

The background of the entire page is a composite image. It shows a close-up of a person's hands typing on a white laptop keyboard. Overlaid on this are various financial data visualizations: a bar chart with several vertical bars of varying heights, a line graph with a green and purple line, and several numerical values (90.2, 83.5, 67.5, 55.2) scattered across the scene. The overall color palette is dominated by blues, purples, and greens, giving it a professional, tech-oriented feel.

## INDEX TRACKING EXCHANGE TRADED FUNDS VS PURE ILPS

67.5

55.2

67.5

55.2





There are different types of Investment Linked policies, single premium investment linked policies which can be invested via CPF & Cash, and don't have assurance and mortality charges, and pure regular premium investment linked policies where there are also no assurance and mortality charges, and the final one is Investment linked policies which have coverage and have mortality charges.

For the sake of simplicity and comparison I will only be comparing single premium ILPs and Regular Premium ILPs which don't have coverage and mortality charges in them, Single Premium ILPs have a Sum assured death coverage of 105% of the investment amount or in the event of a death, clients can also claim the unit value if the unit value is higher than 105% of the lump sum invested.

This is a plus point over an ETF investment as despite its diversification benefits, in the event of a market meltdown even ETFs are not exempt to a significant drop in value, in the 2008 market crash the STI index dropped as low 1776 points.

If a person passes on and if his investment in ETFs are in the red, his dependents will have to liquidate his ETF investments at a loss, however if the same amount of money was invested in a pure ILP they would have received 105% of unit value or unit value whichever is higher. (Editor's note: Pls take note different insurers have different coverage permutations for the ILPs that they sell)

Pure ILPs also offer diversification in the way that certain funds can have a mix between bonds and equity in different percentages, which can thus stabilise the price of the fund and make it less susceptible to fluctuations compared to index tracking ETFs which are mainly made up of equities.

ILPs also allow fund switches seamlessly and without transaction costs. (Editors' note: different insurers have different fund switch rules.)

Pure regular premium ILPs also offer start up bonus units, loyalty units at different stages in the policy's lifetime, these are free additional units that insurers offer to boost ILP returns. Some Pure ILPs also have a crisis & disability waivers attached to them, meaning that in the event of a TPD or critical illness, premiums are waived for the remaining premium payment term of the ILP.

Pure ILPs also have rebalancing features, as insurers allow them to be rebalanced to be aligned with clients risk profile. This is a benefit that index tracking ETFs don't have.

Features such as these are game changers in the debate between ILPs versus index tracking ETFs. How investors and financial practitioners should look at index tracking ETFs and ILPs is that both products should complement one another rather than a debate of which is better, Investment has systematic and non-systematic risks, and also have inverse relationships with one another

Clients have to have their risk profile analyzed and after investment objectives of clients have been set, a suitable mix of investment tools that include ILPs, ETFs and endowment plans should be tailored for the client.

Each investment tool is manufactured differently and has different risk & return considerations and after an analysis of how much risk a client can stomach has been done, a portfolio must be constructed to ensure that client's returns objectives are met during bullish years, and capital is preserved and returns earned during bullish years aren't eaten away during economic downturns.

**Conclusion**

In conclusion, index tracking ETFs are a more cost effective product than ILPs, many studies have proven so over the years that most fund managers have failed in beating the market consistently, and part of the reason so is the plethora of charges in Pure ILPs/ Unit trusts.

However despite that, ILPs still have a place in a person's portfolio because of diversification benefits, as ILPs can be structured to have bonds and equities.

ILPs also offer death coverage of 105% of unit value or higher in the event of a death, this is a major consideration for clients especially retirees. Pure ILPs also can have disability and critical illness waivers attached to them meaning that in the event a client gets a CI or a TPD, his retirement planning or saving need whichever purpose the ILP was purchased for is settled for free though at the horrible cost of being ill, which I am sure nobody would want.

Pure ILPs also have rebalancing options that index tracking ETFs don't, with that being the case it's important for one to know that in the case of Pure ILPs versus index tracking ETFs, there really isn't a clear winner as cost considerations may not always be a client priority, if it were it would be index tracking ETFs winning by a long shot, other factors such as rebalancing, capital preservation, death coverage in the event of a calamity in a long investment horizon are also additional factors for practitioners to advise their clients.

**References**

<https://www.businessinsider.com/guide-to-how-etfs-work-2018-1?IR=T>



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