6 Things to know about Life Insurance

IFE Academy
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INVESTORS FINANCIAL EDUCATION ACADEMY

Phone : 044 - 2814 3044 email : bulletin@ifea.in www.ifea.in

Life insurance can be a valuable tool for protecting your loved ones.

It can also provide asset growth, tax advantage and a supplemental income stream during retirement.

Determine your life insurance needs as part of your overall financial plan, considering your goals for savings & retirement, as well as tax and estate planning.

As your life changes, your financial goals may change and hence your need for life insurance, making it important to review your coverage periodically.

Life insurance is a safety net that protects your loved ones

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Regd. office: 5A, 5th Floor, Kences Towers, No.1, Ramakrishna Street, North Usman Road, T.Nagar, Chennai - 600 017.
email: bulletin@ifea.in www.ifea.in

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About this book

Life insurance is one of the pillars of personal finance, deserving of consideration by every household.
When it comes to buying life insurance to protect your family, you have a lot of choices to make. Everything from selecting the right amount of coverage, to choosing a reputable life insurance company to buy your policy from, can make the process feel overwhelming. The good news is that once you get started, you may discover that the process of buying life insurance really isn't that complicated. We have compiled some relevant information you need to know before buying an Insurance plan.
With the proper information, you can simplify the decision-making process and arrive at the right choice for you and your family.

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INTRODUCTION

Life insurance policy is a "must" for many families. It helps the insured to protect their loved ones who are financially depending on them. It ensures that the insured family receives the right financial support at the time if something bad happens to the insured. These days, Life insurance policy with the best maturity benefit will offer the insured person and their loved ones with financial stability at the end of the tenure of the plan.

Maturity Benefits on Life Insurance

Life insurance policy with maturity benefits allow individuals to get a double advantage from their existing policy. Not only does their family to get death benefits in case of their untimely absence or permanent disability but also, if they do live on throughout the term of maturity, there are additional benefits available, which are much more than what they stand to gain. Insurer offers a sum assured on maturity of the policy. Some insurers offer guaranteed benefits while some offer benefit that are not assured and depend on the performance of the Insurer.

Generally, policies come with duration of 5, 10, 15, or 20 years and most people survive such terms.Therefore, instead of going in for simple term life insurance policy where they stand to lose the premiums paid if they stay alive, it is a good idea to go for policies that provide maturity benefits. But premiums are higher than term plan premiums.

Ways to claim maturity benefits from Life Insurance Policy:

In a life insurance policy with maturity benefits, the insured will be entitled to claim maturity benefits if he or she outlives the term of the policy. The insured is entitled to claim the maturity benefits only when the policy is in force and all premiums have been paid duly. A maturity claim is one of the simplest claim procedures with minimal paperwork involved.

- Policy discharge form

Usually, the Policy discharge form would be sent to the insured, one month before the maturity of the Insurance Policy by the Insurance Companies. A letter would be sent along with the form providing the instructions regarding the documents that would require with the form.

Required Documents

- The provided Policy Discharge form should be dully filled and signed by the insured along with two witnesses. Eventually, the below documents would be required along with the form:

01 Original Policy Document

02 Copy of Identity Proof and Address proof

03 Bank mandate form with bank details.

04 A cancelled cheque leaf

- The duly completed forms and documents should reach the Insurance companies at least 5-7 working days before the maturity of the Insurance Policy to avail the maturity claim settlement.
- After all the documents and forms are being verified by the Insurance Company, the maturity claim amount would be credited directly to the bank account of the insured after the policy maturity date.

Note: If in case the insured person dies after the maturity date of the policy, but the policy procedures are being completed then the maturity amount can be claimed by the legal heirs of the deceased insured person.

When should you choose Income Benefit?

Life Insurance Policies offer wide choice for the invividuals who would like to protect their future. Some policies offer a lump sum benefit while some policies offer regular Income benefit. We have summarized some of the situations when regular income would be suitable.





- Income Replacement:

  Life Insurance is considered to be the best method of income replacement method for the insured family. In case of any unforeseen situations for the insured, the life insurance acts as a pillar to his/her family in order to meet the future needs paving way to the family to live a peaceful life with a regular income even in the absence of the insured person.

- Beneficiary with limited Financial Knowledge:

  In case the members in the family of the insured don't have the capability of managing the finance independently, the insured can plan beforehand accordingly and opt for regular Income benefit.

- Beneficiary Has Special Needs:

  If in case the beneficiary of the insured has some critical illness or has any special disabilities; it makes sense to provide them with a long-term monthly or annual benefit.

- Provide a Long-Term Predictable Benefit:

  Even when the insured is surviving the policy term, these kinds of policies would provide for a second source of income. The premiums are relatively cheaper than the policies that offer lump sum benefit.

Tax Benefits on Life Insurance:

The Tax Benefit on the premium paid for a life insurance policy is an additional advantage in Life Insurance policies. Now a days, Life insurance is not only beneficial to provide a financially secure future for the insured family but also helps to save money through income tax deductions/exemptions. It is very much necessary to understand all the aspects of tax benefit while claiming them. The following are the list of tax benefits for the FY 2019-20 as per the various sections of the Income Tax Act, 1961.

1 .

Section 10(10)D of the I-T Act,1961:

Income received from the Life Insurance Policies are exempted under Section 10(10) D of the Income Tax Act, 1961. This exemption is available for all types of Life Insurance Policy payouts, without any upper limit and including bonuses and surrender value too. Under Section 10(10)D of the Income Tax Act,1961 the amount of sum assured plus any bonus paid on maturity or surrender of policy or on death of the insured are completely tax free to the receiver subject to certain conditions. The following are the cases where the policy proceeds are being taxable:

- The insurance premium paid during any year must not exceed 20% of the sum assured for policies purchased between 1st April 2003 and 30thApril 2012.If the premium payable in any year exceeds 20% of the actual sum assured, and then the policy proceeds would be taxable in the hands of the insured. Actual sum assured means the least sum assured in all policy years and does not include the bonus amount which is received over and above the sum assured.
- If the policy is purchased after 30th April 2012, the premium amount should not be more than 10% of the sum assured. If in case the insured suffers from any disability or disease that are being specified under the Income Tax Act, 1961 and if the policy was being issued on or after 1st April 2013 then the premium assured limit would increase from 10% to 15%. This benefit can be availed for those disability and disease that are being mentioned under Section 80U, 80DDB with rule of 11D of Income Tax rules.
- If the policy premium payable in any year exceeds 10%, 15% or 20% (as mentioned above), then the whole proceeds would be taxable for the year. If in case of the death of the insured then the policy

proceeds received by his/her nominees would be tax free even if there is an increase in the premium percentages that are being mentioned above.

- If the life insurance policy that a company purchases on a key executive's life, the company becomes the beneficiary of the plan and pays the insurance policy premiums. This type of life insurance is also known as Key man Insurance Policies. These policy proceeds are not tax free under Section 10 (10) D of the Income Tax Act, 1961.
- If the maturity benefits of the policy are not being exempted as per the above conditions under Section 10(10)D of the Income Tax Act, 1961, then the amount being received is subject to TDS (Tax deducted at source) as per the following rules:
- Any policy proceeds received from the insurer for the Life Insurance Policy shall be subject to TDS at 1% provided the insured is an Indian Resident and they are not being exempted under Section 10(10)D as per the above provided conditions. Moreover, even in case if the proceeds are being taxable under Section 10(10)D but do not exceed the value of Rs.1 lakh, then NO TDS would be deducted from the insurer for the payment made to the insured.

  Note: It is very much important for the insured to submit their PAN to insurer else the rate of TDS would be 20% instead of 1%.

2. Section 80C of the I-T Act, 1961:

This is the most important section for deductions for every taxpayer. Under section 80C of the Income Tax Act, 1961, the life insurance premiums that you pay during any financial year are exempted from your taxable income up to a maximum of Rs. 1.50 lakhs. Investments that are being made under Section 80CCC and Section 80CCD would also be clubbed with Section 80C to avail the Tax benefit of Rs. 1.50 lakhs.

Maximum premium benefit that can be availed Section 80C are as follows:

- As per Section 80C (3) in case of life insurance policy issued on or before 31st March 2012 if the gross premium paid in any year exceeds 20% of the actual sum assured, then the deduction (from gross total income) will be available to the extent of 20% of the actual sum assured (SA) and the premium paid in excess of this amount cannot be claimed as deduction. If in case the policies are being issued after 1st April 2012 the proceeds premium limit would be 10%.
- If in case the insured suffers from any disability or disease that are being specified under the Income Tax Act, 1961 and if the policy was being issued on or after 1st April 2013 then the premium assured limit would increase from 10% to 15%. This benefit can be availed for those disability and disease that are being mentioned under Section 80U, 80DDB with rule of 11D of Income Tax rules.

The Minimum lock-in period from the start of the policy to avail the benefit under Section 80C is as follows:

Premium Type	No. of Years
Single Premium Life Insurance Policy	2 Years
Unit Linked Insurance Plan	5 Years
Other Life Insurance Policy	At least 2 years

IMPORTANT NOTES TO BE CONSIDERED:

- The premium that is being paid on behalf of wife/husband, children can be claimed for deductions under Section 80C of the Income Tax Act, 1961.
- If the payment of premium is being stopped it amount to discontinuation of the policy and no tax benefits are available in respect of such policy.

Diseases that are being listed under section 80DDB:

- Ataxia.
- Dementia.
- Aphasia
- Dystonia musculorum deformans.
- Hemiballismus.
- Parkinson's disease.
- Chorea.
- Motorneuron disease.

Disabilities that are being listed under Section 80U:

- Blindness
- Lowvision
- Leprosy-cured
- Hearing impairment
- Locomotors disability
- Mental retardation
- Mental illness

Smartest ways to save the premium cost while purchase of Life Insurance

Life insurance is undoubtedly one of the best possible ways to secure the future of our loved ones. As it involves our family, we must be smart enough to make this important decision of our life and also consider numerous factors to save on premium costs. To help us better, here are some important tips to keep in mind when buying a life insurance cover. These tips, can certainly help in making a correct decision and arrive at the right choice.

Insurance at an Early Age

One of the key benefits of purchasing life cover at an early age is that you get the desired policy at lower premium. It is advisable to buy life insurance coverage when you are young and relatively healthier compared to when you will be older and more prone to medical issues. As you grow older, the premium amount also starts increasing because the premium amount is entirely based on the probability of the policyholder making a claim in the near future.

Paying Premium Annually

The insurer allows them to pay premium in a number of ways including monthly, quarterly, half-yearly and annually. Annual premium offers a rebate / discount when compared to monthly premium. Hence it is advisable to go in for a recurring deposit which earns some return and also save cost of Insurance by opting for Annual mode.

Choosing the right policy

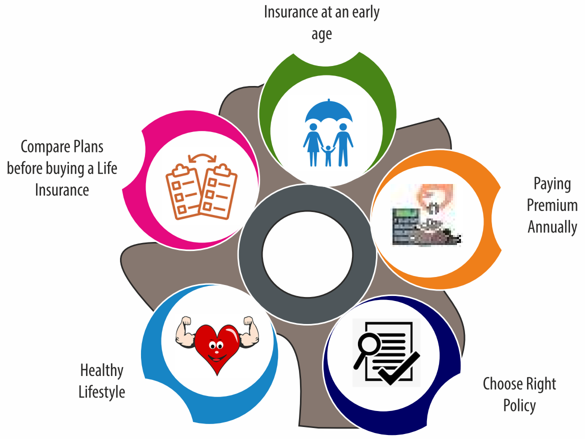
While buying a life insurance policy, do make sure that the policy term is ideal. For example, if a person is a salaried person and has an earning capacity till 60 years of age, it is advisable to take a cover till the age of 60 so that they can meet all their liabilities easily.

Healthy Lifestyle

In life insurance, the premium of your policy majorly depends on your health condition. Most insurers these days give utmost attention to the medical history of the policy seeker while finalizing on a life insurance cover. While planning to buy a life insurance policy, it is advised to make an effort to lower the

Compare Plans before Buying a Life Insurance

It is very much necessary to compare between the plans before buying Life Insurance. There are quite some chances that the policy recommended to the person who won't be sufficient to cover all their financial needs. In order to get the most out of their life insurance cover, it is advised to compare all the available options on the basis of offered benefits, prices, tenure and claim settlement ratio. After proper comparison, choose the one which is available at affordable premium yet provides adequate coverage. mortality risk by following a healthy lifestyle to significantly reduce the premium amount.



Should you choose a Life Insurance policy without Medical Test?

There are some Life Insurance policies that do not require the insured person to take a medical exam before approval to buy the policy. Many people have a fear of doctors and others are afraid they'll be rejected because of a pre-existing condition.

It's the job of the insurance company to qualify the risk to insure you without a medical exam. You will need to disclose any condition you have on the medical questionnaires. All the information the insurance companies gather helps to determine how risky you are as a policy holder. Once you fill out your application with them, the insurance company determines not only your insurability, but also how much they'll charge you for your policy. The cost of no exam life insurance is normally higher than medically underwritten policies, because without your health information, companies have to make an educated guess about your life expectancy.

It is important that a true and fair disclosure on health to be made.

Life Insurance mistakes to avoid

Choosing the first quote

Many people make the mistake of simply going with the first quote that they get when taking out insurance, as this is more likely to result in spending over the odds on coverage.

Thinking that policy will cover all events

Many people have fallen as victims and not get the paid the benefits they require. One of the reasons why their claims are rejected is because of the basis of the claim that does not match the features of the policy or it has been excluded. Failing to check the features and exclusions on the insurance plan that is chosen can have a devastating effect.

Underinsuring

Some people try to get around the cost of coverage by taking out less coverage to reduce premiums. However, this could leave them or their loved ones financially high and dry in the event of a claim, as the coverage they have taken out may not be sufficient to cover the necessary financial commitments.

Picking a policy purely on its price right now

More importantly, people often choose a policy with a stepped premium that looks affordable initially, but is set to rise in the future.

Life Insurance mistakes to avoid

Doesn't fit the budget

Some people don't consider how much life insurance will cost in relation to their budget. This can leave policy holders unable to make payments and ultimately lose the premiums they have paid.

Choosing the wrong form of life insurance

There are so many different types of insurance plans these days it is little wonder that so many people get confused. It is better to understand the goals and requirements before taking out coverage and then choose the most suitable plan and type of coverage.

Not reviewing your policy as personal circumstances change

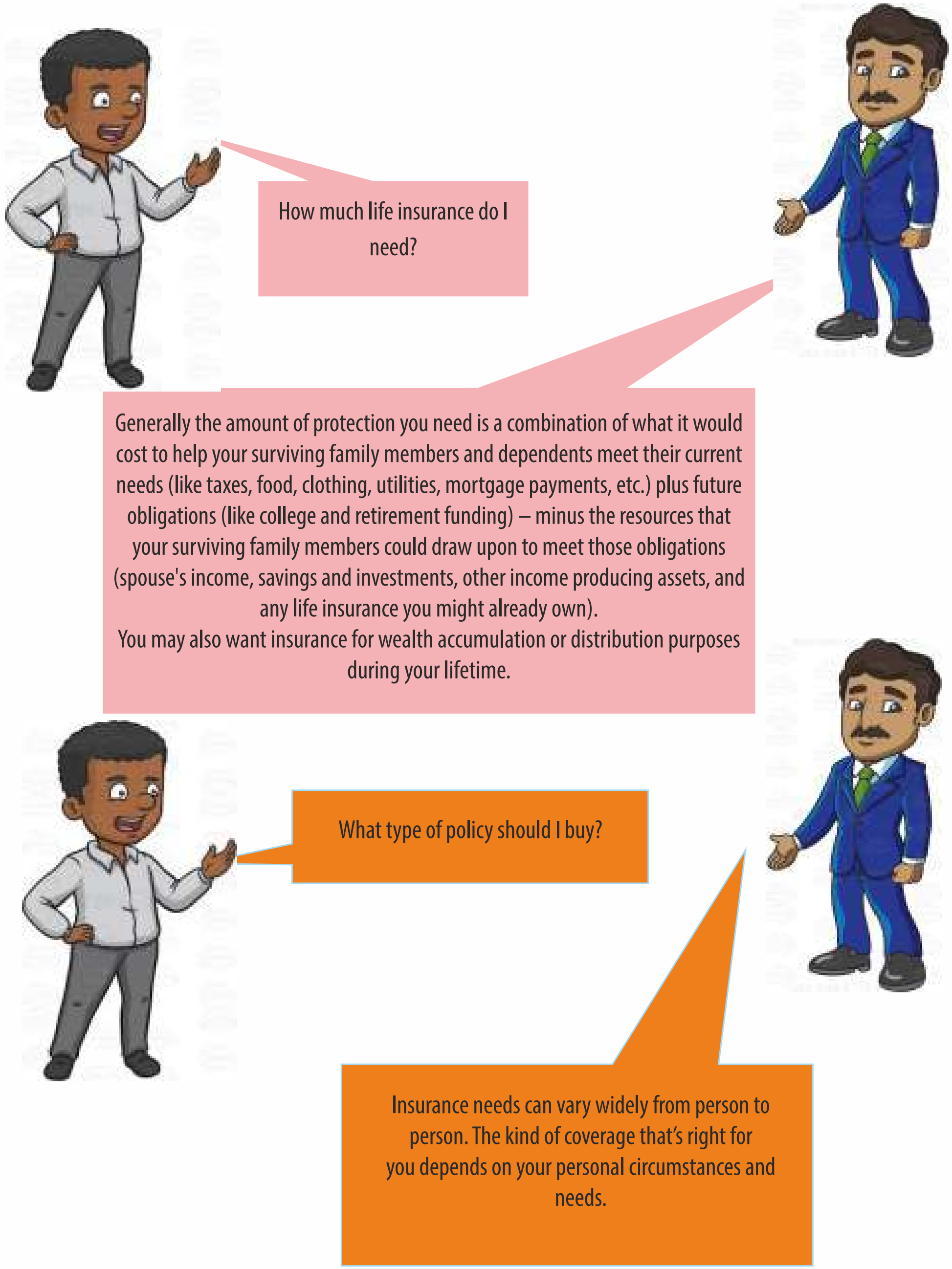
A lot of people take out various forms of insurance and then forget all about them, confident in the knowledge that they have coverage in place. However, this is not always enough, as circumstances and therefore needs may change, which in turn means that relevant changes may need to be made to insurance accordingly.

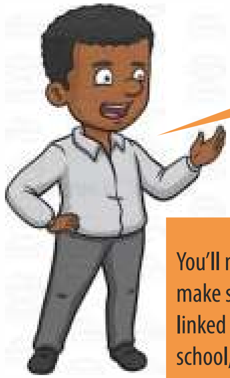
Going in blind and uninformed

Not all of us have the knowledge, experience or confidence to know exactly what is going to be best for us in terms of insurance. However, many people who are uncertain about their insurance needs and choices still go ahead and sign up to what they hope will be the right plan. This can be a costly mistake.

Simple rules to follow when you buy a Life Insurance Policy

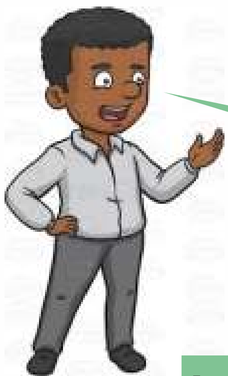

FREQUENTLY
ASKED
QUESTIONS


How much life insurance do I need?
Generally the amount of protection you need is a combination of what it would cost to help your surviving family members and dependents meet their current needs (like taxes, food, clothing, utilities, mortgage payments, etc.) plus future obligations (like college and retirement funding) – minus the resources that your surviving family members could draw upon to meet those obligations (spouse's income, savings and investments, other income producing assets, and any life insurance you might already own).
You may also want insurance for wealth accumulation or distribution purposes during your lifetime.
What type of policy should I buy?
Insurance needs can vary widely from person to person. The kind of coverage that's right for you depends on your personal circumstances and needs.



How do I decide the length of the Policy term?

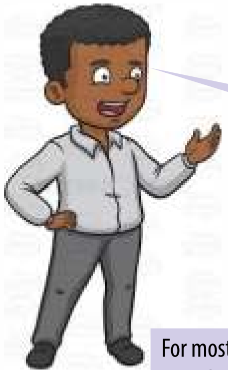
You'll need to consider exactly what you want it for. Maybe you want to make sure the policy lasts as long as your mortgage repayments.Or perhaps linked to your children's age, so that it won't expire until they have finished school,turned 18 years old, or finished university.Of course, your own age will have an impact on your decision.



What if I already have insurance coverage?

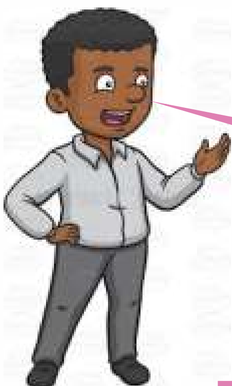
Even if you already have a life insurance policy, it's a good idea to review it periodically to make sure it still meets your overall needs. There are times in life you need to take a look at your financial situation, such as if you:

- Were recently married
- Had a child
- Have children who are about to enter college
- Provide care or financial help to elderly parent
- Retired or your spouse has retired
- Started a business
- Changed/lost your job or salary



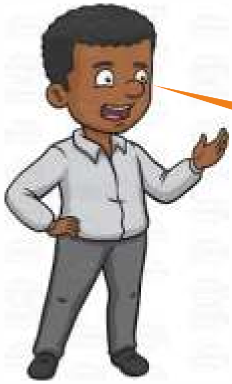
I already have life insurance with my employer. Is that enough?

For most people, no. First, employer-based policies often don't provide enough coverage to replace your income for very long. Second, employer-based policies typically end soon after you leave the job. This means if you quit your job or get laid off or fired, your family could find themselves without coverage when they need it.



How can I save money when buying life insurance?

- Buy it now. Premiums for the same face amount of coverage increase the older you become. The more you wait, the more you risk developing a health condition that could increase your premium, or disqualify you from coverage.
- A combination of term and Endowment / Whole life may offer lower premium payments.



What factors that generally decide the premium calculations?

Premium rates for life insurance are typically based on factors such as:

- Age, gender, height, and weight
- Health status, including whether or not you use tobacco or nicotine
- Participation in high-risk activities or occupations

What should I look for in an insurance company?

In addition to being financially secure, the life insurance company you choose should have a good claims payment history and good customer service.

Can I increase my insurance coverage?

Depending on the type of policy you have, you may be able to increase your coverage within that policy or you may purchase additional policies to increase your coverage.

What happens if I change my mind?

Not a problem. If you decide you do not want the policy you can cancel it within 14 days of receiving your policy document (this is known as the "free-look period"). A signed cancellation is all that is required. Any premiums paid during the free-look period will be fully refunded to you.

Water is PRECIOUS!

IFE Academy

Education Simplified

So is our LIFE!

Premium per day for Rs.1 Cr Term Insurance costs less than a litre of packaged drinking water.

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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