



## **BRIDGING THE PROTECTION GAP IN SINGAPORE**

### **FAQs for public Protection Gap Study 2017**

*Updated as at April 26, 2018*

#### **GENERAL**

#### **1. Why is bridging the protection gap important and what are the repercussions of a large protection gap?**

The Protection gap represents the financial gap required to cover needs of you and your family members' without significant compromise in life quality, in the event of a critical illness or death of a loved one.

The onset of a critical illness or passing of a family member could bring about financial trauma which includes high medical bills and even the probable loss of income due to the inability to work. This will place a hefty dent in family finances, which may in turn compromise the ability to meet financial commitments. The lack of financial resources could translate to loss of education opportunities for children or failure to repay housing loan or personal debts.

It is therefore critical for individuals or families to bridge the protection gap to be prepared for unexpected circumstances.

#### **2. Which is more important – meeting my mortality protection or critical illness protection needs. Why?**

Both are equally important as they meet different safety needs. While the importance of protection differs upon each person's needs, both mortality and CI protection needs should come hand in hand.

Mortality protection (death benefits) helps to ensure that dependents can continue to maintain their living standards without significant compromise (such as paying off the mortgage payments or living expenses etc.) following the death of a working family member. This need is even more apparent if the individual is the sole breadwinner and the family is dependent on him/her for their day to day living expenses.

A CI cover typically provides a lump sum payout to help individuals defray the high costs of medical treatment and provide financial relief to the affected family members should a critical illness strike.

#### **3. What should the protection priorities and actions be for individuals across different demographics and life stages?**

For a start, protection priorities can be categorised in the following life stages:

##### **(1) Single, young working adults entering the workforce**

- While premiums are generally more affordable for the younger age band, individuals may not be financially well-placed to purchase extensive insurance coverage. Individuals in this group should prioritise having a basic health coverage for hospitalisation, death, TPD (Total Permanent Disability) or CI.



Segment	Protection Priorities	Recommended Actions
Young Adults Entering the Workforce	<ul style="list-style-type: none"> <li>• Both CI and mortality protection are of moderate priority at this stage</li> <li>• It is important to note though that:               <ul style="list-style-type: none"> <li>&gt; CI premium increases with age.</li> <li>&gt; Best to apply when one is healthy to avoid substandard terms on CI and mortality application.</li> <li>&gt; It can be financially straining if one is struck with CI as it will invariably eat into the family funds.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Speak to a financial adviser to embark on financial planning</li> <li>• Consider an Integrated Shield Plan (as young adults are less likely to have pre-existing conditions that could exclude them from coverage or subject them to higher premiums)</li> <li>• Consider a CI plan to fend against income loss in the event of a health crisis</li> </ul>

**(2) Newly married couple or couple with young children**

- While a married couple may have other financial priorities such as home mortgage or planning a family, it is important at this stage to have proper financial plans in place as the needs of both individuals are now different. Young children are dependent on their parents at this stage for financial support for basic and education needs.
- With the increasing cost of education, the priority of the individual at this stage should be planning for a sound financial future and building a well-diversified investment portfolio. To save for the long term, consider purchasing an ILP (Investment-Linked Insurance Policy), which plays a dual-role in allowing the individual to grow his/her wealth while providing protection coverage.

Segment	Protection Priorities	Recommended Actions
Newly married couple with young children	<ul style="list-style-type: none"> <li>• Both CI and mortality protection heighten in importance as responsibilities increase.</li> <li>• CI Protection – Having a health protection against critical illness is important as it can deplete funds/savings when critical illness strikes.</li> <li>• Mortality Protection is another critical protection for legacy planning to ensure loved ones sustain a reasonable lifestyle in the event of premature death of the individual.</li> <li>• Dependent support of young children prompts the need to start saving early and building a well-diversified investment portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>• Speak to a financial adviser to embark on financial planning</li> <li>• Consider a CI plan to fend against income loss in the event of a health crisis</li> <li>• Consider a term plan that pays out death/terminal illness benefit to cover mortgage loans, large debt commitments, or fund the expenses of dependents in the event of an unexpected demise</li> </ul>



**(3) Families with single income source**

- It is important for family households with only one source of income to have a well-rounded coverage in place to safeguard against the unexpected. The priority for individuals who are sole breadwinners is to ensure that they have adequate coverage to safeguard themselves against unfortunate events. Should the unexpected strike, the family’s ability to meet financial commitments should not be compromised.

Segment	Protection Priorities	Recommended Actions
Sole breadwinner families	<ul style="list-style-type: none"> <li>• Both CI and mortality protection are particularly important as the family is dependent on one person on income contribution</li> <li>• A CI incident can wipe out savings and cause financial hardship.</li> <li>• A premature death can cause upheaval to the lives of loved ones.</li> </ul>	<ul style="list-style-type: none"> <li>• Speak to a financial adviser to embark on financial planning</li> <li>• Consider a CI plan to fend against income loss in the event of a health crisis</li> <li>• Consider a term plan that pays out death/terminal illness benefit to cover mortgage loans, large debt commitments, or fund the expenses of dependents in the event of an unexpected demise</li> </ul>

**(4) Working individuals supporting aged parents**

- In typical Asian countries like Singapore, it is our culture to support our aged parents till they pass on. Our parents, in their golden years, will depend on their children for their daily expenses. It is important to have sufficient coverage if you have aged parents who rely on you for support. Given the rising healthcare costs, the priority for individuals at this stage is to ensure that their parents are adequately insured against unexpected medical bills and treatment costs.

Segment	Protection Priorities	Recommended Actions
Working individuals supporting aged parents	<ul style="list-style-type: none"> <li>• Both CI and mortality protection are relevant as the support for aged parents rest heavily on the working individuals</li> <li>• A CI incident can wipe out savings and cause financial hardship.</li> <li>• A premature death can cause upheaval to the lives of loved ones.</li> </ul>	<ul style="list-style-type: none"> <li>• Speak to a financial adviser to embark on financial planning</li> <li>• Consider a CI plan to fend against income loss in the event of a health crisis</li> <li>• Consider a term plan that pays out death/terminal illness benefit to cover mortgage loans, large debt commitments, or fund the expenses of dependents in the event of an unexpected demise</li> </ul>



**(5) Retirees**

- With daunting financial challenges and rising life expectancy, it is never too late to start thinking about retirement goals. As one gets older, the need for health and CI protection takes priority. Therefore, having such policies can help cushion the cost of treatments to ensure quality of life without digging into savings and causing financial stress to the family. The priority for individuals at this stage is to start planning for retirement early so that it relieves the financial burden on their children.

Segment	Protection Priorities	Recommended Actions
Retirees	<ul style="list-style-type: none"> <li>• CI protection would take precedence as health poses more issues as one ages.</li> <li>• Having a health protection plan helps to cushion the cost of medical treatment.</li> <li>• A CI plan can help to defray the cost of treatments to tie over the critical period during this time.</li> <li>• The savings should not be used as much as possible as it would be serving the retirement needs.</li> <li>• Mortality protection is not as relevant unless the retirees have dependents in their charge.</li> </ul>	<ul style="list-style-type: none"> <li>• Speak to a financial adviser to embark on financial planning</li> <li>• To get started, you may also use a Retirement Calculator to find out whether you are on track for your desired retirement, as well as the retirement amount you will need to maintain your desired lifestyle</li> <li>• Consider a CI plan to fend against income loss in the event of a health crisis</li> </ul>

**4. How can I start to take actions to bridge my protection gap? Is there such as thing as it being too late to start?**

For a start, you can speak with a financial adviser for an assessment of your current protection gaps. Relook your current financial priorities such as - no. of dependents; existing home mortgage; existing loans; other financial commitments etc. It is never too late to start protecting yourself and the needs of your loved ones.

**5. How much of my income should I allocate to meeting these protection needs? What factors should I consider when deciding the allocation?**

It is important to note that there is no ‘one-size-fits-all’ or fixed formula in life insurance to meet different customers’ varied and evolving needs and priorities.

Before you start, you should assess your current financial status by seeking professional advice from your financial adviser or by utilising budget and financial applications. He/she can help assess your financial gaps and recommend suitable solutions to manage your protection needs, while the apps can help keep track of daily expenditure, and help ensure that you spend within your available budget and have better understanding of your financial status.

To determine the allocation of your income to meeting protection needs, there are several factors to consider:

- (a) **Affordability** – Knowing your current financial assets
- (b) **Planning for the future** – Planning the medium or long-term future for your loved ones



- (c) **Critical Expenses** – Knowing your monthly expenses, for e.g. paying off your mortgage loan, children’s education, monthly grocery expenses, phone bills etc.
- (d) **Over spending on Insurance premiums** – Knowing where to draw the balance: while having adequate coverage is important, it is wise not to over spend on insurance premiums outside your means as the tendency of your policy being lapsed is high.

## CRITICAL ILLNESS (CI) PROTECTION

### 1. What do CI plans cover?

Most CI plans typically cover 37 severe stage common CIs and surgical procedures with standardised definition prescribed by Life Insurance Association Singapore (LIA Singapore). Other CI plans also cover early to intermediate stage critical illness, or critical illnesses that are gender-specific. A lump sum will be payable upon diagnosis with a covered CI or undergoing a covered surgical procedure.

### 2. Is CI protection necessary? Why so and what are the implications of not having adequate CI coverage?

CI protection is necessary with the increasing incidence rate of chronic diseases among both the young and old in Singapore. While we live in good health, we should never take good health for granted as CI can happen to anyone, at anytime and anywhere.

Even with Medisave and MediShield Life, everyone should still have adequate CI coverage. Financial support during this difficult period is crucial as additional funds may be required for specialised treatment, homecare, and to replace for potential loss of income during recovery.

Without adequate CI coverage, the family may be facing financial stress during this difficult period.

### 3. What should I look out for and consider when choosing a CI policy? How do I know which to get?

One should look out for the CI conditions covered, coverage duration, exclusions (including family history), waiting period etc., when choosing a CI policy:

#### **CI conditions covered**

Each policy will differ in the number of CI conditions and treatments covered. There are also policies that cover juvenile conditions, or conditions specific to different gender organs.

#### **Which stage of the CI condition does the policy pay out?**

Policies vary in their coverage. Policies that cover Early Stage CI and Intermediate stage CI are typically more expensive than the Policies that cover Advanced Stage CI

#### **Product features**

Features vary across policies. Some policies, which would likely to be more expensive will allow you to make a second claim, while others may terminate upon the first claim. There are additional features such as additional payout for terminal stage CI, additional payout for health checkups, and even recurrence of cancer.

Depending on your needs, risk appetite, suitability and affordability, one may want to consider:

- Standalone plan - usually comprehensive but more expensive;



- Rider – riding on to a mortality plan (term/ whole life/investment-linked) as a supplementary benefit.

One should seek advice from financial advisers to find out which CI plan will better suit individual needs.

#### **4. What's the difference between CI coverage and protection provided by MediShield Life, IPs, and/ or my company insurance? Do I really need all of these?**

MediShield Life is a state healthcare provisions administered by the Central Provident Fund (CPF) Board, which is an indemnity plan to pay for large hospital bills and selected costly outpatient treatments, such as dialysis and chemotherapy for cancer. MediShield Life coverage is sized for subsidised treatment in public hospitals. MediShield Life is a compulsory scheme for all Singapore Citizens and Permanent Residents.

IPs are add-ons to MediShield Life, offered by private insurers, which provides additional coverage if one prefers to stay in Class A/B1 wards in public hospitals or private hospitals. Therefore, it depends on individual needs, affordability and preference on the hospital types/wards.

CI plans, on the other hand, pay a lump sum upon diagnosis with a covered CI or undergoing a covered surgical procedure, which does not depend on the admission into hospital or the actual medical expenses incurred. Such plans are usually purchased for a better peace of mind in individual's financial planning.

Company insurance can be either group medical insurance (that covers medical bills) or group CI insurance (that pays a lump sum upon CI). Such group coverage usually covers only during one's employment period.

All the 3 types of insurance coverage complement each other. It is therefore important to review your needs with a trusted financial adviser to ascertain areas and amount of coverage required. The consequence of inadequate coverage is that one would need to fund all financial obligations/liabilities with savings, assuming that one has enough savings.

#### **5. How can I get affordable CI coverage, especially given that a lot of CI plans can be expensive?**

You can purchase it as a rider attaching to a basic term or whole life policy or as a Standalone CI policy. An accelerating CI rider added on to an existing mortality policy is usually more affordable. They usually accelerate the basic plan or terminate upon the first claim. It is important to know that the mortality coverage will be reduced upon a CI claim from a rider.

For more comprehensive CI coverage, you can choose to get a standalone CI policy that can cover you for more comprehensive CI conditions and can provide higher and/or multiple pay outs.

#### **6. What are resources available for me to find out more about CI, how and what I can do to bridge my CI protection gap?**

You can speak to financial advisers to find out more about CI plans.

Alternatively, you may visit [www.compareFIRST.sg](http://www.compareFIRST.sg) for more details. CompareFIRST is an informational portal on life insurance products where you can compare Direct Purchase Insurance products, term life products, whole life products and endowment products.



## MORTALITY PROTECTION

### 1. What do mortality plans cover?

Mortality plans, or life insurance policies (as it is more commonly known by Singaporeans), pay out a lump sum assured upon death. The funds are intended to primarily help the policyholder meet the financial needs of his/her dependents in the event of the policyholder's demise.

### 2. Is mortality protection necessary? Why so and what are the implications of not having adequate mortality coverage?

Mortality protection (death benefits) is highly necessary as it helps to ensure that your dependents can continue to maintain their living standards (such as paying off the mortgage payments or living expenses etc.) following the death of a working family member or the sole breadwinner.

Mortality protection is necessary in financial planning. It is usually used to:

- cover expenses incurred upon death, like funeral expenses;
- offset mortgage loan for the family's home; or
- secure the financial future for the family and to protect their standard of living

### 3. What should I look out for and consider when choosing a mortality policy? How do I know which to get?

Some pointers to consider when choosing a mortality policy:

#### **Assess your needs**

- The number of dependents and their financial preparedness to cope with any income loss
- Outstanding debt commitments
- Amount of savings at current stage

#### **Age**

- Your age will determine how much you need, how long you need it for and the type of policy you should choose, such as a term policy.

#### **Life Stages**

- Protection priorities differ at different stages in life (do you have kids, are you in school, are you starting a business, buying a home, getting married, etc.)

Always seek professional advice from your financial adviser who can help determine your protection needs and provide you with sound financial advice and recommendations.

### 4. What can I do to get started?

It is recommended to purchase mortality coverage as early as possible, while you are still relatively healthy. Your premiums for mortality coverage will increase as you age, and there will a higher chance of having pre-existing conditions that may result in the insurance application to be declined/excluded or loaded with extra premiums.

It is important for one to understand their needs and the financial impact should death occur, in order to decide the coverage amount along with premium affordability.



**5. What are resources available for me to find out more about mortality coverage, how and what I can do to bridge my mortality protection gap?**

To check whether there is a mortality protection gap, you may use the Protection Gap Calculator available on the LIA website at <http://www.lia.org.sg/pgc>.

Alternatively, you can speak to financial advisers to find out more about mortality plans or visit [www.compareFIRST.sg](http://www.compareFIRST.sg) for more details.