

## **Disaster recovery**

### **When Disaster Strikes**

The weeks and months following a disaster can be confusing and difficult. Whether it is a personal one, such as losing your home to fire or flood, or a national tragedy like September 11th, there are numerous financial issues and personal concerns to address.

### **Give yourself time**

You need time to think through your situation, absorb what has happened, and seek advice. Don't immediately make any important financial decisions in the wake of a disaster.

### **Assess your financial position**

The first step toward financial recovery is to prepare a plan for managing your income, expenses, and debt. If you're in need of cash, determine whether you're eligible for disaster relief funds from federal, state, or local governments. Make every effort to keep up with your bills. If you can't, call your creditors to explain the situation and work out a payment plan.

### **File insurance claims quickly**

Estimate the losses you have sustained as a result of the disaster, gather your policy numbers, and then file appropriate insurance claims. The sooner you get started, the sooner your claim will be processed. Claims are frequently settled in the order in which they are received. If you do not have a complete listing of household items damaged in the disaster, check with relatives and friends for photographs taken in your home that may help to support your claim.

### **Consider your ability to continue working**

If you've been injured and cannot work, you may be eligible for monthly disability insurance benefits. Apply as soon as possible to protect your income flow.

### **Deduct casualty losses**

If your property has been damaged or destroyed by a casualty and your loss meets IRS deductibility guidelines, you may be eligible for a tax refund based on unreimbursed losses. Usually, this means claiming the loss on your next income tax return. But in cases where the President declares a federal disaster area, you may be able to accelerate your deduction by amending your return for the prior tax year.

### **Replace important documents**

Determine the extent to which the disaster has resulted in the loss of valuable personal and financial records, such as your Social Security card, driver's license, bank statements, stock certificates, and recent bills. Make a list of such documents as best you can, and make the phone calls necessary to obtain copies.

### **Reevaluate your insurance coverage**

Inevitably, disasters compel you to reconsider the role of insurance. Evaluate whether you have the right type and amount of property, health, disability, and life insurance.

### **Set up an emergency fund**

Once you get out from under a disaster, take steps to establish a financial cushion equal to three to six months of living expenses. The fund can help you manage through other financial crises, such as losing your job. Keep these funds in a safe, easily accessible account, and do not use it unless you face an emergency.

### **Update your will**

For many people it takes a disaster to point out the importance of having a will. A will names your heirs and appoints a guardian if you have young children. If you die without a will, the state will decide who gets your possessions – and charge you a fee for doing so.

### **Review your life goals**

Disasters frequently cause people to reflect on the meaning of their life and their money. Should you spend less time at work and more time at home? Should you change careers? Retire early? Pursue a lifelong dream? Many of these life goals come with financial consequences and require careful planning to be reached. This planning may entail saving more, spending less, or reassessing your investment portfolio.

### **Seek help**

People who have been through a traumatic experience often have difficulty making sound decisions. A CPA can help you develop a financial recovery plan for regaining your financial footing following a disaster.

The American Institute of Certified Public Accountants, the American Red Cross, and the National Endowment for Financial Education have created a brochure to help people affected by natural and man-made disasters recover from financial loss. To download it, visit <http://www.redcross.org/services/disaster/beprepared/FinRecovery/>.

Copyright 2006, The American Institute of Certified Public Accountants