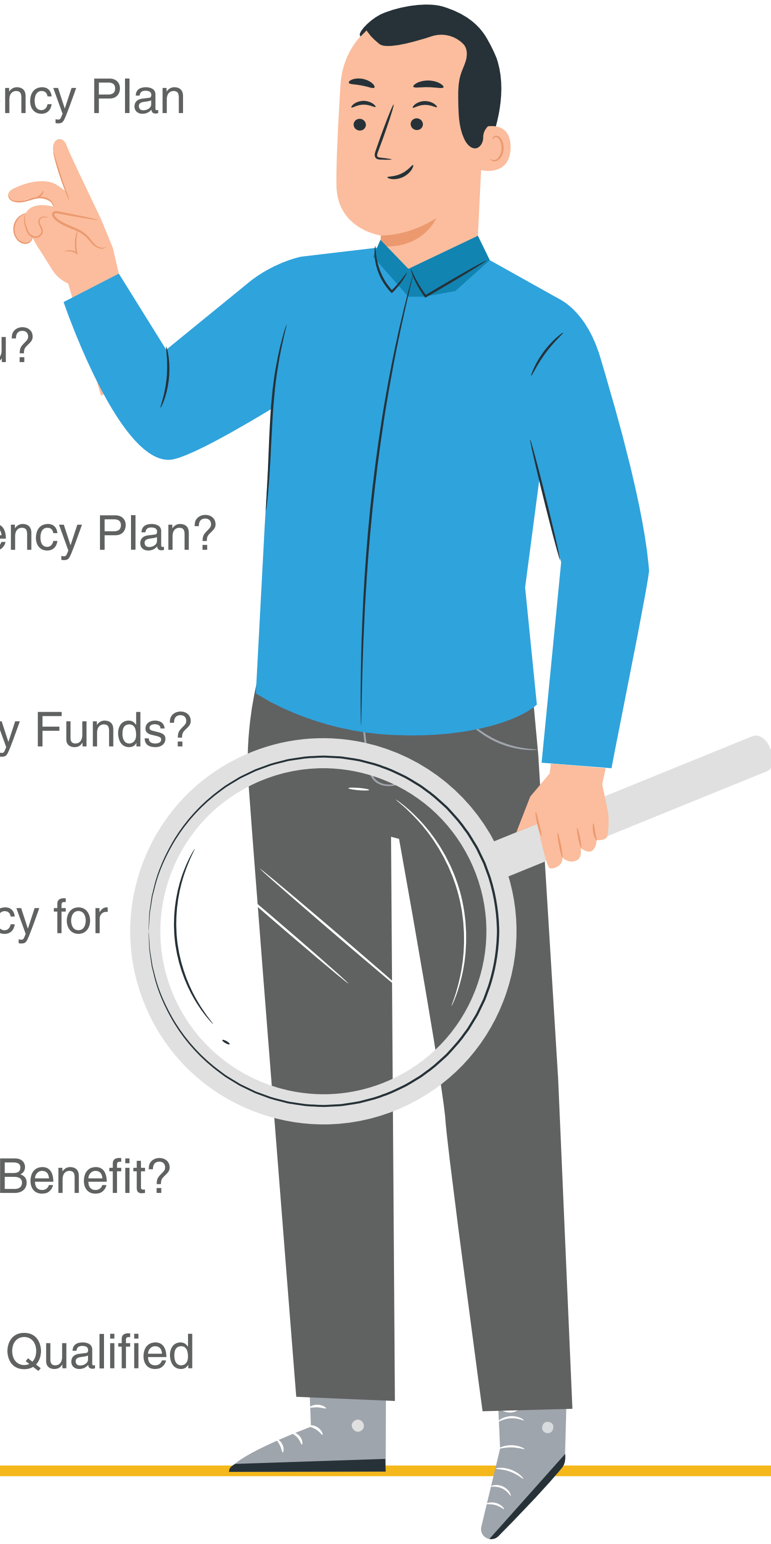
Contingency Plan Guide

Life's a journey, and the aim is to have this journey in the relative comfort of your **growing wealth**. However, life is also full of unforeseen and unpleasant events, many of which may derail your long-term plans.

Contingency planning is important to safeguard your long-term financialinterests from such unpleasant events. A good contingency plan will also help you safeguard your family from falling behind financially if you go out of their lives before your time. Planning is essential for achieving any goal. Thus, to achieve anything, you first must have a plan. But what if the plan you devised is rendered ineffective due to an unforeseen event? This is where the contingency plan enters.

Content



What is a Contingency Plan?

A contingency plan is a set of detailed steps that you will take in case your original plan does not work. It is a type of backup so that you do not fall back on your journey in case any emergency strikes.

A contingency plan will help you tackle the problems that you may encounter in the future and can act as a safety cushion in times of trouble. Even though the definition of a contingency plan is the same for everyone on the planet, the real use of it will be different.

How you should personalise your contingency plan?

01 Use insurance protection plans to cover severe emergencies.

02 Keep track of your expense profile– divide essentials and non-essentials (lifestyle expenses).

03 Make sure you can survive for a few months in the case of income loss

04 The survival period will vary based on your skillset, education profile, and industry volatility.

05 Six to nine months' income is considered a good amount for an emergency fund.

How does Contingency Plan help you?

Suppose you have taken a loan to buy your dream house. But after some time, due to some changes in the company, you lose your job. How will you pay for your loan? Will your savings be enough to support you until the time you find a new job?

This is an example where having a contingency plan would certainly help you sustain it.

- A comprehensive plan will guide you to take the necessary steps according to the situation
- It will help you deal with emergencies with less panic.
- Reduces stress since a contingency plan helps provide you with a safety cushion.
- It reduces the risk associated with uncertainties.
- Can help improve your credibility.

Components of a Contingency Plan

01 Emergency Fund

An emergency fund is the major part of a contingency plan. It is the pool of money that you set aside to meet unexpected emergencies in the future.

An emergency fund provides you with something to fall back on during times of crisis:

- This is the money you will use in the case of events like job loss, which insurance does not cover.
- You should keep it separate from other investments.
- It should range between six to nine months of your salary.

Your savings must be parked in liquid investments, i.e., safe and easily accessible.

02 Insurance

Insurance is a type of legal financial instrument in which the insurance company proposes to reimburse your losses in return for the regular payments made by you, which are known as "premiums."

Though insurance covers a wide range of items nowadays, the most popular **types of insurance** and the ones that are the most essential for everyone are:

01 Life Insurance

This type of life insurance covers your life. Under this type of insurance, you select a sum assured that your family will receive in case you die within the policy's term. Your sum assured should be at least 10 times your income.

Based on the sum assured and other factors such as age, etc, you pay your premiums.

Life insurance should be included in the contingency plan as there is no risk bigger than the risk of death. It will help ensure the financial safety of your family after your death.

02 Health Insurance

One of the biggest financial emergencies you could face is when either your family members or you require hospitalization. At the age of COVID-19, health issues can be faced by anyone, irrespective of their age.

Thus, with more and more diseases coming up and medical expenses sky-rocketing, having health insurance has become vital. Nowadays, many companies provide health insurance to their employees.

03 Other Covers

Most importantly, life and **health insurance** are not the only types of coverage that you should consider.

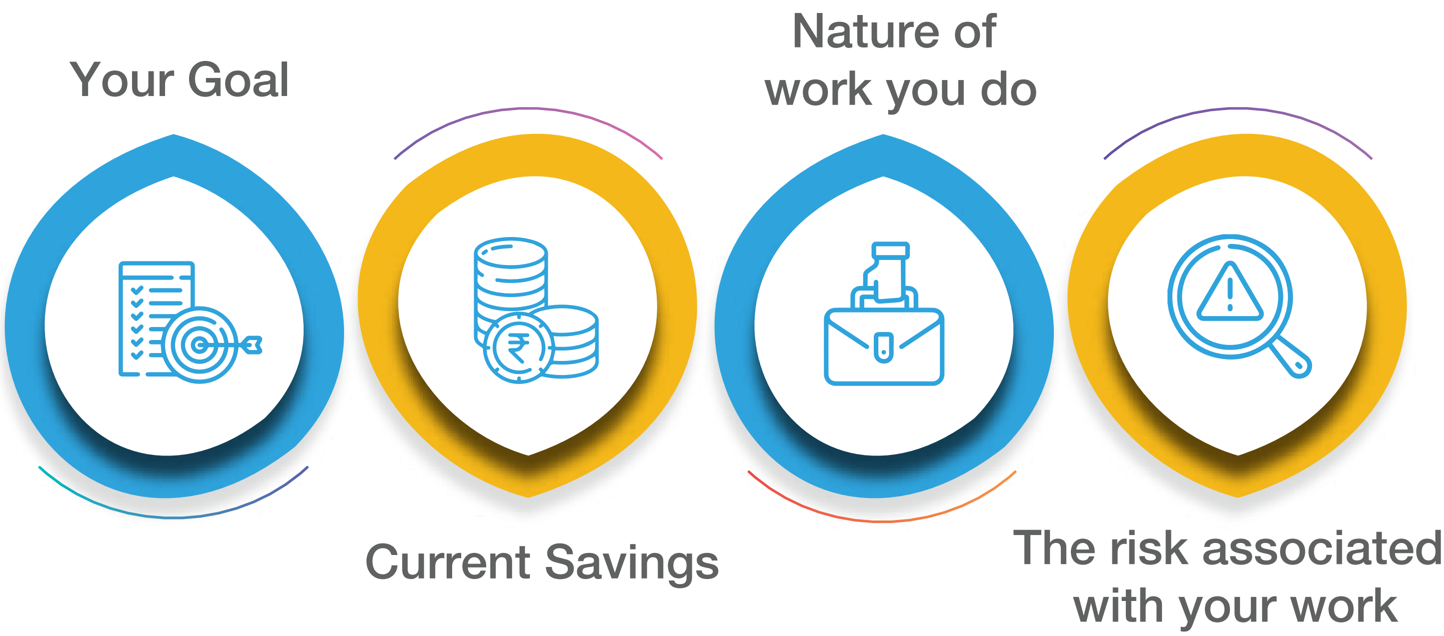
For example, vehicle insurance. Car and bike accidents can sometimes severely damage your vehicle and can dig a huge hole in your pocket. Thus, it is better to add this insurance to your plan if you possess a vehicle.

Other types of insurance include:

1. Fire Insurance
2. Mobile Insurance
3. Travel Insurance

How much should your Contingency Plan Cost you?

A contingency plan is not fixed for everyone. It depends on factors such as:



Once you have built your emergency fund and have all the **protection insurance policies,** 5-10% of your income should be enough to sustain this plan.

How to Draft your Contingency Plan?

Being prepared for whatever life throws at you is a wise thing to do. Having a contingency plan plays a crucial role in doing that. A contingency plan gives you confidence and a sense of security that you are prepared. It also ensures that you are and remain in a better place financially.

Creating a contingency plan takes some thought and planning, but by no means does it mean that you can't create one for yourself. Here we provide you with a step-by-step guide that will help you create a contingency plan for yourself.

01 Buy a Term Cover

The first step towards making a contingency plan is to take care of your life. Thus, the first step is to secure your life. A term plan is the simplest and most affordable type of life insurance that can help you do that. It is a type of life insurance that covers you for a specific term.

- A term plan covers your life and provides a sum assured to your family if you die within the term of the policy.
- With a very low premium, you can get insured for a sum assured as high as Rs 1 Cr.
- The term can range from 5–30 years.

Though term plans do not have a maturity benefit, a few **term plans return all the premiums** if you survive the term.

02 Buy a Health Cover

A health scare can put a damper on even the most thought-out plans. Thus, buying health insurance becomes an essential step in your contingency plan. You need to have the following health insurance coverage:

- **Mediclaim Insurance for medical expenses.**
- **Critical health insurance for life-threatening diseases**

Mediclaim health insurance covers all or part of your medical expenses so that you don't have to dig into your long-term investments.

Critical health insurance will give you a large sum of money upon the diagnosis of illnesses such as cancer, heart or renal failure, etc. This plan is also called "defined benefit health insurance" as your real expense for treatment does not affect the benefit payout.

For example, the **Health First Plan** from Canara HSBC Life Insurance is a defined benefit critical health insurance, which:

It covers over 26 pre-defined illnesses.

Your future premiums are waived off at the first diagnosis of minor conditions that are covered under the Cancer and Heart cover. Refer to the list of the conditions covered.

- Pays in a lump sum on the first diagnosis of a critical illness defined in the policy.
- Also offers the return of premiums at maturity. Thus, all the premiums are returned once your health insurance plan gets over if there was no claim on the plan.

03 Building Emergency Fund

After you have taken care of your life and health and are covered for both, the next step is to build an emergency fund. Note that your emergency fund is to be kept separate from the insurance cover that you have bought.

Where to Invest Emergency Funds?

After you have set up your emergency fund, you will most likely be thinking about where to invest those funds. Keeping your funds' idol is no good and you should put your money to work.

But keep in mind the following while choosing an investment:

- **Your investment must have less risk.**
- **It must be easily accessible.**
- **The investment source must be liquid.**

Here are the sources you can consider to park your funds.

01 Savings Account

It is the safest and easiest-to-use investment. In a savings account, you can deposit your funds regularly, and in return, you will earn interest. Your principal remains absolutely safe.

A savings plan can be a great place for your emergency fund as you are assured of safety and can withdraw at your own value.

02 Liquid Mutual Funds

These are low-risk debt mutual funds that majorly invest in government securities as well as bonds. These have short maturity periods, lasting 91 days.

As the words suggest, this type of fund is highly liquid. You can exit this fund at any time at your own will.

03 Supersaver Deposits

Supersaver deposits help you earn better interest on the excess money in your savings account. The best part about super savers is that you can earn higher interest for the period your excess money is lying idle in the account.

But, you can withdraw the money instantly using your debit card whenever you need it. In this facility, your money is invested in low-risk securities, for example, commercial paper, etc.

04 How Much is Enough?

After deciding where you can park your funds, what percentage should you contribute to your fund? Well, it depends on various factors.

Six months to one year of family expenses or six to nine months of your income should be enough for your emergency fund pool.

How to Plan for Contingency for Specific Goals?

Your life is full of big and small financial goals. A few of these financial goals are very important for your family's future. For example, a child's higher education and marriage goals. The retirement goal for the spouse, etc.

These financial goals must not be left to chance. Instead, you can protect these goals, along with the survival essentials for your family.

You don't need to expand your general contingency plan to cover specific, limited period goals. Instead, you can use **investment plans** that also double as contingency plans. Here are a few investment plans with this feature:

- Unit Linked Insurance Plans
- Child Education Plans
- Guaranteed Savings Plans

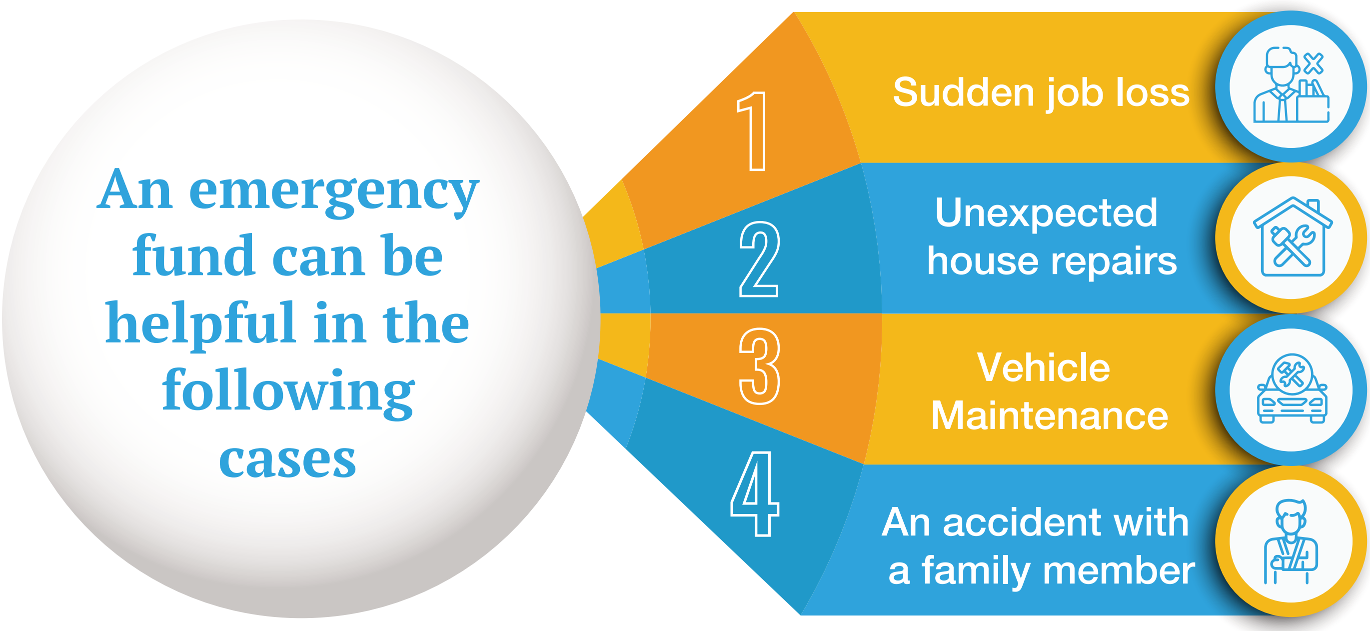
All these investment plans give you the option to invest your money as per your risk appetite and offer a protective umbrella through premium funding features.

Plans such as Invest 4G ULIP, **Guaranteed Savings Plan** and Smart Junior Plan from Canara HSBC Life Insurance include this benefit.

What is Premium Funding Benefit?

Under this rider, the company will take care of the premiums that remain if you die during the policy term. Premiums to be paid are waived off. Thus, this rider ensures that your family does not have to worry about the funding of the premiums once you die.

Your policy will continue as intended even after you die. Your child stays protected and will get the benefits of the policy once it matures. You should dig into your emergency fund pool only when there are no other options left.



Why You Should Consult a Qualified Insurance Advisor?

Though you can create a simple contingency plan for yourself, you should consult a professional insurance advisor.

Here are a few reasons why you may need a financial planner.

- The contingency plan is a part of financial planning and requires strong knowledge and experience in both insurance and finance.
- An insurance planner has expertise in the industry and thus can help you make a choice that suits you.
- Insurance planners can understand your needs better and show you products according to them.
- They can help you with the **claims process.**

A contingency plan is the first step in your financial journey. Insurance and emergency fund transactions are the first and priority outflows from your income. However, this is only to ensure long-term protection for you and your family from unforeseen events throughout the journey.

Canara HSBC LIFE INSURANCE