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Set For The Long Haul

New-age term plans with smart tweaks will cover your every need, all the time.

Of late, life insurance has emerged as a core component of any financial portfolio. On the face of it, the whole thing is simple enough - buying a life cover makes one feel secure as the family will have adequate financial support in case anything happens to the breadwinner. You need to protect all foreseeable goals and liabilities so that your family does not go through any financial hardship when you are not around. However, it is not easy to decide upon the right policy as individual requirements are widely different and no standard product can serve everybody.

People often buy life insurance products without considering their actual needs. Many of them have moved past the traditional endowment regime and are ready for term plans, which offer maximum coverage at the lowest premium. But one can still falter and end up with inadequate coverage.

One way of dealing with this quagmire is to plan your insurance meticulously and seek professional advice just as you do in financial planning. Insurance companies have also come up with innovative solutions, useful features and great benefits while tech advancements have made it easy to search for, compare and buy plans online. Let us understand how the new-age products from insurers, especially in the term plan space, can support your family in a better way.

Do It Right

When zeroing in on life insurance, focus on two vital parameters - coverage and tenure - followed by cost and claim settlement records. Coverage is all about a healthy sum assured along with useful riders based on needs analysis. There are several ways to calculate insurance needs, including HLV (human life value) and income replacement method. The thumb rule is to have a life insurance cover that is at least 10-15 times your annual income. For example, if your yearly income is Rs 10 lakh, your cover should be at least Rs 1 crore. In case you have an outstanding loan, an additional cover should also be taken to secure it. Simply put, your life insurance should encompass all financial goals and liabilities at any point in time.

The policy tenure should be decided based on the years required to reach your goals. If your goal is your child's marriage 30 years from now, the term should be 30 years. "Life insurance should be purchased to cover loans, ensure expense protection for dependent family or meet financial goals. The tenure should be until you reach the above points," says Lovaii Navlakhi, Managing Director and CEO of Bengaluru-based wealth management firm International Money Matters.

Understandably, the primary purpose of life insurance is protection and not wealth creation. But in India, term plans do not appeal to many people as these do not offer maturity benefits. To cater to that client segment, insurance companies are now extending life coverage up to the age of 80-85. One can also buy a whole life policy (99-100 year term plan), mostly meant for those who want to leave a corpus behind for their families. Besides, there is a return-of-premium option under some term plans, although these are more expensive.

"Return-of-premium term plans provide life cover, but these are not pure protection products. There is a built-in savings component as these plans are required to return all premiums paid by policyholders. A higher premium is charged here compared to pure protection plans," says Madhu Burugupalli, Head of Products at ICICI Prudential Life Insurance. Ideally, one should avoid return-of-premium plans and go for pure protection.

Stay Covered, Always

Goals and liabilities keep on changing over the years. To make sure that you remain adequately covered all the time, review your insurance requirements regularly. Here are three ways to stay on course.

Buying higher sum assured at an early age: Term plans are least expensive when you are young as claim risks are much lower at this phase. If your current requirement is Rs 1 crore, but you need to double it soon as you are planning to marry, have a child and buy a house in the next five years, you may opt for a higher cover. However, you may not get as much as required as insurers have specific eligibility criteria.

"Life insurance companies cap the sum assured for pure term plans based on annual income and occupation of the customer. And the premium amount is decided by several factors - the age of the insured at entry, policy tenure, terms of payment, occupation, health and lifestyle of the person getting insured," says Indraneel Chatterjee, Principal Officer at digital insurance platform RenewBuy.

Opting for life-stage protection: This is an innovative solution wherein a person buying life insurance can increase the sum assured up to a certain percentage of the existing cover to meet various life-stage needs (marriage, childbirth, purchase of property and so on). For this, you have to pay an additional premium to the insurer, but need not undergo any medical test or underwriting process when the cover is added. Its limitations: You may not be able to increase the sum beyond Rs 50 lakh and the minimum hike may have to around Rs 25 lakh in case of most of the policies on offer. Moreover, you need to intimate the insurance company within 6-12 months of such happenings or this option will not be available. Plus, you will be stuck with just one insurer, and reducing the cover at a later stage will not be possible.

Adding term plans when needed: This is the most flexible option as you can buy a term plan whenever you want it, decide on the amount (provided you meet the eligibility criteria) and buy it from the insurer of your choice. "I will advise buying (preferably online) pure term insurance, depending on the current requirement, and one can do it until retirement. In fact, the option to increase the insurance cover at different stages of life may not meet your actual needs. So, it is better to buy another plan whenever it is needed," says Pankaaj Maalde, a Mumbai-based Certified Financial Planner. Managing multiple policies can be inconvenient, though, but this means you have the flexibility to close a policy as soon as a particular goal has been achieved. For example, if you have purchased a plan to secure an ongoing home loan, it can be discontinued as soon as you have repaid the loan.

Opt for Easy Premium Payment

Most insurers offer a wide range of options, including one-time, annual, half-yearly, quarterly and monthly payments. To provide more flexibility, insurance companies have also introduced a limited payment option where one pays the premium for a shorter span and enjoys the benefit of a term insurance cover for a longer period. For instance, you can opt for a five-year a 10-year payment period for a policy term of 40 years, depending on estimated cash flows.

"Ideally, an annual payment works best as it balances the administrative process with the costs involved (for the insurer) and helps the insured make the payment in a disciplined, hassle-free manner. In cases where cash flows are uneven or unpredictable, a single premium option may be considered," says Vishal Dhawan, Founder and CEO of Plan Ahead Wealth Advisors.

The latest in this space is the pay-until-you-retire option that allows a policyholder to pay as long as she is working while the policy remains active even after retirement. It is ideal for those who wwant to retire early and do not want to pay any premium in the later years. The caveat: You cannot discontinue the policy as you have already paid for it.

Choose a Suitable Payout Option

Several payout options are available in case of an untimely death. The nominee/s of the insured can get an immediate one-time payment or a staggered payout in the form of a fixed/increasing monthly sum for a fixed period besides an initial lump sum payout. A one-time payout offers the flexibility to spend the entire amount as per the family's requirements. "This may be suitable for beneficiaries who are aware of how and where to invest the proceeds," says Manish Sangal, Chief Distribution Officer, Retail, at Bajaj Allianz Life Insurance.

In case one's nominees are not well equipped to handle a huge sum, a staggered payout should help. "If families are not comfortable with handling a large sum, earning individuals may select a regular payout option with a 10 per cent annual increase. This will replicate the monthly income and help nominees get on with their lives," says Madhu Burugupalli, Head of Products at ICICI Prudential Life Insurance.

"While lump sum payout means a large sum of money in the family's hand, the onus of managing that money stays with them. In case of a staggered payout, they will have regular income for a long duration, giving them peace of mind," says Subhrajit Mukhopadhyay, Chief and Appointed Actuary of Edelweiss Tokio Life Insurance.

Riders for Specific Needs

A rider is an add-on cover that can be purchased with your base policy to deal with certain risks. "A term plan is primarily intended to cover the risk of early death. So, it acts as an income replacement tool and supports the family in the absence of a breadwinner," says Vineet Arora, MD and CEO of Aegon Life. However, if you have an accident and are not in a position to earn, term insurance will be of no help, and disability riders will come to your rescue. These riders usually provide a monthly payment for a specific period to compensate for the loss of income.

On the other hand, accidental death riders pay a lump sum in case a tragedy strikes. Insurers also offer critical illness riders where a lump sum is paid upon the detection of a serious medical condition. Finally, a rider ensuring waiver of premium takes care of all future premiums in case of disability, grave injury or critical illness.

Overall, a rider is easy to manage as the premium is paid together with the base policy. Riders are also cost-effective as the premium does not increase during the policy tenure. However, it is the risk coverage that matters, and given their low cost, the riders available may not be providing comprehensive coverage compared to standalone plans. Therefore, you need to compare those to see the scope of coverage.

"One should buy a critical illness plan instead of a rider, even though the former is a bit more expensive. One should ensure that the plan covers all stages of critical illness," says Santosh Agarwal, Chief Business Officer (Life Insurance), Policybazaar.com.

However, there are riders such as accidental death benefit, which will boost the cover at a nominal cost and may help frequent travellers. But before you buy one, carefully consider all available options and only choose those which meet your requirements. Always consult a professional if you find it difficult to plan your life insurance.