The ABC of Life Insurance

Life Insurance doesn’t have to be a mystery. Buying it does not need to be frustrating or stressful, but getting it right is very important. Learn the basics first so you can go on to choose your coverage wisely. Many people think insurance is very costly and remain unprotected – but this is not the case.

Here is how to make choosing the right life insurance as easy as A, B, C.

A. Assessing the Need

Most Singaporeans have some need for life insurance. There are very few exceptions to this rule. Here are some of the people who think they do not need life insurance:

- People who have already raised their children and now live on their own
- People who are young and single; typically responsible for only themselves
- People who have the financial resources to support surviving family members after they’re gone

Unfortunately all these people are wrong! They all are likely to have a need for life insurance, even if it is a small need.

However, if you are independently wealthy, have no living family members, friends or charities that depend on you or your income then you may not need life insurance. Is this you?

B. Be informed of how insurance works

Life policies generally fall into two types. Term Life Insurance or Whole Life Insurance.

Term Life Insurance simply provides death benefits. It is just pure life insurance, plain and simple. It provides protection for a set period and pays the sum assured when you die. Whole Life Insurance provides life-long protection and pays the sum assured plus any bonuses accrued when you die. Both Term Life and Whole Life Insurance policies can include extra cover such as Total and Permanent Disability and Critical Illness cover.

Term Life Policies

In general, Term Life Insurance requires lower premium payments and is less complicated. This is because Term Life Insurance does not accumulate bonuses (savings component). A Term Life policy simply guarantees a specific sum assured in the event of your death while the policy is still active. Essentially, Term Life coverage works like a “parachute” to cover your family during the years in which an unexpected tragedy could be most financially disruptive, say, before your dependant’s needs are settled or your housing mortgage is paid off.

Let’s look at an example;

- Ben has a term life policy that he bought when he was 35 years old. It is a 30 year policy, so it will expire when he is 65. His family will only get money from the policy if he dies before age 65. He is 40 years old now.
- Ben pays a fixed premium of $118 a month and will pay that until age 65. The policy has a sum assured of $200,000 cover and also provides Total and Permanent Disability as well as Critical Illness.
- Should Ben pass away before age 65 his family will receive the proceeds of the death benefit – in this case $200,000.
- There will also be a lump sum payment should Ben become totally and permanently disabled or suffer a prescribed critical illness before age 65.

This example does not discuss whether the sum assured of $200,000 is adequate for his family’s needs. If Ben was wise he would have consulted a qualified financial adviser for advice. What it does show is that this is a simple lower cost solution to meet his current protection needs.
needs while also offering the options to cover other life changing events such as a total and permanent disability or a major critical illness.

“Term insurance is only worth anything if you die, become disabled or suffer from a critical illness.”

Whole Life Policies

Whole Life Insurance policies provide the death benefits of a term policy but do not expire at the end of a specified term. Instead, Whole Life Insurance provides cover for life and accrues bonuses (savings) over time.

When you die, the policy will pay the sum assured plus any bonuses. The premium for this kind of policy is higher than for Term Life Insurance. The reason for this is that a portion of your premiums is invested by the insurance company on your behalf.

Generally these policies can also include Total and Permanent Disability and Critical Illness cover so the sum assured plus any bonuses will be paid if one of these events occur and the policy will then expire – however the criteria may vary depending on the insurer and policy selected.

Let’s look at an example of Whole Life Insurance.

In this case Alex wants to include a savings component with his life cover as part of a savings plan.

- Alex is 35 and has bought a whole life policy for a sum assured of $200,000 which includes Total and Permanent Disability and Critical Illness cover.

- Even though his policy provides the same coverage as Ben’s, his premium is $406 a month to cover the investment component and he will have to pay that premium until age 84 or death.

- Should Alex pass away his family will receive the proceeds of the sum assured – in this case $200,000 plus any bonuses. There will also be a lump sum payment should Alex become Totally and Permanently Disabled or suffer a prescribed Critical Illness.

Again, this example does not discuss whether the sum assured of $200,000 is adequate for his family’s needs. Alex was wise and consulted a qualified financial adviser for advice. What it does show is that there is an alternative solution to simple Term Life Insurance to meet his current protection needs which also accumulates bonuses (savings component). Like Term Life it also offers the options to cover for other life changing events such as a total disability or a major critical illness.

Combination of Term Life and Whole Life

With the right advice you can structure your protection needs using a combination of Term Life Insurance and Whole Life Insurance. This may be because in your younger years you have many financial commitments and cannot afford the premiums of a Whole Life Insurance policy but still need a certain level of life cover. This is where a Term Life Insurance policy may meet your needs and not be such a burden on your monthly budget. Later in life or with a higher paying job you may need more life insurance cover and can afford to pay the premiums of a Whole Life Insurance policy from your monthly budget. The benefit to you of this is that you will now be accumulating bonuses as part of your savings plan. In this example both policies will combine to cover your total insurance needs within your ability to comfortably pay the premiums from your monthly budget.

“Whole Life insurance covers you for a lifetime, but it is not practical to pay a higher premium for the same coverage if you are only concerned about protection and not investment”

C. Let’s calculate the cost

Many people shy away from life insurance because they believe its just too expensive without ever looking at what it really costs. As we have just shown, one of the most affordable forms of life insurance is Term Life Insurance.

Below is a table showing how much it will cost you every year for Term Life Insurance coverage of $300,000 and $500,000 at different entry ages to age 65 and includes Death cover, Terminal Illness (TI) and Total Permanent Disability (TPD) cover. You will see that even the most expensive premium is less than $4.00 per day. This is a small price for life insurance to protect your family and give peace of mind.
Who should I discuss my insurance needs with?

Insurance policies were not created equally – so policy shoppers have to do their homework. That is why you should always seek advice from a qualified financial adviser, such as your Aon BenefitsPLUS representative who will look at your existing insurances and undertake a fact-find with you to evaluate your needs and then make the appropriate recommendations. Based on the results from our analysis, we will be able to identify where your gaps are before making our recommendations. Aon is able to provide you with appropriate solutions as we work on an independent advisory process that is non-bias towards any insurance companies or insurance products.

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Less than $4.00 a day

Use this as a guide only. Premiums and sum assured are accurate as at 12 October 2015 (AXA) and may vary.

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