

COVER COMFORT



Include Ulips in your portfolio for their sheer flexibility and multiple benefits, says **Subhendu Bal**

The first impression that comes to our mind when we think of a unit-linked insurance plan (Ulip) is that it is an investment-linked product where the returns are linked to the performance of the underlying investments. While this is indeed a fair answer, a unit-linked product is much more than just an investment vehicle. In fact, Ulips can be used to meet various life needs at various stages.

These needs can be in the form of having an insurance cover with savings for wealth creation or to meet the expenses of children's education, their marriage and life after retirement.

While all these needs may not be immediately perceptible or foreseeable, it is important to ensure that all these needs are provided for. And insurance, especially Ulips, is ideal to provide for these needs.

Choice of strategy

While a Ulip offers insurance, it also gives exposure to the investment markets. Depending on the level of financial sophistication and the know-how of an individual, the schemes can choose to opt for a passive or an active investment strategy.

In the case of a passive strategy, the insurance company will decide on the allocation or switching of the money into various asset classes, according to the expertise. In the case of an active investment strategy, the individual chooses the proportion of funds to be invested in various asset classes. The individual can also switch between various fund options, according to his/her risk appetite and the evolving needs over time.

Offering flexibility

By bundling investment and insurance in a single policy, a Ulip provides benefits of both at a cost lower than having these two benefits separately.

Ulips provide a lot of flexibility to customers. An individual, who has bought a regular premium Ulip, can opt for redirecting the premium under which the investments of future premi-

um would be in different proportions from the ones currently being invested.

For instance, suppose someone has invested 50 per cent in equity and 50 per cent in corporate bonds. If the customer expects and believes that the equity markets will do well in the future, he/she can cherry-pick the option and go for a higher equity proportion, say 75 per cent instead of the existing 50 per cent and invest only 25 per cent in corporate bonds.

Partial withdrawals

Individuals needing cash to fulfil some of their unplanned needs can very well take the help of partial withdrawals from their invested corpus in a Ulip. The liquidity option through partial withdrawals allows the individual to withdraw part of their fund, as and when the need arises while continuing with the cover. This offers a great amount of flexibility that would enable a customer to meet his immediate needs. Some of the recurring needs can be fulfilled through systematic withdrawals.

Ulips also offer a settlement option wherein an individual can receive the maturity amount in instalments rather than as a lumpsum amount. This will help to minimise the impact of market fluctuations affecting the maturity value. This may be helped further by the fact that there is a proposal to extend the settlement option up to 10 years, that is, the maturity amount receivable could be spread out over a period of 10 years.

Also, the frequency (monthly, quarterly, etc) at which the payouts would be received can be decided by the individuals according to their needs.

Equity edge

It is usually believed that equity investments offer good returns if held for the long term. Ulips offer a chance to invest in equity instruments apart from various other asset classes such as bonds and money market instruments. These products also have a lock-in period of five years, which act as compulsory savings during very early in the term.

Compulsory savings without withdrawal in the short term can provide a boost to returns in the long run. The longer one stays invested in a Ulip, the lower is the cost charged by the insurance companies. This is primarily because of two reasons.

First, with the passage of time, the deduction of mortality charges generally decreases under Ulip. Second, product regulations mandate maximum reduction in yield in a Ulip.

The maximum reduction in yields decrease with the increase in duration one remains invested in. For a 10-year duration, the maximum allowable reduction in yield is 3 per cent whereas for 15-years duration, it is 2.25 per cent.

Retirement corpus

Ulips can also act as an excellent instrument for retirement savings as you can get policy terms of longer durations. One can accumulate a sizeable corpus by gaining exposure to various asset classes through Ulips and by remaining invested for the long term, which would ensure the purchase of a good amount of annuities.

The proposal to allow the open market option for purchasing annuities provides the customer to gain from the completion on annuity rates and/or services. The proposed allowance of commutation of up to 60 per cent of the policy proceeds at the time of vesting is an added attraction to plan the customer's requirement.

Further, the customer would be able to withdraw a part of the fund against certain specified reasons such as higher education of children, their marriage etc.

Tax planning through buying Ulips serves both the purpose of saving money and getting tax exemption under Section 80C. At maturity, Ulip policies do not attract long-term capital gains tax. All of these make Ulips an extremely favourable proposition and any individual should love to have a Ulip as part of his/her financial planning.

The writer is appointed actuary of SBI Life Insurance