

Who should buy it ?

Married

Financially dependent spouse

Have children who are yet to be financially independent

Retired parents without pension/income source

Home Loan

Who shouldn't buy it?

Unmarried

Employed and financial independent spouse

No children/Not planning children

Parents have pension/wealth/income source/independent

No Loans

Achieved F.I.R.E

When you should buy

Early you buy it lesser the premium. Buy as soon as you are married and got loans

How much sum insured do you require?

DIME Method

D- Debts you have taken (Personal Loan/Credit card loan)

I - Income required for daily expenses

M - Mortgage (Home Loan outstanding amount)

E - Large Expenses (Children Education/Marriage)

L - Liquid Assets

Sum insured = DIME - L

Type of insurance Policies

Pure Term Policies - Pays on death of policy holder

Defined benefit policies - Pays if specified event occurs within the term (eg loss of legs in accident/cancer)

ULIPs/ILIPS - Investment+ Insurance Product, returns linked to market performance (Pays on survival/death)

Endowment plan - Investment + insurance product, pays on survival/death

Money Back Plans - Investment + Insurance product, pays periodically and on survival/death

Whole life policies - Lifelong cover and payout on death whenever it occurs before age 100. Benefit is also paid at age 100 if one survives till that time. Used to pass on wealth to children

Group Life Policies - Usually term cover provided by gilts, associations, or employers under one master policy. Coverage continues until one is a part of that specified group

Child Plans - Investment & insurance product aimed at creating wealth for child's future needs like education, marriage, etc.

Retirement Plans - Secure financial well-being into sunset years. Provide pension on regular intervals and can have death benefit associated with it

Which ones do you need?

Pure term insurance policies - Hell yes! (Unless in unstable business, do NOT go for limited premium paying term here)

Critical Illness Standalone covers - Highly Recommended

Personal accident & disability insurance plans - Frequent travelers or those who work in hazardous environments

Life Insurance Riders

Critical illness rider: Provides additional benefits if diagnosed with specified critical illnesses like Cancer, Heart disease, etc.

Accidental death & disability rider: Pays in case of death or total disability due to an accident.

Income benefit rider: Offers regular income in case the policyholder suffers permanent disability due to an accident.

Waiver of premium rider: Ensures the policy continues to provide cover if the insured's disability makes it impossible to pay future premiums.

Return of premium rider: This rider is activated if one survives the policy term. All the premiums paid (except taxes etc) will be returned to the policyholder as a survival benefit.

Guaranteed insurability rider: Offers additional cover at later ages, in many cases without medical underwriting.

Accelerated death benefit rider: In case of critical illness where prospects of death are very high, the sum insured is paid before death itself.

Life Insurance Riders (cont)

Long term care rider: Offers cover for those who may need long-term home care, assisted living or nursing care.

Which riders you need?

Accidental death & disability	Frequent travel, hazardous work environment (if you cannot afford a stand-alone cover)
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Income benefit	Recommended but not mandatory
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Critical illness	Recommended (if you cannot afford a stand-alone cover)
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Waiver of premium	Recommended
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Return of premium	Not recommended
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Guaranteed insurability	Recommended but not mandatory
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Accelerated death benefit	Recommended but not mandatory
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Long term care	Recommended but not mandatory
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Additional options - Do you need them?

Many policies will offer additional options/riders like:

Spouse coverage

Child education support

Step-up benefit/increasing term plan

Life stage benefit

Advance Tax For Salaried

In most cases, the employer will take care of the taxation by deducting TDS. However, you will have to declare different deductions and exemptions.

In case you haven't informed something to your employer, then you have to take care of your taxation and if your tax liability is above 10k, then you have to pay that by yourself

Nomination not always enough

If you are a business owner with a lot of loans/have personal loans or credit card balances - you need to make sure that your creditors do not come after your life insurance policy money.

The same is the case if you have troublesome relatives who may take undue advantage of your absence.

Thus - males can consider adding a MWP act clause to your policy.

It means your policy money is kept under a trust which can be accessed by your wife only.

Note that once a policy is purchased under MWP act, you cannot revoke it.

CI-Critical illness policy - types of benefit

Benefits based on diagnosis of the specified illness, no bills needed. Can be used for cost of treatment, replacement of loss of income, debt payoff, any recuperation/hospice aids etc.

Coverage for medical expenses of critical illnesses, bills are needed.

Ideally, you can take a big enough health insurance cover + Take 1st type of critical illness cover

Critical illness policy vs Critical illness rider

Feature	Critical Illness Rider	Critical Illness Policy
Cost	A bit cheaper	Will cost a bit more than a rider
Claim Payout	Usually claim is payable only at the last stage of critical illness and in some cases you must live another 30 days to receive it	Claim is given even at early stage during the illness
Diseases Covered	No of diseases covered is limited	Most of the critical illnesses are covered
Renewal	Your rider benefit will end at age 65	You can renew as long as you live

Why do you need Critical illness?

A lot of people think that since they have a sufficient health insurance policy they don't need critical illness cover.

However, once you have some critical illness, it will also affect your ability to work regularly and earn as usual.

But such loss of income will not get covered under a standard health insurance policy.

Thus to continue paying your EMI's, other daily expenses, tuition fees etc.

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Why do you need Critical illness? (cont)

You need to have additional cover- this is exactly what a defined benefit critical illness cover offers.

Why limited premium may not be good for you?

Limited premium plans are only useful for people who are not sure whether they will be able to pay premiums for the entire term. (People with unstable income track record)

For all others, paying premiums for as long as the policy term makes more sense.

The reason is-opportunity cost of money.

Stuck with a bad Insurance product?

Option 1: Surrender the policy: You get surrender value, if any, and the insurance cover ends.

Option 2: Make the policy paid up: You do not have to pay any more premiums but your coverage (Sum Insured) reduces proportionately to premiums paid till date. Maturity benefits also reduce proportionately.

Option 3: Continue the policy as it is: Pay premiums anyway and continue the policy.

Contact your insurer and ask for surrender value (can email customer care and get it) Also ask for paid up policy details to stop further premiums (Once a policy acquires surrender value, it can be made paid up as well)

Now, compare cash flows in all three cases described earlier - Surrender/paid up/continue as is

Based on the opportunity cost analysis decide what is the best course of action for you.

Stuck with a bad ULIP?

Do NOT surrender ULIP before 5 years.

If a policy is surrendered before 5 years, your corpus simply moves to discontinued policies' fund earning 2-3% p.a. interest. (You do not get anything before 5 years)

Please check the surrender charges before deciding anything.

Also check the tax implications of surrendering.

Write to your insurer asking whether you can discontinue the premiums and make the policy paid up.

Then, consider cash flows under all the three options. (surrender/discontinue further premiums/continue as is) & the opportunity cost.

Suicide Clause

If a policyholder, sane or insane, commits suicide within 12 months, most companies only pay 80% of the premiums paid OR

In case of a revived policy, 80% of the premium or the surrender value, whichever is higher.

Total sum insured will not be paid in such cases.

Payout options

Lump Sum Death Cover - Nominee can pay-off large loans in a single installment. To pay for child's education: For example, to make FDs & secure the child's higher education.

Payout options (cont)

Monthly Income Death Cover (Income Replacement Plans) - 90% of term plans have wives as nominee. If your spouse is not habituated to handling finances, incorrect investment decisions made would lead to the lump sum misuse and family living in poverty after a few years. Household expenses like maid's salary, groceries, petrol, utility bills, rent, outings, and so on need to be managed monthly.

A Combination of both Lump Sum & Monthly Income - If you say home loan but you are also aware that your nominee may not be able to handle the remaining lump sum after paying off the home loan due to nominee's lack of financial knowledge - this is the way to go.

PA: Personal accident cover

Available as add-on in most life insurance policies.

However, if you are someone who travels a lot, has to work in hazardous environment (For example: Civil engineer) simply buying a rider may not be enough.

These riders mostly cover only permanent total disability/death due to accident.

Meaning, if you just lost your two fingers or an eye, this rider will most probably not pay anything.

Thus for those more prone to accidents, there is a separate standalone cover, known as personal accident policy.

It will be costlier than a rider, but worth the money for those at risk.

PA: Personal accident cover (cont)

TTD (Temporary Total Disability), PTD (Permanent Total Disability), PPD (Permanent Partial Disability), death all can be covered under a standalone PA policy.

General exclusions under a PA policy

Accident resulting from suicide, attempted suicide

Accident resulting from intentionally self-inflicted injury, mental or nervous disorder

Military employment (military personnel have different policies)

Accident while being under the influence or abuse of drugs, alcohol, or other intoxicants or hallucinogens

Participation in an actual or attempted felony, riot, crime, misdemeanor, or civil commotion

Any injury caused by, contributed to, by or arising from nuclear ionizing radiation or contamination by radioactivity

Any accident/loss arising out of war, civil war, invasion, insurrection, revolution etc

Accident during air travel except as a fare paying passenger

Participation in winter sports, skydiving/parachuting, hand gliding, bungee jumping, scuba diving, ballooning, mountain climbing

Loss related to childbirth

Committing breach of law with criminal intent

Loss caused directly or indirectly, wholly or partly by infections

Loss due to the release of pathogenic or poisonous biological or chemical materials

Tax benefits: The lure and the truth

Life insurance premiums in many cases qualify for the 80C deduction. But, here is the catch:

The current 80C limit is only 1.5 lakh which includes -

PPF/EPF

NPS

ELSS

Tax saver FDs

NSC

SSY

Also, the tax saving is available only to those who file tax under the old tax regime.

Only in a few cases, tax exempt maturity returns may be attractive. But otherwise, tax benefits are not substantial for vast majority of us.

Hence, it makes little sense to buy a life policy to save taxes as there is hardly any room left after your other investments.

Always buy a policy to protect your finances, not for tax purposes.



By **tanmay_bhavsar**
cheatography.com/tanmay-bhavsar/

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