M4MONEY

JOURNEY TOWARDS FINANCIAL BLISS

All about LIFE INSURANCE

It is a sad fact of life that thousands of people die prematurely and unexpectedly every day, many with insufficient or no life insurance to protect their loved ones.

- *What would the financial future hold for your spouse and children without you?*
- *Would they be able to afford the basic costs of living, from food bills to clothing?*
- *What about essential expenses such as house repayments, school fees & medical expenses?*

It is true that nothing can replace you but you can ensure to reduce the financial misery of your loved one and your family will not face the financial consequences of your death. Life insurance can take these worries away.

Life insurance is of no use if one does not have any dependent.

Term insurance is a life insurance product offered by an insurance company which provides financial coverage to the policy holder for a specific time period. In case of death of the insured individual during the policy term, the death benefit is paid by the company to the beneficiary.

Term Insurance is the purest form of insurance. It provides cover on the life of individuals and has the lowest premium in all types of life insurance policy. It provides the highest amount of insurance cover.

Personal life Cover

Life insurance cover can be taken by an individual to cover his own life as well life of his family members. Any Individual between 18 - 65 years of age can take term insurance policy. Some insurers may provide the policy to individuals up to the age of 70 / 75 years.

Policy term is the number of years for which you buy a life insurance policy. Any benefit under this policy is payable only if the insured event (generally death or permanent disability due to illness or accident) takes place during this period.

Term Insurance policy is generally required during your working life or till retirement. For e.g. If your current age is 35 years and you want to retire at the age of 60 years, then you should buy the policy for 25 years (60 - 35).

How much insurance value to buy is an important question. It is directly related to the expected financial support the family would need in your absence. There is a simple method to calculate "Human Life Value" to work out the amount of insurance cover needed by an individual. We all are familiar to work out the value of car insurance. It is the replacement value of the car we want to insure. Similarly, in life insurance, it is the income which the family will be deprived in case of death of its bread-earner OR the amount need for various expenses towards family's sustenance at the given standard of living. Value of Life insurance cover can also be topped up regularly, in accordance with increased expenses and higher standard of living with career progression.

Term Insurance policy generally provides a lump sum amount in case of death of the insured person. The lump sum amount payable under the policy is equal to the sum assured (plus bonus, etc.). This amount is a constant number and not adjusted to inflation. These days some of the policies also provide annual pay out over and above lump sum amount.

There is no maturity benefit under this policy. This policy pays out only in case of death of the insured person. Sum Assured (insured amount) is payable to the nominee. The proceeds of a life insurance policy generally pass to your beneficiaries, which can be used to help preserve your family's standard of living, cover outstanding debts and keep your families dreams alive.

There is no premium charged for providing you any investment return. Hence, no maturity benefit, if the insured person survives beyond the policy term.

Premium paid for term insurance is eligible for tax exemption under Section 80C of Income Tax Act.

Other Life insurance Products:

As part of HR policy

Group Life Cover

Group Life insurance is insurance cover in which a single contract covers an entire group of people. Typically, the policy owner is an employer or an entity such as a network or affinity group and the policy covers the employees or members of the group.

Group Life insurance is often provided as part of a corporate's employee benefit package and in most cases, the cost of group coverage is far less than what the employees or members would pay for a similar amount of individual protection so if you are offered group life insurance through your employer or another group, you should usually take it, especially if you have no other life insurance. As the policy owner, the employer or other entity keeps the actual insurance policy, known as the master contract and those who are covered typically receive a certificate of insurance that serves as proof of insurance but is not actually the insurance policy.

Group Life insurance is typically provided in the form of annually renewable term insurance and when provided through your employer, the employer usually pays for all of the premiums. The amount of coverage is typically equal to three or five times your annual salary and may also include disability coverage. It remains in force until your employment is terminated or until the specific term of coverage ends. Even though Group Life insurance may appear to be cost effective it is important for individuals to consider personal cover at the same time since it may be too late to obtain cost effective individual cover after they have left employment.

For Business protection:

a) Key Man Cover

Key Man Insurance is life insurance purchased by the employer on the life of an employee (the key man) whose services and know-how are critical in contributing to the profits of the business. The company owns the policy and pays the premium and if the key person dies or is disabled the proceeds are paid to the company.

b) Partnership Cover

Disability and death are not things that we like to think about, but if one of the business owners were to die or can no longer work, would you and the other owners be able to afford to buy their business interests? A simple solution to this problem is a properly structured agreement that guarantees that on the disability or death of a business owner the necessary funds will be available to buy their share of business using the proceeds of a life insurance policy.

One can protect your loved ones by ensuring your business partners have the funds available to buy your equity in the business should anything happen to you. Conversely, you can also cover your business partners, ensuring you have the ability to purchase their shares rather than acquiring a new partner, should anything happen to them.

Few Contrarian views:

A) Internationally, Life insurance cover is available even for very advance age i.e. even beyond 100 years. However, in India, Life insurance cover is available only up to the age of 75 years only. What about income loss to the surviving spouse? What happens if the deceased spouse has not bequeathed any income yielding assets? Perhaps it is assumed that the surviving spouse would be financially taken care of by the children. But if some couple does not have children or if the children themselves are financially stressed or does not bother about the surviving parent? With the life expectancy going up and longevity improving with improved medical care as well higher health consciousness – should the Indian Insurance regulators not give this aspect a thought?

B) Normally income generating age is assumed at 60 years. If Life Insurance is basically to take care of financial insecurity caused by loss of income to surviving family, then there is no such loss beyond 60 years of age. SO why take Life Insurance cover up to the age of 75 years or more. It would entail higher premium payment to insurance company. This saving in premium, if invested separately from the beginning of the insurance policy, can yield an handsome amount to the surviving family, whenever one dies either prior or after 60 years of age.

Whatever wealth one would accumulate till the time of his/her retirement, would remain available to the family, irrespective of the insurance cover. Net worth won't increase once the income source ceases to exist, on retirement, except by its own return on investments.

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