



## **Daunted by income fluctuations? Learn smart investment**

It is important for customers to analyse the products on offer so that the product that is eventually purchased is most suited to their requirement



Financial stability is something that we all aspire for but now this aspiration has become more of a practical necessity given the uncertain times that we were all pushed to experience since last year. The need for securing a steady income is an aspect of financial planning that simply cannot be ruled out considering the economic challenges that the world has been plunged into ever since the start of the pandemic. Hence, it is imperative that one carefully considers how to go about ensuring that any fluctuations in income especially due to reasons such as loss of employment, shutting down of businesses, worsening health conditions or unfortunate event of demise of the breadwinner can be managed by careful and appropriate investments.

Investing in relevant life insurance products can offer the best protection against income fluctuations from any of the causes listed above or more. The customer needs to be aware and should understand the propositions of different products thoroughly so that a financial safety net is created for themselves and their families.

A basic term insurance plan provides a lump sum amount at the unfortunate time of demise of the life assured. This is one product that is extremely essential for every individual, especially those who are the sole earners in a family. No other product ensures the kind of protection that a term assurance provides against loss of income to the affected family during any eventuality. Term insurance is a relatively inexpensive product but at the same time, provides adequate protection. One variant in term assurance products that is often recommended is the increasing cover variant where the lump sum increases at regular intervals as the policy term progresses.

Another useful addition to the basic term insurance is critical illness rider which will provide money in case the life assured is diagnosed with a range of critical illnesses. This will not only provide coverage against loss of income, should the life assured suffer any of the covered illnesses but part of the lump sum may also be used for the treatment of the underlying illnesses. It is worth noting that these products are available both as a rider to a base term insurance plan or can be individually purchased as standalone products.

There is also a range of savings products offered by life insurance companies that can be used to create an additional stream of income for various durations. This would serve an individual well in case s/he faces any income fluctuations due to loss of employment, salary cuts, or loss in business due to economic upheaval or otherwise.

There are essentially two kinds of products on offer here. The first is a savings product or traditional or unit-linked platform which would not only provide death cover but can be used to provide income either through a fixed income stream which would be available typically in case of traditional products or through making regular withdrawals from one's funds as would be the case with unit-linked products. It is important to note here that while the former will typically offer guaranteed returns the latter is exposed to the risk of market fluctuations. Hence, it is important to consider one's risk appetite before deciding what kind of life insurance savings products to purchase.

The other kind of product is an immediate or deferred annuity where typically a one-time lump sum is paid as premium and the annuitant receives a steady income for as long as s/he is alive. These products also come with a range of options such as return of purchase price on death of the annuitant, increasing annuity payments, etc. As is the case with other life insurance products, one must carefully study the terms and conditions before deciding which additional options or features may be best suited for themselves.

Overall, it is important for customers to critically analyse the products on offer so that the product that is eventually purchased is most suited to their requirement of protection against income fluctuations. It is also the responsibility of insurers to explain the various aspects of the above-mentioned products to the customers as part of sale and onboarding process so that the customer can make a better-informed decision that is in line with their needs for coverage against variability/loss in income.

***(The writer is the appointed actuary, Canara HSBC OBC Life Insurance. Views expressed are personal.)***

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