

Life Insurance

And YOU This is the final article of the 6-part series aimed at educating readers on the various concepts of insurance. This series is produced by the Central Singapore CDC and the Life Insurance Association, Singapore as part of the MoneySENSE national financial education programme.

Understanding how investment-linked plans can meet your protection and investment needs

Investment-linked plans (ILPs) are life insurance policies that may be used to meet your protection and investment needs. Part of the premiums that you pay are used to purchase life insurance cover, with the remaining amount (less charges) invested in investment funds of your choice. The insurance coverage provided include death benefits, total and permanent disability or critical illness. For some plans, you may have the option to choose the proportion of premiums to allocate your insurance premiums towards protection and investment.

Features of ILPs

ILPs have the following features:

- i) **You can choose to purchase either a single premium or regular premium ILP.** Single premium plans tend to provide a small amount of life insurance coverage, with a large part of the premium going into investment. It is common for regular premium plans to be bought for protection purposes.
- ii) **You may have a wide variety of investment funds to choose from;** this allows you to select one or more investment funds that suit the level of risk that you are comfortable with.
- iii) **You may be allowed to switch from one investment fund to another,** to cater to a change in your risk appetite or market conditions.
- iv) For most regular premium ILPs, **you can vary the protection and investment mix according to your changing financial needs.** For instance, when you are young and single, you may decide to maximise the investment component of your plan. When you have a family, you may decide to increase the protection level to safeguard your family's financial security.
- v) **ILPs can be purchased using cash.** Some single premium ILPs may also be purchased using CPF monies and be included under the Supplementary Retirement Scheme.

Risks of investing in ILPs

ILPs carry investment risks. The value of an ILP moves up and down, depending on the performance of the underlying investment fund. This means that there is no guarantee of a minimum return on the plan.

Investment in equity investment funds may give higher returns than traditional life insurance plans over the long-term. However, you have to bear in mind that higher returns come with greater risks.

Regular premium ILPs may not accumulate much cash value during the early years of the plan. This means that if you terminate the plan during the early years, you may suffer a loss.

Important considerations when buying an ILP

There are a few things that you should consider when buying an ILP:

- * Be clear on why you are buying the plan. Is it more for protection or investment?
- * Understand your risk profile so that you can select the underlying investment fund that suits you.
- * Find out the fees and charges that you have to bear. Remember that fees and charges will reduce the value of your investment. Before you switch from one investment fund to another, find out how much you have to pay for the switch.
- * Remember that investing in an ILP is a long-term commitment. It comes with investment risks, so you should not buy an ILP without fully understanding its features.
- * Read all the materials and documents provided to you carefully. Seek professional advice if you are unsure about what the plan offers and whether it is suitable for you.

If you are interested to know more about Life Insurance, log on to the website of the Life Insurance Association (<http://www.lia.org.sg>) or MoneySENSE (<http://www.mas.gov.sg/consumer>) for a copy of the consumer guide "Your Guide to Life Insurance".

The information in this article is of a general nature and may not apply to every situation or to your own personal circumstances. This article should not be regarded as a substitute for seeking legal advice on any specific issue.

For educational resources on personal financial matters and information on MoneySENSE events, visit the MoneySENSE website at <http://www.mas.gov.sg/consumer>.

