

Term Life Insurance

Be Responsible.....

Be Secure.....

The Benefits Of Term Life Insurance

Most people do recognize the value of property like house, car, valuables and other assets and protect their value through general insurance. However, they do not understand or want to understand that the same principal is applicable to life also. The value of life that is the income potential also has to be preserved so that the dependent family members are not adversely affected or put to harsh hardships in the eventuality of the unfortunate demise of the earning member. Logically all persons should take term plans first and protect income potential before any other saving plans.

Another reason why we seldom think about taking a pure Term Insurance policy is that they do not have any survival benefits. Also, many insurance agents never even mention about them compared to the endowment policies, where there are survival benefits and we would get back our investments if we do not die after the term of the policy. Endowment policies are normally projected as a better protection for your dependents which is not true. To expect survival benefits is purely psychological and does not serve any practical purpose since the survival benefit is return of premium which considering the Present Value (PV) of future earning will hardly be sufficient to last for one months as shown in the calculation below.

Age	30
Term	30
Annual Income	Rs.500,000
Monthly Income	Rs.41,667
Sum Assured	Rs.5,000,000
Annual Premium	Rs.8,948
Total Premium (FV)	Rs.268,440
Present Value (PV) (Discounted @ 6% - Inflation Rate)	Rs.46,738

Term Insurance policies have their own distinct advantages, which when compared to the endowment policies, seems to make much sense. Hence most of the financial planners will vouch for term insurance and that is why it is an absolute must for a savvy investor to buy one. The benefits of term plan are as follows:

- **Value for Money:** As the risk associated with a term insurance policy is just mortality, they are way cheaper than any of the endowment policies, as the risks associated are more there. Hence buying a term insurance makes much sense if you just want life insurance and nothing else.
- **Higher Cover:** You will get a much higher cover with the premium that you pay for an endowment policy; even ten times. This means your loved ones will get a handsome amount, useful to them, in the event of your unfortunate death.
- **Additional Riders:** Some term insurance policies offer additional riders too like critical insurance, accidental death benefits, etc. They off-course come at a slightly higher premium.
- **Simple Terms:** Lastly term insurance policies are easy to understand compared to the complicated nature of most of the endowment policies. However, the caveat is, like any other investment you should not buy a term insurance policy with your eyes closed.
- **Long and Short Term Needs:** Apart from long term needs to cover income generating potential, term life insurance is also good for short term needs. Two good examples of this are to cover your children's college education and to cover your mortgage. Parents could buy a policy that expires after their children graduate from college to ensure that the full education is paid for (in case anything happened to the parents). Or, the main breadwinner in a house could buy a term policy that matches the length of his or her home's mortgage.

How much Life Insurance should one have?

The coverage should be 10 times your annual expenses to be able to maintain the same life style as illustrated in the HLV (Human Life Value) calculation below.

Income Replacement Method

Age	30
Annual Income	Rs.500,000
Net Annual Income	Rs.400,000
Expected Rise in Salary	6%
Remaining Working Years	30
Future Value of Saving Potential	Rs.31,623,274
Discount Rate (PPF Rate)	8%
Present Value (PV)	Rs.3,142,637

Simple Method

Age	30
Annual Income	Rs.500,000
Net Annual Income	Rs.400,000
Bank FD Rate	8%
Present Value (PV)	Rs.5,000,000

In the above example the person's financial worth to his family is Rs.3.16 Crores over the remaining working life of 39 years. The Present Value (PV) of that amount taking the present discount rate of 8% is 31 Lacs. Using the simple method, the Present value is 50 Lacs. Considering this the person should be covered by a Sum Assured of around 50 Lacs i.e 10 times the annual salary in order to protect his future income.

Annual Premium

The annual premium for a **30 year Term Plan of ABC Company** is indicated in the table below.

Age	Sum Assured = 50 Lacs		Sum Assured = 100 Lacs	
	Non Smoker	Smoker	Non Smoker	Smoker
30	Rs. 8948/-	Rs. 10989/-	Rs. 16379/-	Rs. 20408/-
40	Rs. 18646/-	Rs. 23547/-	Rs. 35428/-	Rs. 45017/-

Here are some additional term life insurance tips:

- Buy enough life insurance to meet your needs; life insurance is not the place to skimp. Especially because term life insurance is so affordable.
- Also, match the term to your needs. Make sure your dependents are covered until they can provide for themselves, or that your spouse is covered until retirement income becomes available.
- Buy when you are healthy, and try to match your terms to when you will still be healthy. When you get into your 50s and 60s, it may be harder to find affordable term life insurance.
- Don't lie on your policy; as life insurance companies will investigate before paying. If you do not admit to a habit, behavior or health risk on your application, your beneficiaries may not receive the money after you pass away. That is the whole point of your life insurance policy, to leave money for those left behind, and it would be a shame if they didn't receive what you had paid for because you were not truthful on your application.
- When you look at term insurance look at three factors i.e the premium amount, the claim settlement ratio (this information is important and available on IRDA website) and the overall credential of the company.
- When evaluated against the above three criteria, the lowest premium policy need not be the best policy if the claim settlement ratio and the overall credential of the company is not good; since the entire purpose of taking a term loan may get defeated if you base your term plan only on a single criteria of low premium.

We are sure that now you understand why buying a term insurance policy makes much sense and would take appropriate decision.