

# ARE SINGLE PREMIUM PLANS WORTH IT?

□ Sunil Kumar Singh

Ramesh had just got married and was looking to buy a life insurance policy. His friend advised him to buy a single-premium plan as it looked easier to pay premium at once and he doesn't need to remember the due dates.

Ramesh had Rs 1 lakh as savings and he invested that money in a single premium plan, without assessing his needs and reading the terms and conditions. A few years later, as expected, he realized that he had made a wrong decision as he had bought the plan without assessing his insurance needs.

It's not that single premium plans are bad insurance plans to invest but a handful of people do a detailed study of the policy and match it with their requirements before buying such plans.

Let's see what are the factors one must consider before opting for single premium plans?

## Don't fall for upfront payment

One of the greatest draws of single premium plans is that they involve upfront payment of premium. This makes it look attractive for many people who have spare money as they believe it to be a good one-time investment product.

There have been many instances when a person who has bought a regular premium insurance plan is not able to pay premium and his policy lapsed. This is where single premium plans prove convenient. The person makes a one-time payment and he is assured of the cover under the policy for the whole term. However, while this is the greatest advantage of single premium plans experts sound caution on this approach.

"The problem with such policies is the much higher one-time payment. Secondly, if during this period the need for cover no longer exists, one ends up incurring higher costs. Third, if saving tax is one of the objectives, then you get that



benefit only in the first year whereas in a regular premium policy, you enjoy tax benefit every year as long as you are paying your premiums," says Sanjay Matai, promoter and owner of The Wealth Architects, Pune. He says when making a choice amongst various single premium plans, the most important aspect to consider is whether it meets your requirements or not. Thereafter consider the cost aspect.

## High risk

Another point to consider when making upfront payment in such plans is the large sum the policyholder is paying at one go which can be risky.

"The disadvantage is that you pay a large premium upfront which can be used for better purposes. So

for example, the premium can be invested in an FD to give an interest which could be used to pay the regular premium each year. And the money invested in the FD will also keep on growing," points out Radhey Sharma, Chief Financial Planner, TheWealthWisher Financial Planners.

Another thing to note is that the single premium plans do not offer life cover as much as a pure vanilla term plan would. Also, in case of a claim, all future premiums have already been paid by the policy holder and that is a loss while in the regular premium he can simply stop the future payments, he adds.

## Reasons to buy

Some of the single premium insurance plans available in the

# ANS WORTH IT?



**Do you take single premium insurance plans just as an investment product or an insurance policy? Worried whether you should go for it or not? Read on to decide in what conditions you should or shouldn't opt for single premium plans?**

market are namely, Life Insurance Corporation of India's limited-period single premium insurance plan called Jeevan Vaibhav, ICICI Pru iAssure Single Premium plan, HDFC Single Premium Whole of Life Plan, ING Life's Single Premium Level Term plan, Bajaj Allianz Shield Insurance Plan, Max New York Life Insurance' SMART Steps Single Premium plan, etc.

Planning single premium plans however do make sense when one is not sure whether he/she would be able to pay the future premium installments on time or not, experts maintain.

"While it is advocated that these plans not be bought, if someone has to buy these then it should be for valid reasons - which could be if he is sitting on a lot of cash or has a

Single premium plans	
Buy	Ignore
When you can't take the headache of paying the premium each year	When you have a large premium upfront which can be used for better purposes
If you have a lump sum and you do not have regular cash flows	Timing the purchase of a single premium plan is important
The plan is ideal for risk averse investors. In the current volatile times, these plans offer a fixed return on investment (excluding mortality charges)	Upfront payment of the entire premium entails risk because if the buyer dies during the policy term his premium for the rest of the term goes in vain
Many plans include a service tax of 10.3 per cent which reduces the returns substantially	Single premium non term policies have a very low component of insurance cover
Budget 2012 mandated that to get tax benefits, the life insurance cover should be at least 10 times the annual premium paid	Since your entire amount gets invested at once, investing in single premium ULIPs may or may not work in your favor

Quick checklist	
Single premium plans	Benefits
HDFC Single Premium Whole of Life Insurance Plan	This is a whole life policy where the term extends for the life. However, you can decide on the policy term by using a feature built into it. You can terminate the policy any time, after it has been in force for at least 6 month and receive a surrender value. Currently Section 80C benefit is available for the premium paid under the plan to the extent of 20% of the Sum Assured.
LIC's Jeevan Vaibhav	It's a close-ended single premium endowment assurance plan, which offers guaranteed benefits on death and maturity along with Loyalty Addition, if any, payable on maturity or on death in the last policy year. Minimum Entry Age 8 years (completed). Loan facility will be available under this plan, after completion of one policy year.
ICICI Pru iAssure Single Premium plan	Provides guaranteed maturity benefit. The plan is offered for a term of 5 years and 10 years. In the unfortunate event of the death of the Life Assured during the term of the policy, the nominee shall receive Sum Assured or the Guaranteed Maturity Benefit, whichever is higher.
Bajaj Allianz Shield Insurance Plan	It's a single premium plan with fixed term of 10 years. Sum Assured can be 1.1/1.25 to 5 times of the Single Premium. Return of up to 6.00% of the single premium at maturity as Guaranteed Addition. Partial withdrawals anytime after five years from the commencement of the policy
<i>Source: Respective company's websites. List not comprehensive</i>	

very irregular source of income and does not know whether he can pay future premiums. Make sure you read the policy wording carefully to understand the various charges, rate of return assumptions and other caveats and conditions," cautions Sharma.

Adds Matai, "As with any other plan, you have to assess whether the policy is right for your requirements or not. There is nothing special about single premium plans that you need to do something different here."

### What to look for

Experts point out that people

often mistake single-premium insurance plans as a good way to park surplus money. However, the reality is that these plans are not very different from regular premium plans and therefore one should do as much due diligence as one does when buying other insurance plans.

As Sharma advises, "Ensure that the life cover that one is looking for is being offered by the single premium policy. Read the exclusions carefully to see in what scenarios the claim will not be paid. Don't buy just to save income tax. The offerings of the plan need to fit in with your expectations."