

DEBT = RISK

- Allistar Walker

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Last week I had a sad insight into the dangers of exposure to debt without putting the necessary insurances in place as a protection against risks that may arise.

Creation of debt creates risks. Unless you have access to a large slush fund, taking out a mortgage or other loans exposes you to what can be financially devastating risks, unless you take appropriate insurances. My caller said that his wife had got quite sick, used up her sick leave and did not look like returning to work for many months, if not years. He had been put to extra expense because of this and stopped paying his mortgage to cope. His wife had no mortgage protection or income protection insurance, leaving his income to service the loan, feed the family and cough up the extra medical expenses required. It wasn't enough. The end result was that he will have to sell the home and possibly take a hit on his sale price to get a quick sale. His wife is still sick and he still has to find suitable accommodation. In other words the problem remains and he will have lost equity on the home due to his family crisis.

So, what risks do I need to cover?

1. Full replacement cover for the house should it be destroyed by fire, earthquake or volcano. It is difficult to be sympathetic with those Christchurch people who didn't have adequate insurance on their homes. Have you recently checked your policy to see that you are correctly covered? There is no Earthquake Commission cover if you don't pay those levies with your usual full replacement cover.
2. Income cover should almost be mandatory. How much is your income worth to you for the rest of your working life? In most cases the answer is a damn sight more than the house. Then why wouldn't you insure it, rather than see your empire crumple around you while you are alive, all for something you didn't think could ever happen to you. Redundancy cover is an option attached to income cover. My caller would have saved his home had his wife had this cover. For the sake of a few dollars he is losing tens of thousands.
3. Life, Trauma and Health cover also have their place in a well constructed plan. The amounts of cover you need will be dependent on the level of debt and the 'what if' factor. That is what if you died or got sick and how would it financially affect your dependants or co-borrowers.

As vibrant and fun loving human beings we tend to be risk takers to some extent – remember asking your first girl or boy out? But there are risks that are acceptable and risks which if they don't come off, can leave you looking stupid, careless and feeling very sorry for yourself.

We recommend to clients that they review their risk exposure annually by revisiting their policies and discussing any issues with us. Your advisor no doubt does the same. Those at greatest risk are those who are oblivious to what can happen because they have either never thought it through, or never been exposed to someone who has made an insurance claim or been devastated by not being covered.

It is never too late to check out what you think you have and we are happy to offer people this option.

Care has been taken to ensure that any information is accurate. No liability is accepted for its use. Enquiries are welcome. Allistar Walker is a Senior Fellow of Financial Services Institute of Australasia and an accredited mortgage/insurance advisor. His full disclosure is available free at www.mortgagehelp.co.nz or he can be contacted at 410 6023 and enquiry@mortgagehelp.co.nz.