

Life Insurance Charges and Fees

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When you purchase a **life insurance policy**, you do not just pay for the insurance, but also for all the administrative charges that the **insurance company** incurs and also the fees and commission that is paid to the advisor who introduces the policy to you.

As a matter of fact, a number of charges are included to the policy which eventually decide the amount of premium you pay towards your life insurance policy.

These are often referred to as the "**load**" and some policies are considered "**low-load**" because the fees and commissions you pay are relatively low. Other life insurance policies might be considered "**high load**" because the commissions, administration fees and other charges can amount to quite a bit of money.

Therefore before buying a life insurance policy, be sure you understand the policy charges and fees or speak to the advisor to understand exactly how your premium figure is arrived at.

Insurance agents, brokers and other investment professionals earn their money three ways which is added to your policy premium towards the service they render:

- **Commission:** Money paid to the agent for selling you the policy, which is usually calculated as a percentage of the premium
- **Fee-based:** When life insurance salespeople or brokers charge a flat fee for their services
- **Fee plus commission:** Occurs when you pay a fee to meet with an investment professional and a commission if you purchase a product they've recommended

Insurance companies deduct some industry standard fees from your premium and cash value. Keep in mind that these charges vary by product.

Common life insurance fees

- **Premium loads/sales charges**
These compensate the insurance company for sales expenses, state and local taxes. These charges are deducted from your premium payment before it is applied to the policy.
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Administration fees

These are used to pay the costs of maintaining the policy, including accounting and record keeping. Administration fees usually are deducted from your policy value once a month.

- **Mortality and expense risk charges**

When a policy is issued, the insurance company assumes the insured person will live to a certain age based on their current age, gender and health conditions. This charge compensates the insurance company in the case the insured person doesn't live to the assumed age. It is generally charged once a month.

- **Cost of insurance**

This is the cost of actually having insurance protection. It is based on the insured person's age, gender, health and death benefit amount. Cost of insurance is also usually charged once a month

- **Surrender charges**

This charge is deducted from your cash value if you surrender (terminate) your policy during your surrender charge period. Be sure to check the length of your surrender charge period when evaluating a policy to buy.

- **Monthly per thousand charge**

This charge is based on the insured person's age, gender, and underwriting classification, and is assessed monthly.

- **Fund management fees**

This is a fee charged as a percentage of funds under management for managing your investments. It will vary depending on the insurer and type of fund selected. As per the latest IRDA regulation, FMC on ULIPs have been capped at 150bps for policy with tenure of less than 10 years and 125bps for policy with tenure greater than 10 years. Example: If fund management charge (FMC) is 2% p.a. your fund value before FMC is Rs.100000/- and Fund after this charge will be Rs.98000/-. 2000 rupee will go as FMC.

- **Other Charges:**

These are charges levied only on the exercise of an option such as surrender, switching, partial withdrawal and alteration to the contract such as increase in term of the policy among others.

If you have questions about these charges, ask your insurance or investment professional or read brochures for the specific products you are considering. Keep in mind that as your personal situations change (i.e. marriage, birth of a child or job promotion), so will your life insurance needs. Take care to ensure that the insurance product you select is suitable for your long-term needs.