

Here's why Term Insurance is not a Life Insurance

Written by Utsab
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For long traditional endowment and money back plans captured the fancy of Indian investors looking for a safe place to invest.

Initially, life insurance was less understood and even less valued by people. Mostly due to a social misunderstanding of life [insurance plans as something morbid](#) , and common business sense. Both are detrimental to the common-sense behind the life cover.

Endowment Plans as Life Insurance

The tendency to look at any financial instrument as an investment is a primary reason behind the popularity of endowment plans as life insurance plans. However, endowment plans are not a plain, simple life insurance cover, they are a safe investment instrument, like bank FD or [Recurring Deposit](#)

The only difference is, your contributions and maturity values can be entirely tax exempt. Also, endowment plans invest your money in very safe instruments. That means you can be assured of the returns at the maturity of the plan.

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So, what is Life Insurance?

Life insurance is meant to offer your family enough sustenance to maintain their financial status, despite being hit by the unfortunate demise of the primary bread earner. To be clearer let's look at the following example:

Sudheer Chowdhri is a 32 years old executive in a large firm, and his wife Amrita is into education industry. They contribute Rs. 10 and Rs. 6 lakhs per annum respectively to their family fortune. Out of this income, they spend nearly Rs. 9 lakhs each year on the household expenses including their children's school fees.

The remaining amount (about Rs. 7 lakhs) is invested for the future needs of the family including Sudhir and Anita's retirement. Assume that Sudhir's own expenses are approximately Rs. 2 lakhs per annum.

Now just imagine if Sudheer is not there anymore for his family and Amrita is taking care of all the household expenses and the kids. Following two things will happen:

1. Entire saving contribution towards family's future stops
2. Amrita must cut down on the lifestyle to make ends meet

These two scenarios affect the family's long-term well-being. Life insurance is supposed to bridge this gap by providing an additional income opportunity for the family. This income, even if not completely, should bridge the deficit to a great extent, and:

- Help the family sustain their financial status,
- Meet their long-term goals and
- ***Achieve financial freedom, as they would've if Sudheer had been with them all along***

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How Much Life Insurance is Sufficient?

This is a big question in any life insurance cover. The amount of life insurance cover needs to be looked at as an answer to the following question:

“How much money should you deposit in a safe investment to generate income which will take care of your family's household expenses and future goals?”

The answer is not easy to achieve, but you can consider a simplified version of it:

A family of a 30-year-old person, spending Rs. 50,000 per month will need nearly Rs. 1.5 crores to maintain their lifestyle and meet all their future goals. You can increase or decrease your insurance requirement accordingly. For example, if your expenses are Rs. 100,000 per month your life insurance cover need becomes Rs. 3 crores so on.

How Much Does It Cost?

Premium for Endowment Life Insurance

=

Term Life Insurance premium

+

Investment Component to accumulate
Sum Assured by the maturity of the plan

The premium paid for an endowment life insurance plan includes the premium for a pure term insurance plan and an investment component.

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So, an [Endowment plan](#) of Rs. 20 lakhs which has a premium of about Rs. 60,000 per annum (*imagine buying a Rs 1 crore endowment plan*), is actually a mix of:

- Pure term insurance plan of Rs. 20 lakh which costs about Rs. 7000 per year &
- Investment component of Rs. 53,000 which is an annual deposit to accumulate Rs. 20 lakhs by the end of the policy tenure.

In other words, an endowment plan which is also an adequate life insurance cover for your family is an expensive business. On the other hand, a similar term cover is easily affordable (Rs. 20,000 for a Rs. 1 crore term cover).

Does this Mean You should not Invest in Endowment Plan?

Not really, you can invest in the endowment plans but just make sure you have adequate life cover as well. This is only possible with the help of a pure life cover or term insurance cover.

How to Buy a Term Insurance Plan?

Best and easiest way to get the [adequate term cover is online](#) . You can compare, calculate your life cover need and complete the application, all from the comfort of your office or home. Insurers like ICICI Prudential Life offer a completely paperless application process, which you can complete anytime at your convenience. Even a 24x7 support is available to you while you complete the application online.