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Topic- Description of the principal types of Life Insurance Policies.

What is a Life Insurance Policy?

A life insurance policy is a contract with an insurance company. In this policy, a person has to make regular payments**(known as premiums)**to the insurance company in order to receive a sum of money that will be paid to them after a period of time, or to their family, in case of the policyholder's death, or if the policy matures. Typically, this type of policy is chosen based on your needs and goals.

Different Types of Life Insurance Policies in India:

There are three basic types of life insurance policies:

1. **Whole Life Insurance**
2. **Endowment Plans**
3. **Term Life Insurance**

1. Whole Life Insurance:

A whole life insurance policy covers the life assured for whole life, or in some cases, up to the age of 100 years. Unlike, term plans, which are for a specified term.

The sum assured or the coverage is decided at the time of policy purchase and is paid to the nominee at the time of death claim of the life assured along with bonuses if any.

However, if the life assured outlives the age of 100 years, the insurance company pays the matured endowment coverage to the life insured.

The premiums are higher as compared to term plans.Whole life insuranceplans also offer partial withdrawals after completion of premium payment term.

How Does Whole Life Insurance Work?

Whole life plan is a uniquelife insurance plan. The main objective of a whole life insurance is to help the life assured live a worry-free life while being able to create a legacy for their heirs.

The reason being, it comes with not only death benefits, but also with maturity and survival benefits along with bonuses, if any. The life assured is covered until the death, and also has the maturity benefit feature.

There are different types of whole life insurance policy variants. The policyholder can opt for a traditional whole life plan or a unit linked plan. Traditional Whole Life plans are further categorized as participating and non-participating.

Features of Whole Life Policy:

Guaranteed Premium:

This means that on a whole life policy, the premium amount is set and guaranteed and not liable to vary throughout the life of the plan. So, in case, you are paying Rs. 2500 per month for your insurance, you will continue to pay Rs. 2500 per month forever.

Death Benefits:

In case of the death of an insured life, the policy being still in force and all premium payments being fully paid till date, the nominee will receive the total sum assured on the day of death along with applicable accrued bonuses, if any.

Protection for Life:

A whole life plan is mainly engineered to deliver estate to the heirs of the policyholder in the form of the payment of an assured sum together with bonuses, if any upon the policyholder's death.

However, the whole life plan also delivers the payment of assured sums together with bonuses, if any in the form of maturity claims upon completing a stated age or upon expiry of the premium payment term from date of starting of the policy.

Tax benefits u/s 80C and 10 (10D) of the Income Tax Act, 1961:

The premium paid towards the policy is tax exempted under the Section 80C of Income Tax Act, 1961. The pay-out made to the nominee/policyholder is also tax free under the Section 10(10D) of Income Tax Act, 1961.

2. Endowment Plans:

Endowment plan is another type of life insurance plan, which is a combination of insurance and saving.

A certain amount is kept for life cover – insurance, while the rest is invested by the life insurance company. In an endowment plan, if the life assured outlives the policy term, the insurance company offers him the maturity benefit. Moreover,Endowment Plansmay offer bonuses periodically, which are paid either on maturity or to the nominee under death claim. On death, the death benefit is payable to the nominee.

Endowment plans are also commonly known as traditional life insurance, although, there is an investment component but the risk is lower than the other investment products and so are the returns.

How Does an Endowment Plan Work?

Endowment plans are similar to our regular insurance policies. They not only provide you with a life cover but also help you save on a regular basis. And once the policy matures with the given condition that the policyholder has survived the policy term, he/she will receive a lump sum amount. This amount can be utilized to meet financial needs like purchasing property, children's education or retirement etc.

Features of Endowment plan:

- **Death along with Survival benefits**: In case of demise of the insured, the beneficiary/nominee of the policy gets the sum assured along with bonuses. Also, the insured is allowed to get the sum assured if he/she outlives the policy.
- **Higher returns**: An endowment policy is helpful in building a corpus for future and providing financial protection to your family. The payout for survival benefit and death benefit of an endowment plan is higher than that of a purelife insurance policyi.e. Term Plans.
- **Premium payment frequency**: The policyholder can make payment of the premium based on the policy chosen by him/her. Payment can be done on monthly, quarterly, half-yearly, and on yearly basis.
- **Flexibility in Cover**: Riders like critical illness, total permanent disability, and accidental death can be added to the base plan and enhance the life cover. In addition to this, there are a few plans that offer waiver in the premium payment on total permanent disability or critical illness.
- **Tax Benefits**: The policyholder is entitled to get tax exemption on both premium payments, maturity and final payouts under the Section 80C and Section 10(10D) of the Income Tax Act, 1961.
- **Low Risk**: Traditional Endowment policies are considered safer as compared to the other investment option such as the Mutual Fund or the ULIP's because the amount here is not directly invested in equity funds or the stock market.

3. Term Life Insurance:

Term insurance is the simplest form of life insurance plan. Easy to understand and affordable to buy.

A term inurance provides death risk cover for a specified period. In case the life assured passes away during the policy period, the life insurance company pays the death benefit to the nominee. It is a pure risk cover plan that offers high coverage at low premiums.

There’s an option to add riders to widen up the coverage.

The death benefit is payable as lump sum, monthly payouts, or a combination of both.

There’s no payout if the life assured outlives the policy term. However, these days there are companies offering Term Plans with Return of Premiums (TROPS), where insurance companies payback all the paid premium amount in case the life assured outlives the term period. But, such plans are costlier than the vanilla term insurance plan.

Why is Term Insurance Plan necessary?

Life is too unpredictable and uncertainties can rip you off emotionally, financially and physically too. This is because no one has control over one's death, neither, can anyone predict it. Death of the breadwinner of the family can cause disastrous turbulence in the family member's life.

To find solutions for these problems, term insurance plays a vital role in your life. Moreover, term plans are an excellent way to build a financial safety net and are the simplest and most affordable type of term life insurance. It will help your family to settle your loans and pay-off certain requirements in your absence. The death benefits are paid to the beneficiary or the nominee only upon the insured's death. Therefore, in simple words, the death benefits are zero if the insured dies after the policy is expired.

The End