Life Insurance

IFE Academy

Education Simplified

The importance of Life Insurance

While it is easy to procrastinate when it comes to buying insurance, we never know what the future holds for us. So it's important that we have sufficient insurance in place at all times in case the unthinkable happens.

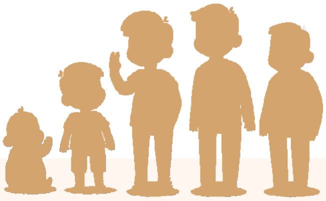
How life insurance works:

When you buy a life insurance policy, regardless of the type of policy, the foundation of every life insurance policy works this way.

1. The insurance company agrees to pay beneficiaries a specified amount of money when the insured person dies, as defined by the policy.

2. You pay for the policy by making premium payments. The premiums you pay depend on your age, gender, health and lifestyle, the kind of insurance you buy, and any extra features and riders you add to the policy.

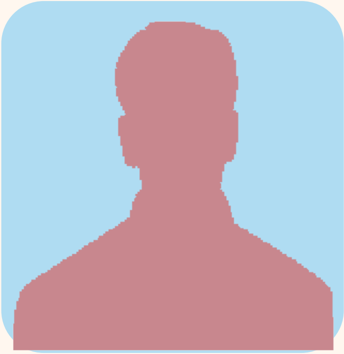
3. The beneficiaries generally won't have to pay income tax on the money they receive from insurance policy according to current Income Tax Regulation.



The stages of the Life Insurance Cycle

Life stages offer different challenges and rewards – whether you're starting out on your own, raising a family, focusing on your career or preparing for a rewarding retirement. However, while each stage may be unique, it's important to make sure your loved ones are cared for financially along the way.

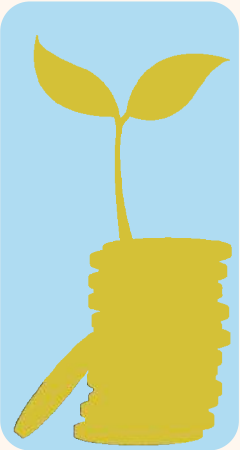
Early Career



Surprisingly, it's when you're young and at your healthiest that it's an ideal time to get your first life insurance cover. Your family and your financial future are counting on you to continue earning a living. Because you are young and healthy, a Term Insurance may be the most affordable depending on your needs. Life insurance will help ensure your family is cared for if you're not there.

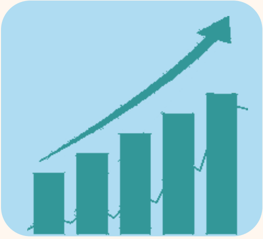
Growing Families (and Income)

Young children bring joy to a family. But this pleasant picture can be easily shaken if an untimely death takes a toll on a family. Term life insurance can offer affordable coverage for you and your loved ones. It may be enhanced with optional riders to help ensure your protection stays adequate as your family grows and you advance your earning potential.



Peak Earning Years

Life insurance can be a valuable tool for protecting your assets, life and family and it can provide tax advantaged asset growth and a supplemental income stream in retirement. A financial professional can help you plan for your peak earning years and guide you in optimizing your coverage in order to minimize your overall tax burden while maximizing your level of protection.



Legacy and Retirement Planning

As you enter your peak earning years and get closer to retirement, you will likely face more health risks. Converting from term coverage to whole life insurance is one way to help ensure lifelong financial protection. Whole life insurance is guaranteed to be with you for as long as you live if you continue paying the premium and your provider stays in business. This is one of the many reasons you should look for an organization with a track record of financial strength and stability. These years are also among the best times to work on multi generational planning and ensuring your children (and grandchildren) are taken care of in your absence.

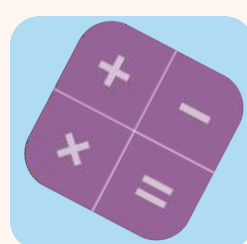
Part of overall financial planning

Determining your life insurance needs should not be done in isolation. Instead, it should be looked at as part of your overall financial plan, with consideration given to your goals for savings and retirement, as well as tax and estate planning. As your life changes, your financial goals may change, as well as your need for life insurance, making it important to also periodically review your coverage.

How Much Life Insurance Do You Need?

Your life insurance needs change as your life changes. When you are young, you may not have a need for life insurance. However, as you take on more responsibility and your family grows, your life insurance needs increase. Your needs may then decrease after your children are grown. You should periodically review your needs to ensure that your life insurance coverage adequately reflects your life situation.

Estimating your life insurance need



There are a couple of simple methods that you can use to estimate your life insurance need. These calculations are sometimes referred to as rules of thumb and can be used as a basis for your discussions with your insurance professional.

Income rule

The most basic rule of thumb is the income rule, which states that your insurance need would be equal to six or eight times your gross annual income. For example, a person earning a gross annual income of Rs. 10,00,000 should have between Rs. 60,00,000 (6 x Rs. 10,00,000) and Rs.80,00,000 (8 x Rs.10,00,000) in life insurance coverage.

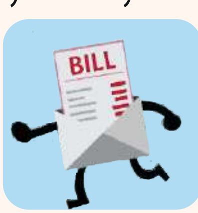
Income plus expenses

This rule considers your insurance need to be equal to five times your gross annual income plus the total of any mortgage, personal debt, and special funding needs (e.g., college). For example, assume that you earn a gross annual income of Rs.10,00,000 and have expenses that total Rs. 50,00,000. Your insurance need would be equal to Rs.1,00,00,000 (Rs.10,00,000 x 5 + Rs. 50,00,000).

Several more comprehensive methods are used to calculate life insurance need. Overall, these methods are more detailed than the rules of thumb and provide a more complete view of your insurance needs.

Family needs approach

The family needs approach requires you to purchase enough life insurance to allow your family to meet its various expenses in your absence. Under the family needs approach, you divide your family's needs into three main categories;



Ongoing needs

Immediate needs

Special funding needs

Once you determine the total amount of your family's needs, you purchase enough life insurance, taking into consideration the interest that the life insurance proceeds will earn over time, to cover that amount.

Income replacement calculation

The income replacement calculation is based on the theory that the family income earners should buy enough life insurance to replace the loss of income due to an untimely death. Under this approach, the amount of life insurance you should purchase is based on the value of the income that you can expect to earn during your lifetime, taking into account such factors as inflation and anticipated salary increases, as well as the interest that the lump-sum life insurance proceeds will generate.

Rules of thumb

The rules of thumb are extremely basic calculations. They provide a starting point but fail to recognize special family circumstances or needs and focus only on the most basic components.

One rule of thumb dictates that multiplying your salary by a certain number will provide an adequate level of insurance, while another calculates need based on normal living expenses.

Insurance Mistakes

Making a mistake with life insurance can hurt the ones you love most. Fortunately, with some advance preparation and careful thought, you can help avoid these costly errors. Here are some of the most common life insurance pitfalls we see:

No insurance

The worst mistake you could make concerning life insurance is having a need and not having any insurance at all. Very often, people can find all sorts of excuses for not buying life insurance. But how many times have you heard about a young, apparently healthy person dying suddenly in a car accident, leaving behind a spouse, a young child, and no insurance? Sadly, it happens, and when it does, the family faces not only emotional trauma but possibly an extremely difficult financial situation, as well.

Failing to Review Your Life Insurance Regularly

The majority of people with insurance are under insured. Insufficient coverage can occur as a result of buying what is affordable instead of what is needed. Failure to review your coverage periodically could also result in insufficient insurance, even if you started out with adequate levels.

Inflation rates, your career, and your lifestyle may have changed. Your family could be faced with a large financial gap and left unable to maintain the current lifestyle if any unfortunate event happens today.

Consequences could include loss of the family home, scaling back of college plans, and possibly years of financial difficulty.The life events that should definitely trigger an insurance review are marriage, the birth of a child, paying off the mortgage, and retirement.

A comprehensive life insurance checkup should help you answer the following questions:

- Is my policy still in force?
- Are the beneficiaries current?
- Who owns the policy?
- Do I have the right kind and amount of insurance for my current and future needs?
- Am I paying for options I don't need?
- Is the insurance company still financially healthy?
- If applicable, does the policy term match up with my key financial milestones?

Choosing the Cheapest Policy

Everyone wants to get a good deal on insurance, but picking the life insurance policy with the lowest premium might cost you (or your family) a lot more later if it's not the right policy for your needs. A qualified insurance specialist can compare policies and help you get the right insurance without paying more than you need.

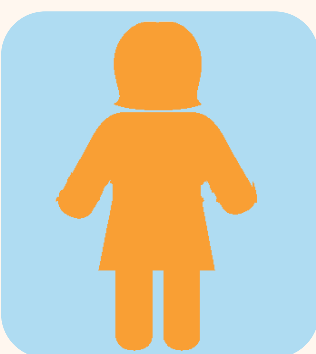
Before buying a policy, ask:

- Am I getting the right kind of insurance for my situation?
- Is the death benefit enough for my family's needs?
- Is the insurance company sound and well regarded?
- Does it have a track record of handling claims fairly?

Relying Only on Your Employer-Provided Life Insurance

Many workers get group-term life insurance as part of their employee benefits packages. While a term policy is an excellent perk that can help protect your family, the death benefit provided is often small and usually not enough on its own. The coverage will also typically end if you leave the company, leaving your family without that financial cushion. A privatepolicy has the benefit of being completely customized to your needs.

Failing to Insure Your Spouse

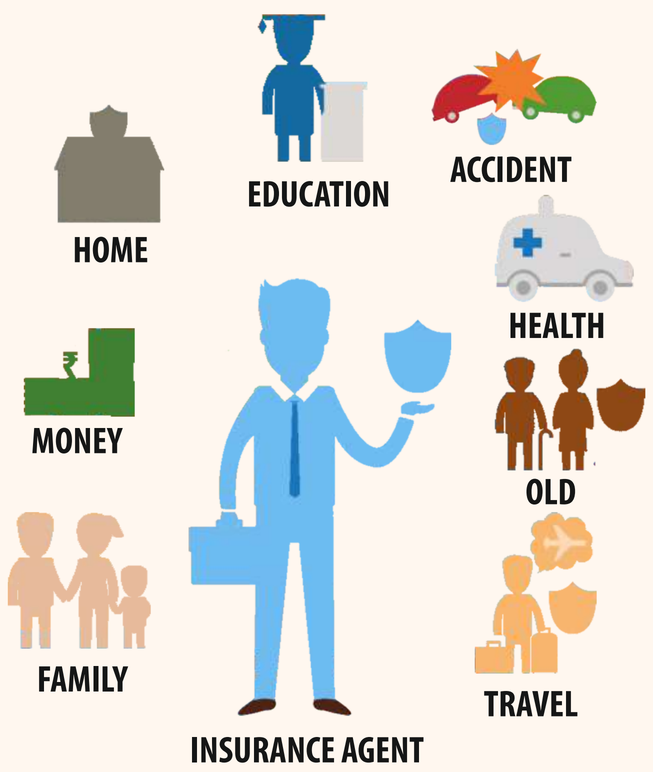


Many people make the mistake of thinking that only primary earners or working spouses need to be insured. They make the mistake of thinking life insurance is all about income replacement. However, take a moment to think about the value of the labor a non working spouse provides.

Does he or she: - Serve as the primary care giver for children or adults? - Work as the family chauffeur? - Do laundry and maintain the house? - Run errands? Though this work might not earn income, it is critical to a family's well-being. In the event of your spouse's death, it's likely that you would have to take time away from work or pay for these services.

Next Steps:

Life insurance is a critical tool in your financial life, but mistakes can be costly. One of the benefits of working with a financial professional is that he or she can review your entire situation and make recommendations about the role life insurance should play.



Consumer Tips

1. Shop around. Compare plans from more than one company. Don't feel pressurized to make a quick decision. Life Insurance is a Long-term contract.

2. Ask questions. Your life insurance policy represents a considerable investment in your family's future.

3. Read and understand your contract. Make sure your premium amount is working towards your goals. Be aware of the limitations and conditions of your policy. Most companies offer a 15-day free look period and that starts once your policy is in your hands.

4. Know what you have purchased. The main purpose of a life insurance policy is to provide coverage for your family in your absence. If you prefer a retirement plan, you should consider other options, such as buying an annuity. Make sure it specifies the premiums, guaranteed interest rate, investment period, payout period and surrender fees.

5. Know the difference between the “guaranteed” rate and the “projected” rate. The guaranteed rate is the minimum rate at which your cash value will accumulate.

6. The agent would have highlighted a much higher projected rate based on current or anticipated interest rates for non guaranteed plans. The life insurance company may not guarantee, however that the policy will achieve the higher rate of return.

7. Some policies do not offer tax benefit at the time of maturity. Please understand the tax consequences while you buy a policy.