

Getting Protected

Thinking of purchasing a life insurance policy? Here, we answer some questions you may have about life insurance.

I've just started a family and I'm on a tight budget. What type of life insurance policy can I consider purchasing?

Young families like yours can consider purchasing term insurance. This type of insurance offers the greatest amount of coverage at a lower cost.

It covers you for a determined period of time. If you were to die or become totally and permanently disabled (if the benefit is provided) during that period, your beneficiary will be paid a death benefit to guard against financial loss.

There are no cash payouts should you outlive the term but it does provide the necessary level of coverage at affordable premiums during the period you would most need it.

I'd like to start saving for my child's education. How can I go about building up an education fund?

Building up an education fund requires a disciplined process. You may want to consider an endowment policy, which offers financial protection, combined with the discipline of regular savings.

An endowment policy is an insurance policy with a specific maturity date. It typically gives a stable return, which grows the policy in value over the years. In addition, it can offer higher returns than bank deposit interest rates.

You can choose a policy term such that the policy matures at the time when your child is entering university.

Should the unfortunate premature death or disability happen to you during this period, a sum insured will still be paid. Hence, it gives you the peace of mind knowing that funds will still be available for your child's education, even if you are not around.

There are special endowment plans available in the market catering to the specific need of children's education planning. Generally these plans have a term of 18 or 21 years and are enhanced with child illness coverage, payor waiver of premium and other benefits.

I'd like a policy that not only provides protection but also allows me to build my savings. What can I consider purchasing?

You can consider whole life insurance. With this policy, you are guaranteed lifelong protection as long as your premiums are paid, whether or not it is for life or for a limited period.

In addition, most whole life policies accumulate a cash value over time. As such, it encourages long-term savings as your insurance company can invest on your behalf.

In case of an emergency or when you need to pay for something significant, you can take a loan from the policy's cash value as borrowing rates are relatively low. Your policy will remain in force so that when the financial crunch is over, you can pay back the loan and be at the original level of death benefit without under medical tests or paying a higher premium.

Whole life insurance also pays out a death benefit so you can be assured that your family is protected against financial loss that can happen after your death.

My income varies every month. As such, I'd prefer not to pay a fixed premium. Is there a type of insurance policy that allows me to have the option of making higher or lower premium payments?

For those who would like to pay premiums according to their current financial situation, they can consider a universal life insurance policy as it offers adjustable and flexible premiums. Within certain limits, you can choose the amount, method and timing of your premium payments.

In addition, universal life insurance has a death benefit feature and also allows one to build cash values which can be borrowed or withdrawn. Although the policy cash values earn interest at a declared rate which may change over time, most universal life plans guarantee a minimum interest crediting rate.

I would like to invest my money. Is there a type of insurance policy that provides a combination of protection and investment?

An investment-linked insurance plan (ILP) offers a combination of investment and protection and allows you the flexibility and choice as to how your premiums are invested.

The policy will provide you with a choice of funds in which you may invest in, and also the flexibility to switch between different funds during the life of the policy.

For ILPs, the policy value is linked to the prevailing value of the units and the price of your units depends on how the investments in the fund perform. The proceeds you receive from an ILP will depend on the price of the units at the time when you cash it in or die.

In the event of an unforeseen death, injury or disability, the policy will provide the sum assured so you can take comfort to know that your family is protected from sudden financial loss.

An ILP offers varying degrees of rewards and risks. As such, it is important to monitor the performance of the funds you have invested in, consult a financial adviser regularly and consider your own risk appetite and investment horizon.

I'd like to have some form of regular income to support my expenses during my retirement when I'm no longer working. What kind of life insurance policy can I consider?

You can consider purchasing an annuity. It offers a guaranteed steady income for life, without running the risk of outliving your savings.

There are annuities designed specifically for members of the Central Provident Fund (CPF), under the CPF Minimum Sum Scheme or Minimum Sum Plus Scheme. For this annuity, you can invest the minimum sum with an approved life insurance company to provide the monthly income for the rest of your life.

How much insurance coverage do I need?

Typically, you should aim to have approximately 11 times your annual earnings as basic life cover, although this would vary from person to person.

In the event of early death, this should cover funeral expense, all outstanding debts, as well as maintain the current living standards of your spouse, children and elderly parents.

To work out the figure that is appropriate for you, it is recommended that you get your Financial Adviser representative to perform a thorough fact-find to evaluate your protection needs. Based on this analysis, your Financial Adviser representative will be able to identify where your gaps are before making his recommendations.

I already have a life insurance policy. What are some ways of enhancing my insurance coverage?

Your policy comes with the option to attach riders that provide additional benefits. The addition of riders is a cost effective way of enhancing your coverage.

To safeguard against the inability to pay your monthly premiums because of an illness or disability, you can attach a waiver of premium rider. This rider takes care of your future premiums and you continue to enjoy the life insurance protection.

To protect against the loss of income, you can consider getting an income protection plan or often known as disability income plan. This plan works to replace the loss of income when you are unable to work due to a disability.

Critical illness coverage will pay out a lump sum amount on the diagnosis of a critical illness, such as cancer, stroke or heart attack. This money can then be used for home renovations, bill payment or to take a relaxing vacation. It is up to you.

How will I know if my life insurance plan still meets my needs?

A good time to reassess your insurance needs is when your circumstances change. Maintain a regular dialogue with your financial adviser. He or she can help you determine if your current insurance protection, savings and investment plans are adequate for both your present and future needs.

Depending on the change example new additions to the family or change in job, you may decide that you need either a higher or lower level of insurance protection (the sum insured), or additional riders or benefits such as for critical illness protection or for waiver of premium benefits to ensure the continued payment of policy during periods when you are unable to meet the payments.

It is advisable to review your insurance policy periodically. Your personal goals, lifestyle or circumstances may have changed over time and it is important that your insurance policy is aligned to current needs.

