UNIT-2

LIFE INSURANCE

Life insurance is a contract between an insurer and a policyholder in which the insurer guarantees payment of a death benefit to named beneficiaries upon the death of the insured. The insurance company promises a death benefit in consideration of the payment of premium by the insured.

The purpose of life insurance is to provide financial protection to surviving dependents after the death of an insured. It is essential for applicants to analyze their financial situation and determine the standard of living needed for their surviving dependents before purchasing a life insurance policy. Life insurance agents or brokers are instrumental in assessing needs and establishing the type of life insurance most suitable to address those needs. It is prudent to re-evaluate life insurance needs annually, or after significant life events like marriage, divorce, the birth or adoption of a child and major purchases, like a house.

Life Insurance is a financial cover for a contingency linked with human life, like death, disability, accident, retirement etc. Human life is subject to risks of death and disability due to natural and accidental causes. When human life is lost or a person is disabled permanently or temporarily, there is loss of income to the household.

Though human life cannot be valued, a monetary sum could be determined based on the loss of income in future years. Hence, in life insurance, the Sum Assured (or the amount guaranteed to be paid in the event of a loss) is by way of a 'benefit'. Life Insurance products provide a definite amount of money in case the life insured dies during the term of the policy or becomes disabled on account of an accident.

<u>Life Insurance is needed</u>:

- To ensure that your immediate family has some financial support in the event of your demise
- To finance your children's education and other needs
- To have a savings plan for the future so that you have a constant source of income after retirement
- To ensure that you have extra income when your earnings are reduced due to serious illness or accident
- To provide for other financial contingencies and life style requirements

<u>Who need life insurance:</u>

Primarily, anyone who has a family to support and is an income earner needs Life Insurance. In view of the economic value of their contribution to the family, housewives too need life insurance cover. Even children can be considered for life insurance in view of their future income potential being at risk.

Buying life insurance is one of the most important financial decisions, but believe it or not, only 10 per cent of Indians are insured. But why is it so important? Well, regardless of how much you earn, no one knows what the future holds. Lots of people die a prematurely every year from illness or accident and, if you happen to be the sole breadwinner in the family and you were to pass away, it could have devastating consequences for your loved ones-their ability to pay household expenses, debts and maintain their standard of living.

NEED OF LIFE INSURANCE

1. LOOKING AFTER YOUR LOVED ONES EVEN AFTER YOU'RE GONE: This is the most important aspect of life insurance that one needs to factor in. Your family is dependent on you even after you're gone and you certainly don't want to let them down. Whether it's for replacing lost income, paying for your child's education or making sure your spouse gets the much-needed financial security, life insurance could save the day for your surviving dependents.

2. DEALING WITH DEBT: You don't want your family to deal with financial liabilities during a crisis. Any outstanding debt-a home loan, auto loan, personal loan, or a loan on credit cards-will be taken care of if you happen to buy the right life insurance policy.

3. HELPS ACHIEVE LONG-TERM GOALS: Since it is an instrument that keeps you invested for the long term, it would help you achieve your long-term goals such as buying a home or planning your retirement. It also provides you with diverse investment options that come along with different types of policies.

Some policies are tied to certain investment products that pay dividends based on their performance. If you are opting for an investment-linked policy, be sure to read the fine print to be fully aware of the potential risks and returns.

4. LIFE INSURANCE SUPPLEMENTS YOUR RETIREMENT GOALS: Who wouldn't like their retirement savings to last until they do? With a life insurance plan, you can ensure you have a regular stream of income every month. Putting money in an annuity is like a pension plan- put in some money regularly in a life insurance product and enjoy a steady income every month even after retirement.

5. BUYING INSURANCE IS CHEAPER WHEN YOU'RE YOUNGER: Not every millennial needs a life insurance policy. If you haven't created an emergency fund or you're still living off your parents' money, insurance shouldn't be a priority.

However, if you do have dependents or you have co-signed a loan with your parents (or any other member of your family or friend), whether it be a student loan or a home loan, you need to start considering buying a life insurance policy. Besides, coverage costs are much lower when you're single. Insurance agents may try to sell you a policy that you might not need.

Therefore, do your due diligence or approach a financial planner to determine how much insurance you need considering the other assets you may own. Even if you're single, there may be other dependents and you need to ensure they're taken care of. "The earlier the better. For instance, single people provide financial support for ageing parents or a sibling with special needs. Insurability is another reason to consider life insurance when you're single. If you're young, healthy and have a good family health history, your insurability is at its peak, and you can get the best rates on your life insurance policy."

6. <u>YOUR BUSINESS IS ALSO TAKEN CARE OF</u>: Life insurance isn't only for yourself and your family. Some insurance policies also take care of your business. If you own a business, then your business partner can purchase your portion of the business without hassle. Your business partner(s) will enter a buy-sell agreement and the payout would go to the deceased partner's nominees, but without giving them a stake in the company.

There are two types of life insurance policies-a term insurance policy and a life insurance policy.

A term insurance provides protection for a specified period of time (10, 20 or 30 years) and pays out the benefits only if you die during the term. The policy will expire and coverage will end if you outlive your policy. An investment-cum-protection plan on the other hand offers you a lump sum amount on the completion of the term of the policy. These plans also offer you protection but the cover is usually not as high as offered with term plans.

7. <u>TAX-SAVING PURPOSES</u>: You could save taxes with insurance policies irrespective of what plan you buy. The premium you pay on an insurance policy is eligible for a maximum tax benefit of Rs 1.5 lakh under Section 80C, and for tax-free proceeds on death/maturity under Section 10 (D) of the Income Tax Act, 1961.

8. <u>A TOOL FOR FORCED SAVINGS</u>: If you choose a traditional or unit-liked policy, you pay a premium each month, which is higher than what it costs to insure you. This bit of extra money is invested and it accrues cash value. This cash can then be borrowed against the policy or you can choose to sell it or draw income from it.

9. <u>YOU MAY NOT BE QUALIFIED FOR IT LATER</u>: Life insurance policies run on uncertainties. You may be healthy now and paying a premium for life insurance may seem to be an added financial burden, but if you suddenly fall ill, you may not be allowed to but a life insurance policy. Therefore, it is imperative to buy one early on in your life because it remains in force if your health deteriorates later on. Insurance companies allow you to attach certain riders or benefits to your existing or new policy.

These riders enhance the quality of your insurance. The accelerated death benefit rider, for instance, allows the policy owner to avail all or a part of the policy's death benefit if he or she has less time to live due to a critical illness, or wants to use the money for medical treatment or related expenses.

10. <u>PEACE OF MIND</u>: Death is unavoidable. In the face of tragedy, the least you can do for your family is to secure their financial future. Even if it is a small policy, you know that you've done all you can to help them tide over difficult times.