

FOR MORE THAN JUST SAVING TAX

Keep your investments and insurance separate for flexibility to make changes



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During a recent conversation with a client couple, the husband told me, "Don't worry about life insurance Vishal, we have a lot of insurance. We have bought multiple policies over the years to save tax."

"How much is your life insured for through all these policies?" I asked.

"I don't know how much the coverage is, but I know the premium amounts," he replied.

To me, this remark, and I hear it quite often in response to the above question, is like asking someone about the size of his house and being told that its market value is Rs 2 crore.

Indeed, Vishal and his wife had bought a long list of life insurance policies, from money back plans to child-oriented policies and unit-linked insurance plans (ULIPs), but these were far from adequate.

It was a challenge to explain to the clients that even this plethora of policies, live and paid, was not enough for him and his family. On top of that, keeping the policies for tax benefits made little sense now that their home loan principal payment, children's fees and contributions to provident fund more than covered the available tax breaks.

But after explaining to them that their plans might fall well short of their expectations in various future scenarios—the husband, the only earning member of the family, may not be around; inflation may lower the value of plans and policies; rising living costs may affect their lifestyle and children's education; serving of liabilities even when the income earner is not around—the husband asked, "Vishal, you are right. Could you help me with this further?"

We worked out an appropriate risk mitigation strategy not just for their life insurance coverage but other aspects of their financial life as well.

Each person or family's insurance

requirement would obviously be different, yet the following nine-point guide would help work out an adequate life insurance cover.

▶ Life insurance is not an investment. It is the cost of shielding your family from uncertainty, undue stress and unwarranted lifestyle changes and compromises when you are no longer around.

▶ Insurance can't make good the emotional loss to your family, but it will help ease their financial worries.

▶ If someone is dependent on you and your income, you need life insurance. If your income is easily replaceable, you don't need to take it.

▶ Insurance cover depends on income, the number of financial dependents, current lifestyle, future responsibilities and liabilities, and current net worth. So, a cover that's just right for your friend may not be right for you.

▶ Term insurance is, in most cases, the best way to buy insurance cover.

▶ If the primary income generators have just started earning, much of their family's financial future depends on them. Since these young earners can't generate a surplus or net worth immediately, it would be prudent to take a term life insurance cover.

▶ A life insurance cover could be a way to give certain amounts of inheritance to certain heirs.

▶ Keep your investments and insurance policies separate in order to have greater flexibility to make changes whenever necessary.

▶ The amount of insurance cover changes with changes in your lifestyle, goals and liabilities. So, you have to evaluate it every few years.

▶ Tax saving should not be the primary reason for buying insurance.

In a nutshell, having an adequate life insurance cover is essential. You never know when your loved ones may need it. ■



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