Got it covered?

Stuff happens – so be prepared. Finance Editor Susanna Stuart looks at when, what and how to insure

IF A CALAMITY were to strike in your life, how financially prepared would you be? It's worth working out a plan B in the event of death or illness in the family – even more so for families dependent on a main income earner or where there is significant debt. Random things happen, but mortgage payments carry on regardless.

So how can you prepare for the unexpected? You can sell assets but this takes time and is a disruption to your life. You can't always rely on the generosity of family or friends. You certainly can't rely on government benefits to be enough. The truth is, most of us don't have enough money or assets to 'self insure'.

Start by getting an emergency fund in place. You should have money in the bank to cover two to three months' worth of day-to-day expenses. For example, if you need $50,000 income to meet your annual commitments, you need at least $8000 set aside. This will buy you some time. For coping with a death or a longer term illness, you might need more.

The most cost-effective safety net is insurance. Most of us don't have a problem insuring our home or car but often forget to insure our health and life.

To cover death, a term insurance policy gives you the best value cover. Insure for an amount that will pay off all the debts (this will reduce ongoing expenses) and provide enough money so that the surviving partner can continue to look after the children. If he or she returns to part-time or full-time work there may be childcare costs to consider. Mortgage insurance is a valid option if it's just the home loan you want paid off. To cover an accident, we still have ACC, which will pay you a percentage of your income. It's straightforward for an employee, but if you are self-employed ACC will pay out based only on your declared taxable income: A problem if your income is volatile.

In the event of illness, employees can take five days' sick leave (the statutory minimum). After that, the sickness benefit is generally not enough to cover most people's needs. If you have debt and a family dependent on your income, I recommend you take out an income replacement policy which will pay up to 75% of your income. The premiums increase as you age but you can reduce the cost by having a 'waiting' period so it kicks in after, say, two months (your emergency fund is handy here), or you can insure for the amount that will cover your bottom line expenses only.

Health insurance is becoming necessary as we can't always depend on the public health system for timely treatment. To cut costs you could take out cover for hospital and specialist care and pay the small medical bills yourself.

Insurance is most vital when there hasn't been a lifetime to build up assets. Here are my strategies for strengthening your position for times of adversity.

- Pay off any debt you have as quickly as possible (while your family is young, try to minimise debt).
- Map out your plan B in the event of worst-case scenarios.
- Ensure your wills are up to date and that guardians are appointed.
- Allocate a portion of your income to an emergency fund.
- Use the insurance calculator on www.sorted.org.nz to get ballpark figures on how much you might need, and the costs.
- See an insurance adviser who will help prioritise your risks and work out the appropriate insurance to suit your needs, and your budget.
- To fast-track the insurance proceeds into the hands of your family, make your partner the owner of your term policy and vice versa. This will bypass the usual 'will' process. N

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