foundations, and other more or less permanent pieces of construction.
Like a deductible, the choice of ACV as opposed to replacement cost will be reflected in the annual price you pay for your policy premium. ACV is obviously less expensive than replacement cost and the decision is yours; just make sure you know what you are getting.

There are other types of risk that are not covered by regular property insurance. That includes luxury items, maybe computers. If you run a small business out of that, that would require special coverage. Earthquake is different. Sewage backup—that is different than flood insurance but it is an elective rider. You have to pay a little extra for it, and that’s if something happens in the neighborhood and the sewer backs up even through no cause of your own, that would be something where you can get some immediate relief as well. So know what hazards you have in your area and seek the proper coverage.

Back to the overall aspects of personal finance management. Investing, making sure that what investing you’re doing—whether it’s for retirement or other types of investing—is diversified, not only within the different categories of types of investments you could have, but to make sure that the income you and your spouse might be bringing down in a particular area, that your investments
are not necessarily tied directly to that industry or that geographic area. Think of the economic devastation that we’ve seen in the southern United States, and people in particular types of industry may have ended up losing a job, their livelihood, but if their investments were in some of those same companies or industry categories, they have lost some real net worth in that case.

And their property could have been affected by that. So you could end up with a triple whammy that affects your finances in three ways negatively. So diversification of your income, your investments, and making sure you do the proper mitigation or insurance for your property. There are many tax consequences. Some of our other speakers will get into that, but it’s important to manage taxes and there’s really a preparedness and disaster component to that.

And finally, estate planning, an important pillar of personal finance, deals with the issue of having the right kind of will, trust, health care power of attorney, and having those records available and people informed about your wishes should something tragic happen. And making sure those are up to date.
So you can see that preparing for disaster will naturally lead you to some of these key areas. And tools--by doing this you not only get a fresh look at where you’re adequately covered or something you need to do or need to update or get advice from a professional. Many of these things become tools in a disaster situation.

Insurance is a tool. Cash is a tool. Information is a tool. Your credit record and credit information is a tool as well, as [are] overall your skills and awareness and the planning that you’ve made.

Another point is legacy. Think about how your actions in preparedness and in being poised to do effective work in a recovery, should that happen--the example that you can set for other relatives, family members, friends and loved ones. Getting your family involved and working with the home inventory, visiting some of the financial professionals, doing an annual update on some of these items, identifying what you’ve purchased in the past year to make sure you’ve added that to your inventory, having children and other family members involved, makes the job go faster. It builds awareness for their financial education and financial literacy. So these kinds of good habits can have a benefit far beyond a disaster situation. And this gets into the idea of teachable moments.
Let me add another little item about mitigation, which is very important. It’s sort of another unseen way of self-insuring, thinking about, as Victoria talked about, the risks that you might face. Are you on the flood plain? Is the bank where you have your safety deposit box now held – is that in the same flood plain or a different flood plain? What risks are your business records in compared to what you have at your home? Where do you keep your offsite records? And think of the disasters that could happen to you and what things you can do to lessen that risk.

And then there can be real insurance savings by doing that. For example, I put a metal roof on my house, which was wood shake and out here living in the West is pretty dangerous with wild fires. I have mitigated that risk. It did cost a little bit of money, but in my budgeting and cash management, my wife and I decided that’s a good thing to do. And it’s lowered the cost of our insurance, and I get another benefit. I get significant peace of mind and satisfaction whenever I leave my area for a trip or vacation.

So again, think about financial planning in terms of all hazards, all the benefits, the legacy of the teachable moments and the example you can set, and the multiple benefits that will accrue to you and
your family by increased knowledge and awareness of your own financial situation. You’ll be much better prepared.

So, in summary, some general points. Make a disaster plan. Protect your property through mitigation and insurance. Protect your income through diversification and good savings. Keep your skills up. Protect your health and life with proper insurance. Protect your records. We talked about that. And protect your loved ones down the road when it comes to estate planning, documents, and keeping those up to date. And you’ll find that disasters, as tragic as they are, can be some of the best positive motivators in getting people in the proper frame of mind to deal with their personal finances.