

# INVESTMENT-LINKED POLICY (ILP) 101

PART 2

# TUESDAY TIMES

## UNDERSTANDING INVESTMENT LINKED POLICY (ILP)

Dealing with the unknown remains the most fearful and this is how the world has responded in inventing different vaccines to contain COVID-19. We are aware that people want choices and there is no one-size-fits-all approach.



Life insurance remains the most powerful tool to provide immediate liquidity and guaranteed dollars to fund for the ongoing household expenses of the surviving family due to the unexpected passing of a loved one. There have been numerous ongoing debates on which type of life insurance is more superior.

I must say that as a trusted Financial Consultant, it is paramount to stay objective in order to customize a solution to meet our clients' changing needs and wants. As long as we have placed clients' needs before our own needs and execute the same recommendations accordingly for ourselves and our family, this is the beginning of a sustainable and long-lasting relationship.

The 3 main categories of life insurance are Term Life Insurance, Traditional Life Insurance and ILP. Sad to say, ILP can be a little more complex to understand and remains the most underrated life insurance vehicle. Many are unaware of ILP's unique features, compared to term insurance and traditional life insurance. We will explore some of these features of ILP as follows:

### **DUAL CLAIM POLICY ON CRITICAL ILLNESS AND TOTAL PERMANENT DISABILITY / PREMATURE DEATH**

Usually for traditional or term insurance, a critical illness claim will accelerate the total permanent disability / premature death benefits. However, ILP dual claims feature will enable an additional critical illness claim payout that is on top of the death/ terminal illness/ total permanent disability benefits, upon an eligible claim after the surviving period. There could also be a rider added to waive off the premiums payable on total permanent disability / premature death after the critical illness claim.

### **LIQUIDITY FOR EASE OF WITHDRAWAL, WITHOUT LEVYING AN INTEREST CHARGE**

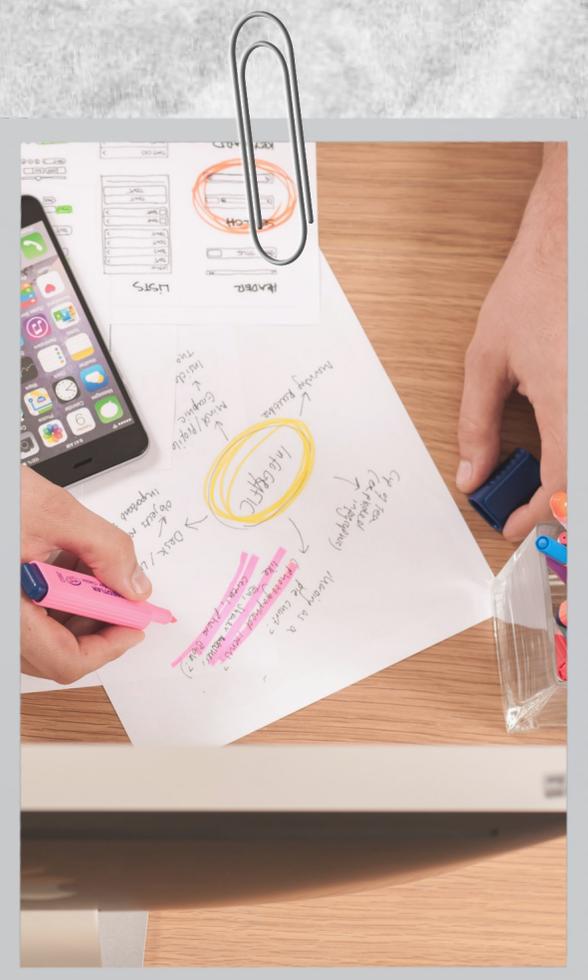


For ILP, you may withdraw cash values from an ILP and this does not have any interest charges levied. However, you must maintain a minimum stipulated balance after withdrawal. As for term insurance, there is zero cash value, and no such feature are available. For traditional policies, you may withdraw the annual policy bonus and applicable cash benefits without charges. One can also withdraw up to 90% remaining cash values which will incur a current interest charge at 5.25% (interest rate may differ among insurers). There is 0% charge if the withdrawal is meant for surgical and nursing purposes.

### **NON-PAYING OF REGULAR PREMIUM**

On non-payment of premiums, ILP will not lapse and continue to run on for a longer while if there is enough cash value in the plan to pay for charges. Depending on the cash values in the ILP, there is a temporary relief on premiums in times of tight cash flow. In this case, even when there is no payment of the premiums, the policy charges will be the required mortality charges needed to maintain the existing coverage. These charges will be deducted from the ILP cash value. In some instances, the ILP can continue for a few more years and when the situation is better, one can opt to pay the current premiums only, versus to backpay for those unpaid premiums.

In the case of the term insurance, the policy will lapse after the grace period. The traditional life insurance trigger the Auto Premium Loan upon non-payment of premium to pay off the current premium, where daily accrued interest is payable.



## **FLEXIBILITY TO INCREASE PREMIUMS / SUM ASSURED ON SAME POLICY**

ILP allows one the flexibility to increase premium / sum assured on the same policy, due to changing and higher commitments in a life cycle, like moving from single to married status. For term insurance and traditional life insurance, one does not have such features and flexibility to increase coverage on the same policy and must take up another policy to increase coverage.

## **POTENTIAL HIGHER RETURNS AS THE PROJECTIONS ARE AT 8%**

The cash value for ILP is typically projected to grow based on 8% returns of investment of the chosen funds at the higher end of the projection. This is attractive, leading to the faster breakeven where your cash values are higher than the total premiums placed over time.

An individual risk return profile will determine the choice of the funds and ultimately impact on the returns. A higher returns expectation typically requires a riskier choice of funds with higher equities weightage that is typically more volatile. Like all investments, one needs to know that there will be risk of losing capital and the cash values are non-guaranteed and based on performance of funds chosen. As for traditional life insurance, the cash value is projected to grow based on 4.25% returns of the underlying participating fund, with the breakeven period typically beyond 20 years.

## **UNLIMITED FUND SWITCHES IN ILP**

This unique feature for ILP helps to ensure that no additional charges are taken out from ILP for fund switching. One can do fund switches into better performing funds, and one can also switch out to cash fund or lower volatility fund to secure and minimise fluctuation in the cash values to look in profits or doing withdrawals during retirement and ensuring wealth preservation.



## **SMALL PREMIUMS TO START INVESTING**

With a small premium (varies across different ILP), one can start investing globally into the available funds and using dollar cost averaging with an ILP. There is also an option to increase the investment with a “investment booster” with a one time off single premium top up or via regular premium payable at the same frequency as the regular premium of the plan.

## **CHARGES ARE LISTED ON ILP STATEMENTS**

As an investor, all charges are listed in your ILP statements, so you can understand the various charges (insurance charges and admin charges etc) that are applicable. This is more transparent compared to a traditional life insurance policy.

## **LOWER MORTALITY AND MORBIDITY CHARGES AT YOUNG AGE BUT HIGHER WHEN AGE INCREASES!**

For term insurance and traditional life insurance, the premiums are priced at the average mortality age. For ILP, the premiums are lower as compared to traditional life insurance for the same coverage when one is younger as this reflects the low mortality charges associated with the young age for ILP. However, with increasing age, the mortality and morbidity charges for ILP increases as well, especially after retirement age of 65 and beyond. This is one major disadvantage of ILP plan, as one may not be able to sustain the same coverage with the same premium, and one cannot keep their coverage for life.



The above problem can be easily solved via cashing out this same policy for retirement or to continue it for one investment needs. The modifications to ILP include the decreasing of the coverage to zero, so the ILP can remain as a 100% investment plan as one may start to cash out or withdraw from their ILP in for their children’s education own retirement depending on individual needs. In the event this ILP is surrendered for cashing out, one can rely on the term insurance (that is still in force) and/or traditional life insurance in their portfolio for coverage.

## WHY I CHOOSE ILP?

1. ILP is my first choice for life insurance when I first joined this beautiful life insurance industry in year 2000. I remember on my first day at work, the first case I submitted is an ILP for myself. I was looking for a vehicle that can take care of both my protection and investment needs. I took up ILP as I like the withdrawal feature for liquidity and flexibility to top up premiums and coverage.

2. ILP is my first choice for life insurance for both my children. I took up ILP for both my children as I like the withdrawal feature, which we may withdraw for their university and continue to pay the monthly / yearly premium to keep the life insurance in place. In the event they get a scholarship, I can continue this policy as a life insurance for them, or continue it for my own retirement needs.

3. ILP is my regular investment vehicle as I do top up my ILP using the investment booster. Since 2011, innovations and market demand gave birth to investment focused ILP where 100% of the premium is allocated to investment right from day 1. This is a regular investment vehicle which carries minimal coverage. I personally have also invested in such ILP to grow my retirement funds. There are also new features for some innovative ILP, which can lock in the previous highest market value to guard against the downside of investment in a bear market.

Being a Financial Consultant since year 2000, I do not take my current good health for granted and will continue to better my protection as long as I am healthy. I appreciate how the life insurance industry has evolved with better life insurance solutions to address the greater need of a peace of mind in times of uncertainty. More importantly, I am keeping a regular appointment to review my own financial goals, changing needs and wants, at the different stages of my life. When is the last time you have done a review?





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