

Financial planning can be thought of as the art and science of making financial trade-offs under conditions of extreme uncertainty.

The biggest uncertainty is not knowing how long we will live for, and how healthy we'll be while we're still around. Being a responsible adult with healthy habits can put the odds in your favour, but disaster still strikes from time to time.

While we invest to protect ourselves from living too long, we insure ourselves to protect against dying too soon.

The Goose and the Golden Eggs

Insurance is not a sexy subject! Indeed, it is often sold rather than bought, a grudge purchase as such. Many people do not have a good grasp of what, and how much, they are insured for or what the benefits mean for them.

Strangely, most people are happy to insure their cars, home, phone, business, and other valuables. These are the golden eggs. They're expensive, and so we insure them against disaster. We don't then live in hope that our home burns down, we pay the premiums hoping we'll never need the cover. In essence we hope all of the insurance premiums we pay are an utter waste of money.

But what about the Golden Goose? The items listed above all rely on our ability to earn money and yet we treat our own lives and talent as if disaster will never strike us. But without the Golden Goose, there can be no eggs. It's a generalisation, but we see more people hesitant to insure the Goose than we do taking risks with their Eggs.

This leaves a 'protection gap' that means entire family futures are at risk if a health disaster strikes.

Practical Steps

Partly to blame for the protection gap is an obsession by insurance providers to complicate their products. More choice usually leads to less action. Do they have an incentive to confuse you?

However, insurance needs to be set up before it's needed, so it's worth understanding the most important risks you can insure yourself against.

Life cover pays out on your death and is a great tool for those who will leave behind debts and loved ones who have been dependent on your income. As you go through different life stages this need will change.

Critical illness cover pays out a lump sum on diagnosis of a list of conditions covering the major categories of illness. For many people this is a more likely occurrence than death and is more expensive than life insurance.

Income protection is a crucial benefit for anyone with a income, and in most countries will pay out tax free while you are unable to work and earn.

Putting these in place should help you to sleep better knowing that your family is taken care of regardless of your future prospects.

Prepare for the Worst, Hope for the Best

It's important for every investor to understand that without your ability to earn, the golden eggs don't exist. Financial literates put in place a plan to protect the Golden Goose. They do so gladly.

While it's important to review your choice of cover regularly, don't overanalyse the numbers. As with most things, done is better than perfect.

Your mindset around this topic is important. While many see human insurance as a grudge purchase, we know people who happily pay the premiums knowing that it brings certainty and peace of mind to an otherwise uncertain situation. They hope it will be wasted money, knowing that this means they've had a healthy and long life with the people they care about.