YOUR MONEY

Limited use of whole-life plans

While there are two sum-assured payments, one on survival and another on death, the costs are prohibitive

PRIYA NAIR

An assurance from the insurance agent that there are policies offering twice as much returns, such as whole-life plans, is quite inviting. The sum assured, along with bonus and other benefits, is paid as "survival benefit" at the end of the policy term. In addition, there will be another sum assured for the entire life or up to 100 years. This would look appealing if one juxtaposes it against a term plan, which is cheaper but doesn't give any survival benefits.

Recently, IDBI Federal and HDFC Life Insurance launched whole life policies. HDFC Life's Sampoorn Samridhi Plus is a traditional 'with profit' plan that has options. The normal endowment option offers lump sum payment at the end of the policy term. In endowment with whole-life option, there is a lumpsum payment at the end of the policy term. After that, the life cover continues. The second payout will happen in the event of survival of the policyholder till 100 years or at the time of the death of the policyholder.

Both plans target customers who want to use insurance policies as a way of doing estate planning or legacy planning. The idea is that customers buy the plan at 30 years of age, when premiums are lower, enjoy life cover for their entire lives and leave some money for their families when they pass away, which is not possible in a pure-term plan.

"We believe high net worth individuals would use this plan for legacy planning," says Sanjay Tripathy, senior executive vice-president (marketing, product, digital and e-commerce) at HDFC Life. One can nominate family members and ensure the proceeds from the policy go to the family members.

"Compared to endowment plans, the returns would be better in case of a whole-life plan since the principle of compounding will work and the money will stay invested for a much longer time," says Aneesh Khanna, head (e-business, marketing and product management) at IDBI Federal Life Insurance.

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"What works in their favour also is that term plans aren't available for the entire life and buying it at the age of 50-55 is quite expensive. This option is good for those who don't want to burden their families after they pass away," says Tripathy.

But then, one has to consider the costs. If one considers the HDFC Life plan, the premiums are higher in case of the whole life option. That is, in the case of a 30-year policy, for a ₹10 lakh sum assured, with premium paying term of 25 years, the annual premium in the endowment option is ₹47,493. In case of endowment with whole life cover option, the premium is ₹53,720.

The difference isn't huge, if one considers it is a case of double payment of the sum assured. But if you look at a 30-year term life policy, for a 30-year old male, with a ₹10 lakh sum assured, the annual premium ranges from as low as ₹1,989 in case of online plans to ₹12,742 for offline ones. However, the two are not strictly comparable. In case of term plans, if you outlive the policy, you will not get any benefit. In case of the endowment with whole life cover, you get benefits at maturity and if you outlive the policy, you get the sum assured.

Atrey Bhardwaj, head of insurance at Probus Insurance Brokers says : "Whole-life solutions are very expensive in terms of premiums paid against a term insurance plan. There is no additional benefit offered by whole life insurance plans that is not available in a term insurance plan as far as sum assured in case of death is concerned. On the other hand, if we analyse the return that is being offered in such plans, it's not more than five per cent or six per cent at the most. This can easily be achieved by investing in some other financial instrument that may easily fetch a return of 10 to 15 per cent over a horizon of 10 years or more.