Top Picks for Life Insurance

Which type of Life Insurance should I buy?

Term Insurance:

- The policy period is up to a maximum of 30 years
- Policy holder pays a fixed premium every year
- The sum assured can be higher than ₹ 1 crore
- The sum assured will be given only if the policyholder dies during the given period
- If the policy holder survives the policy period, the policy lapses and the policyholder gets nothing
- If policy holder stops paying premium, his policy lapses & he is no longer covered on his life

Endowment Plans/ULIPS:

- The policy period is up to a maximum of 30 years
- Policy holder pays a very high premium every year
- The sum assured is generally not higher than ₹ 10 lakhs
- The sum assured will be given if the policyholder dies during the given period
- If the policy holder suffers the policy period, he gets maturity amount
- The maturity amount is given because the high premium paid is split into life insurance premium & investment amount. The investment amount generates returns & is given back to policyholder at maturity. For endowment plans the returns are in the range of 4-8%. For ULIPs, the returns depend on equity market returns
- If the policy holder stops paying premium, his policy lapses & he suffers a loss on premiums paid in the past

Term Insurance is preferable. One should prefer a term insurance policy over endowment or ULIPs because

- Sum assured is far higher
- Premiums are far lower
- Investor can invest his savings separately in debt and equity mutual funds to get higher returns
- Endowment policies if cancelled mid-term can lead to losses for investors on the paid premiums

Features common to all Term Insurance plans:

Government Regulation: Insurance companies are highly regulated by government through an agency IRDA. IRDA closely tracks the ability of insurance companies to pay the sum assured for the ongoing policies. Also, IRDA forces insurance companies to transfer some risks to reinsurance companies for more protection of policy holders. In case an insurance company dishonors a claim, the policyholder can legally appeal against the Insurance Company to IRDA. IRDA legally ensures that legitimate claims of investors are honored by all insurance companies.

Death Benefit – In case of death of policy holder, the insurance company will provide the sum assured to the nominee. The disbursed insurance amount, be it lumpsum or monthly installments, is *tax free*.

Maturity Benefit – In case the policy holder survives the entire policy period, he does not get any amount back from the insurance company.

Deductions: The premium paid for term insurance plans is eligible for tax saving deduction under section 80C.

Comparison of Term Insurance Policies of Top 5 companies

Company	Birla Sun Life Insurance	Edelweiss Tokio Life Insurance	Edelweiss Tokio Life Insurance	Kotak Life Insurance	ICICI Prudential Life Insurance	LIC
Plan Names	Birla SunLife Easy Protect	Edelweiss Tokio Life Protection	Edelweiss Tokio Income Replacement	Kotak Preferred Term	ICICI Pru iCare II	LIC Amulya Jeevan II
Entry Age in years	Min 18 Max 55	Min 18 Max 60	Min 18 Max 60	Min 18 Max 65	Min 18 Max 60	Min 18 Max 60
Maturity Age in years	Max 80	Max 70	Max 70	Max 70	Max 65	Max 70
Policy Term in years	Min 5 Max 30	Min 10 Max 30	Min 10 years Max 30 years	Min 5 Max 30	Min 5 Max 30	Min 5 Max 35
Approximate Premium	₹ 9,100 (Note 1) (₹ 14,382 for 5% annual increase in sum assured) (₹ 19,832 for 10% annual increase in sum assured)	₹ 11,100 (Note 1)	₹ 11,000 (Note 2)	₹ 13,400 (Note 1)	₹ 14,000 (Note 1)	₹ 25,000 (Note 1)
How will sum assured by paid	Lumpsum at the time of death	Lumpsum at the time of death	Monthly installments	Lumpsum at the time of death	Lumpsum at the time of death	Lumpsum at the time of death
Option to increase sum insured	Yes by 5% or 10% every year	No	Yes by 5% every year	No	No	No
Available Riders	1. Waiver of premium on critical illness or accidental disability 2. Accidental Death Benefit 3. Accidental Total & Permanent Disability 4. Critical illness Rider	1. Waiver of premium on critical illness or accidental disability 2. Accidental Death Benefit 3. Accidental Total & Permanent Disability 4. Critical Illness Rider	1. Waiver of premium on critical illness or accidental disability 2. Accidental Death Benefit 3. Accidental Total & Permanent Disability 4. Critical Illness Rider	1. Accidental Death Benefit 2. Accidental Total & Permanent Disability 3. Critical Illness Rider	1. Accidental Death Benefit	-

Note 1: To calculate approximate premiums, we have considered a 27 year old non-smoking male with a policy of 30 years & sum assured of ₹ 1 crore for our calculations. Rider costs will be extra.

Note 2: For Edelweiss Tokio Income Replacement Plan we have considered monthly installment of ₹ 35,000 which will increase by ₹ 5000 every year once the policy is in effect. Rider costs will be extra.

Mintster Recommendations:

We believe that brand does not matter in buying an insurance policy.

Insurance industry is highly regulated and the regulator ensures that interests of investors are always protected from any mismanagement by insurance companies. All insurers normally reinsure the policies from the same top reinsurers if the sum assured is above ₹ 10-20 lakhs. Reinsurers are the ones who generally pay majority of the sum assured for high value policies. So brand doesn't really matter for life insurance policies.

One should choose insurance policies based on the features & pricing of different policies. One should choose the policy which has all the required features an investor wants, which offers the required riders to take care of investors other needs & is reasonably priced.

<u>If you prefer your family to receive monthly cash flows rather than lump sum:</u>

We recommend Edelweiss Tokio Income Replacement Policy for such investors.

There are a few disadvantages of letting your nominees receive a lumpsum sum assured. If nominees are not financially literate, there is a possibility of principal loss on the entire sum due to wrong financial decisions. Plus there is a possibility that your nominees may be forced by opportunistic relatives to split the sum assured among other relatives. It is more advisable to let such nominees get regular flow of cash every month so that they are financially secure in the real sense.

<u>If you feel your nominees can smartly manage the lumpsum benefit they receive:</u>

We recommend Birla Sunlife Easy Protect Plan for such investors.

Investors may prefer lumpsum payment to nominees if they confident that nominees are financially literate & will not squander the cash away. Nominees must be able to prudently manage the cash to generate regular monthly income for a long term.