

MONEY MOVERS

→ FINANCIAL PLANNING



Road Map For Your Protection

By David Choo

No thinking person goes travelling without a road-map, especially when heading for unknown territory. Yet many go through life without planning and without identifying the risks and potential consequences.

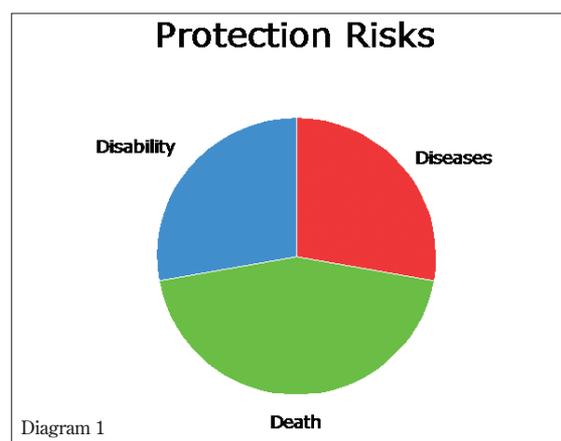
In their excitement to make money and to reap quick gains from their investments, many forget that there are risks not only in their investments but more general but no less real, risks like premature death, disability and diseases.

These 3 D's capture the protection risks faced by individuals – death, disability and diseases (Diagram 1). In addition it is good to protect against legal liabilities but I will not cover them here.

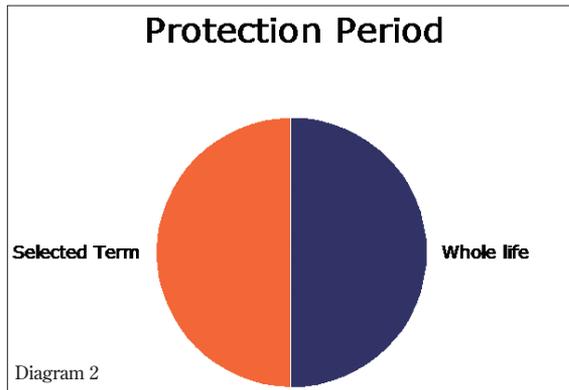
PROTECTION PERIOD

Besides identifying the types of risks, we have to concern ourselves also with the protection period required. This can either be for selected periods or for the whole of one's life (Diagram 2). It is important to identify carefully the period of protection required and if uncertain, to give allowance or have the option to “renew” the period (e.g. Renewable Term Insurance)

As a rule of thumb everyone should have at least some protec-



tion for the whole of his life so that he can pay for his own departure, make gifts to his loved ones and also give to charity.



FINANCIAL CONSEQUENCES

While the three main risks are death, disability and diseases, and there are many consequences of each of these, it is the financial consequences that insurance seeks to protect.

The financial losses comprise :

- Loss of Income,
- Expenses Incurred (e.g. daily expenses, medical),
- Debt Repayments,
- Loss of Assets (e.g. through fire, theft),
- Longevity Risk.

It is comforting to note that all these financial consequences can be covered by the many insurance products available in the market (refer to Diagram 3).

In selecting which products are most suitable, ask the following questions :

1. What risks do I need to cover – Note that personal accident policies only protect against accidental causes and specifically does not cover sickness.

Critical illness policies pay on diagnosis of any of the listed 30 critical illnesses if it is a rider. The policy which is a standalone pays on either diagnosis or death or total and permanent disablement. A financial adviser can explain what each product covers.

2. How long do I need the protection, i.e. Term policy or Whole life?

3. Is the insurance amount paid subject to indemnity? (ie. you will not be able to get more than what you incur irrespective of the number of policies). “Reimbursement basis” policies are normally subject to indemnity. In contrast, diagnosis basis policies like critical illness are not subject to indemnity and you can claim from two or even more policies.

4. Can the premiums be paid from CPF Ordinary or Medisave accounts?
Only certain Single Premium policies qualify for CPF Ordinary account. For Medical policies, only the shield approved products qualify.

5. For Medical policies ask whether the policies are “portable” or will cease because of certain events, e.g. Group Hospital and

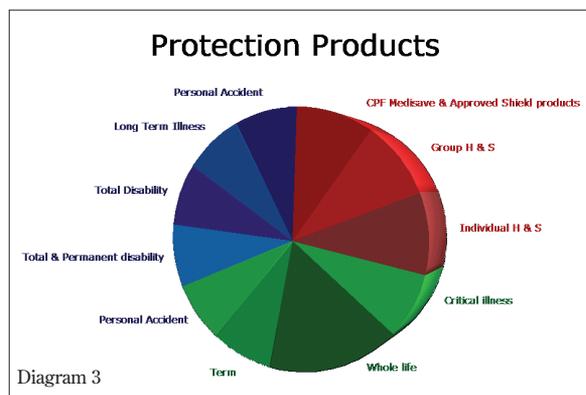
Surgical policies cease when you leave the firm or retire. (there are some transferable policies which allows protection up to one year in-between jobs).

Given a limited budget for most clients there is a need to prioritise and to do some balancing. One family of two adults and two kids and two sets of in-laws would have to spend some S\$10,000 per annum alone on enhanced shield plans. It is advisable to consult a good financial adviser to go through your protection needs carefully.

PROTECTION PLANNING PRINCIPLES

Based on my experience all clients should note these important principles whenever they are tempted to give protection a miss.

1. Before going into investments make sure you have an adequate insurance plan against the three D's.
2. Most families do not have sufficient wealth to self-insure and need to depend on insurance.
3. If the probability of a risk is low, it means that the premiums are low as well. Ask yourself if you can bear the financial impact?
4. Make sure your policy does not die on you when you need it later.
5. Diversification across insurance companies and even across countries is wise.
6. Always remember that taking steps to protect your loved ones is the respectable and sensible thing to do.



ROAD MAP FOR REGULAR REVIEW

What each of us needs to do is to review the road-map to locate where we are at each point and to decide what we need to do. An annual review is a good idea or when there are major changes in your life, e.g. getting married, having children, buying a property, etc.

Each milestone warrants a review or it can become a milestone.



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