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Rishi Mathur

Chief Digital and
Strategy Officer, Canara
HSBC Life Insurance

Enjoy your parenthood by planning your finances early

Being blessed with a child is one of the most wonderful feelings anyone can experience. Birth of a child is the happiest moment in parents' lives, as they enter and re-enter the world of parenthood and responsibilities. At the start of this phase, one makes promises to give their kids the best education and support possible. However, not planning well enough and trying to stretch limited resources too late in the day means you may not be able to enjoy this wonderful time of being the doting parent! Given the uncertainties of life, it is critical to begin early to secure your child's present as well as plan for their future. .

The question that usually arises when we begin early financial planning is, which types of life insurance products should we purchase and how will it help?

Start early, with the end in mind

Formulate a financial plan based on your family's and your child's life goals. It may be difficult to envisage possible financial requirements up front but remember, planning broadly for possible big ticket expenses in future and starting at an early stage is a much better strategy than waiting for more clarity on possible expenses and leaving less time for your savings to grow and compound.

After factoring for an emergency corpus, the first priority should be to secure the future goal achievement of your child's/children's education. This is where the importance of life insurance as a tool for protecting the financial future of your kids comes in.

Define your risk appetite: It is important to define your risk appetite basis you and your spouse' personal preference and financial circumstances. Remember there is a trade-off and typically investment options which have the potential to provide higher growth in longer term will require you to be comfortable with volatile and less predictable changes in value of your investments in the short term. Your risk appetite also depends on your life stage. As a young parent, you would have more risk taking ability and can afford to allocate investments in

riskier assets which should move gradually to less volatile assets as you approach the key life goals.

Life insurance is an important tool that provides a safety net for the family's financial stability. To keep up with changing financial goals, our insurance needs must evolve as well. As a result, investing in insurance cannot be a one-time event. Life insurance investments must be reviewed on a regular basis to ensure that they are adequately protected.

Checking your coverage at various stages of life is a good way to assess your insurance needs. Various decisions and changes have a financial impact on you and your dependents across the timelines.

Preparing for uncertainties

The recent past has shown the potential impact of seemingly unknown and unpredictable events which can throw a spanner into the works or in this case, the best laid plans for your children's education. As a parent, it's your responsibility to prepare and protect the promises you make for your child's future goals. Some important areas to look out for:

Protecting against untimely mishaps – The most important risk to protect is the life of the parents which ultimately ensures that the income required to build the corpus for your child's education is not impacted, even in your absence. Note that as a parent, the degree of dependence is highest and hence it is very important to ensure you have adequate coverage for life and critical illnesses.

Inflation – With recent surge in inflation, the power of your invested money goes down. Hence, the importance of planning early and maintaining a judicious mix of equity and debt. Equity assets have the potential to beat inflation in the longer run. The inflation rate of costs of higher education is often more than the headline inflation figures. So plan adequately for a high inflation world where you may need the money to fund your child's college fees say 15 years later.

Rupee depreciation – With increasing mobility and opening up of educational opportunities, the global village is likely to be your child's playground. Higher education opportunities abroad could provide your child the exposure and confidence to take on the world, but they require careful planning well in advance. You would need to factor in rupee depreciation if you are saving in rupees for a potential outlay in dollars (or pounds or euros or yuan) for your child's higher education.

Life Insurance to help plan for your child's education:

Endowment life insurance or ULIP plans with special features to support your child's future are examples of child insurance plans. Investing in child plans can help you secure your child's important life goals, such as education and marriage. Child insurance policies include both protection and savings features. If something happens to you before you reach your goals, the insurance will cover your child's goals. If you continue to live, your savings will grow to meet your goals.

Make sure that the plan offers Waiver of Premium options in case of death or critical illnesses so that your promises to your child are protected no matter what. This way you can be sure that the savings intended for your child's higher education are always sustained and grow in the right manner to help your kids reach whatever goal they may choose to pursue.

Parenthood is not easy; but it can be fun and truly fulfilling if you are well prepared for the uncertainties of the future. The joy of seeing your beloved daughter or son reach his dreams is within your reach if you start early on securing their financial future now.

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