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Welcome...

...to the spring edition of the Triplejump newsletter.

We know that most business owners are so busy responding to the opportunities they see that they overlook potentially the greatest threat to their business: the risk that they – or someone they heavily rely on – may suffer a serious illness or disability, or die prematurely.

Is your business a going concern without you?

At Triplejump we help business owners develop and implement plans to protect their wealth, livelihood and aspirations from Human Capital Risk.

We look forward to learning more about your businesses and how we can help ensure you, your business and your family is protected should the unexpected arise in the future.

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Triplejump Limited

0800 874 753

www.triplejump.co.nz

info@triplejump.co.nz

New Zealand's Top Insurance Myths

Although many of us have insurance, we still find some areas that have not been addressed. This may be because some of us don't understand the level of cover required, we have not received the correct advice or we feel that if something should happen to us, we would still be able to manage. Below are a few common myths that many New Zealanders share around insurance ...

“It is too expensive”

It is natural to think that the risks that we should insure are those events that happen often even though the financial impact to us is relatively small. However, these risks are very expensive to insure relative to the value of the asset insured because of the high probability of payouts.

Triplejump's philosophy is you only transfer those risks which will have a very serious financial effect on your life. By nature, these risks have a lower probability of happening but when they do the impact is catastrophic to you and those reliant on you.

More frequent but smaller risks are best managed through your own cash flow and cash reserves. Using this approach, clients find they can have more

substantial cover for the risks they really need to insure without increasing their budget, ultimately getting better value for their money.

“In the event of a critical illness or disability, ACC will cover me”

ACC only covers you for accidents. Over two thirds of disabilities are caused by illness and accordingly no ACC benefit is payable. If you were disabled through illness and had not protected your loss of income through insurance then you may have to rely on a sickness benefit to help you cover your living expenses.

Many people believe that in the event of a major illness or serious disablement, they will somehow manage to 'get by' with the help of the Government, work, friends, credit cards, revolving mortgages and overdrafts. However findings from a survey on underinsurance show that in the event of illness or death, 42% of respondents were not able to identify the actual facilities that would be available to them.



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“I currently have sufficient investments to not require it”

Triplejump believes in our clients achieving financial independence so they don't need to rely on insurance. Sometimes our investments may not be as liquid as we may require if we need quite substantial amounts of cash. Some important considerations with your investments include: how soon could you break your investments to take care of immediate debt or medical expenses should a catastrophic event occur? Are you at risk of losing money through penalty fees if you broke the investment? Perhaps you have property investments? If you were to sell them in today's climate, would you stand to lose money and how long would it take for the money to come through? Insurance may help you bridge the timing gap to minimise the risk of investment losses if catastrophes strike.

“I have no dependants or family”

It can be true that if you have no dependants you may not require life insurance as your assets can be sold to cover any debts you may have. Serious disablement can leave you financially exposed though as you may still have living costs that you need cash to cover.

You may also reduce the risk of losing your assets if you have protected your liabilities in the event of long term disability. If you are a small business owner you may also have ongoing exposure to fixed business expenses such as leases and hire purchase even though you have hold to wind up the company.

“I have cover through my bank”

Many people feel they have managed the risk of unexpected death or disablement because they have Mortgage Protection Insurance. Certainly, for many people, being able to pay off their debt when something serious goes wrong is an important part of their risk planning. However, families and businesses still require cash flow to meet

their regular expenses over and above the mortgage repayments. It can be surprising how large this sum can get if it needs to be funded for many years. Good planning should consider your ongoing needs as well as your debt repayment.

“It is too confusing to understand”

Many people are sold an insurance product without having the opportunity to understand what financial needs they actually have and further, to understand how the insurance solution recommended will solve their problems.

The Triplejump needs-based process has been designed to enable you to think about the outcomes that are important to you so we can develop a plan that fits your needs.

Because you receive your own documented written plan, you can understand how the conclusions have been arrived at and can see how the solutions that are offered will achieve your objectives. We will help you select the most appropriate risk management strategy ensuring all the while you understand the risks you can afford to manage yourself and to identify those you need to insure.

“The business would survive without me”

60% of business owners believe that the solvency of their business is dependent on their ability to work and at least 25% would be forced to close within three months of the business owner being disabled or dying.

The loss of a key person will often impact the financial performance of a business through falling sales revenues, increasing costs of goods sold and increasing operational expenses. This may lead to insolvency and subsequent business failure.

Business owners we meet are typically modest about their role in the success of their business. Like the best of All Black captains, they like to give “full

credit to the team” and downplay their personal contributions. This is not always appropriate. Your business is the source of your wealth and your family's lifestyle. When you consider the probability of a major illness or accident keeping you out of the business for up to six months or more, then it is prudent to make an honest assessment of the extent to which the success of your business depends on your own efforts.

“I don't need Income Protection because I would continue to draw an income out of the business”

Recent ACC research reveals that more than 70% of self-employed businesses that close down do so at least in part because of serious injury. In 2003, ACC estimated that more than 1,800 businesses folded because of injury to an owner or key staff member.

Most business owners we meet need the company to be making surpluses to enable them to draw an income. Even a 10% change in revenue and a 5% increase in costs can mean that a profitable business will make a loss.

“I'm fit and healthy and I look after myself”

Research has shown that one of the biggest motivators for purchasing insurance was seen to be “if my health declined”. This reinforced the belief that insurance purchases are only considered when the need for the benefits becomes more significant. The irony of course is this event is inherently likely to coincide with insurance becoming hard or more expensive to gain. If you suddenly find out that you have been diagnosed with cancer, it is too late to put insurance in place.

Sources:
AIA Company Limited “AIA Life matters Survey”
ACC New Zealand
Massey University SME Research Centre 1206