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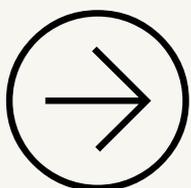
# The “ABCs” of Insurance Planning

# TUESDAY TIMES

We sometimes hear people comparing about the various insurance plans and products, and making remarks like: *“this plan is the best”; “this plan is not good”; “Oh, investment linked policies (ILP) are no good”, “You should just buy term or whole life”* etc.

Do you have these concerns too? Have you ever wondered if you have the correct or necessary insurance plan(s) in your portfolio? Or have you wondered if you have too much or too little insurance?

This article hopes to share the “ABCs” of Insurance Planning for you to address some of these common concerns, as well as providing some reference and framework that you can adopt in your insurance planning.



RECOMMENDED STEPS TO START YOUR JOURNEY IN INSURANCE PLANNING.

## A - ANALYSIS OF OWN SITUATION, GOALS & OBJECTIVES



Every one of us is unique and we have different situations, concerns, goals, and objectives. Akin to a doctor checking and assessing our body to see what's wrong before he/she prescribes medication to treat our sickness, and a cover page being the most important component to give one an overview picture before piecing the jigsaw pieces together, it is the same for insurance planning. The first step of insurance planning is the analysis of own situation, goals, and objectives; understanding what we have and where we are going; before mapping out the action plan.

In insurance planning, it is also important for one to understand the purpose of insurance and why they get insurance. As what Simon Sinek puts it, *"Everyone has a WHY. Your WHY is the purpose, cause or belief that inspires you. Knowing your WHY gives you a filter to make choices, at work and at home, that will help you find greater fulfilment in all that you do"*. Insurance itself is a risk transfer tool, and the main reason people get insurance is to minimize the impact when such risks happen. There are many reasons for one to purchase insurance; but the primary reason for insurance purchase would be for a peace of mind for wealth protection; income replacement; debt cancellation or medical expense payment/reimbursement.

## B - BUDGETING



The next step in this framework would be budgeting. Budgeting is an important process in planning, and it helps people make better financial decisions, prepare for emergencies and stay focused on our long-term financial goals. Instead of trying to commit a fixed percentage of their monthly salary for insurance, it may be better to work out a budget based on how much one can comfortably afford every month. One should look at their assets, liabilities, income, expenses, and cashflow. This process will help one to look at their entire personal financial position and their commitment in totality, to better determine a comfortable budget for insurance purchase. It is also important to note that insurance purchases are typically long-term commitment and it is important for one to ensure affordability through the premium paying period to prevent surrendering policies prematurely or lapsing them.

## C - COVERAGE REQUIREMENT, CONSTRUCTION OF INSURANCE PORTFOLIO & CHOICE OF SERVICE PROVIDER



### COVERAGE REQUIREMENT

The amount of insurance coverage varies from person to person as individuals have different needs and are in different situations. A proper fact-find to gather information is essential in the calculation of insurance coverage required, taking into consideration of one's financial obligations like mortgages and debts, provision for family, children's education, medical expenses and etc. It is always better to go through this process with a trusted and competent financial practitioner. For a faster way to calculation and as a rule of a thumb, it is good to have approximately ten times of one's annual earning as basic life coverage according to the Life Insurance Association of Singapore (LIA)[1]. Apart from life insurance, it is also important that one is insured with healthcare insurance, and some form of critical illness and disability insurance to have a peace of mind.

### CONSTRUCTION OF INSURANCE PORTFOLIO

After knowing the coverage requirement, the next step is getting the required insurance plan to construct one's insurance portfolio. There are many types of plans that is available in the market. Generally, there are two categories of insurance primarily for wealth protection purpose; the first category being the whole of life insurance or term insurance that provides coverage upon death, disability, and diseases; and the second category being accident and health policies that typically provide medical reimbursement. There are also other plans that are more for wealth accumulation in the form of endowment and investment plan.

For the first category of insurance plan, there are few options that are available in the market. They are namely, (1) term insurance plan, (2) traditional whole life policy, (3) investment linked plan, (4) universal life or single premium whole life plan. Before making any purchase decision, it is important to understand how the various types of insurance plans work and their product features. It is important to note that there is no "one size fits all" type of planning. Once an individual has decided on the type of plans to purchase, one then proceeds to construct his/her insurance portfolio for their wealth protection purpose. One can refer to Tuesday times articles[2] for more details on what plans should be in one's personal portfolio.

### CHOICE OF SERVICE PROVIDER

In terms of choice of service provider, there are many distributors of such insurance plans/policies. In Singapore context, one can typically choose to purchase through the following means - (1) a financial practitioner from a tied agency (representing an insurance company) or financial advisory firm, (2) bank branches or bank staff (known as bancassurance), (3) directly through websites, or (3) customer services centres for certain insurance company. Consumers can also ask for recommendations from people that they know to find these distributors and service providers. Regardless of where one chooses to purchase the plans/policies from, the most important thing to is understand why one get these plans, how these plans work for them, and be comfortable with the chosen service provider or distributor.

## D - DO REGULAR REVIEW



Just like doing a regular annual medical and dental check-up, it will be good to do a regular review of your insurance planning with a trusted and competent financial practitioner as well. There may be changes to an individual situation (life stage changes like marriage, having a newborn etc.); changes and development in the market/industry (launch of CareShield Life, introduction of cancer drug list etc.). A regular review will help to ensure that the current policy is still relevant with the changes and in line with the individual goals and situation.

In conclusion, I hope the “ABCs” above serve as a useful guide and add value in your insurance planning. The process of insurance planning may seem easy, but it is not as straight forward and simple as it seems. It will be good to work with a competent consultant/advisor whom you can trust and be comfortable with in your insurance planning journey to achieve financial security and peace of mind.

*Notes:*

1. <https://www.lia.org.sg/tools-and-resources/faq/mortality-protection>
2. <https://www.ifpas.org.sg/file/ISSUE64.pdf>



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