

## Life Insurance Overview

Life insurance allows you to provide your family, in the event of your not being there. It is not mandatory; but **can you afford to NOT have it?**

In its purest form, **life insurance refers to term insurance**. But there is a bewildering variety of life insurance plans out there, such as whole life plans, money back, and endowment plans. Not to mention the hugely popular unit-linked insurance plans (**ULIP**). All these plans vary through different parameters such as coverage, exclusions, riders, and cost.

This subject is something that not everybody is comfortable talking about, or even thinking about. When we are young and healthy, we feel immortal. The unexpected death of a loved one or us is the furthest thing from our minds.

However, the fact of the matter is that it is never too early to start thinking about your family's protection in the event of tragedy. All insurance related professionals agree that the sooner you start thinking about how to cover yourself in the future the more options and the more affordable this type of insurance can be. There are many logical answers to the question "**Why Buy?**"

### What to Look For

It's easy to get a free quote for an affordable policy for your family. However a low monthly premium should not be your only consideration. You need to carefully consider what is best for your family. People often do not realize just how much money is needed to support a family given the tragic loss of a primary income provider. Besides the monthly expenses such as rent and mortgage that your spouse may now be left with, have you considered the cost of a funeral, health benefits which may not be continued in the event of death of a working spouse, the additional childcare expenses that may now be required of a single parent? The list goes on and on.

In this discussion of the basics we will help you make an informed and educated decision on the type and amount that is best for your needs and your budget.

### Types of Life Insurance

"**What is Life Insurance?**" At its most basic level is a contract between you and a company to

pay a sum of money to your beneficiaries in the event of your death, to cover expenses and make up for the lack of your income. Premiums are based on the type of insurance you buy, the benefit amount, and your chances of dying based on your overall health and lifestyle, during the period when the policy is in effect.

There are basically two types. You may have heard of them - **Term Life Insurance** and **Permanent Life Insurance**. In this discussion we will review in broad terms the difference between the two.

- **Term Life Insurance** - As the name implies is a product that you purchase for a specific length of time, usually 5, 10 or 20 years. At the end of the term you are given the option of renewing the policy. Term life is strictly that, only insurance that pays a death benefit, as opposed to Permanent policies that accrue cash value. Term Life pays a lump sum single benefit at the time of death. Your family can use that money to cover funeral expenses, immediate bills, and invest in annuities to make up for the loss of salary to pay on-going monthly expenses. Term is the easiest and most affordable life insurance to obtain. A Term policy is great for young families just starting out.
- **Permanent Life Insurance** - Unlike Term Life, there is no fixed time limit to Permanent Life, so long as you keep making your monthly premium payments the contract between you and the insurance company remains in effect. The other key difference between permanent and term life insurance is that a Permanent policy gains "cash value." Part of your monthly premium goes into a tax-deferred investment account that you do have access to while you are alive. There are various types of Permanent Life such as Whole Life, Universal Life and Variable-Universal Life

### How Much Do I Need?

That is a very good question, especially since the answer will change over time depending on your age and life circumstances. You may feel you may not even need any at all if you are young and single, but with the average cost of a funeral being Rs. 50,000 or more, you have reason to consider it. Once you have people that depend on your income such as a spouse and children, then it is an absolute necessity. Even then your needs will change as your standard of living changes and your family grows. A young family with an infant and a small rental apartment will obviously require less insurance than a family with a house, a mortgage, and two kids in college. Feel free to use our benefits calculator to help determine the right amount for your circumstances.

No matter what stage of life you are in here are some basic guidelines and considerations to determine the amount you will need.

Be sure to consider the cost of a funeral. Even if your final wishes do not include a traditional burial, the cost needs to be factored into your death benefit. It is advisable to find out a good approximate cost of whatever final arrangements you chose. Also when considering "final costs" that may be incurred by your beneficiaries be sure to consider all federal and state taxes that may be due immediately upon your death. These usually amount to 10% of the total value of your Estate.

The next thing to consider is the effect of your loss of income on your family. You need to project how long you think your family will need to "make up" for your lost income. Will your spouse work? Remarry in a short amount of time? You need to discuss such matters. Consider all of your debt and your monthly expenses determine the amount of money that your family needs yearly to make up for your lost income, and multiply that by the amount of years you think they will need it and you will have arrived at your minimum required. So if you think they will need Rs 5,00,000 a year for 10 years, you will need at least Rs 50,00,000 policy.

Finally consider the amount of debt that you family will be faced with upon your death, you may want them to have enough to pay that off in a lump sum, rather than making that part of their monthly expenses determined in (2) above.

Once you have done your best to determine your needs, it is advisable to discuss benefit amounts with one of our qualified life insurance agents, who will help ensure you get the right amount of coverage that is best for you.