Looking to buy a life insurance plan? Here's how to choose

A look at the four insurance products—term plan, unit-linked insurance plan (Ulip), endowment plan and money back plan—and how to choose which best fits you

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There are four types of life insurance policies — term plan, unit-linked insurance plan, endowment plan and money back plan. Photo: iStockphoto

Mumbai: Buying a life insurance policy may not sound as cool as buying a OnePlus 6 or booking a holiday to London. In most cases, you buy them either because your parents force you to or because a relative, who is an insurance agent, is selling it. In the process, it's possible that you may not pay attention to the details and end up buying the wrong product. We try to decode the various life insurance products for you:

The products

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There are four broader life insurance products in the market—term plan, unit-linked insurance plan (Ulip), endowment plan and money back plan. Endowment and money back plan come under the traditional insurance plan structure. There are different variants of each of these products. “Life insurance products fulfil four needs —protection, savings, investment and tax benefit,” said Kapil Mehta, co-founder, SecureNow.in.

Term plan: Term insurance is a protection plan, which means it has no investment component. The money you pay as premium (the cost to buy the product) will give you a life cover. Term plan is the cheapest life insurance product that will give you a higher sum assured. For instance, if you are 30 years old and are looking at Rs 1 crore assured sum, you can get a policy for a premium as low as Rs 7,400 an annum, which has a claim settlement of more than 90%. The claim settlement percentage indicates the chances to get the assured sum in case the insured person dies.

Ulip: Ulip is an investment-cum-insurance product. It allows you to choose where you want to park the money meant for investment — equity, debt or balanced. “The regulator has capped the charges for Ulip. To select a unit-linked insurance plan, compare the historical returns with other benchmarks and pick the best returns. The benchmarking is available online,” said Mehta.

“The cost structure in Ulip is more efficient than the traditional plans. Also, the returns are likely to be lower than mutual funds,” said Vishal Dhawan, a certified financial planner, founder and chief executive officer of Plan Ahead Wealth Advisors.

Endowment plan: It is a bundled insurance plan where you are forced to save money. In this plan, you keep putting in money and get something back when your policy matures. However, the returns are very low, ranging from 4% to 6% an annum. “Usually, most investment-cum-insurance policy returns don’t beat inflation. You should avoid going for it,” said Mrin Agarwal, founder and director, Finsafe India Pvt Ltd.

Money back plan: A money back policy is similar to endowment. In the insurance industry, it is also referred to as anticipated endowment. “The only difference is that in a money back plan, you start getting the benefits during the duration of the policy itself. The returns are even lower because you are getting money upfront. Usually, the returns are in the range of 2-4%,” said Mehta.

How to pick the right one

The main purpose of a life insurance policy is to protect your dependants in case you die. If you are single with no dependant, you don’t need a life insurance policy. However, if you have parents, spouse or children, who depend on your income, you need to buy a life insurance policy. Ideally, opt for a term plan, as it gives you a higher sum assured for a lower premium. When you venture into the market to buy a term plan, compare it on two parameters — cost and claim settlement ratio.

“Pick a policy with the lowest premium, but a claim settlement ratio of more than 90%,” said Mehta. “There are two problems with traditional plans. While the returns are low getting out of the product midway, too, is expensive. You will lose a lot of value,” said Mehta. In an poll conducted across Delhi, Mumbai and Bangalore, all 10 financial planners rated traditional plans poorly, highly recommending term plans over them.

All insurance policies give you tax benefit, which you can claim under section 80C of the income-tax Act.

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