



*Sar utha ke jayo!*



## **Term Insurance**

All that you wanted to know  
but were afraid to ask

## First, some questions for you



Do you feel that your family will be **financially secure**?



Are your savings enough to sustain your family if the earning member's **income stops**?



Will your family members be completely **free of liabilities**?

If your answer to any of these questions is **NO**.  
Then please continue reading.



## Here is a simple solution for you

**Term Insurance** is a life insurance policy that offers coverage for a fixed number of years - the “term” of the policy. If the insured individual dies when the policy is active, a death benefit is paid to the nominees of the insured individual. A basic variant of term insurance has no maturity value which means, if the insured person survives the term of the policy, the policy does not return any value, with the exceptions of plans like Return on Premium etc.

You can purchase a term insurance policy which can provide a certain corpus to your dependents in event of your demise, they would be able to sustain the same lifestyle or pay off existing liabilities without compromising on their dreams thanks to the sum assured which they would receive from life insurance.



# Why

## must one purchase term insurance

Term insurance acts like a financial blanket when the earning member is no more. Hence one must buy a term plan to ensure that the family doesn't have a setback financially while dealing with the loss of a loved one.



# How

## else will a term plan help you

Don't we all like it when we have to pay very little for getting a lot in return? Purchasing term insurance is just like that. A term policy offers a large cover (For Example: A cover of Rs 1 crore) for a comparatively low premium (For Example: Rs 6500 per year). One can get a 30-year term insurance policy with annual premium remaining the same for whole period. In today's era of increasing living expenses, any individual would want to receive maximum risk cover. This is because, in event of the individual's untimely demise, a higher cover would enable his dependents to not compromise on living standards. And of course, you can also claim tax benefits \* on the premium you have paid.

**How much term insurance do you think you needh** To figure this out, you have to evaluate your age and income bracket, some of the examples below illustrate that:

\* As per Income Tax Act, 1961. Tax benefits are subject to changes in tax laws.

# Who should buy term insurance?



## *Ramesh (32, Male, Married)\**

Ramesh, a 32-year-old man who works as a project manager in an IT firm. His wife, Manju, is 29 and also works in the IT industry. There is not a huge gap in the salaries they draw, and have a home loan to pay off. Both Ramesh and Manju have term insurance covers offered by their respective employers. This has convinced them that they do not need a term insurance. What they do not realize is that this term insurance is valid only until one is employed in the organization. Also, the cover offered by the office is usually not enough or adequate when something untoward happens.



## *Surekha, 35 and Ashwin (37, Married Couple)\**

Surekha is a 35-year-old homemaker. She is married to Ashwin, 37, who is a Senior Designer with a design house. They have a 14-year-old child. Their child would be having quite a few milestones coming up which would require money. Right from getting admission into a college for graduation or planning to go abroad to pursue further studies. Therefore, purchasing a term insurance is a must for Ashwin as it would ensure that the child's upbringing and dreams can be fulfilled even if either of the parents experience an early demise.



## *Mihir (36, Male, Married, sole breadwinner)\**

Mihir, a 36-year old man with two kids, is the sole breadwinner for his family. He should get a term insurance as both his kids and wife depend on him. Further, his father is due to retire next year and his in-laws are approaching their retirement age as well. Post-retirement, they would also be dependent on Mihir. As the number of dependents increase, Mihir will have to increase his cover as well.



## *Reshma (22, Female, Single)\**

Reshma is a 22-year-old lady who has just started working. She is single and her parents do not depend on her currently but may depend on her in the future. She may also buy a house in the future and would need loan for it. If something happens to her in the meanwhile it is important that her parents are not burdened with responsibilities to take care of her expenses. She should consider getting a term insurance soon, as the premium she has to pay will rise with her age. After getting married, she would have the option to add her partner as a nominee.

# HOW

## to calculate the amount of insurance cover that you need

Most people tend to pick a number out of thin air when deciding on the cover they need.

A simple rule of thumb is that the insurance cover must be ten to twenty times that of the insured individual's annual income. Which means if a person's annual income is Rs 10 lakhs, she must purchase an insurance plan that offers a cover of approximately 1.5 crore.

Sometimes, one looks at the premium that one is willing to pay and chooses whatever cover can be bought with that premium. This is not the right way to decide on the amount of cover you will need.

The correct way to decide on the sum insured is to look at your future expenditure with a rational mind.

**This typically includes the following components** →

1

Family expenditure to maintain the current standard of living

2

Loans and other debt that need to be repaid

3

Future expenditure that the family will have to make for important events like your child's wedding, education etc.

4

Any investments your family could make in the future

The sum insured should be the value that you arrive at after summing up these factors. Remember that you must make provision for inflation when estimating future expenses. This is because if it takes Rs. 1 lakh a month today to maintain your lifestyle, it will cost much more 10 years down the line.

## Types of term plans

Term plans with many flexibilities and additional benefits are available aplenty. The most popular propositions/plans available in the market are described below. You can choose one based on your insurance needs.



### Pure level term insurance plan

The simplest to understand is a pure term plan that pays out a fixed sum assured to the nominee in case of the death of the insured during the term of the policy. Such plans do not pay anything on survival of the insured till the end of the policy term. The premium of a pure term plan primarily depends on factors such as age of the insured, gender, whether the insured is a smoker, term of the policy, premium payment term and the sum assured. These are plain vanilla offerings within products and typically have the lowest premiums among all product options available.



### Return of premium plans

Many customers cannot reconcile with the fact that pure term plans do not provide any monies back if they survive till the end of the policy term. For such customers, Return of Premium plan is quite attractive where in if the insured survives the policy term, total premiums paid under the plan (excluding any extra premium, rider premium and taxes) are paid back. The sum assured is paid out to the nominee in case of death during the term. These kinds of plans are much costlier than Pure Term Plans as they promise a benefit on survival in addition to that on death.



### Increasing sum assured plan

The exact opposite of a decreasing plan - in this plan the sum assured increases by a certain percentage, typically capped to a multiple of the original sum assured. The premiums are higher than a level plan as benefit amount increases with each passing year. Such plans are designed to increase cover along with increasing income levels of the customer. Many plans give an option at the time of purchase to increase sum assured each year without the need for further underwriting. Customer can pay higher premiums each year and avail the revised higher sum assured.



### Term insurance plans with income benefit

Term insurance is typically taken for the purpose of income replacement. To make the product benefits match customer needs better, income benefit is offered wherein the nominee gets the desired sum assured in periodic installments. A part of the benefit is still offered as lump sum in some of these plans. A key benefit of the plan is that it is more tax efficient in the hands of the nominee than a lump sum-based plan. Typically, any lump sum assured will be invested in an interest-bearing financial instrument, and the periodic interest received could be taxable. Nominee also get an option to commute the future income payments at any point and get a lump sum instead which is equal to the present value of outstanding income benefit installments.





## Dejargonifying term insurance

**Coverage/Cover** - The extent to which an insurance policy covers the insured individual.

For example - Consider an individual who purchases an insurance policy which offers cover of Rs 1 crore. If he passes away while still being protected under the insurance policy, his dependents would receive the cover of Rs 1 crore.

**Premium** - The insurance premium is the amount that is periodically paid by the insured party to the insurer.

**Accidental Death Benefit** - The additional benefit paid out in case the death occurs in an accident.

**Death Benefit** - The amount that will be paid in the event of the death of the insured during the policy term.

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