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What Makes Terms Plans The Real Deal? Know How They Are Different From Money-Back Policies

Life insurance is an important aspect of financial planning as it protects one's family during one's demise. The basic idea of life insurance is thus to give the family the necessary amount of money to meet their expenses in the absence of the bread earner.

Life insurance is of two types- term insurance and money-back policies. We take a look at how these two are different.

Coverage

Term insurances are pure protection plans wherein a lump sum is typically payable in the event of the individual's death within the policy term. "However, no benefit is payable under the policy if the customer survives the policy term," says Akshay Dhand, Appointed Actuary, Canara HSBC Life Insurance.

On the other hand, money-back plans are savings plans whereby regular benefits are payable to the policyholder on reaching defined times during/intervals, the policy term, with a final payment on the policy's maturity. "The payment will also be made if the policyholder passes away during the mentioned policy term," says Dhand.

Nature of payouts

"Term plans are fully guaranteed in nature. The amount of payment that will be made on the death of the policyholder during the policy term is fully known in advance," says Dhand.

On the other hand, money backs can come in various product platforms. "They can be under unit-linked, non-linked participating or non-linked non-participating. The platform being used changes the nature of the guarantee available with the respective product," says Dhand.

For instance, if the money back is a non-linked, non-participating plan, then both the survival, maturity and death benefits will be fully guaranteed and known in advance, whereas if it's a unit-linked platform, then both the survival and maturity benefit will depend upon the performance of the underlying fund whereas the death benefit will typically have a minimum guaranteed value.

Return on investment

Term plans pay only in the event of death. Hence, term insurance is a pure insurance product; hence, there is no return on investment (ROI).

On the other hand, there is a ROI on money-back policies. While regular money-back policies provide a rate of return in the region of five to six per cent or lower, unit-linked policies can offer a higher rate of return. However, the return on investment on money-back plans is inadequate and would be lower than

even fixed deposits. It is advisable not to mix insurance and investment, and money-back plans are not a good investment for the long term.

Premiums

Being pure insurance products, term plans have a very reasonable premium. A 30-year-old can get a Rs 1 crore cover for as little as Rs 13,000 annually. However, Money-back policies have a much higher premium for the same coverage since they also return money to the policyholder.

It is recommended that one's life insurance coverage should be at least 10-15 times one's annual income. Hence, the premium for a money-back policy for the same coverage will be very high, and one can get the required coverage only through a pure-term plan.

Ideally, one should get a pure-term plan and invest the rest of the premiums in equity mutual funds to get the required coverage and a good return on investments.

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