PROTECTION RELATED PRODUCTS - INSURANCE

EXTRA READING :--

Endowment Policies

A traditional insurance plan pays out a lump sum assured in the event of the death of the policyholder. The beneficiaries/dependents/nominees of the life insured receive a benefit (called a death benefit) if the worst should come to pass for the insurance holder. An endowment plan works the same way, but has an additional clause that states that a lump sum payment will be made to the insurance holder if he or she survives till the end of a specified period known as the “Maturity period”, “endowment policy term” or “Survival term”. There are variations to the payout clause in endowment policies some companies have a lump sum payout on the detection of a critical illness, or other life changing events.

Types:

- **Full/With Profit Endowment** :- Under this plan, the basic amount i.e. sum assured will be provided to the policy holder. This amount is guaranteed right from the start of the policy. However, the final payout provided is comparatively higher depending on the bonuses announced from time to time by the company. The bonuses once declared form a part of the policy are paid out in the event of death of the policyholder or maturity of the policy.
- **Unit Linked Endowment** :- Plan Under Unit Linked policies, the insurance premiums are bifurcated into multiple units held under a specific investment fund which can be chosen by the policyholders.
- **Low-Cost Endowment:-** This type of endowment plan was designed with an intention of allowing the policyholder to accumulate the funds which have to be paid after a specified time period, usually mortgage.
- **Non-profit Endowment:-** These are endowment plans which do not participate in the profits generated by the company (bonuses). However, in order to make them competitive against other products, companies offer guaranteed additions in these plans which help in generating returns for the policy holder.

Benefits of Endowment Policies:

- An endowment policy will pay out a sizeable lump sum amount at the end of the policy term i.e. once the policy has matured.
- An endowment policy will provide insurance cover during the policy term.
- An endowment policy works to serve a dual purpose. Not only does it work as an insurance policy but also serves as a long-term investment offering decent returns.
- In terms of investing, endowment policies are relatively safer than other types of investments and offer returns which are close to those offered by mutual funds.

- Endowment policies come with tax benefits.
- Endowment policies enable long-term savings.
- With an endowment policy, you can be assured of receiving a considerable amount upon maturity.
- Policy holders have the options of opting for additional riders which provide cover for specific illnesses, critical illnesses, disabilities, etc.
- Most will extend insurance coverage and the promise of benefits even after the maturity date, in some cases up to a time when the life insured attains the age of 100.

Insurance vis-à-vis- Investment in the Units Mutual Funds – ULIP.

ULIP is an insurance product that combines insurance and investment benefits in a single plan. ULIP, or Unit Linked Insurance Plan, offers life cover which is a major benefit over the traditional wealth creation tools. It not only helps your money grow but also protects your loved ones' future from life's unexpected turns.

When you make an investment in ULIP, the insurance company invests part of the premium in shares/bonds etc., and the balance amount is utilized in providing an insurance cover. There are fund managers in the insurance companies who manage the investments and therefore the investor is spared the hassle of tracking the investments. ULIPS allow you to switch your portfolio between debt and equity based on your risk appetite as well as your knowledge of the market's performance. Benefits like these which offer investors the flexibility of switching is a huge factor contributing to the popularity of these investment instruments.

To get a mix of both of these characteristics of financial planning, ULIP is one of the suitable options. In ULIP investment, a small portion of money is invested towards securing your life and rest is invested in equities.

One of the changes brought about by the Insurance Regulatory and Development Authority of India (IRDAI) in the year 2010 as regards ULIPs, was to increase the lock in a period from 3 years to 5 years. However, insurance being a long-term product, as an investor you may not really reap the benefits of the policy unless you hold it for the entire term of the policy which can range from 10 to 15 years.

Benefits:

Greater Rewards for Staying Invested:

Your money grows further as the insurance company adds to your savings through bonuses/ additions and are available to you in ULIPs in different forms.

Potential for Growth:

There is a potential of earning higher returns from the power of equity and debt funds. This will help you achieve your life-goals such as buying a new home, your dream car, funding your child’s higher education and much more.

Tax Benefits:

Investment in ULIPs is eligible for deduction from taxable income under Section 80C of the Income Tax Act, 1961 up to ₹ 1.5 lakh per annum. The maturity proceeds of the ULIP are also exempt from tax under Section 10(10D) of the Income Tax Act subject to conditions specified therein. If the ULIP investor dies during the term of the ULIP he/she will be entitled to the death benefit specified in the ULIP policy and the amount received on death is exempt from tax u/s 10(10D) of The Income Tax Act 1961. Switching between ULIP funds also does not attract any tax.

Protection:

ULIPs provide the protective benefit of a Life Cover, which keeps your family secure in your absence. ULIPs provide the protective benefit of a Life Cover, which keeps your family secure in your absence.

Flexibility of Investment:

You will have flexibility and control of your money through the following ways:

- Fund Switch: An option to move your money between equity, balanced and debt funds
- Premium Redirection: An option to invest your future premium in a different fund of your choice
- Partial Withdrawal: An option that allows you to withdraw a part of your money
- Top-up: An option to invest additional money to your existing savings

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Regular Savings:

ULIPs inculcate the habit of regular and disciplined savings, which is the key to successful long-term financial planning. With regular premium payments, you can enjoy the benefits of wealth creation for your loved ones.

Funds that ULIPs invest in :-

Equity Funds: Where the premium paid is invested in the equity market and thereby is subject to higher risk.

Debt Funds: Where the premium is invested in debt instruments which carry a lower risk but in turn also offer a lower return.

Balanced funds: Where the premium paid is balanced between the debt and the equity market to minimise the risk for investors.

When Consideration for Investing:

Compare ULIP offerings: Once you have determined your financial goal and the type of ULIP that will help you achieve it, the next step would be to compare the ULIP offerings in the market. Look for a comparison in the form of background expenses, premium payments, ULIP performance, etc. Also, investigate the nature of funds that the ULIP invests in to ascertain the returns from investments in the particular ULIP.

Personal financial goals: If your financial goal is about wealth creation and you want to save money for retirement, ULIP is one of the best options available.

Risk factor: Since ULIP investment is not as diversified as compared to ELSS, the risk in ULIP is probably a bit high compared to schemes like ELSS.

Investment horizon: ULIPs have a lock-in period of 5 years. If a ULIP is surrendered in the first three years, the insurance cover would cease immediately. However, the surrender value can be paid only after three years.