

Life insurance protection plans

Choose what's right for you

Life insurance is a versatile financial tool because of the many benefits it offers. Depending on which policy you choose, you can use these benefits in a variety of ways to achieve different goals.

Life insurance can be used as a disciplined method of saving regularly, so that you can achieve different financial goals, such as accumulating sufficient funds for your child's education.

As an investment tool, it can potentially help to reap higher returns within a shorter period of time.

Life insurance can also play a significant role in long-term retirement planning by providing you with a regular source of income during your retirement years.

The other important area is for protection against life's unforeseen events.

There is a wide array of life insurance products that can offer protection for you and your loved ones.

What types of protection plans exist and how can they help me?

In the event of death, disability or a critical illness, there is always going to be some form of loss—emotional or financial. Most of the time it's a loss of income as you are unable to work, and in the event of death, your future earnings are totally lost. In addition, medical expenses can be significant and may not be fully covered by other solutions.

In essence, there are three categories of protection plans that you should consider. Let's take a look at each:

Life Insurance

The primary objective of a term life or whole life policy is to provide a benefit in the event of death. The idea is for you to buy enough cover so that your dependants can repay any outstanding debts, such as a house loan or car loan, and still maintain a reasonable standard of living that covers education costs and household expenses.

Term Insurance – Purchasing this protection plan is the most cost-effective method and the important aspect is to make sure you have adequate cover.

Term insurance gives you protection for a set period of time. If you were to die or become totally and permanently disabled (if this benefit is provided) during that period, your dependants will be paid a death benefit to guard against financial loss. For example, you may want protection for your children up to the time they become independent adults. Thus, you may take up term insurance to last that period.

Whole Life Insurance – It guarantees lifelong protection as long as your premiums are paid up-to-date. Compared to term insurance, the protection may be lower but you will get a payout at some point.

Most whole life policies build up a cash value over time. As such, it encourages long-term savings as your insurance company will invest on your behalf. In case of an emergency or when you need to pay for something significant, you can take a loan from the policy's cash value as borrowing rates are competitive.

Whole life insurance also pays out a death benefit so you can be assured that your family is protected against financial loss in that event.

Universal Life Insurance – Mass affluent or High Net Worth individuals who prefer better control and greater flexibility in achieving their financial and protection goals can consider universal life insurance. It is a form of whole life insurance that offers adjustable and flexible premium payments. Within certain limits, you can choose the amount, method and timing of your premium payments.

Universal life provides a death benefit and the potential to build up cash values which can be borrowed against or withdrawn. Most universal life plans guarantee a minimum interest crediting rate.

Disability

Protecting against disability is extremely important. Unfortunately, it is a fact that living with a disability is more financially draining than death. To address this concern, consider the following:

Total Permanent Disability – This is often included automatically in many life insurance policies and provides a basic level of protection against total permanent disability.

Disability Income – Gaining in popularity are disability plans that provide an income in the event you are unable to work, and the disability does not have to be total or permanent for payouts to continue. A good starting point is to purchase a disability income plan to cover your regular household expenses.

Critical Illness

These policies provide cover against some of the most common and serious illnesses in Singapore such as cancer, heart attack and stroke. They pay a lump sum upon diagnosis. These funds can help replace lost income or provide towards medical expenses or rehabilitation expenses.

Which plans are best for my situation?

This will depend on your situation in terms of your dependants (young or old), your income and net assets. The majority will require some element of each type of protection. The good news is that the Life Insurers in Singapore have developed a wide range of products to meet your financial needs at every life stage. But you should seek professional advice to make sure you optimise your protection at the least possible cost.

After all, it is about having the peace of mind knowing that your loved ones will not suffer should something unexpected happen to you.



Selecting the appropriate policy

As everyone's financial circumstances and goals are different, there is no rule of thumb that can tell you what to buy or even how much insurance to get.

That is why you should engage a financial adviser or insurance representative whom you can trust and have confidence in as he or she will be able to perform a needs analysis and make the appropriate recommendations to meet your specific needs and goals based on your current financial situation.

Before you purchase a policy, you should ensure that you understand what decisions need to be made, the various alternatives available and the compromises essential to the process. Once you have made up your mind on a specific policy to meet your needs, you can be assured that your investment is well worth the financial planning undertaken.

All insurance companies grant a "14-day free look period". If you decide within 14 days of the delivery of the policy that it does not meet your needs, you may request a refund of your premium. However, note that you may be charged for fees incurred such as medical examination expenses and, if you have bought an investment-linked plan, you may need to pay for investment losses if the price of the units has fallen.

If you need advice on financial planning, visit the Life Insurance Association website at www.lia.org.sg for the list of insurance companies in Singapore and tell them you want to speak to one of their representatives. If you wish to receive advice from a financial adviser, visit the Monetary Authority of Singapore at www.mas.gov.sg for a list of authorised financial advisers.

Jason Sadler, President of Life Insurance Association:

According to industry statistics, the average death claim paid by life insurers in the first half of this year was less than a year's annual wages for the average Singaporean. This is a cause for serious concern as many Singaporeans are putting themselves, and their families, in a potentially vulnerable financial situation should the unfortunate happen.

When a loved one dies without adequate life insurance coverage, those left behind often experience a lower quality of life, having to cope with drastic changes to a lifestyle they have grown accustomed to. They may need to take on additional jobs, spend their retirement or their children's education funds or even downgrade their housing.

Such undue hardship can be prevented with the appropriate life insurance plan, and more importantly, adequate insurance coverage. With life insurance, you can be assured that the needs of your loved ones are taken care of if something were to happen to you.

There are many factors to consider when determining how much and what kind of life insurance to buy. As this process can be quite complex, and the insurance solutions required will differ from person to person, it is advisable to seek assistance from a professional financial adviser.