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Protect What You Can't Afford to lose – Cover the What ifs

Life doesn't always go according to plan. Imagine if you had a machine that sat in your house and produced your annual income, would you insure it? Of course you would.

Yet many of us don't insure ourselves against the risk of not being able to produce an income.

The Institute of Financial Advisers (IFA) says it's important to cover the 'What ifs' in life. Determine what the main financial risks are that you face and identify what the potential solutions are for protecting yourself.

Are you prepared for the unexpected? What are the most important risks you face? What is the right balance between self-protection and buying insurance so that some of the risk is passed on to the insurance company?

Lyn McMorran, President of the IFA says these are the types of questions you need to ask yourself. "The statistics on death and disability put risk insurance into perspective," says McMorran.

According IFA research, the chance of your home being destroyed by a fire is 5.0%. The chance of dying before you turn 60 is 13.0%. The chance of suffering a six month disability is a staggering 33.0% and the chance of writing off your car in an accident is as high as 20.0%.

McMorran says the statistics can be quite scary, but they illustrate the importance of protecting what you have and making provision for your family. You never know if it will be you who becomes one of the statistics. Research indicates that one in six men and one in nine women over the age of 30 will die before age 65. Approximately 29% of New Zealanders will have a long term illness or disability and 51% of men and 33% of women are likely to become disabled before age 70 due to a critical illness. Two out of five people could be unable to work for six months or more because of illness or accident, and 40% of disabilities are due to disease or illness, with 34% due to accident or injury. Sickness is more likely to leave you with a long term disability."

Personal insurance options include life insurance, income protection, total and permanent disability, trauma or critical care, medical and property insurance. Property insurance covers house, contents and vehicles.

McMorran says it's important to consider ownership of assets, especially of life insurance policies when taking out insurance. "Having a policy 'owned' by the spouse means that the proceeds of the policy will bypass the estate and the funds may become available earlier for the spouse."

It is essential that everyone has an up to date will. "Every adult should have a will to ensure that their assets go to the person they choose. If you are married with children but don't have a will, your estate will be shared between your spouse and children, which may not be what you intend," says McMorran. "And if you have children you need a Will to determine guardianship of the children if something should happen to you."

There are also many other issues to consider. IFA recommends using an enduring power of attorney to cover issues like an illness or accident that renders you unable to make personal decisions or manage your own financial affairs. This can be structured to handle personal care and welfare or personal property including bank accounts, land and shares. There are also more complex issues like trusts which protect your assets and the Property Relationships Act which should be considered.

McMorran says, "It is important to get professional advice to assist you in making these often complex decisions and to help you avoid future problems and grief. Protect what you can't afford to lose and do so now. Don't wait until it is too late."

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