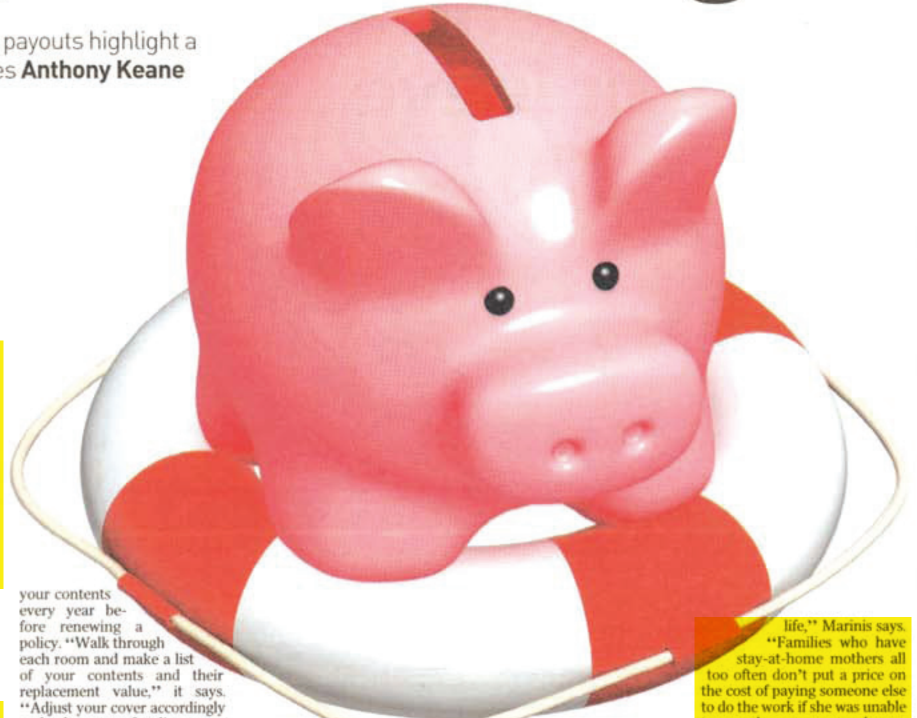
More investors are planning to hold less cash this year, according to a survey by CoreData. It found 39 per cent of them were looking to move cash into property, 26 per cent into shares and 11 per cent into managed funds

Stay afloat in tough times

Problems with flood payouts highlight a wider problem, writes **Anthony Keane**



INSURANCE has been in the public spotlight much more than usual because of a terrible spate of natural disasters.

Although much of the focus has been on what is or isn't covered and the likelihood of premiums rising, people should use the situation as a reminder to make sure they are protected.

Home, contents, car, life and income are the key categories, and financial experts say there are a few common traps.

Financial strategist Theo Marinis, of Marinis Financial Group, says: "Insurance is probably one of the strangest products sold – people buy it hoping to never use it.

"I learnt at 11 that insurance is important for families, having survived a car crash that cost my mother and my aunt their lives. An insurance payout would not have brought back these two wonderful people but it would have taken huge financial strains off my family."

Here are 10 traps that people should watch out for.

1. UNDERINSURANCE

It is estimated that about 70 per cent of homes in Australia are underinsured.

"Underinsurance can cause enormous heartaches – in many cases legislation allows general insurers to reduce your payout if your home or business is insured for less than it is worth," Marinis says.

"Overinsure is my advice. Nobody has ever complained to me they got too big a payout."

2. GUESSING GAME

A key cause of underinsurance is that most people don't realise just how much stuff they own or the replacement costs.

The Insurance Council of Australia advises reviewing your contents every year before renewing a policy. "Walk through each room and make a list of your contents and their replacement value," it says. "Adjust your cover accordingly and take note of policy terms concerning high-value items and exclusions."

3. CHEAP IMITATIONS

Marinis says consumers should be wary of cheap, online car and house insurance policies.

"Find out what's excluded from their policies to cut costs and ask: Will you be able to find your insurer when you have to make a claim?"

4. IGNORING FINE PRINT

Many consumers learnt too late that their homes were not covered for flood damage during the Queensland floods in January.

Reading insurance policy fine print may be boring but people who don't know what they are covered for are risking their financial future.

"Everyone needs to seriously consider flood cover if your house is at the slightest risk – not all insurance policies offer this," Marinis says.

5. ACTING TOO LATE

When it comes to personal insurance such as life, disability and income protection, delaying your policy purchase can be quite costly.

These policies are very cheap for young adults, while those who wait until their 30s and 40s may find health issues will result in higher premiums.

"Hold your insurance as you may become uninsurable due to a heart attack, cancer or a stroke," Marinis says.

6. FORGETTING MUM

"Don't forget to insure Mum's life," Marinis says.

"Families who have stay-at-home mothers all too often don't put a price on the cost of paying someone else to do the work if she was unable to – such as a nanny, cleaner, holiday care and cooking."

7. IGNORING INCOME

Your biggest asset is not your home, your car or your superannuation – in most cases it's your future income. Many people, however, ignore income protection cover.

Marinis says it is vital for people with financial obligations. "It is usually tax-deductible and will pay you up to 75 per cent of your salary while you recover from accident or illness," he says.

It can also be offered by your super fund.

8. SUPER STRATEGIES

Suncorp Life technical services manager Rachel Leong says life and disability insurance can also be held inside your super.

"There are tax concessions available on super contributions that may result in premiums being effectively cheaper when insurance is held inside super," she says.

Life cover through super won't suck money from your pocket but Leong says it's worth discussing this strategy with an adviser.

"There may be disadvantages to holding insurance inside super, including restricted access, potential tax and longer time to receive proceeds, and restricted beneficiaries."

9. BAD BUSINESS

Leong says business owners should have business succession insurance and key person insurance.

"Business succession insurance enables a smooth transition upon the departure of a business owner, while key person insurance will ensure that the business continues even when someone who affects its viability is unable to work."

10. TRAVEL TRAPS

Don't blindly accept the travel insurance cover offered by your travel agent, which may cost a lot more than you need to pay.

The Insurance Council of Australia says it pays to shop around to find a competitive policy that suits you.

"Read the policy carefully to make sure you are aware of any excess and where it may apply," it says.

"Ensure any medical cover is adequate for the country you are going to visit. In places such as North America, Europe, Africa and parts of Asia, medical costs can be expensive."

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