

Risk Estate Planning

How Gradidge-Mahura Investments (GMI) clients benefited from proper risk planning

The past three years has brought home the importance of risk planning in spectacular fashion. The sheer destruction and hardship brought on by the COVID pandemic has been devastating to many around the world. Risk planning refers to the processes of ensuring that a person's balance sheet and income is protected if they were impacted by a risk event; death, disability and/or a dreaded disease.

Our advice process has always placed importance on protecting the balance sheet and income statement. This is why we always recommend starting the financial planning process with a financial needs analysis and an estate plan. The financial needs analysis helps us quantify what the impact of death, disability, critical illness, and loss of the ability to earn means in your specific circumstance. Our analysis clarifies the cost of ongoing education, healthcare, and normal day-to-day living expenses.

GMI Client Experiences

Here are some client experiences which outline the importance of analysis and purchasing the appropriate type of cover for your specific needs. We have received permission from these clients to share their experiences.

Mr A: 63-year-old businessman engaged with us in terms of his personal estate planning and business needs. The cover was issued in December 2016 through Momentum. He was sadly diagnosed with cancer and passed on in April 2020. The cover pay-outs were as follows:

Personal Cover Taken	Cover Amount Taken December 2016	Cover Paid May 2020
Life Cover	R 7 000 000	R 7 800 000
Business Cover Taken	Cover Amount 01/12/2016	Cover Paid May 2020
Life Cover	R 12 000 000	R 14 200 000

Because of these pay-outs, his family's financial needs have been secured. His business partners were paid out in terms of a buy and sell agreement and could purchase his shares from his estate. Part of the business cover was used to settle the debt that the business had, as he had signed personal surety for this debt. It is critical to consider the impact on your personal estate if you have signed surety.

Mrs K: An accountant and mother of 3 young children. After a detailed analysis process, cover was taken with Discovery Life. The policy commenced on 01 September 2015. Mrs K was advised to purchase the critical illness cover as a standalone benefit – meaning that a claim on this benefit does not reduce the life cover. It was further advised that she purchase the comprehensive version that upgrades the pay-out to 100% irrespective of the severity of the illness. A category C definition in Discovery terms would have resulted in a 50% cover pay-out. Mrs K was diagnosed with cancer in February 2016.

Personal Cover Taken	Cover amount 01/08/2015	Cover paid April 2016
Critical Illness	R 1 000 000	R 1 000 000

The proceeds were used to settle certain out of hospital expenses that medical aid did not cover. The balance was used to boost her retirement savings.

Ms B: A self-employed small business owner and single mother of two. She is the sole breadwinner. She was diagnosed with cancer. The treatment resulted in her being hospitalised and was bed ridden several times. She was unable to perform the full duties of her occupation.

Personal Cover Taken	Cover amount 01/06/2013	Cover paid February 2019
Income Protection	R 15 000 per month	R 18 906 per month

Ms B was paid the full cover amount for 6 months and this was reduced to 50% of the cover amount once she returned to work. She continues to receive the 50% cover monthly to this day even though she has returned to work because she has not fully recovered. This income allows her to scale back her workload and take more time to focus on her health and her family.

Busting the life cover myth

One refrain we hear often when the issue of life cover is discussed is "why should I be poor when I am alive so that my family can be rich when I am dead?". This is something we have heard many times over the years. It is misinformed and short-sighted at best. Yes, a R10 million pay out appears to be a large amount of money, but it only produces a sustainable income of R45,000 per month. Most people who can afford R10 million life cover earn a lot more than R45,000 per month, so in many cases the income they provide is not fully replaced in the event of their passing.

Conclusion

While investment and retirement planning often gets the most attention when it comes to finances and financial planning, the devastation that can be brought on by a risk event can be quite severe. Given that these risks are often unknown in terms of timing and severity they are often overlooked as a critical financial planning issue.

Should you want to discuss further, please contact your Financial Advisor at Gradidge-Mahura Investments.