Don't buy insurance only for tax benefits

GET PERSONAL

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step by step

You can decide on buying an insurance policy after taking into account the following factors.

- Access your financial situation to decide if you actually require an insurance cover.
- Once decided, it is time to do a reality check on the amount of wealth you possess.
- Chart out long term goals in life such as children's education, retirement needs.
- Take into account economic factors such as inflation.
- Consult a financial planner for further clarification.

DO YOU really need insurance? "I am not saving enough", "I need to generate better returns on my investments" or "I need to save regularly" are the common reasons we hear from the investors when they first come to meet us. As we start to evaluate their existing portfolios, virtually all of them come peppered with at least a couple of life insurance policies wherein the information available is sketchy.

On being probed on the amount of life cover available under these policies, the expected rate of return and the targeted maturity amount, most investors are unable to give a clear answer.

Tax saving, need for life coverage or saving for the future are the most common reasons given for having bought the life insurance cover. The question is do you really need that insurance policy?

Ideally insurance should be bought to compensate for the financial hardships that your family would undergo in case of your untimely demise.

Unfortunately most insurance policies are bought keeping the tax benefits and expected return instead. The ideal way to buy insurance is as follows:

■ **Estimate your correct insurance requirement:** Essentially, the best way to estimate your insurance needs is to make a list of your likely household expenses in your absence, assuming that your current lifestyle is not compromised.

Remember that inflation will continue to hit regular expenses, even when you are not there. Also estimate the costs that would be required to meet various life goals such as education for your children, medical expenses for your spouse and outstanding loans.

This will give you a reasonable estimate of the life coverage that you should have. If you find that you need help for this, approach your financial planner. If you find that your existing assets are sufficient to cover all the above expenses, there may not be a need for any insurance cover.

■ **Buy a standalone term cover:** Term covers tend to be the cheapest and most efficient method of buying insurance as they allow you to cover yourself to the desired extent at a reasonable cost. Most investors tend to under insure themselves by focusing on the premium rather than the ideal sum insured. By keeping your insurance and investments separate from each other, you also have the flexibility of deciding on parameters like ongoing performance independent of the insurance cover.

■ **Cheapest insurance cover is not necessarily the best:** Just like other products that you buy where price is not the sole deciding criteria, you should focus on items like claim payment track record, amongst others before deciding on the insurer you want to go with.

■ **Reevaluate your insurance need every two years:** Since goals, finances and responsibilities tend to changes with times, there may be a need to increase or decrease insurance as changes occur.

Buy your term insurance in smaller lot sizes, though it may be slightly more expensive, so that you have flexibility to increase or decrease covers.

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