Use insurance to secure your future income till you retire

Life insurance pays if the life assured dies before the maturity of the plan. However, the survivors may not handle such lump sum receipts. It is better to arrange for a monthly income in addition to the lump sum payable to the nominees.

- Munish Sharda, Future Generali India Life Insurance

Term insurance plans are considered most simple and straight forward as they pay a lump sum amount to the family in case of death of the insured. Traditionally this is how a term insurance used to be understood and bought by majority of the Indian consumers. The convenience of knowing exactly how much will be paid on death clarifies the concerns of the buyers. The better aware and savvy individuals have now moved online given the convenience and affordability compared to the tedious process of buying offline. The average cover taken online is around Rs 75-80 lakh with the buyers' average income at the time of purchase being around Rs 8-10 lakh per year. The question here is whether this is enough for the long term financial sustenance of the family....maybe not.

While a sum of Rs 80 lakh may look big today, given the inflation, it may not match up to the family's needs in the long term. The fallacy is in two parts - a) the cover is as per your current income and will not be adequate for your family over a period of time. b) Making an assumption that the family will manage the money judiciously to sustain for a long term in your absence.

The first reason is easy to understand as you can correlate it to the increase in income and inflation. The second reason needs more examination.

• Can the family i.e. the next decision maker after you, 'utilise' this lump sum amount to continue the same lifestyle and manage the requirements in future? While you may think that in your absence, your nominee would use the money in a systematic manner through bank fixed deposits or other financial products, it may not always be true. A family who gets money from a term plan may end up exhausting the corpus in less than 5 years if not managed with professional guidance. It's also difficult to time the money every month through bank FDs, similar to a monthly salary, especially when it comes to catering for ongoing household expenses in the absence of your regular income.

• What if the family has to go through more set-backs after you are gone? For example, in case of death or illness of a family member or any other sudden financial drain. This unexpected activity may eat away a major part of your lump sum amount, further depriving them financially.

It is therefore important to have a cover which can replace the future income of a person on a monthly basis till the period one would have worked if he or she was alive, which is usually till the age of 60 years. This type of cover will ensure continuous support for the family to deal with any financial challenges and enable them to live the same lifestyle in future. Another important point that an individual should consider is the impact of inflation. The cover should also increase in line with the inflation or simply in line with the increase in your income every year.

This type of increasing cover becomes more relevant for salaried professionals who ensure complete protection for their loved ones. Let's take an example of Ritesh who has purchased a lump sum cover and assumes that the family will be able to sustain by re-investing the money versus opting for a cover that gives the family an inflation adjusted monthly income till Ritesh reaches retirement. The table below depicts scenarios on how a family will sustain after Ritesh's death in both cases.

	Lump Sum Protection	Monthly Salary Protection
Financial Sustenance for day-to day expenses (Monthly Income to Family)	Lump sum is invested in a Bank Deposit @ 8% to generate an income	Monthly Salary is replaced with inflation.
A. Is the fixed monthly amount paid to the family?	No. The interest is paid at end of the year. Hence only annual amount can be taken.	Yes
B. Does this amount matches with monthly salary?	May not, depends on the prevailing interest rate	Yes
C. Is the monthly amount generated tax free?	No, income tax will apply on interest. Hence tax can erode the interest amount up to 33%	Yes
D. Is the monthly amount paid free from any re-investment risk?	No, interest rate may change in future and impact the income to the family.	Yes
E. Is monthly Income to family Inflation adjusted?	No, will depend on the prevailing interest rate.	Yes
F. Will family have to cut corners to manage day-to –day expenses?	May be	No
Absence of person is replaced financially	**Partially, with complexities and investment capabilities of family**	**FULLY replaced with peace of mind to the family**

A lump sum cover is definitely required for immediate family consumption like paying off the loan liability, creating an emergency fund, training or education required by other family members to start earning etc. Hence a combination between a lump sum cover along with monthly income protection till retirement is an ideal way of buying your term cover. Those who currently have a lump sum cover should look at monthly income covers to upgrade their current term life protection. This feature in your financial plan will enable you to match the growing financial needs of the family and in the ‘true’ way help them sustain their lifestyle for a longer term. The objective of any protection plan is to offer you and your family peace of mind but a ‘combination of lump sum cover and monthly income protection’ will go a step ahead and deliver your family a stress free lifestyle in your absence.