

DISASTER *Recovery*

**A GUIDE
TO FINANCIAL
ISSUES**





DISASTER Recovery

A GUIDE TO FINANCIAL ISSUES



NATIONAL ENDOWMENT FOR
FINANCIAL EDUCATION

Partnering for Financial Well-Being



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Note: The content areas in this material are believed to be current as of this printing, but, over time, legislative and regulatory changes, as well as new developments, may date this material.



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Introduction

When a natural or other disaster strikes, life suddenly changes. Routines are shattered, jobs disrupted, and property destroyed. Loved ones may be injured or lives lost.

If you have experienced disaster, you know firsthand the emotional toll that it takes—shock, confusion, grief, and fear that catastrophe could strike again. Emotional recovery can take months, even years.


Disasters also take a financial toll. This booklet is written to help you regain a sense of financial balance following a disaster by offering suggestions on steps to take immediately, what to do in the initial weeks and months, and how to begin planning again for the future. The booklet may not answer all your questions but it will answer some of them and, we hope, help minimize the financial impact of the disaster.

Disaster Recovery: A Guide to Financial Issues is offered to you as a public service of the American Institute of Certified Public Accountants (AICPA), AICPA Foundation, the American Red Cross, and the National Endowment for Financial Education® (NEFE®).





Part 1: First Days



The days following a disaster can be confusing and frightening. If possible, avoid making major financial decisions during this time and do not hesitate to seek psychological counseling to help deal with the trauma. Some financial issues, however, must be addressed without delay. The information in the next three chapters can guide you through steps you may need to take.

Chapter 1: *Restoring Household Stability*

One of your first priorities following a disaster is to restore some normalcy to your household. This chapter addresses concerns you may have regarding emergency housing, cash flow, and your job.

Housing and Personal Property

My home or apartment is damaged and temporarily uninhabitable. What should I do?

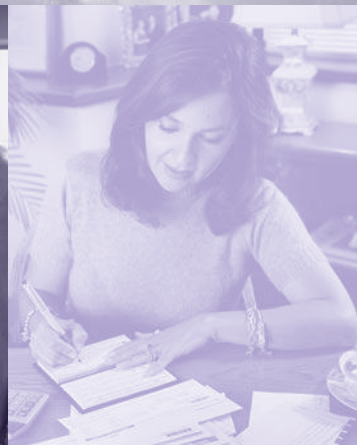
The following steps will help you get started:

- ◆ **Seek emergency housing.** Call the Red Cross, your county office of emergency management, or other local disaster-relief organizations to guide you to shelters and temporary housing. (See the boxed sidebar for contact information.)
- ◆ **Secure your property, if possible.** If authorities allow you to enter your house or apartment briefly, remove valuables and important documents. If you can, make temporary repairs to prevent further damage, but avoid potential hazard areas until they are stabilized. The Red Cross or other organizations may be able to help you obtain materials for short-term repairs. Keep records of these repairs, because most insurance policies will reimburse you for the expense; or, if not, the expense may be tax deductible.

Finding Help

The following are just a few of the agencies and organizations that provide assistance to people affected by a disaster:

- ◆ **FEMA.** If you live in a county declared a major disaster area by the president, you may qualify for additional assistance and tax relief. For more information, contact the Federal Emergency Management Agency (FEMA) at 1-800-621-FEMA (3362) or go to www.fema.gov.
- ◆ **Red Cross.** Call your local Red Cross chapter or go to www.redcross.org.
- ◆ **Salvation Army.** Call your local Salvation Army or go to www.salvationarmyusa.org.
- ◆ **Volunteers of America.** To find a local office, call 1-800-899-0089, or go to www.voa.org.
- ◆ **National Voluntary Organizations Active in Disasters.** This Web site lists other national and state organizations that can help. Go to www.nvoad.org.
- ◆ **State and county offices of emergency preparedness.** Look in the blue pages (government section) of the telephone book.



Collecting Important Documents

Depending on your situation, you may need some or all of the following documents to file insurance claims, pay bills, take care of injured family members, or manage the responsibilities associated with a death.

- ◆ Birth certificate
- ◆ Death certificate
- ◆ Marriage certificate
- ◆ Will
- ◆ Power of attorney
- ◆ Living will or other medical powers
- ◆ Trust documents
- ◆ Social Security card/records
- ◆ Military records
- ◆ Medical records, including prescription information
- ◆ Insurance policies (life, health, disability, long-term care, auto, homeowners, renters)
- ◆ Checking and savings account statements
- ◆ Retirement account records
- ◆ Other investment statements
- ◆ Pay stubs
- ◆ Tax returns
- ◆ Car titles and registrations
- ◆ Mortgage/property deeds
- ◆ Rental agreement/lease
- ◆ Warranties and receipts for major purchases
- ◆ Credit card records
- ◆ Other loan records
- ◆ Safe deposit box information (location and key)

- ◆ **Notify your insurance company of your loss and get advice about making emergency repairs.** Ask the insurance company if it will pay for living expenses, such as a motel, food, and laundry, if you are unable to live in your home. The company may give you a check up front. Find out if this payment for living expenses will reduce the amount you ultimately receive for damages to your property or possessions. **Tax note:** Insurance proceeds used to repair or replace property are tax free in most cases; however, reimbursements you receive for living expenses may be taxable.
- ◆ **Read Chapter 6.** This chapter contains more **information** about taxes, contractors, and other issues related to managing a property loss.

Cash Flow

I don't have enough cash. Now what?

- ◆ **Contact the Red Cross, and if you are in a major disaster area, call FEMA.** One of these organizations may be able to guide you to sources of emergency cash assistance. **Tax note:** You may receive emergency cash assistance from federal, state, or local government following the declaration of a disaster by the president, state, or local government. The money generally is not taxable.



- ◆ **Ask your employer for an advance on your next paycheck.**
- ◆ **Use your credit card to get a cash advance.** Be aware, however, that you probably will be charged interest immediately on the amount you withdraw, and the interest rate may be higher than for purchases.

I may not be able to pay all my bills. What's my best strategy?

Try to pay as many of your bills on time as possible to protect your credit rating. In addition, consider taking these steps:

- ◆ **Stop some bills.** If your residence is temporarily uninhabitable or totally destroyed, notify the utility company and other service companies, such as the phone company, so they can stop billing immediately. Often, a utility company will transfer service to a new address and waive initial connection charges.
- ◆ **Estimate the amount of income and emergency savings you have to pay bills while you recover from the disaster.**
- ◆ **Prioritize your bills.** For example, paying your insurance premiums and rent or mortgage should be a top priority.
- ◆ **Call your creditors and ask for more time to pay.** Most creditors will be willing to work with you, especially if you notify them *before* a payment is due.
- ◆ **Contact a Certified Public Accountant (CPA) financial planner or other financial advisor to assist you in developing a financial disaster recovery plan.**

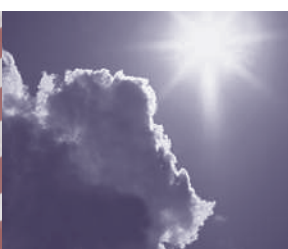


Employment

I'm injured and I cannot go back to work right away. What should I do?

- ◆ **Notify your employer as soon as possible.** Explain why you cannot return to work and estimate when you will be back. If you must take an extended leave, ask the employer how you can keep your employee benefits (especially your health insurance) in force. Inquire about emergency funds the employer may have for employees impacted by a disaster. **Tax note:** Payments from these funds are generally taxed as ordinary income.
- ◆ **Ask your employer to begin the process of helping you apply for any available company-sponsored disability benefits** if you cannot return to work because of a serious injury. (See Chapter 2 for more information about disability benefits.)
- ◆ **Ask about workers' compensation benefits and employer liability if the injury occurred on the job.** These benefits can be substantial, so be sure to follow up.
- ◆ **Take advantage of the Family and Medical Leave Act** if you cannot return to work because you are caring for an injured family member. This law applies to companies with more than 50 employees and all public/government employers. It requires these employers to provide eligible employees with up to 12 weeks of unpaid medical leave a year to care for an immediate family member who has a serious health condition, with the guarantee that employees can keep their jobs and health benefits. More information is available through the U.S. Department of Labor's Web site at www.dol.gov or at 1-866-487-9243.





Chapter 2: *Managing an Injury or Disability*

If you or loved ones are seriously injured as the result of a disaster, you may need to take certain steps quickly to get the medical care you require and start applying for disability benefits. Use this chapter to guide you through the process.

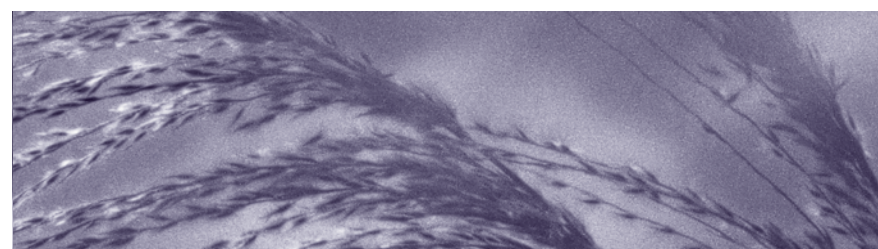
Medical Benefits

I'm concerned that my health insurance won't cover all my medical bills. What can I do?

It's unlikely that you will be able to buy a better plan while you are injured; however, there are steps you can take to get the most out of your current policy:

- ◆ **Tap into all resources.** Do you have more than one plan that you can draw upon—say, an accident plan purchased through a travel club or credit card?
- ◆ **Ask your doctor to keep good records about your progress.** Your insurance company may stop paying for your rehabilitation if it does not have evidence that you are getting better.
- ◆ **Know your rights and insist that they be respected.** If you are not receiving payment for treatment you need, ask your doctor to write a letter or call the insurance company to explain why you need the care. A hospital social worker also might be able to help you. Another place to call for help is your State Health Insurance Program (SHIP). To find a SHIP in your state, call the Eldercare Locator, a free public service of the U.S. Administration on Aging at 1-800-677-1116.
- ◆ **Ask your doctor to write a prescription for any medical equipment you may need,** such as a walker or wheelchair, so the insurance company will be more likely to pay for it.
- ◆ **Keep your employer-provided health insurance at work as long as possible.** You may be able to keep your health insurance in force even if you have to quit working. First, take advantage of any vacation or medical leave due from your employer. Then, under the Consolidated Omnibus Budget Reconciliation Act, a federal law better known as COBRA, you can continue coverage under the employer's medical plan for up to 18, 29, or 36 months depending on the circumstances. Under COBRA, you must pay the full premium, plus up to an additional 2 percent to cover administrative costs. As health insurance may be subsidized in part by an employer,





the cost of COBRA may be significantly higher than you can afford. If you cannot afford to pay for health insurance, talk to a hospital social worker about special programs in your state for people with low income.



Disability Benefits

Should I apply for disability benefits?

If an injury prevents you from returning to your job—either for a few months or many years—you may be eligible for monthly disability payments. Apply for these benefits as soon as possible after your injury. Even if you plan to go back to work, you may need the monthly payment to help cover your bills while you are getting better. **Tax note:** Various tax deductions and credits are available to disabled taxpayers. Consult your CPA financial planner or other financial advisor for details.

What kind of disability benefits can I get?

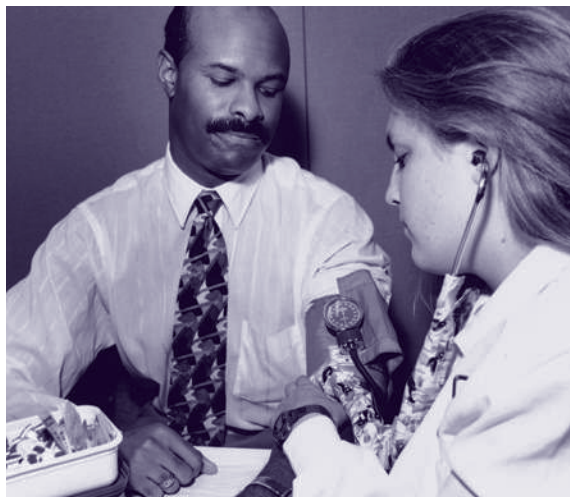
You may have *private* disability insurance, such as a policy you purchased or one provided by an employer. Or, you may be eligible for a *government* program. The Social Security Administration has two programs for people with disabilities. In addition, some states have disability programs.

For example, if you were disabled by a disaster while you were on the job, you may be entitled to workers' compensation benefits. If the disaster was caused by a criminal act, you may qualify for crime victim compensation (see Chapter 5). If you are a veteran, find out if you are eligible for VA benefits.

How do I apply for private disability benefits?

- ◆ If you have disability insurance at work, ask your employer to help you apply for benefits.
- ◆ Call your insurance agent if you have your own disability insurance policy.

- ◆ **Check all possible sources of insurance.** For example, perhaps you have disability coverage through mortgage insurance, a credit card, or travel club. In addition, an accidental death and dismemberment (AD&D) plan may pay a benefit if you lost a limb in the disaster.
- ◆ **Know that not all disability plans are the same.** Some plans will pay if you cannot do your *current* job. Some will pay only if you cannot do *any* job. **Tax note:** If your *employer* paid for your disability insurance, you will have to report the money you receive as taxable income. If *you* paid for the disability insurance plan with after-tax dollars, you will not have to pay taxes on the money. (Credit card disability benefits are generally taxable income.)





How do I apply for Social Security disability benefits?

SSA has two programs that pay money to people who are disabled and cannot work:

- ◆ Social Security disability insurance (SSDI). If you qualify for SSDI, you also may be eligible for Medicare, a government health care program.
- ◆ Supplemental Security Income (SSI). If you qualify for SSI, you also may be eligible for Medicaid, a government health care program for people with low incomes and few assets.

Here are four important steps to take right away:

- 1. Make an appointment to find out if you qualify for SSI or SSDI.** Call 1-800-772-1213 to make an appointment.
- 2. Start the process immediately.** It takes time to get all the paperwork processed, and there are waiting periods for some programs.

- 3. Ask a family member, trusted friend, CPA financial planner or other financial advisors to help you because the rules for Social Security programs can be confusing.**
- 4. Keep a copy of everything you give to the SSA.** File copies of the forms you complete and any letters the SSA sends. Also, write down the names of people you talk to, the date, and what they told you.

For more information about Social Security benefits, go to SSA's Web site at www.ssa.gov or visit www.govbenefits.gov.

What about workers' comp or VA benefits?

If your injury occurred on the job, talk to your employer about workers' compensation benefits, or call your state's Department of Labor and Employment.

If you are a veteran, call the Department of Veterans Affairs at 1-800-827-1000 or go to www.va.gov.

My child was disabled as a result of the disaster. Now what?

Use the checklist that follows to begin managing your child's disability:

- ◆ **Ask your child's school for assistance.** Schools are required by federal law to provide assistance to children with disabilities. Contact the school's special education department, your child's teacher, or the principal for more information. If your child is in college, learn what's available from the school's office of disability services. In addition, check out HEATH Resource Center at George Washington University, which operates a national clearinghouse on postsecondary education for people with disabilities. Call 1-800-544-3284 or visit www.heath.gwu.edu.

◆ **Learn about government programs that can help.** Here are possible resources:

- ◆ **Social Security.** Call the SSA at 1-800-772-1213 or go to www.ssa.gov/kids. Follow the links to “Parents” and “Disabled Children.”
- ◆ **Medicaid.** This program is designed to help cover the medical costs of families with few financial resources. To learn more, call your county’s Medicaid office or go to www.cms.hhs.gov.
- ◆ **Insure Kids Now.** The federal government and your state fund this program, which is called different names in different states, to provide low-cost or free health insurance for children age 18 or younger. Generally, uninsured children in low-income households are eligible. Go to www.insurekidsnow.gov/.



- ◆ **Vocational rehabilitation services.** Most states provide some form of financial aid through this office to qualified youths with disabilities who are 16 and older. Your child might receive assistance with college tuition, self-help aids, and job training.
- ◆ **Plan your estate with the child’s needs in mind.** For example, be careful about leaving a disabled child an outright inheritance because that could jeopardize benefits the child receives from public programs. The same holds true if you name the child as an outright beneficiary for your life insurance or retirement plan. Instead, consider setting up a special needs trust. With this type of trust, assets are earmarked to provide items that are not considered maintenance, such as computers, vacations, camps, and so on. Because of their special nature, the funds in this trust should not affect a child’s eligibility for government benefits in many states. Consult a lawyer who specializes in this area to set up the trust.





Chapter 3: *Financial Decisions After a Death*

If the disaster resulted in the death of a loved one, you may be faced with additional financial decisions. This chapter offers guidance on what to expect.



First Steps

What must I do first?

The following steps should be taken immediately:

- ◆ **Notify authorities so a death certificate can be filed.** The police, emergency response team, or funeral home can guide you. Obtain at least 20 certified copies to use later in settling the estate.
- ◆ **Look for a letter of instruction.** This letter may indicate the kind of funeral or other service your loved one wanted. The letter also may tell you whom to call and where important papers are kept. If you have access to the person's bank safe deposit box, check for the letter there. Be aware, however, that some states require the bank to lock a safe deposit box from the time one of the box's renters dies until an inventory is taken with a designated county tax official. To open it sooner you may need to obtain a court order. In other states, the bank may open the box for you if you provide a death certificate and proof that you are a family member or were named the executor of the person's will.
- ◆ **Make initial phone calls.** Call the deceased person's lawyer, insurance agent, CPA financial planner, or other financial advisors if you know who they are. These professionals can advise you on what needs to be done and when. Also, call your loved one's employer so the payment of any employee benefits, back pay, bonuses, vacation pay, expense reimbursements, and other payments due the deceased can get under way. Notify the SSA at 1-800-772-1213. SSA may pay a small one-time death benefit and, depending on the circumstances, a monthly benefit to the surviving spouse and children. If your loved one was a veteran, call the Department of Veterans Affairs at 1-800-827-1000 to find out about burial assistance and other possible benefits.

Estate Settlement

I've never settled an estate. What should I expect?

A simple estate may take only a few weeks to settle, while more complex estates can take many months. Ask a family member or trusted friend to help you through this time by accompanying you to meetings with financial and legal advisors and assisting you in following up on actions you need to take. These suggestions can help:

- ◆ **Read the will.** If possible, read the will including all amendments (called codicils) and any related trust documents before the funeral or soon afterwards. One reason for reading the will promptly is that there are time limits for submitting a will to probate court as the first step in settling an estate. If there is no will, the court will appoint an administrator to settle the estate and will divide the property among the survivors according to state laws.
- ◆ **Hire a lawyer.** Unless the estate is very small, work with an experienced probate lawyer to settle it. Interview two or three lawyers. Find out if the lawyer will charge an hourly fee or expect to be paid a percentage of the value of the estate. Do not be afraid to ask how much it will cost.



- ◆ **Carry out the duties of the executor.** If you are named executor of the will, additional responsibilities await you. A lawyer and/or CPA financial planner can help you with these duties, which may include:
 - ◆ Locating financial and legal documents and providing them to the lawyer or CPA financial planner
 - ◆ Taking an inventory of the estate's assets including any employee benefits
 - ◆ Opening an estate checking account to pay bills while the estate is being settled
 - ◆ Applying for life insurance proceeds and seeking financial advice on the best way to receive a payout—for example, as a lump sum, an installment payment, or an annuity. **Tip:** Don't forget to check less obvious insurance sources, such as credit card insurance, mortgage insurance, or an accidental death and dismemberment policy.



- ◆ Searching for lost insurance policies. For tips on conducting a search, go to the American Council of Life Insurers' Web site at www.acli.com and click on "Missing Policy Inquiry."
- ◆ Hiring qualified appraisers to place an appropriate value on business interests, real estate, and personal property.
- ◆ Making sure that any property owned by the deceased person is insured and not at risk of vandalism or theft.
- ◆ Paying the deceased's debts and, if necessary, selling assets to pay debts.



- ◆ Working with a CPA financial planner or other tax advisor to file the appropriate federal, state, and local income, estate, and inheritance tax returns.
- ◆ Transferring insurance, retirement, and other benefits to the appropriate beneficiaries. Seek professional advice on the options available to beneficiaries.
- ◆ Renaming beneficiaries on insurance policies, retirement accounts, and other accounts as appropriate.
- ◆ Changing titles on vehicles and other property according to state laws. Alert the new owners to make sure the property is insured.
- ◆ Distributing the remaining assets according to the will, trust, or state laws.
- ◆ **Give yourself time.** As much as possible, refrain from making any immediate decisions that involve large sales, purchases, investments, and other major changes. (An exception: Stock options may need to be exercised within a year of the owner's death.) When well-meaning people start offering advice, respond with a statement such as, "I appreciate your ideas and will take them into consideration when I'm ready to make those decisions."



A Few Tips

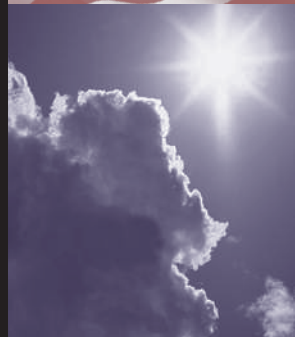
- ◆ File life insurance claims as soon as possible, as it can take time to receive the proceeds. Read every policy carefully. Sometimes there is an accidental death clause, which might mean a double payment.
- ◆ Credit card companies often send letters to surviving spouses offering to transfer the account. Note, however, that you are generally not liable for your spouse's credit card debt unless it was charged on a joint card. Therefore, in signing these credit card transfers, you will assume responsibility for outstanding debts on the existing account.
- ◆ If your deceased spouse had a 401(k), consult a CPA financial planner or other tax advisor about your options. For example, you may decide to take a distribution, roll over the money into an IRA, or keep the money in the 401(k) and take penalty-free withdrawals as the beneficiary.
- ◆ If your spouse was killed while on the job, you and your children may be eligible for a benefit under your state's workers' compensation laws.
- ◆ Always draw on tax-free money first. For example, life insurance proceeds are income-tax free to beneficiaries, but withdrawals from most retirement accounts are not.

Source: *Regaining Financial Balance: AICPA Information and Resource Guide for Americans Impacted by September 11* (New York, 2002)





Part 2: Next Weeks and Months



After the initial trauma of a disaster has passed, try to settle into a more normal routine. Chapters 4 and 5 can help you navigate this time, with suggestions on establishing a steady flow of income, handling expenses and debt, and working through lawsuits or other settlements. Chapter 6 provides information on managing a property loss.

Chapter 4: *Stabilizing Your Finances*

Learning where you stand financially and then making a plan to manage your income, expenses, and debt will help you on the road to financial recovery. This chapter looks at income sources, ways to cut expenses, and strategies to keep debt under control.

Income Sources

I want to go back to work, but I've been disabled by the disaster. Will I be able to keep my old job?

Use these suggestions as you consider going back to work after a disabling injury:

- ◆ **Know that the Americans with Disabilities Act (ADA) may protect you from job discrimination.** In general, the ADA applies to employees with disabilities who work for employers with 15 or more employees. Under the ADA, you have a “disability” if your injury substantially limits you in one or more major life activities, such as seeing, walking, speaking, performing manual tasks, learning, or working.
- ◆ **Ask your employer for a “reasonable accommodation” (change) if one is needed.** The ADA requires employers to make a “reasonable accommodation,” or change, so workers with disabilities can do their jobs. A reasonable accommodation might be as simple as making room for a wheelchair or providing you with special tools.

Keep in mind, however, that the employer is not required to make any changes unless you request them. The employer also is not required to make changes that cause an undue hardship for the business. For example, an employer may not be required to make very expensive accommodations.

- ◆ **Understand that you must be able to do the job after a reasonable accommodation is made.**





- ◆ **Consider how a job may affect your other benefits.** For example, Social Security benefits may be affected by how much you earn. However, there are special rules, called work incentives, which make it possible to return to work and still receive some benefits. To learn more about SSA's Ticket to Work Program and Trial Work Period, call your local SSA office or go to www.ssa.gov/work.
- ◆ **Protect your rights.** If you think you are being unfairly discriminated against because of your injury, talk with your employer. If you need further assistance, contact the U.S. Equal

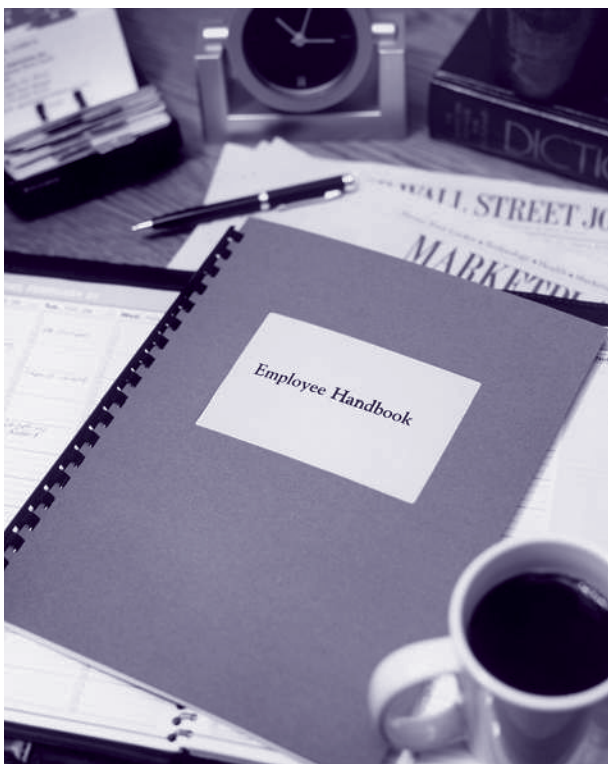
Employment Opportunity Commission at 1-800-669-4000. Or visit www.eeoc.gov.


Note: This Web site also has useful information about the ADA and employment for people with disabilities.

What other sources of income can I tap into?

In addition to a job and disability benefits, explore the following resources:

- ◆ **Find out about special disaster relief funds from federal, state, and local governments.** **Tax note:** These funds are generally income-tax free.
- ◆ **Talk to your employer.** Ask if you can receive your bonus early or work overtime.
- ◆ **Collect unemployment benefits.** If the disaster forced your employer to lay off workers, you may be eligible for state unemployment benefits. **Tax note:** These benefits are taxable.
- ◆ **Tap into your retirement plan.** You may be able to borrow against your retirement plan at work. If you are permanently disabled, you can withdraw money in the retirement plan without penalty. However, you likely will have to pay income tax on the money withdrawn.
- ◆ **Consider using your life insurance.** A *whole life* or a *universal life* policy can have a cash value. If you have one of these, you may be able to use the cash value to get a loan from the insurance company or withdraw some of the cash value. (*Term insurance* has no cash value.) Keep in mind, however, that the insurance company may charge a fee, and a portion of the cash value may be





taxable income to you. Continue to pay premiums promptly so that the policy does not lapse, or if you are disabled, find out if your policy will waive the premium because of your disability.

- ◆ **Be careful about using a reverse mortgage.** If you are at least 62 years old and own your own home (or nearly own it), you may be able to get cash out of the equity in the house by using a reverse mortgage. (Equity is the value of your house minus the money you still owe on it.)

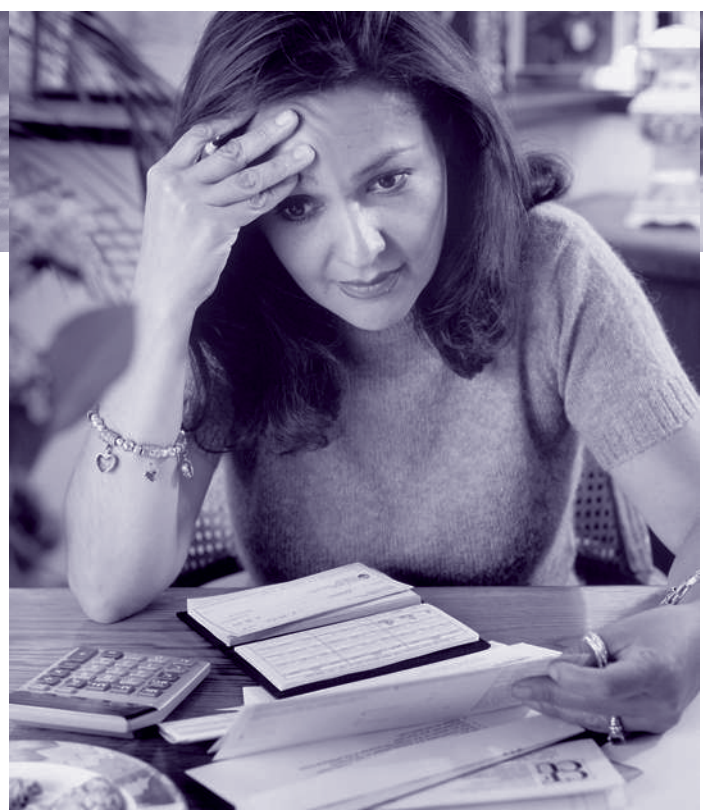
A reverse mortgage is a loan against the equity you have in your home. The loan does not have to be paid back as long as you live in the house. It can be an expensive loan, however, and can result in a substantial loss of equity. Before you take out a reverse mortgage, talk to your CPA financial planner or other financial advisor. *Make sure you understand the full cost of the loan.*

- ◆ **Sell personal property.** A coin, stamp, doll, or gun collection might be worth a great deal of money.

Expenses

I'm having a hard time covering my bills. What can I do?

- ◆ **Call your local housing authority if you are having trouble paying your rent.** Ask about rent-rebate programs or Section 8 programs, in which you pay part of the rent based on your income and the government pays the rest.
- ◆ **Ask your mortgage company for a forbearance agreement.** This agreement allows you to postpone payments or make partial payments for a set period of time.



- ◆ **Take advantage of tax deductions and credits.** If you have a lot of medical expenses, you may be able to deduct them from your income tax. Also keep track of expenses related to replacing or repairing property that was not covered by insurance. These expenses also may be deductible on your income tax return. In addition, lower-income taxpayers may be eligible for the Earned Income Credit. To learn more about tax deductions and credits, talk to your CPA financial planner or other tax advisor, or go to the IRS Web site at www.irs.gov.

Debt

If debt starts to pile up, try not to feel overwhelmed. The following ideas may help:

- ◆ **Call the businesses to which you owe money.** Ask for smaller payments or more time to pay. Call before you miss a payment. It may be hard to make these calls, but most creditors will work with you.
- ◆ **Consider working with a nonprofit debt counseling service, if you owe money to many businesses.** Consumer Credit Counseling Service (CCCS) is one such organization. Call 1-800-388-2227 or go to the National Foundation for

Credit Counseling at www.nfcc.org. Stay away from credit repair companies that promise to “fix” your credit for a fee. This is a scam. Only you can repair your credit history.

- ◆ **Pay off credit card debts with the highest interest rates first, if possible.** If you cannot pay off the entire amount, at least pay more than the minimum every month.
- ◆ **Consider bankruptcy only as a last resort.** If you declare bankruptcy, it will be difficult to get new credit for many years. If you find yourself in this situation, call a lawyer or legal aid clinic before taking action.

Professional Advice

Should I get professional financial advice?

That depends on your situation, of course. If you already have a trusted financial advisor, you will likely turn to that person for help. If you don't, you may want to consider finding free financial counseling through a community agency or AICPA. You may wish to hire the services of a professional financial advisor.

Here is a checklist to use when selecting a financial advisor:

- ◆ **Ask for recommendations.** Your friends or other professional advisors, such as your lawyer, may be able to give you references.
- ◆ **Contact a professional association for names.** Four national professional organizations that can provide you with the names of their members are: (1) AICPA (for a list of CPA Personal Financial Specialists (PFS) go to www.cpapfs.org) or state CPA societies (check the business pages of your phone or view a state by state listing of CPA societies at www.aicpa.org/states/stmap.htm); (2) the Financial Planning Association (1-800-322-4237; www.fpanet.org); (3) the National Association of Personal Financial Advisors (1-800-366-2732; www.napfa.org). (4) the Society of Financial Service Professionals, (1-610-526-2500; www.financialpro.org).
- ◆ **What are your credentials (such as CPA/PFS).** Ask the following questions:
 - ◆ What are your credentials?
 - ◆ Are you bound to a professional code of ethics?
 - ◆ Do you specialize in a type of client, level of income, or type of service?
 - ◆ Do you have experience working with disaster victims? What general approach would you take to address my particular needs?
 - ◆ Do you prepare written plans? How extensive are they?
 - ◆ Have you ever been disciplined by a professional or regulatory agency?
 - ◆ How are you paid? (Fee? Commission? Combination?)
 - ◆ What do you expect from me?
 - ◆ May I have the names of several of your clients to call for a reference?



Chapter 5: *Lawsuits and Other Settlements*

Laws exist to compensate individuals and their families for illness, injury, and loss caused by defective products, negligence, or some other form of misconduct or failure to act. If you believe your losses from a disaster fall into one of these categories, you may decide to file a lawsuit against the responsible party. You also may decide to take legal action if you cannot settle a claim with an insurance company or another responsible third party.

This chapter looks at some of the considerations involved in pursuing a lawsuit and managing a settlement.

Lawsuits

The disaster that struck me was man made. Should I sue the parties I believe were responsible?

To make that decision, consider all your options. For example, if a class-action lawsuit is initiated, your involvement will be fairly simple. Basically, you either decline or accept an offer to participate in the class action. Lawyers for the group pursuing legal action handle the details. Be aware, however, that the portion of the settlement that you receive may be relatively small and if you accept it, you may waive the right to pursue legal action individually or, in rare cases, to some special government compensation.

On the other hand, filing a lawsuit on your own can be expensive and time consuming, sometimes stretching on for years if there are appeals. Even if the lawyer works on a contingency basis (agreeing to take a percentage only if you settle or win a judgment), you still may need to pay court-filing fees and expert-witness fees among other expenses.

Worst of all, the entire effort may be fruitless. You may not win the lawsuit, or you may win but be unable to collect from the liable third party. You may end up with very little after expenses are paid.

I plan to go ahead with a lawsuit. How do I get started?

In most cases, your first step is to hire a lawyer to represent you. For more information about hiring and working with lawyers, check the American Bar Association's Web site at www.abanet.org and click "General Public Resources."

What happens if I am successful in pursuing legal action?

Individuals recover damages in a lawsuit by going to trial and winning a judgment, or by settling out of



court before or during the trial. It is crucial to plan how you will manage these payments financially. The following checklist can help:

- ◆ **Understand the differences between a lump-sum payment and a structured settlement.** With a lump-sum payment you receive all the money up front. In contrast, a structured settlement is a series of payments made over an agreed-upon time. Both forms of payments have advantages and disadvantages, which you should discuss with your lawyer, CPA financial planner, or other financial advisor.
- ◆ **Avoid selling structured settlement payments to a third party.** This is called “factoring.” It means that a company offers to purchase future structured settlement payments from you in exchange for a cash sum that often is much less than you are scheduled to receive from the settlement. *If someone makes such an offer, do not agree to anything until you speak with your legal or financial advisor.*
- ◆ **Determine how the settlement will affect your eligibility for other benefits.** For example, receiving a settlement may mean that you will not be eligible for Supplemental Security Income, Medicaid, or other programs based on financial need. Your lawyer or CPA financial planner may be able to suggest options that will protect your other benefits, such as putting the settlement into a special-needs trust.
- ◆ **Get financial advice on managing the settlement.** Unless you feel confident in investing and managing a large sum of money, you may need the services of a CPA financial planner or other financial advisor. Expect the advisor to help you set financial goals and prioritize them, develop an investment plan, monitor it, and advise you on tax and estate planning issues. **Tax note:** In general, compensatory damages awarded for physical injury or sickness are not taxable; however, punitive (or penalty) damages resulting from personal physical injury are taxable, as are awards for lost wages.



Crime Victim Compensation

The disaster that affected me was the result of a criminal act. Can I receive compensation?

All states and the District of Columbia have crime victim compensation programs that help reimburse families for specific crime-related expenses, such as out-of-pocket medical expenses, lost wages, or burial expenses.

Rules and award limits vary widely among states, however, so you should contact your local crime victims' compensation board to find out the details for your state. Here are some general points to keep in mind:

- ◆ **In most cases, the victim must have been physically injured or killed to qualify.** You also may be required to prove financial need.
- ◆ **Assistance is given only for expenses that are not covered by insurance policies, employee benefits, civil action, or other resources.** You must try to access those resources first.
- ◆ **Deadlines apply.** Ask the police, your lawyer, or the state compensation board about deadlines.

For more information about compensation and other issues related to crime victims, contact the National Center for Victims of Crime at 1-800-394-2255, or go to www.ncvc.org.



Chapter 6: *Managing a Property Loss*

When disaster strikes, it may involve personal loss, property loss, or—very often—a combination of both. Much of this booklet focuses on regaining financial stability after disasters that have resulted in personal injury, disability, or death. This chapter provides additional recovery tips, relating more specifically to property losses.

Reconstructing Lost Records

My records were destroyed in the disaster. How can I reconstruct them?

Use the following suggestions to reconstruct lost or damaged records so you can file insurance claims, support tax deductions, or apply for government aid:

- ◆ **Look through catalogs or newspaper want ads** to estimate the fair market value of damaged or destroyed items.
- ◆ **Consult a car dealer, search the Internet or go to your local library** to determine the current value of vehicles.
- ◆ **Check with your county property tax assessor** to determine the value of land versus building values.
- ◆ **Get a copy of the escrow papers** for your home from your real estate agent, the title company, the escrow company, or the bank that handled the purchase or refinance.
- ◆ **Contact lenders or contractors** to determine the value of any home improvements you've made.
- ◆ **Check court records** for the probate values of property you may have inherited.
- ◆ **File Form 4506, Request for Copy or Transcript of Tax Form**, with the IRS to obtain previous federal income tax returns. A small fee may be charged for this service. If someone else prepared your tax returns, contact that person to request copies.

Insurance Claims

How can I get a quick, fair settlement from the insurance company?

The following tips can help:

- ◆ **Collect all policy numbers and insurance company phone numbers.** Plan to file a claim even if your home or property is not covered for the type of disaster that occurred because consequential damages may be covered.
- ◆ **Find out how the company will process claims.** If damage is widespread, the company may set up special procedures and send extra personnel and claims adjusters.
- ◆ **Make an accurate list of the damage.** Ask your friends, neighbors, and family members to assist you in preparing the list. Use the list when you file a claim to prove that a loss took place and to confirm the value of the loss. Start with a preliminary list of damaged property and the degree of damage to each item. If possible, photograph or videotape the damage. Check the list against any inventory you may have made before the disaster occurred, or make a pre-disaster inventory from memory.

To jog your memory for items you had before the disaster, walk the aisles of local stores, look at newspaper want ads, or leaf through catalogs. Surviving photographs or videotapes taken in and around your home also may help. If necessary, draw floor plans or sketches of your home's interior. Repeat the process in two or three weeks, because it's likely you will remember additional items. **Important:** Don't consider your first list to be the final one. Give yourself time to remember additional items later.



- ◆ **Collect all available receipts, canceled checks, credit card statements, and invoices** to prove the value of lost possessions, including big-ticket items such as computers or jewelry. You also may request copies of monthly statements from your bank and credit card providers.
- ◆ **File claims as quickly as possible.** As soon as you have a list of damaged or destroyed property, file the claim. Claims generally are settled in the order received, although the most severe cases may receive the highest priority.
- ◆ **Erect an identifying sign on your property if destruction is severe and widespread.** If it will be difficult for a claims adjuster to identify your property, a sign with your name, street number, insurance company, and a way to reach you can speed up your claim.

Will I always work with a claims adjuster?

If the loss is small, you only may be required to provide the insurance company with a simple written estimate for the cost of repairs or replacement. More extensive losses usually are handled by a claims adjuster. The following suggestions can help ensure that the adjuster's estimate of damages is complete and accurate:

- ◆ **Give your adjuster a list of all damages**, but note in writing that it's only a partial list. You may remember more later.
- ◆ **Fully explain all losses** and be sure the explanations are written down by either you or the adjuster.
- ◆ **Take notes of all conversations with the adjuster and follow up with letters to the insurance company confirming the conversations.** This increases the chances for getting a fair settlement, but it also may delay a settlement.

- ◆ **Compare notes with neighbors.** What are their adjusters saying? Remember, however, that policies and coverage vary.
- ◆ **Bring in additional adjusters if you're not satisfied with initial damage estimates.** If necessary, hire a structural engineer. Keep in mind, however, that this will cost you more and may cause a settlement delay. You also can hire an independent claims adjuster if it's a special situation. These professionals can spot claims that homeowners might overlook, especially if the claim is complex or involves a lot of money. Generally, they charge 10 percent of a settlement. Use the same care and caution in hiring a claims adjuster as you would in choosing any other contractor.

What should I keep in mind about settling claims?

Don't feel pressured to settle a claim until you are satisfied with it. Here are some additional tips:

- ◆ **Use your list of damaged property and possessions** to be sure the settlement offer is fair.
- ◆ **Appeal an adjuster's settlement offer** to higher company management if you feel it's necessary, or try to settle through independent mediation or arbitration.





- ◆ **Don't accept settlement checks as "final."** You may need to file additional claims later. Keep your right to future payments open until time limits set by your policy require a final settlement. Consider seeking legal advice before signing any waiver that addresses accidents or mishaps other than natural disasters.
- ◆ **Put your settlement funds** in safe, short-term investments until you need them.

Loans and Grants

What other sources of funds might be available?

Although not meant to replace or duplicate insurance, numerous government, nonprofit, and private loans and grants may be available following a disaster. Watch your TV or newspaper for announcements of their availability.

Sources may include: the Federal Emergency Management Agency (FEMA); the Small Business Administration (despite the agency's name, homeowners or owners of personal property may apply for an SBA disaster-relief loan); city or county government (loans or assistance such as property tax relief may be available); private lenders; Red Cross disaster relief; and other voluntary organizations.

Tax Relief

Will I qualify for a tax refund or deduction?

You may be eligible for tax refunds, deductions, or other benefits due to lost or damaged possessions or property. Here are a few things to keep in mind:

- ◆ **Rules regarding casualty losses are complex and can change.** Seek expert advice from a CPA financial planner or other financial advisor.

- ◆ **In general, losses are deductible** if, in one year, they total more than \$100 and more than 10 percent of your adjusted gross income.
- ◆ **Keep documentation** to prove that a loss took place due to a specific disaster, the dollar amount of the loss, and who owns or is liable for the property. Some costs of documenting your loss, such as appraisals or photographs, may be tax deductible.
- ◆ **You cannot deduct losses that are covered by insurance** or emergency aid assistance.
- ◆ **Be aware that special casualty loss rules apply in a federally declared disaster area.** For example, you can amend your previous year's tax return to report current losses instead of waiting to report the losses on your current year's return. This gives you a quick refund (generally within 45 days) of taxes you've already paid. Also, tax filing deadlines and payment schedules may be extended in a federal disaster area.





Hiring Contractors

How can I find a reputable contractor?

Try not to rush into starting repair work, so you can take time to check out contractors before hiring them. Also, be aware that in cases where federal or state aid may be available, the agency involved may require that an assessment of the damaged property be completed before any repairs are made.

The following suggestions can help you successfully hire and manage a contractor:

- ◆ **Screen contractors.** Get estimates from several licensed, bonded and reputable contractors. If your neighbors have similar repairs, find out what they are paying. Check at least three references to see if the contractor did a good job and charged a fair price. Call your local Better Business Bureau to check out contractors.
- ◆ **Ask to see proof of necessary licenses, building permits,** and a certificate of insurance covering liability and workers' compensation. Write down the license plate number and driver's license number of someone offering services in case you have to report a problem later.
- ◆ **Make sure your signature on a bid** is not an authorization to start work.
- ◆ **Get contracts in writing.** Contracts should cover the scope of work, materials, costs, and payment schedules.
- ◆ **Be wary of contractors** claiming "I can get to you right away and do it cheap."
- ◆ **Make periodic payments.** For example, pay 20 percent down to start work, and additional payments as work progresses. If contractors insist on a materials payment up front, go with them to buy the materials or pay the supplier directly.
- ◆ **Make sure repairs are done according to local building codes.**

Resist Pressure

Never let anyone pressure you into buying something or agreeing to something you don't fully understand, *including insurance settlements*. You have the right to wait a few days and think it over, and to consult a CPA financial planner or other financial advisor before making a decision.

In addition, don't let a charity pressure you into making a donation. If you want help disaster victims, make sure the organization is reputable. If you are unsure, ask to receive information in the mail. You also can call the office of your state's secretary of state to check out the charity.

- ◆ **Don't make a final payment** until the job is finished and you are satisfied with it. In addition, be sure that all work requiring city or county inspection is officially approved in writing before settling with the contractor. You may even want a structural engineer to double-check major repairs before you make a final payment.
- ◆ **Have the contractor sign a release of lien** when the work is finished and paid for, protecting you from any legal claims later.
- ◆ **Don't sign over an insurance settlement to a contractor.**



Part 3: Moving On

No matter how difficult some days are, life goes on. Your life may not be the same as it was before the disaster, but that doesn't mean you should stop making plans for the future. Chapter 7 offers a few ideas to consider.

Chapter 7: *Looking Ahead*

Assessing your financial needs and those of your children, getting retrained for a job if you have been out of the workforce, and planning your estate are part of the process of moving forward after a disaster.

Future Financial Needs

I don't think my life will ever be the same. What can I do to cope financially?

Use the suggestions that follows as a guide:

- ◆ **Look for ways to increase income, reduce expenses, or both.** For example, if you were out of the workforce before the disaster, you may need to find a job or get retrained for a new career (see page 27). If you live alone, perhaps now is the time to consider getting a roommate to share expenses. Or, you may need to sell your home and move to a smaller place. These decisions can be difficult to make, but taking action will give you a sense of control over your new financial situation.
- ◆ **Create an emergency fund.** One of your first savings goals should be to open an account designated as an emergency fund. Try to save enough money to cover three to six months of living expenses. Then, don't touch the money unless you face another emergency.
- ◆ **Take advantage of retirement plans.** If you are working, make every effort to contribute the maximum to your 401(k) or 403(b) plan, or to your own IRA if you don't have a retirement plan at work.
- ◆ **Learn more about investing and tax planning.** Ask your CPA financial planner or other financial advisor for suggestions. A librarian also can provide book and Web site recommendations.





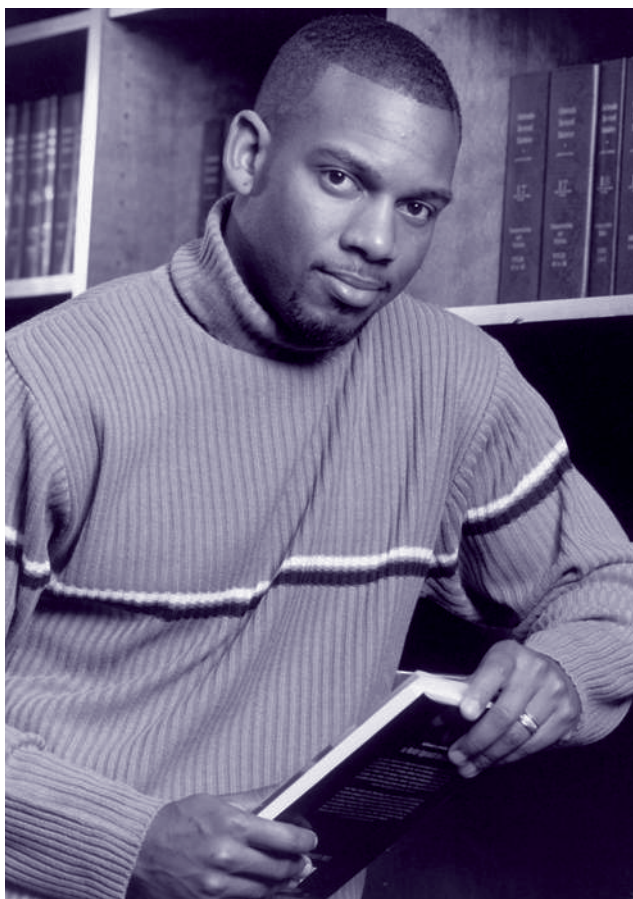
Job Retraining and Education

I need retraining to get a job. Where can I find help?

- ◆ **Consider a community college or technical or trade school.** These schools often are geared for adults and offer courses in practical skills you may need. Community colleges also are usually less expensive than four-year colleges or universities.
- ◆ **Ask potential employers if they provide on-the-job training or help pay for classes.**
- ◆ **Apply for grants, scholarships, and loans.** Some scholarships are geared specifically for adults

returning to the workforce, or for individuals who are the first in their families to pursue college degrees. Ask the school's financial aid officer to guide you, or check the following Web sites: www.collegeboard.com or www.finaid.org.

- ◆ **Look for other sources of help.** Your state employment office may offer special programs for people entering the workforce for the first time in many years. AARP's Web site (www.aarp.org/working_options/) has a section devoted to women returning to work. Religious and community groups, such as the Urban League and YWCA, are additional sources of counseling and support.
- ◆ **Take advantage of educational tax deductions and credits if you qualify for them.**





I'm concerned that I won't be able to pay for my child's education. Is there anything I can do?

- ◆ **Talk to the child's school.** If you have a child in college or private school, contact the school administration to determine if you are eligible for financial aid or loan packages, or if you can have an extension on tuition due dates.
- ◆ **Set up an education fund for your child.** If you received insurance proceeds, crime victim compensation, or other payments as a result of the disaster, use the money to establish an education fund for your child. A minor's trust, regular trust, or Section 529 plan are options to discuss with your CPA financial planner or other financial advisor.



Estate Planning Reminders

One of the most important things we can do for our loved ones is plan our estate, no matter how small or how large.

How do I plan my estate?

It is a good idea to hire a lawyer to help you set up your estate plan. If you don't have money to pay a lawyer, call a legal aid clinic or a law school and ask if they can help you for a reduced rate or free.

Start by getting the following four documents in place. Remember: You can always cancel or change these documents. The important thing is to get them done as soon as possible. Then, be sure to tell someone where the documents are located.

1. Will. The most crucial document is a will. It names your heirs—the people you want to receive your money and other possessions when you die—and appoints a guardian if you have young children. If you don't have a will, get one as soon as possible. If you die without a will, the state will decide who will get your money and who will take care of your children. You also may want to ask your attorney or other advisors if a living trust is appropriate in your situation. **Note:** Originals of wills generally should not be kept in a safe deposit box, because the box may be temporarily sealed after a death. Keep original wills with your attorney or in another safe, accessible place.

2. Durable power of attorney. This document names the person (or other entity) you want to pay your bills and manage your money if you become ill or incapacitated and are unable to make these types of decisions.

- 3. Health care proxy.** In a health care proxy, you name a person who will make decisions about your health care if you get sick and cannot make those decisions by yourself. Make sure your doctor has a copy of your health care proxy.
- 4. Living will.** A living will says what types of medical treatment you want, or don't want, if you get sick and are unable to communicate your wishes.





Emergency Preparedness

I worry that disaster may strike again. How can I be better prepared?

Here are six steps you can take:

◆ **Protect your property.** Think about ways you can avoid or reduce property damage if a disaster were to strike again. A few ideas: Know where to turn off water, gas, and electric lines. Install smoke detectors. Clear surrounding brush to protect your home against wildfires, install hurricane shutters on windows, use wind-resistant shingles on your roof, and secure objects that could fall and cause damage. If you're not sure where to start, contact your local fire department for recommendations.

◆ **Conduct a household inventory.** Make a list of your possessions so you can estimate their value for insurance or tax purposes. Include model and serial numbers. Computer software programs are available to help with this task.

If possible, take photos of your possessions or videotape them. Don't forget to photograph your property's exterior, your vehicles, and contents of your garage, closets, and attic.

Save receipts for valuable items and get professional appraisals of jewelry, collectibles, and artwork. These expensive items need to be listed individually in your insurance policy. Store this list in a safe place away from your home, such as a safe deposit box at a bank located away from disaster-prone areas. Update your inventory annually.

◆ **Have adequate insurance.** If necessary, seek special or additional coverage for floods, earthquakes, or other losses not covered by standard insurance. If you own a home, buy at a minimum full replacement or replacement cost coverage. This means the structure can be replaced up to the limits specified in the policy.

Even better protection, although not always available, is guaranteed replacement cost coverage. This means the policy will pay to rebuild your house at today's prices, regardless of the limits of the policy. However, you must make an effort to keep the policy coverage amount current. In addition, check to see if the policy covers building-code changes, and look for a policy that covers the replacement cost of your possessions, not just the actual cash value.

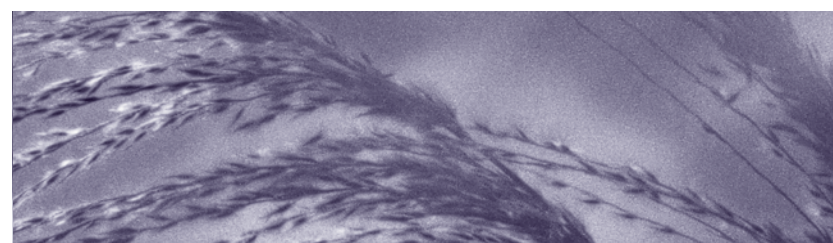


If you rent, buy renter's insurance, which pays for damaged, destroyed, or stolen personal property. You also may need special insurance if you live in an area prone to floods or earth movement. Ask your insurance agent.

Finally, don't overlook the importance of health, disability, long-term care, umbrella liability, and life insurance. You may need to draw on

benefits from one or all of these policies if you are ever faced with another disaster.

◆ **Keep cash available.** Stash a small amount of cash or traveler's checks at home in a place where you can get at the money quickly in case of a sudden evacuation, or if a disaster shuts down local ATMs and banks. Set aside extra money in an emergency fund in a bank savings account, and keep your credit cards paid off so you will have enough credit to get you through a disaster.

- 
- ◆ **Use an evacuation box and safe deposit box.** Put important papers in a box that you can grab in the event of an emergency. Some items to put in the box: traveler's checks, a few rolls of quarters, negatives of important personal photographs, a list of emergency contacts, copies of prescriptions and medical records, copies of insurance policies, backup disks of critical computerized information, copies of other important family and financial records, and your safe deposit box key. Store original documents, property deeds and birth certificates, in a bank safe deposit box.
 - ◆ **Make an evacuation plan.** Imagine that you could take only one suitcase or pack a single carload in the event of a disaster. What would you take, how would you leave your home, where would you rejoin your family, and who would you call if you became separated?



A Final Note

This booklet has attempted to address some of the financial questions asked by people who have experienced a disaster. We would like to dedicate the booklet to all those who have faced adversity with courage, perseverance, and hope.

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The AICPA Foundation ("Foundation") was established in 1922 as a nonprofit foundation to advance the science of accountancy and accounting education as well as to encourage diversity within the CPA profession. Toward those ends, the Foundation will provide opportunities for members and other interested parties to support activities which encourage advancement of the CPA profession through innovative activities. Within the Foundation's efforts to advance accounting education, it provides support to organizations and projects that promote financial literacy.

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The logo for the National Endowment for Financial Education (NEFE), featuring the word "Nefe" in a stylized, lowercase font.

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Partnering for Financial Well-Being

The logo for the AICPA Foundation, featuring a stylized graphic of three overlapping shapes to the left of the text "AICPA FOUNDATION".The logo for the American Red Cross, featuring a red cross symbol to the left of the text "American Red Cross".



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