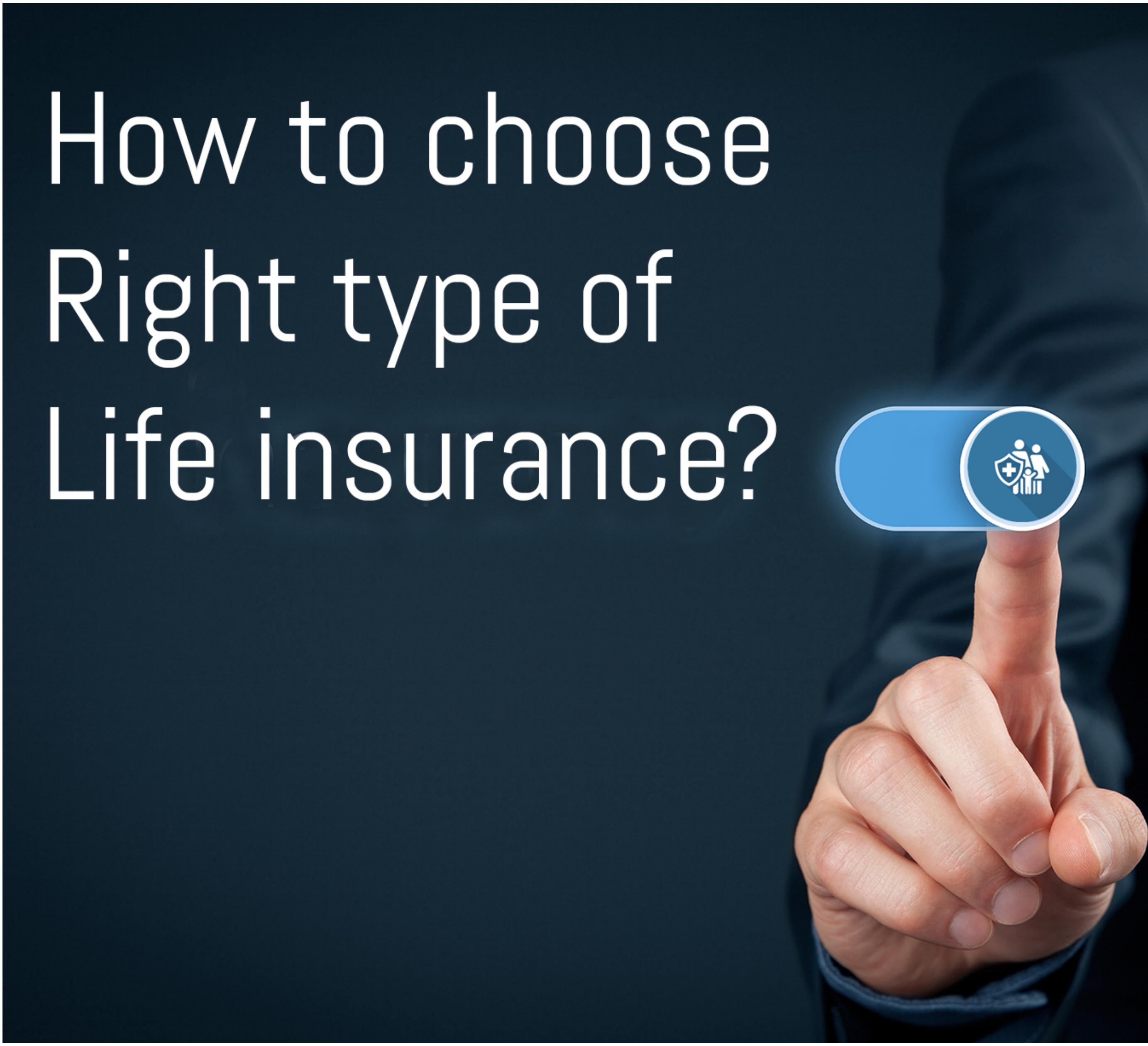
How to choose Right type of Life insurance?



IFE Academy
Education Simplified

INVESTORS FINANCIAL EDUCATION ACADEMY

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

Life Insurance

Why do I need it?

Every life has a value and is worth protecting. If an unexpected event were to happen, life insurance proceeds can help pay for:

- Bills and ongoing expenses
- Outstanding debt
- Future needs, like education
- Spouse's retirement plan

MYTH: Life insurance is too expensive.

FACT: A healthy 30-year-old could get Rs.1 crore coverage for twenty years at Rs.20 per day.

IFE Academy
Education Simplified

Kotak SmartLife
Participating Endowment Plan

kotak life

Apka smart savings plan

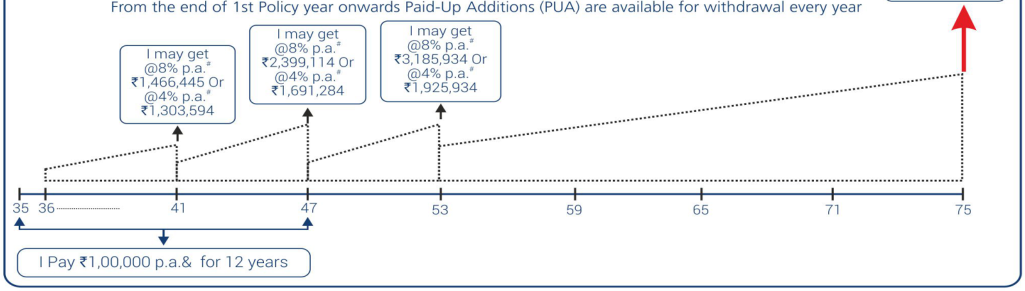
Benefits

- **Convenience of choosing Bonus^ options: Paid-Up Addition or Cash Payout**
- **Avail chosen Bonus^ option from end of 1st policy year onwards**
- **Offer Protection up to age of 75 years**
- **Additional protection through optional riders on payment of additional premium**

For example I choose the Smartlife Plan with a Premium Payment Term of 12 years and a Sum Assured of ₹10,62,249 with Paid-Up Additions

On maturity I may get @8% p.a.# ₹7,348,870 Or @4% p.a.# ₹2,627,129

From the end of 1st Policy year onwards Paid-Up Additions (PUA) are available for withdrawal every year



BEWARE OF SPURIOUS PHONE CALLS AND FICTITIOUS/ FRAUDULENT OFFERS
IRDAI is not involved in activities like selling insurance policies, announcing bonus or investment of premiums. Public receiving such phone calls are requested to lodge a police complaint.

Kotak SmartLife Plan UIN: 107N102V01, Form No: N102, Kotak Term Benefit Rider, UIN: 107B003V03, Form No: B003; Kotak Accidental Death Benefit Rider, UIN: 107B001V03, Form No: B001; Kotak Permanent Disability Benefit Rider, UIN: 107B002V03, Form No: B002; Kotak Life Guardian Benefit, UIN: 107B012V02, Form No: B012; Kotak Accidental Disability Guardian Benefit, UIN: 107B011V02, Form No: B011, Kotak Critical Illness Plus Benefit Rider - 107B020V01, Form No.: B020, Ref. No.: KLI/18-19/E-EM/547.

This is a Savings-cum-Protection oriented Participating Endowment plan. For sub-standard lives, extra premium may be charged based on Kotak Life Insurance's underwriting policy. For more details on risk factors, terms and conditions please read the sales brochure carefully before concluding a sale. For details on riders, please read the Rider Brochure. Above example is for 35 year old healthy male for Sum assured of ₹10,62,249, PT/PPT of 40/12 years and Paid-Up Additions as the chosen bonus option. This is assuming policy is in force and all the premiums are paid. &The Above premium figures are exclusive of Goods and Services Tax and Cess. Goods and Services Tax and Cess thereon, shall be charged as per the prevalent tax laws over and above the said premiums. Tax laws are subject to amendments from time to time. Customer is advised to take an independent view from tax consultant. *Inclusive of accrued PUA. During PPT death benefit shall be Sum Assured on death + Accrued Simple Reversionary bonus (if any) + Terminal bonus (if any). ^Please note that Bonuses are NOT guaranteed and may be as declared by the Company from time to time. #The assumed non-guaranteed rates of return chosen in the illustration are 4% p.a. and 8% p.a. These assumed rates of return are not guaranteed and they are not the upper or lower limits of what you might get back as the value of your policy is dependent on a number of factors including future investment performance. The actual experience may be different from the illustrated.

Kotak Mahindra Life Insurance Company Ltd. Regn. No.: 107, CIN: U66030MH2000PLC128503, Regd. Office: 2nd Floor, Plot # C- 12, G- Block, BKC, Bandra (E), Mumbai - 400 051. Website: https://insurance.kotak.com I Email:clientservicedesk@kotak.com | Toll Free No. – 1800 209 8800.

How to choose Right type of Life Insurance?

IFE Academy

Education Simplified

Regd. office : Park View, Basement, 85/17, G.N.Chetty Road, T.Nagar, Chennai - 600 017.
email : bulletin@ifea.in www.ifea.in

First Edition: 2019

About this book

Being under insured or having no insurance at all, places you at serious risk financially. Life Insurance is an absolute necessity for the well-being of your family. Choosing the right Life Insurance is one of the major decisions you would make as a Family head. To assist you in the decision making process, we have compiled the common questions you would come across and comparison of various types of Insurance available.

Ultimately, deciding what coverage is right for you should be balanced between what you can afford and how much coverage you need.

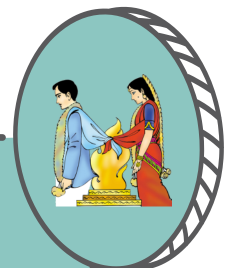
You may visit www.ifea.in to access the various tools and calculators.

Rs.40/-

Published by
Investors Financial Education Academy
Park View, Basement, 85/17, G.N.Chetty Road,
T.Nagar, Chennai - 600 017.

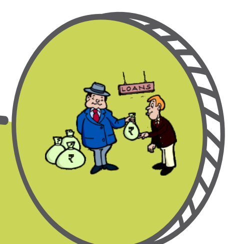
Age group 25 years to 30 years

Are you employed or Self Employed?



Are you married?

Is your parents' dependent on your Income?

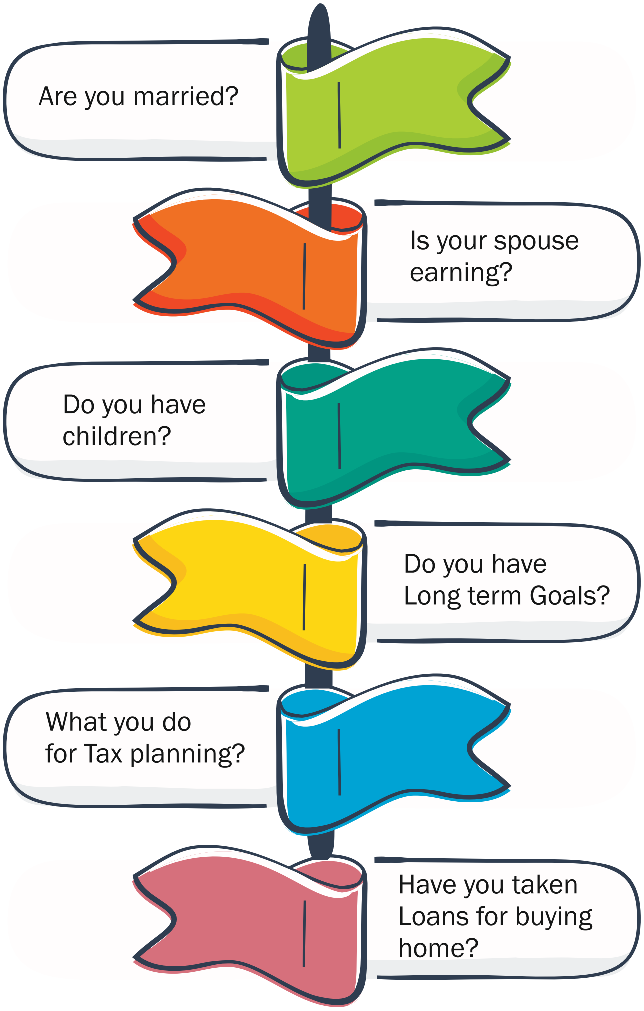


Do you have Loans – student loans/ Home Loan/ Car Loan / Credit Card?

Answering these question will help you decide the right insurance cover.

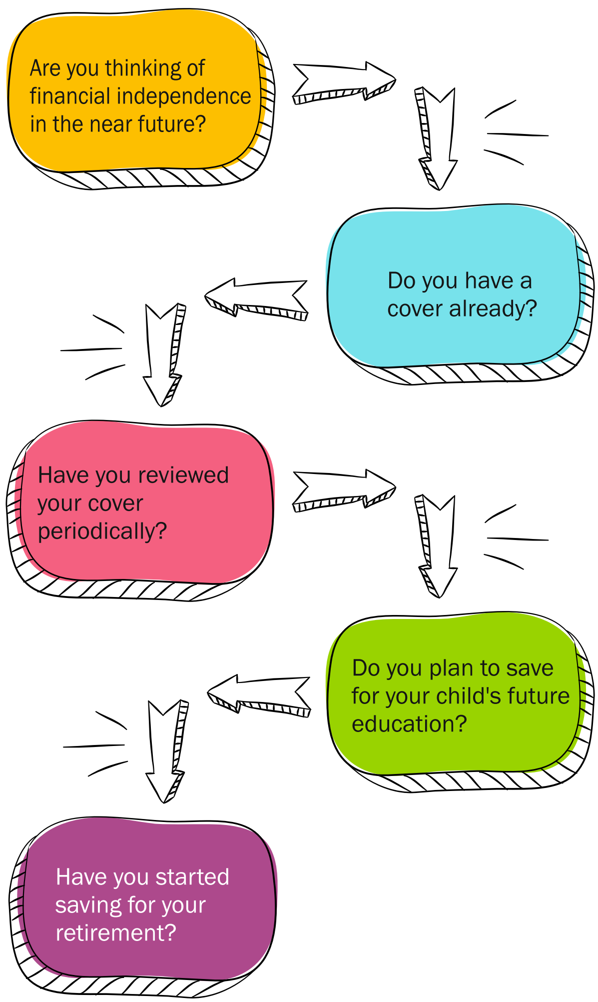
It can be worth buying life insurance while you're young because premiums are relatively low and you're likely in good health.

Age group 30 years to 35 years



Now life insurance is more important because someone else is financially tied to you. First, calculate the amount of coverage you need to replace future lost income and cover any large debts. Then, decide what type of insurance to buy. You might be able to afford to buy sufficient cover through a whole life / endowment policy, which have investment components as well as death benefits. Or, you may be better off buying term life insurance, which provides only a "pure" risk cover within a specified time. Generally, term insurance is very low in premium when compared to other types of Insurance but there is no survival benefit.

Age group 35 years to 45 years



You're likely to spend the most of your time in building your career. During that time your income may increase and you'll take on new expenses—a growing family, a bigger home, college tuition. Life insurance can provide money to help protect all that you've achieved in life.

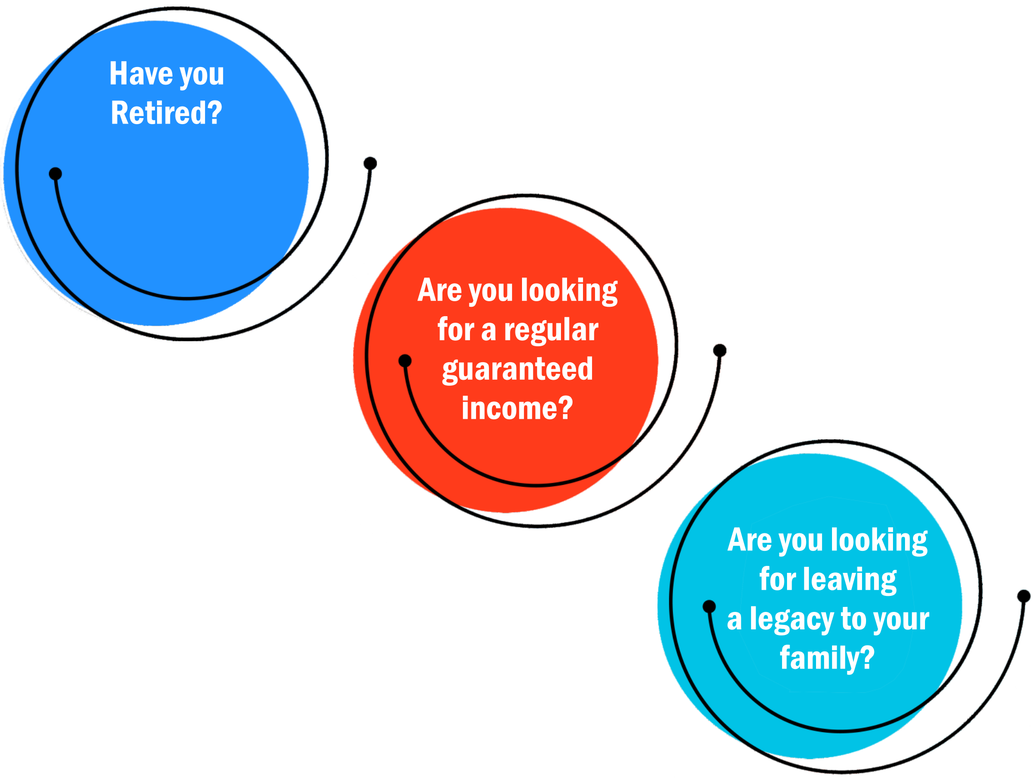
As a parent, providing for your child as they grow, and in the future, becomes one of your highest priorities.

Age group 45 years to 55 years

With 20 or so years of work behind you and another 20 (at least) ahead of you, now is the time to prepare for the second half of your career and for retirement. Arriving at your forties can bring you sudden perspective on life. Creating a master plan for your retirement is important but it's likely you'll have more expenses than ever at this stage (think teenage kids at university).

As your long-term responsibilities become obvious, you will realise that life insurance in your forties is crucial to cover the family's needs and leave them financially protected. After all, a stay-at-home parent takes care of services that are costly if provided by an outside source.

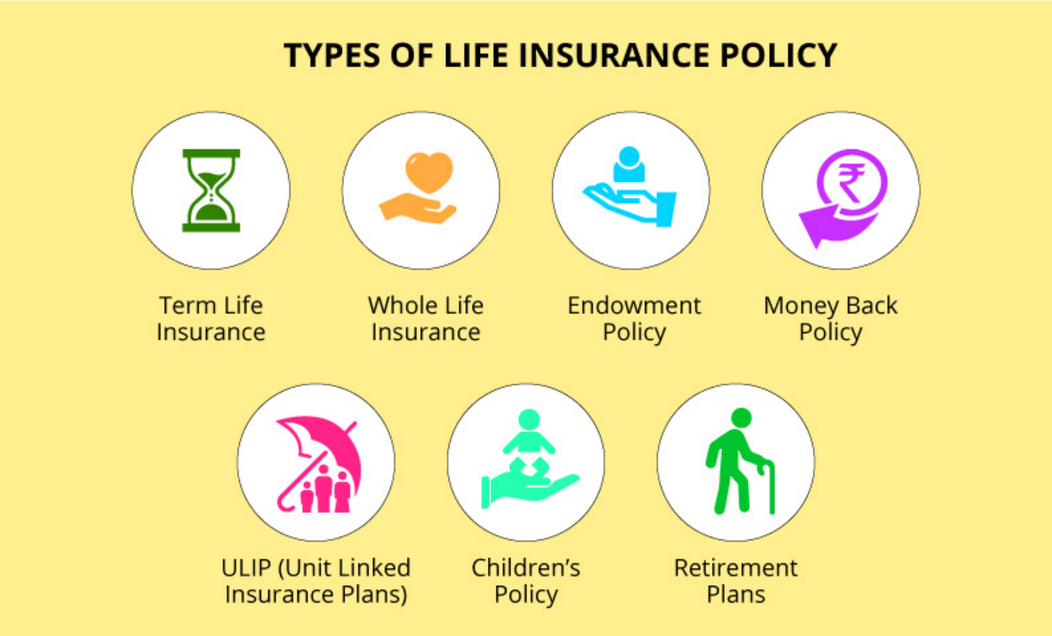
Above 55 years



Who among us isn't looking forward to retirement? Maybe you want to travel, buy a new home, or simply relax in your own back yard. You can do whatever you want, as long as you plan for it.

Life insurance can provide benefit to your spouse / children if you are not there. Did you also know that some policies can provide tax-free income in your retirement years? Or, you can access cash benefits through an optional policy rider to use any way you wish if you become ill.

You've spent a lifetime accumulating wealth and you want to pass it on to your loved ones. Whole Life Insurance is a great choice and provides benefits to family in your absence. Annuity plans would be an option if you are looking for regular income.



Term

Term insurance is the most basic type of life insurance. The policy is written for the term of the policy, usually from one to 30 years. If the insured dies within the stated term, the insurance company pays the death benefit to the beneficiary. When the term ends, the insurance ends. The premiums for term insurance are usually the lowest among the different types of life insurance, but will increase with the age of the insured. There is no cash value in a term life policy.

Many employers offer a type of term insurance known as "group" term to their workers. Group policies cost less, and many companies pay the premiums. Generally, the policy is only good for as long as the worker stays with the company.

Whole-Life

A life Insurance Plan which provides a cover for your entire life time. Such plans are used to accumulate and pass on the wealth from one generation to another as legacy in a tax efficient manner. The premium can be paid for a limited term or entire term.

ENDOWMENT PLAN: An Insurance Policy which provides a Lump Sum amount on a fixed date i.e. maturity of the policy or on death of the Life Insured, whichever is earlier.

PARTICIPATING POLICY: An Insurance Plan which gives the Policyholder a share in the profits of the insurance company's participating fund in the form of bonuses. Apart from bonuses, such Insurance Plans shall provide some Guaranteed Benefits also. Participating policy is also referred to as "with Profits Policy".

NON-PARTICIPATING POLICY: An Insurance Plan under which all the benefits are guaranteed at the beginning irrespective of the actual investment performance.

UNIT LINKED INSURANCE POLICY: An Insurance Plan which gives benefits both of Life Insurance as well as investing in different funds consisting of different investment instruments like stocks, money market securities or government bonds. However, the returns are dependent on market performance and the Policyholder has to bear the investment risk

MONEY BACK PLAN: A Money Back Plan starts giving liquidity from before the end of Policy term by giving you periodic payments or monetary benefits at regular intervals of time.

Comparison between Whole Life and Endowment Plans

Whole Life	Endowment
Important factors to look into when buying the policy	
Level of coverage, premiums, cash value, whether to get a participating or non-participating policy.	Level of benefits at maturity, investment rate, premiums, length and terms of coverage.
Need addressed	
• Need for protection to provide for an aging spouse or dependents • Need to pay for end of life expenses • Can be used as an estate planning tool.	• Need for temporary insurance protection • Need for funds at a certain age (for retirement, a child's education, etc.)
Payout	
Death benefit paid out upon the Insured's death, usually until the age of 100 (some up to 85).	Death benefit upon the Insured's death within the coverage period or Maturity benefit upon the policy's maturity.
Advantages	
• More affordable premiums • Cash values can build up considerably as it has more time to do so • Predictable premiums	• Faster build up of cash value due to limited premium payment period • Acts as insurance and "forced savings" account
Disadvantages	
• Interest rates may be more conservative as this is for the long term.	• More expensive premiums when compared to wholelife.

Comparison between Whole Life and Term Plans

Important factors to look into when buying the policy

Whole Life

Level of coverage, premiums, cash value, whether to get a participating or non-participating policy.

Term Life

Tenure of the policy, Amount of Coverage, whether premium would be returned.

Need addressed

Whole Life

- Good for someone looking for long-term insurance plus investment.

Term Life

- Good for someone looking for short-term insurance with good coverage

Payout

Whole Life

Has cash value

Term Life

Has no cash value

Advantages / Disadvantages

Whole Life

- Lasts life-long until policy is active
- High premiums
- Premiums are initially high but remain constant as time passes

Term Life

- Lasts for a specified term only.
- Low premiums
- Premiums go on increasing at each renewal point

Comparison between Term and Endowment Plans

	Term	Endowment
Cover	Pure Life Cover	Cover + Savings
Benefit	No maturity benefit	Gives maturity benefit.
Cost	Less expensive	More expensive.
Sum Assured	Highest	Lower sum assured
Need addressed	• Aims at only providing financial help to nominees in case of demise. • The amount can work as an income replacement to manage household expenses and outstanding EMIs. • It is essential to buy a term insurance plan if someone has dependent family members.	• Aims to help save for future goals. • It provides guaranteed returns and caters to the need of future savings.
Payout option	• Nominee receives the sum assured in lump sum or equal installments or a combination of both on the death of the insured during the policy period.	• The payout is lump sum either on the death of the policyholder during the policy term or as a maturity benefit on completion of the policy term.

Differences between Participating and Non participating policy

	Participating Policy	Non Participating Policy
Meaning	A participating policy enables the policy holder to share the profits of the insurance company. These profits are shared in the form of bonuses or dividends. It is also known as a with-profit policy.	In non-participating policies the profits are not shared and no dividends are paid to the policyholders. This type of policy is also known as a without-profit or non-par policy.
Payment	The bonuses or dividends are usually paid out annually.	In case of a non-participating policy, there is no bonus or dividend paid to the policyholder.
Payment guarantee	The bonus that is given in this policy is not guaranteed. It is based on the performance of the insurance company.	Generally the benefits are guaranteed in the non participating policy.
Benefits	The most important benefit of participating policies is that it not only provides protection, but also provides returns in the form of a bonus.	The premiums are a little lesser than participating policies.

Comparison between ULIPs and Traditional Plans

	ULIPs	Traditional Plans
Flexibility of investment	Unit Linked Insurance Plans give you flexibility to invest as per your risk profile, financial commitments and convenience. You can choose to invest either in equity, or in debt or in hybrid fund and even change your investment strategy.	These plans do not allow you to choose investment avenues. Your funds are invested as per the strategy and discretion of the company.
Transparency	Most Unit Linked Insurance Plans allow you to track your portfolio. They also regularly intimate regarding the percentage of the premium that is invested along with the charges levied. You are also kept informed about the value and number of fund units that you hold.	Your premiums are invested in a common 'with profits' fund and therefore you cannot track your individual portfolio.
Maturity benefits payout	At the time of maturity you redeem the units collected at the then prevailing unit prices. Some plans also offer you loyalty or additional units annually or at the time of maturity.	At the time of maturity you get the sum assured plus bonuses, if applicable in the plan.
Partial withdrawal	Unit Linked Insurance Plans allow you to make withdrawals from your fund, provided the fund does not fall below the minimum fund value and subject to other conditions.	Traditional plans do not allow you to withdraw part of your fund. Instead, some policies offer you the facility to take a loan against your investment.
Switching options	Available. You can change your investment fund decision by switching between the funds as being offered by the policy.	Not available since the investment decision is taken by the insurance company.
Charges structure	Specify the charges, under various heads.	These plans do not specify the charges involved.

Differences between ULIPS and Mutual Funds

ULIPs		Mutual Funds
Yes	Life Cover	No
After the completion of Lock-in Period of 5 years.	Liquidity	High liquidity, except for ELSS where the Lock-in Period is for three years.
All the ULIP plans are qualified for tax benefits under section 80C.	Tax benefits on premium paid / Amount invested	Only the ELSS investors are qualified for tax benefits.
The sum assured or fund value whichever is higher (in some policies both are paid).	Receivables for Nominee	Nominee receives the fund value.
Eligible for 10(10D) benefit in most cases.	Tax benefit on Maturity benefits	Subject to Long term Capital gains.

Life Insurance for dual income families

Most of the Indian families are moving towards Dual Income with husband and wife contributing to the financial success of the family and their careers as well. Couples with dual income are financially better placed than those with a single income, but financial planning is equally important for them.

The Cost of Working

Although it may seem as if dual income families will have more disposable income to afford life's necessities, their substantial income would go towards tax, childcare, transport and food.

Financial responsibilities should be distributed in such a manner so that individual expenses, such as those on clothes and accessories, as well as on common goals, such as children's education and their retirement, are well taken care of.

Emergency Fund

As businesses continue to restructure and downsize, some dual income families may face the possibility of living on a single or reduced income for an unspecified period of time. For those who need the additional income to help pay for basic expenses, a loss or reduction of one income could have a serious impact on the family finances.

Having an emergency fund always helps. This could either be in the form of a savings account, or short-term or liquid mutual funds (MFs) which can be accessed at short notice. Both spouses can maintain separate bank accounts. However, they should have separate savings accounts earmarked for emergency needs.

Investments

The basic rule to follow is income minus savings. What's left is to be used for non-discretionary household expenses. That said, both partners should identify their short-term and medium-term goals and save accordingly. Long-term savings, especially in tax savings investments, should be linked to long-term goals. Each spouse can earmark his or her savings to a specific goal. Buying a house jointly will help both of them in claiming tax benefits.

Protecting Family's Future

It would be a better strategy to buy Life Insurance on both the lives of the partners. This shall secure the financial future of the family in case of death or disability of a family member. There are several advantages to life insurance plans. For example, policies bought at a younger age may have lower costs, build cash value, and maintain level premiums. Some Life Insurance policies generate regular cash flow after premium payment term. These kinds of policies can be a second source of Income for the family and help spouses to take a break from work if required.

Dual income families have become a fixture in today's society. Although individuals may have different motives for working, most families come to depend upon that second income, whether it is used to meet current or future needs. Thus, it is important to consider the dual protection that life and disability income insurance policies on both spouses can provide.

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:

- Immediate needs
- Ongoing needs
- Special funding needs (college funding)

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.

Calculate your Life Insurance Needs

To begin with, an assessment of your financial needs taking into account the life stage, risk profile, dependants, disposable income and liabilities has to be undertaken. This will help identify the protection and savings needs for the person. The protection should provide for all the liabilities and future earning potential of the person insured. This will at a minimum ensure that the lifestyle of the dependants is not significantly altered if anything unfortunate were to happen to the person. The savings portion will be determined by the financial goals of the individual.

The life insurance cover should meet the protection and savings requirement of the family.

The life insurance cover should be big enough to generate income that can take care of the expenses of the family till your dependents are self-sufficient. If your spouse is a dependent, the cover should also provide for her retirement needs. Then comes the issue of debt. The money received should be able to settle all outstanding loans, especially big-ticket home loans.

A : Know your family income/expenses		
	example	yours
Your monthly income	75,000	
% of monthly income you wish to cover (80%)	60,000	
Multiply by 12 to annualise the amount	7,20,000	
No. of years the family would need support (for 10 years)	72,00,000	
a. Your family's expenses	**72,00,000**	
B : Know your family's future needs		
Child's wedding expenses	20,00,000	
Child's higher education	25,00,000	
Home loan pay-off	40,00,000	
Car loan pay-off	0	
Personal loan pay-off	0	
Other needs	0	
b. Total requirement	**85,00,000**	
C : Know your current assets		
Cash / Savings	75,000	
Investments (Mutual funds, Stock, Bonds etc.)	1,00,000	
Retirement funds(PPF, PF, NPS, others)	5,00,000	
Existing insurance	5,00,000	
Others	10,00,000	
c. Total existing assets	**21,75,000**	

Insurance Cover required = (A+ B- C)

We've assumed that Home is not an asset, your family would prefer to sell.

Notes

Notes

YOU NEED LIFE INSURANCE IF YOU ARE...

A BREADWINNER

If you are the provider for your family, you need life insurance. This is to ensure that your spouse and children will be taken care of financially in case of any unfortunate event or total permanent disability.

A BUSINESS OWNER

Business debts left behind can be a burden to your loved ones. Having a life insurance ensures that they will receive a pay-out that can help pay off debtors, if any.

YOU HAVE A HOME LOAN

If you have a home loan, it is better to get term insurance to the extent of loan.

YOU HAVE AGING PARENTS WHO RELY ON YOU

Even if you are single, you may still have aging parents or a special-needs sibling who depend on you. You will want to ensure that they continue to receive the care that they need even if you are not there.

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.

IFE Academy
Education Simplified

Investors Financial Education Academy

Regd. office : Park View, Basement, 85/17, G.N.Chetty Road, T.Nagar, Chennai - 600 017.
email : bulletin@ifea.in www.ifea.in