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Income replacement crucial in term plan

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Term plans are essential for financial planning. While the utility of a basic term plan is indisputable, its efficiency as a tool for comprehensive protection depends on several factors, primary among them is income replacement.

Ideally, you should train your sights on a protection proposition that takes care of both immediate responsibilities and longer term regular expenses.

For instance — Rohan and Shruti have been married for nine years, and have a son and a daughter. Rohan earns Rs 12 lakh per annum and has a term plan with a sum assured of Rs 1 crore. One evening Rohan passes away in an accident — leaving behind a widow and two young children. While the emotional turmoil was intense, they had financial protection. Rohan's insurance company paid Shruti Rs 1 crore, to help her manage expenses, pay for children's education, among others.

So, see if the pay-out amount will last long enough to fulfil your family's financial goals. Resist the temptation to spend the entire amount in a few years.

In Rohan's case, he was the primary breadwinner of



his family, so he should have opted for a protection plan that effectively replaced his income for his family.

Insurance plans with income protection options are designed to replace the income in case of demise of the earning family member, and are especially important for young families. They ensure the money is available to the family not only at the time of an eventuality but also over a longer time period subsequently.

There are many plans providing part lump sum and part income pay out to the nominees. You may choose either fixed income or increasing income.

The income protection plan provides income continuity, and fulfills family's financial needs, even in the absence of the breadwinner and provides a financial shield for a longer term.

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