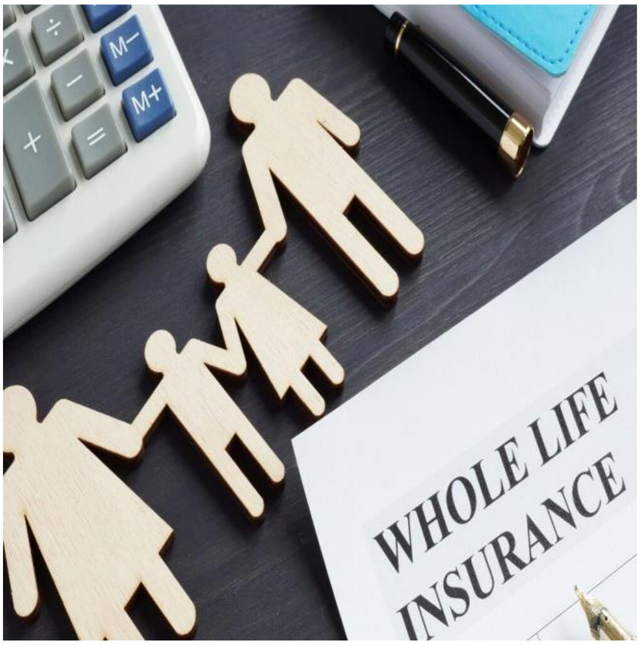
ASSIGNMENT – 4

TASK – 2

TITLE: COMPARING TWO TYPES OF INSURANCE POLICIES

POLICY: LIFE INSURANCE

TERM INSURANCE VS WHOLE-LIFE INSURANCE



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INTRODUCTION

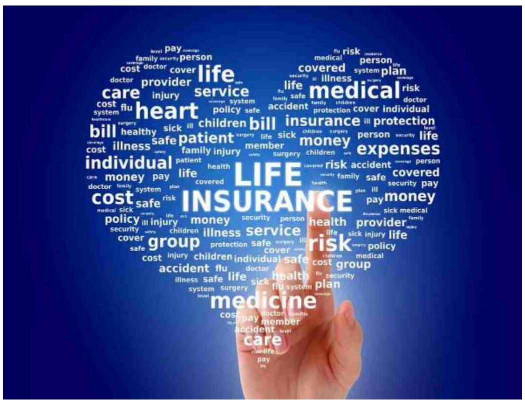
LIFE INSURANCE:

Life insurance is a financial product designed to provide a measure of financial security and peace of mind to individuals and their families. It offers a payout, known as the death benefit, to beneficiaries upon the death of the insured person. Life insurance can serve several purposes, including replacing lost income, paying off debts, funding education expenses, and covering funeral costs.

Life insurance (or life assurance, especially in the Commonwealth of Nations) is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money upon the death of an insured person (often the policyholder). Depending on the contract, other events such as terminal illness or critical illness can also trigger payment. The policyholder typically pays a premium, either regularly or as one lump sum. The benefits may include other expenses, such as funeral expenses.

IMPORTANCE OF LIFE INSURANCE:

- **Life insurance death benefits are generally tax-free to beneficiaries, providing a tax-efficient way to transfer wealth to heirs.**
- **Life insurance can be used to make a significant charitable contribution by naming a charitable organization as the beneficiary of the policy.**
- **Life insurance can cover funeral and burial expenses, which can be substantial. This helps alleviate the financial strain on your loved ones during a difficult time.**
- **Life insurance provides a financial safety net for your dependents, ensuring they have the means to cover living expenses, mortgage payments, education costs, and other financial obligations if you were to pass away unexpectedly.**



TWO TYPES OF LIFE INSURANCE:

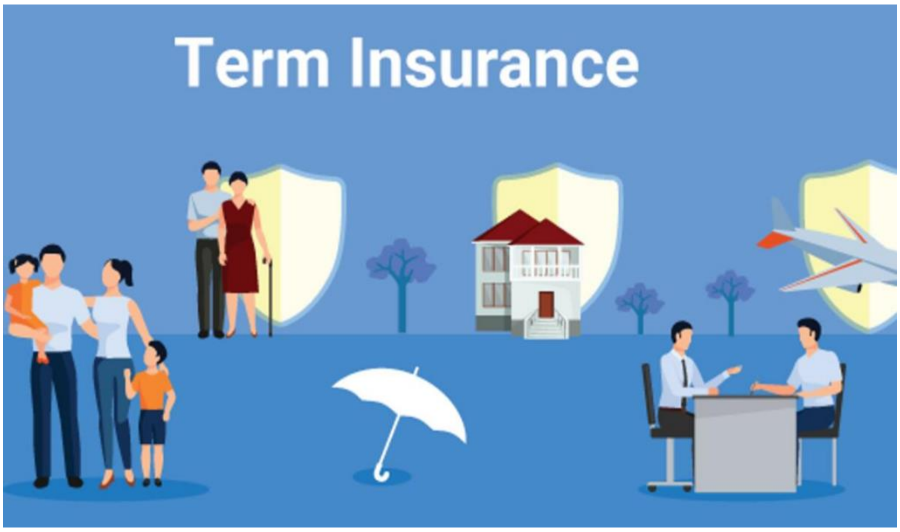
1. TERM INSURANCE
2. WHOLE- LIFE INSURANCE

TERM INSURANCE

Term insurance is a type of life insurance that provides coverage for a specific period, known as the "term." Unlike permanent life insurance policies such as whole life or universal life, which provide coverage for the insured's entire lifetime, term insurance offers protection for a predetermined duration, typically ranging from 5 to 30 years.

Term life insurance or term assurance is a life insurance that provides coverage at a fixed rate of payments for a limited period of time, the relevant term. After that period expires, coverage at the previous rate of premiums is no longer guaranteed and the client must either forgo coverage or potentially obtain further coverage with different payments or conditions.

Term insurance functions in a manner similar to most other types of insurance in that it satisfies claims against what is insured if the premiums are up to date and the contract has not expired and does not provide for a return of premium dollars if no claims are filed. As an example, auto insurance will satisfy claims against the insured in the event of an accident and a homeowner policy will satisfy claims against the home if it is damaged or destroyed, for example, by fire. Whether or not these events will occur is uncertain. If the policyholder discontinues coverage because he or she has sold the insured car or home, the insurance company will not refund the full premium.



WHOLE-LIFE INSURANCE:

Whole life insurance, or whole of life assurance (in the **Commonwealth of Nations**), sometimes called "straight life" or "ordinary life", is **a life insurance** policy which is guaranteed to remain in force for the insured's entire lifetime, provided required premiums are paid, or to the maturity date. As a life insurance policy it represents **a contract** between the insured and insurer that as long as the contract terms are met, the insurer will pay the death benefit of the policy to the policy's **beneficiaries** when the insured dies. Because whole life policies are guaranteed to remain in force as long as the required premiums are paid, the premiums are typically much higher than those of **term life insurance** where the premium is fixed only for a limited term. Whole life premiums are fixed, based on the age of issue, and usually do not increase with age. The insured party normally pays premiums until death, except for limited pay policies which may be paid up in 10 years, 20 years, or at age 65. Whole life insurance belongs to the **cash value** category of life insurance, which also **includes universal life, variable life, and endowment policies.**

INFORMATION ON EACH POLICY i.e, TERM INSURANCE AND WHOLE LIFE INSURANCE:

- **COVERAGE:**

TERM INSURANCE: **The events or risks covered under the policy are natural causes such as(illness, disease, or age-related conditions. This includes deaths due to heart disease, cancer, stroke, respiratory diseases, and other medical conditions), Accidental death (including vehicle accidents, falls, drowning, poisoning, and other unintentional injuries),and terminal illness or suicidal illness.**

WHOLE LIFE INSURANCE: **Whole life insurance provides long-term financial protection against significant life events such as disability, critical illness, or death. Such as critical illness like (such as stroke, cancer, heart attack, Parkinson's, or Alzheimer's), Disabled due to an illness or accident and are unable to earn income, your whole life insurance will offer financial support and etc.**

- **BENEFITS:**

TERM INSURANCE:

1. **High Sum Assured at Affordable Premium**
2. **Easy to Understand**
3. **Multiple Death Benefit Payout Options**
4. **Additional Riders**
5. **Income Tax Benefits**
6. **Critical Illness Coverage**
7. **Accidental Death Benefit Coverage**
8. **Return of Premium Option**

WHOLE-LIFE INSURANCE:

1. **The plans ensure lifelong coverage and therefore allow you to create financial security for your family in your absence**
2. **Savings oriented whole life plans also create a corpus while at the same time providing insurance coverage**
3. **Since premiums are payable for a limited period, you don't have to pay the premiums in your older age. However, coverage would continue even when you are old.**
4. **The premiums paid are allowed as a deduction under Section 80C of the Income Tax Act up to INR 1.5 lakhs. Thus, premiums paid for whole life insurance plans lower your taxable income. The benefit received from whole life insurance plans is**

also tax-free benefits as they do not attract any tax under the provisions of Section 10 (10D) of the Income Tax Act.

EXCLUSIONS: (Events or risks that does not cover under policy)

TERM INSURANCE:

1. **Suicide**: Most term insurance policies include a suicide clause, which states that if the insured individual dies by suicide within a certain period after the policy goes into effect (usually within the first one or two years), the death benefit will not be paid out. However, premiums paid may be refunded to the beneficiaries.
2. **Engaging in Hazardous Activities**: Some term insurance policies may exclude coverage for death resulting from engaging in hazardous activities or occupations, such as skydiving, scuba diving, rock climbing, or working in high-risk professions like logging or mining. If the insured individual dies while participating in such activities, the death benefit may be denied.
3. **Intoxication**: Death resulting from the insured individual's intoxication or drug/alcohol abuse may not be covered under term insurance policies. If the insured dies as a result of being under the influence of drugs or alcohol, the insurer may deny the death benefit claim.
4. **Participation in Dangerous Sports or Racing**:Death resulting from participating in dangerous sports or racing activities, such as professional racing, extreme sports, or motor racing, may be excluded from coverage under some term insurance policies.

It's important for policyholders to carefully review the terms and conditions of their term insurance policy to understand any exclusions or limitations on coverage. If there are concerns about specific events not being covered, policyholders should consult with their insurance agent or company for clarification.

WHOLE-LIFE INSURANCE:

1. **Exclusions for Pre-Existing Conditions**: While whole life insurance policies typically do not require a medical exam for approval, they may contain exclusions for pre-existing health conditions. If the insured individual dies as a result of a pre-existing condition excluded by the policy, the death benefit may not be paid out.
2. **Non-Payment of Premiums**: If the policyholder fails to pay premiums as agreed, the insurance company may terminate the policy or reduce coverage. In such cases, the death benefit may not be paid out if the insured individual dies while the policy is lapsed or in a reduced paid-up status.

3. **War or Acts of Terrorism: Some whole life insurance policies exclude coverage for death resulting from war, acts of terrorism, or military service during times of war. If the insured individual dies as a result of these circumstances, the death benefit may not be paid out.**

- **PREMIUM COST:**

- **TERM INSURANCE: The premium cost of term life insurance or term insurance can be vary based on several sectors. The amount of life cover you choose significantly impacts the premium. Generally, it's recommended to have coverage that is at least 10 to 15 times your yearly income.**
- **The higher the coverage, the higher the premium.**
- **The duration for which the term insurance provides coverage affects the premium.**
- **Statistically, women tend to live longer than men, leading to lower premiums for female applicants compared to male applicants for the same coverage amount and age.**
- **Smokers typically pay higher premiums than non-smokers due to the increased health risks associated with smoking.**

- **WHOLE-LIFE INSURANCE: The premium cost for whole life insurance with cash values, also known as permanent life insurance, is typically higher than term insurance due to its lifelong coverage and cash accumulation component.**

Age	Gender	$500,000 coverage amount
20	Female	$287.00
	Male	$334.00
30	Female	$408.00
	Male	$472.00
40	Female	$588.00

	Male	$706.00
50	Female	$920.00
	Male	$1,081.00

- **As with term insurance, younger individuals generally pay lower premiums for whole life insurance compared to older individuals because they are considered lower risk.**
- **As with term insurance, younger individuals generally pay lower premiums for whole life insurance compared to older individuals because they are considered lower risk.**

IDENTIFYING THE HYPOTHETICAL SCENARIO USING DIFFERENT NEEDS:

- **Emily, a 28-year-old marketing professional who recently started her own freelance business. She's passionate about her work but recognizes the importance of financial planning, especially as a sole provider for herself and her aging parents. Concerned about their well-being in the event of her unexpected passing, Emily decides to purchase a 20-year term life insurance policy with a death benefit of $250,000. After careful research and budgeting, she finds an affordable monthly premium of $20, which fits comfortably within her budget. With the policy in place, Emily gains peace of mind knowing that her loved ones will be financially protected if anything were to happen to her during the term of the policy, allowing her to focus on building her career and providing for her family's future.**
- **The young couple seeking whole life insurance**

  Meet James and Emma Thompson, a young couple in their early 30s, brimming with aspirations of building a life together. James works as a software engineer, while Emma is a freelance graphic designer. They recently welcomed their first child, Lily, into the world. Concerned about protecting their growing family's financial future, they decide to explore their options for whole life insurance. After careful consideration, they opt for a policy that provides lifelong coverage and cash value accumulation. With this decision, James and Emma feel confident that they are taking a proactive step towards securing their family's financial stability and ensuring peace of mind for the years ahead.

ASSESS THE SUSTAINABILITY FOR EACH SCENARIO:

TERM INSURANCE:

SCENARIO 1:

1. **AFFORDABILITY: In the above scenario, Emily has assessed the budget and she can afford the premium monthly $20 for term life insurance policy.**

2. **COVERAGE LIMITS: The policy she selected provides coverage tailored to her specific needs, including financial protection for her aging parents in the event of her untimely passing.**

3. **LONG-TERM BENEFITS AND ITS IMPLICATION: The long-term benefits of the policy include peace of mind for Emily, knowing that her loved ones will be taken care of financially if she were to die during the term. Additionally, the policy offers a death benefit of $250,000, which can help cover expenses such as mortgage payments, outstanding debts, and provide financial support for her parents.**

SCENARIO 2:

1. **AFFORDABILITY: In the scenario presented, James and Emma have assessed their finances and determined that they can afford the premium for the whole life insurance policy.**

2. **COVERAGE LIMITS: The policy they've chosen provides coverage tailored to their specific needs, such as lifelong protection for their growing family and cash value accumulation over time.**

3. **LONG-TERM BENEFITS AND ITS IMPLICATION: The long-term benefits of the policy include financial security for their loved ones, potential supplemental income through cash value growth, and a guaranteed death benefit to cover final expenses and provide for their child's future needs. However, it's essential for James and Emma to review their coverage.**

DIFFERENCE BETWEEN THE TERM INSURANCE AND WHOLE LIFE INSURANCE BY HIGHLIGHTING THE KEY POINTS:

TERM INSURANCE	WHOLE LIFE INSURANCE
1.Provides coverage for a specific period, typically ranging from 5 to 30 years.	**1.Offers coverage for the insured's entire lifetime, as long as premiums are paid as agreed.**
2.Generally has lower initial premiums compared to whole life insurance, especially for younger individuals, but premiums may increase upon renewal.	**2.Typically has higher initial premiums compared to term insurance but remains level for the entire duration of the policy.**
3.Does not accumulate cash value. Premiums paid solely go toward providing the death benefit.	**3.Includes a cash value component that accumulates over time on a tax-deferred basis. Policyholders can access this cash value through loans or withdrawals during their lifetime**.
4.Does not have an investment component. Premiums are solely for insurance coverage.	**4.Combines insurance coverage with a savings/investment component, allowing policyholders to build cash value over time**.
5.Provides a death benefit to beneficiaries if the insured dies during the term of the policy.	**5.Offers a guaranteed death benefit to beneficiaries whenever the insured passes away, regardless of age, as long as premiums are paid**.

RECOMMENDATIONS: I hereby recommend both the policies taken in the above scenario 1 because as Emma who started her a freelance career has a term insurance policy with a $300,000 death benefit, offering affordable premiums and valuable protection for her loved ones in case of unforeseen circumstances. And in the scenario 2, in case of James and Emma, this policy offers guaranteed coverage for life, builds cash value over time, and provides a tax-free death benefit to protect your loved ones. With fixed premiums and the potential for dividends, whole life insurance ensures peace of mind and long-term financial stability for you and your family."