

My Future is Secure

with Life Insurance



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Education Simplified

INVESTORS FINANCIAL EDUCATION ACADEMY

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CHINTA KA VACCINE

Policy ka poora paisa Diagnosis
ke time par



MULTI CLAIM
— OPTION* —

BIMARI HO

EK BAAR

DO BAAR

YA TEEN BAAR

***Life insured can claim for critical illness only once from one group.**

Edelweiss Tokio Life Insurance Company Limited | IRDAI Regn. No.: 147 | Corporate Identity Number: U66010MH2009PLC197336.

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About this book

This is an introductory guide to help you understand how life insurance works. It gives you basic information so that you can make an informed decision when purchasing life insurance policy.

This guide will help you to:

- Understand the need for Life Insurance;
- Understand the different types of policies and options;
- Understand what happens when you apply, and when there's a claim; and
- Develop information and questions to discuss with your agent / broker / financial planner.

For most people, life insurance is an essential component of a sound financial plan. Life insurance is a versatile tool that can do more than pay off debt and help family maintain their lifestyle. It can also help fund kids' college education, have a stress free retirement and more.

We hope you will find this content useful .

Happy Reading!

Rs.40/-

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Concept of Life Insurance

Life insurance is a contract between an insurance policyholder and an insurer. The policyholder pays the policy premium and the insurer promises to pay a sum of money to a beneficiary designated by the policyholder if the insured event (usually death) occurs. Depending on the contract, events such as terminal illness or critical illness may also trigger payment. The main benefit of life insurance is that the financial needs of your family are protected should you lose income due to critical illness or death.

The main types of Life insurance policies are:

- **Protection policies** – these are designed to pay a benefit if the event that is insured against happens
- **Investment policies** - the main goal of these policies is to grow the capital put in by policyholders.

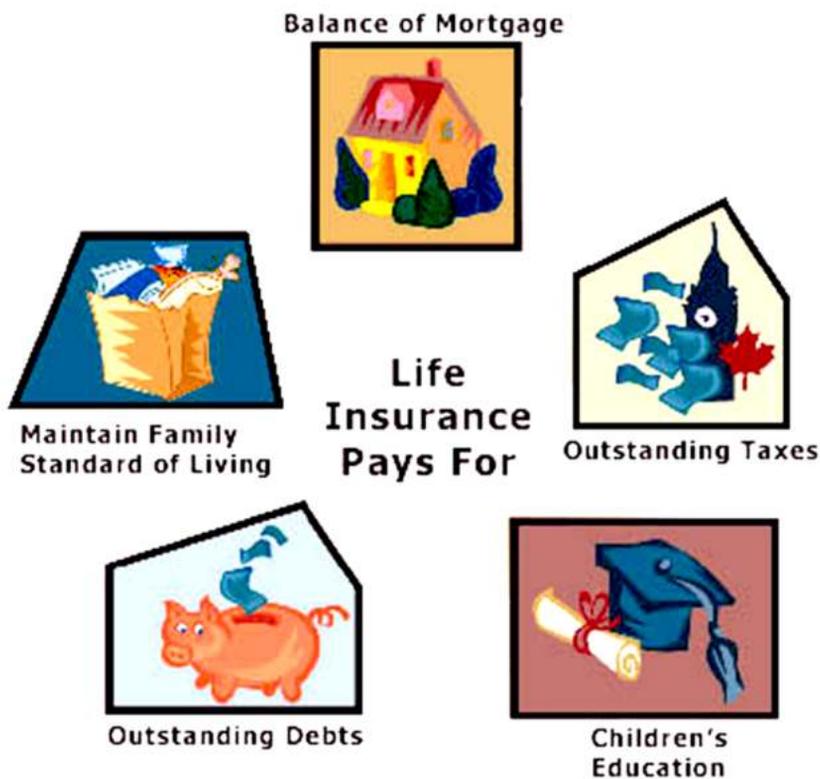
Think of insurance as “a way of avoiding hardship” and not “convenience” or “getting rich quick”. No matter how diligent you are in building your financial empire, failing to purchase adequate insurance can quickly put you in a financial hole.



Need for Life Insurance

Life insurance provides financial support to your dependents should untimely death occur and it also acts as a long term investment. Using life insurance, you can meet goals such as educating your children, financing their marriage, building your dream home or planning a stress-free retirement, depending on your stage in life and your appetite for risk.

Endowment Life Insurance Policies offer guaranteed benefits when they mature through options such as Money Back, Guaranteed Cash Values and Guaranteed Maturity Values.



Key Terms

Premium

This is the money you pay to the insurance company to buy the life cover. The cover starts when you pay the first premium.

With profits policy

This policy allows you to share in the profits of the insurance company, usually paid as dividends or bonus. For this privilege, the premium charged is usually higher than for a policy without profit.

Bonus

This is the extra money paid together with the final benefits or for with profit policies. Bonuses are declared periodically e.g. every year. Once the bonus is declared, it becomes guaranteed, in addition to the final benefits.

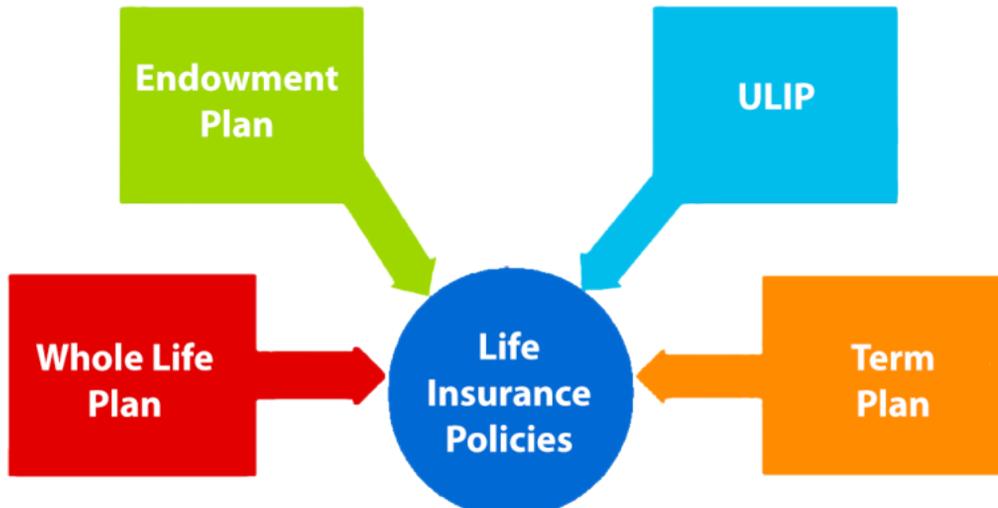
Cash/surrender value

When your life insurance policy has been in force for a certain period (normally 2-3 years) it gets a cash value known as a surrender value. This is the amount of cash the life insurance company will pay you if you cancel your policy. You should strive to maintain your policy until maturity so that you can get the full benefits.

Grace Period

This is an additional period of time after the due date for the premium payment. The grace period would be around 15-30 days depending on the mode of payment. If premium is still not paid within the grace period, your policy may lapse.

Types of Life insurance



- **Term Assurance:** This policy offers you protection for a limited period. It is the cheapest and simplest type of life insurance since it provides life cover only with no investment benefits. The insurance company will pay the full sum assured if the policyholder dies within the period they are insured. If the policyholder survives and the policy matures, no benefits are paid out.
- **Endowment:** An endowment policy combines both protection and investments. The insurance company will pay the full sum assured if the policyholder dies within the period they are insured. If the policy holder survives and policy matures, the insurance company pays out maturity benefits including all the bonuses earned during the course of the policy.

- **Whole Life:** A whole life policy protects the insured for their entire lives and premiums are paid throughout one's life, as a single premium or until a given age e.g. 85 years of age.
- **Unit Linked insurance policies:** In a unit linked policy, a part of the premium is used to buy life insurance protection and the rest is used to buy units in an investment fund managed by the insurance company. The price of the units is based on the net value of the fund at the time of buying. The return on the policy depends on how the investment fund performs.

Choosing a Life Insurance Policy

There are different types of life insurance policies. Choose the policy that best suits you and your future needs. You should understand:

- The period for which you are covered
- The terms and conditions of the policy
- The premium you need to pay

Contact your insurance agent /broker or the insurance company for more information and guidance.



Questions to ask while comparing Life Insurance Policies



- Do the life insurance premiums or benefits vary from year to year?
- How much cash value builds up under the life insurance policy?
- What part of the insurance premiums or benefits are not guaranteed?
- What is the effect of interest on money paid and received at different times on the life insurance policy?

How quickly does the cash value grow?

Some life insurance policies have low cash values in the early years that build quickly later on. Other life insurance policies have a more level cash value build-up. A year-by-year display of life insurance values and benefits can be very helpful. (The life insurance agent/broker or company will give you a policy summary or a life insurance benefit illustration that will show benefits and premiums for selected years.)

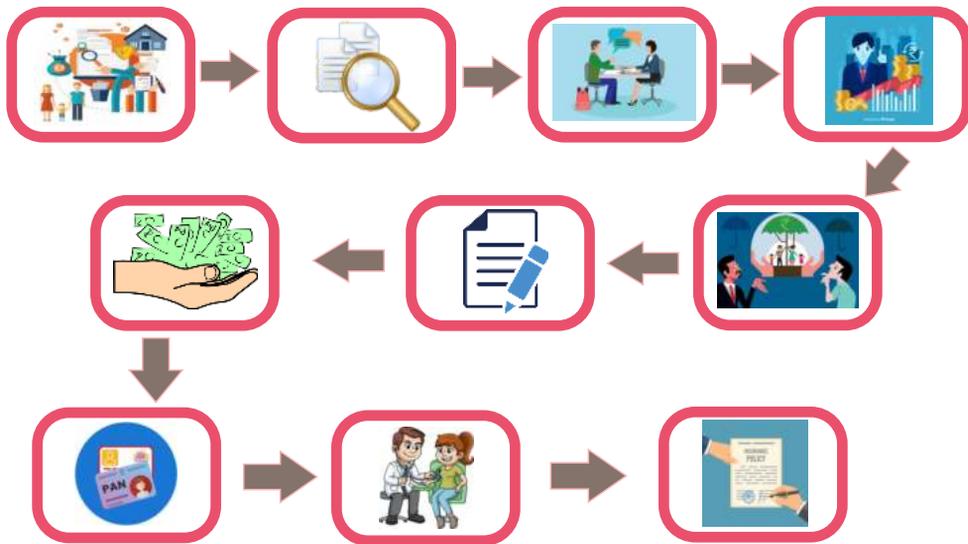


Are there special life insurance policy features that particularly suit your needs?

How are non-guaranteed values calculated? For example, interest rates are important in determining life insurance policy return. Within some life insurance companies, increases reflect the average interest earnings on all of that company's insurance policies regardless of when issued. In others, the return for life insurance policies issued in a recent year, or a group of years, reflects the interest earnings on that group of insurance policies; in this case, amounts paid are likely to change more rapidly when interest rates change.



Steps in Buying Life Insurance



- First, evaluate your needs and the needs of your family
- Research on the different types of life insurance policies available in the market
- Talk to an insurance agent / broker or visit the insurance company of your choice and find out about the policies they offer and their terms and conditions for each.
- Gather all your personal financial information and estimate the amount of money your family will need at different stages in time e.g. school fees, funds for buying assets, making mortgage payments, etc.
- Choose and buy a life insurance policy directly from the insurance company or through an insurance agent / broker by following these steps:

- Complete a proposal form
- Pay the first premium
- Provide the documents requested by the company, such as PAN, AADHAAR, etc
- Get a medical examination if necessary. There are many policies which do not require medical reports.
- The insurance company will review the proposal form and documents you give them and issue you with a policy document.

Life Insurance Policy Document

A Life Insurance Policy Document is a formal contract given by the insurance company to the policyholder. It is the legal evidence of the insurance agreement and it states the exact terms on which the life insurance cover has been provided.

The Policy Document contains details of the contract such as the:

- Type of policy
- Name and address of the insured person and the insurance company
- Event which would cause the insurance company to pay the benefit if it happens
- Duration of cover
- Amount of premium and how often it is to be paid
- Sum assured and other benefits



It is very important to read your policy document and to contact the insurance company if anything is not clear.

Contact the company if you have not received your policy document after a reasonable period of time, such as one month.

Changes to life insurance policy

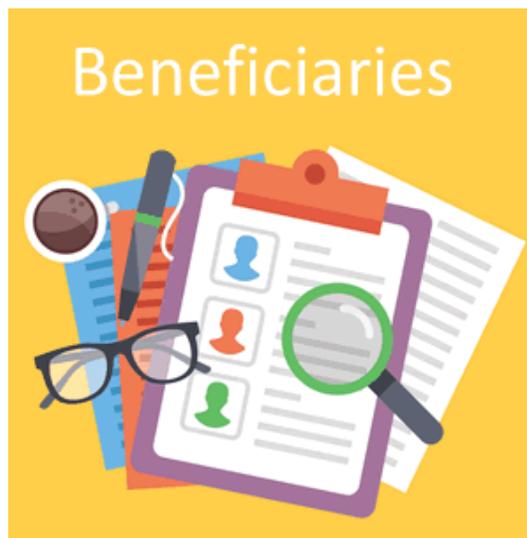
Sometimes due to changes in your circumstances, it may be necessary to make changes to your policy document. It is advisable to make your request to the insurance company in writing. You will be advised on the steps to take to make the changes.

Beneficiary

A beneficiary is the person who receives the benefits if the policyholder dies. Choosing a beneficiary ensures that, if policyholder dies, benefits go to the right person. If beneficiaries are below the age of 18 years are chosen, a responsible guardian to be identified.

Death Benefit

Death benefits are paid to the chosen beneficiaries. Some policies have provisions (riders) that come into play to keep the policy in force until it matures. This is common in education policies where some benefits are paid when the policyholder dies and the rider benefits maintain the policy to maturity, enabling the children to complete their education according the original plan of the policyholder.



Make a claim and how long does it take

The insurance company should be notified immediately the event happens in writing or online. The person making the claim should fill the necessary forms and they will be advised on the documents required to process a death or disability claim.

In the case of maturity benefits, the insurance company will normally contact you to pick your benefits on or before the maturity date. If you have not been contacted, then it is important to contact the insurance company.

Enquire from your company how long it takes to settle a fully documented claim.

Many insurance companies settle the claims within 7 - 10 days of submitting the required documents.





Surrendering a Policy

Buying a life insurance policy is a long-term commitment. If you cancel your policy, you will not receive the total amount of premiums that you have paid to date. This is because the surrender value (the value of your policy when you terminate it) is usually less than what you have paid due to the administrative costs included by the company.

If someone asks you to cancel your policy then buy another one, first talk to your current life insurance company you stand to lose when replace a policy because:

- You will most likely have to pay a higher premium since you are now older
- The cash value of your new policy will build up slowly as it must pay for the initial administrative cost of the life insurance policy a second time.
- Many times, your current life insurance company can make the changes you want at lower costs to you.



Non-payment of premium

The policy may lapse and you may not be entitled to any benefits unless the policy had attained a surrender value. A policy usually attains a surrender value after 2 to 3 years of paying premium continuously. After that period, the policy can be kept in force through options that prevent you from losing some of the benefits of the

policy e.g. the remaining premiums can be deducted from the value of the policy, or you can be considered to have fully paid premiums for a policy of a lower value.

Policy revival

When your life insurance policy has lapsed, you can revive or reinstate it to full force within a certain period of time, and under certain conditions e.g. you may have to declare your health status when reinstating the policy.



Section 80C

Tax benefit

A person who has a life insurance policy, can claim the premiums paid under section 80C of the Income Tax Act, subject to a maximum of Rs. 1.50 lakh per year.

Regularly review your Life Insurance coverage !

Reviewing your Life Insurance coverage regularly review your life insurance coverage, or your family could find themselves disappointed, frustrated, and in a financial crisis at a time when you are no longer with them. Changes like family circumstances, marriage, and the birth of children should key in a review of your additional needs. All current life policies should be reconsidered. Coverage amount will need to be re-adjusted and beneficiary changes may also be in order. Also, review these new events as to the impact on your financial situation. A new mortgage or mortgage payoff, receiving an inheritance, or starting a new business, all require an adjustment in your level of life insurance.



Buying the correct amount of Life Insurance

We all have our own particular needs. Depending on your age, whether you have children, what you earn, what your spouse earns, or how much money you have saved. Also important are the amount, type and duration of your obligations -- home mortgage, college education, plus other loans and obligations. The key starting point is to estimate how much income your family will need on an annual basis and how long your family will be dependent on this income. Once this is determined you can calculate the amount of insurance that will be needed to generate the required income for the desired period. Inflation must be considered in your accounting.



Postponing Life Insurance Purchases

The cost of life insurance is dependent on two factors, your age and your health. Premiums are calculated on your age and your health condition at the time of application for insurance is completed. Money alone is not enough to purchase life insurance. If you need life insurance do not postpone your purchase decision you may not be able to obtain the required coverage in the future.



Consider Insuring Your Spouse

In reviewing your life insurance needs you should consider the effect the potential loss of your spouse would have on your family's finances.

The unexpected death of a spouse can and will affect your family's finances. Spousal income replacement must be considered. If your spouse is not employed, additional cost such as child care will come into play. In either case, in reviewing your life insurance needs you should consider the effect the potential loss of your spouse would have on your family's ongoing finances.





Is my Life Insurance on track?

Life insurance is the foundational aspect of your financial plan, but it's also a component that requires regular evaluation. Ask yourself these questions to make sure you have the right kind and amount of life insurance.

Do I have the right type of coverage?

Term or Traditional based on the requirements.

Do I have enough coverage?

Life events play a significant role.

Does my life insurance support my objectives?

To replace income, to fund future goals, retirement etc.

Reviewing policies periodically is part of long-term financial planning process.



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About IFE Academy

IFE Academy was established in 2011 as a Not-for-Profit entity to promote Financial Education. IFE Academy conducts Investor Awareness Programs across the country with the support of other market participants. www.ifea.in is a comprehensive website on Financial Education. It has various sections such as Videos, Puzzles & Games, Financial Calculators and Library. It gives a holistic view on financial education combining various aspects such as Savings, Investments, Credit, Insurance and Pension at a single place. IFE Academy periodically publishes Investor Educational materials and distributes it to general public.



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