



PROPER PROTECTION PLANNING – SAMPLE PROTECTION PORTFOLIOS

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What is the practical application of what we have covered so far? After evaluating the various options and strategies of Protection Planning, it is important to implement the findings and solutions. We shall discuss two sample protection portfolio – one employing a participating plan (Whole Life) and the other using Buy–Term–Invest–The–Rest (BTITR). Before evaluating the sample portfolios, let’s take a look at a summary of the Dreaded Situations, Possible Concerns and Liabilities and the possible solutions.

| Dreaded Situations | Possible Concerns & Liabilities | Possible Insurance Solutions Pre–Retirement | Possible Insurance Solutions Post–Retirement |
|--|---|---|--|
| Death | <ul style="list-style-type: none"> - Loans and bills - Dependents’ expenses - Leaving a Legacy - Donations for charities, associations, clubs etc | <ul style="list-style-type: none"> - WL - Term - PA Plan | <ul style="list-style-type: none"> - WL - Term - PA Plan (Some PA plans cover up to age 75) |
| Total Permanent Disability (TPD) | <ul style="list-style-type: none"> - Loans and bills - Hospitalization cost - Medication/Treatment cost - Living expenses - Dependents’ expenses | <ul style="list-style-type: none"> - WL - Term - H&S Plan - DI Plan - LTC Plan (From age 40 onwards) | <ul style="list-style-type: none"> - H&S Plan - LTC Plan |
| Critical Illnesses | <ul style="list-style-type: none"> - Loans and bills - Hospitalization cost - Medication/Treatment cost - Living expenses - Dependents’ expenses | <ul style="list-style-type: none"> - WL - Term - H&S Plan - DI Plan | <ul style="list-style-type: none"> - WL - Term - H&S Plan - LTC Plan |
| Loss of working ability due to disability or illness | <ul style="list-style-type: none"> - Loans and bills - Hospitalization cost - Medication/Treatment cost - Living expenses - Dependents’ expenses | <ul style="list-style-type: none"> - H&S Plan - DI Plan | NA |
| Long Term Disability | <ul style="list-style-type: none"> - Loans and bills - Hospitalization cost - Medication/Treatment cost - Living expenses - Dependents’ expenses | <ul style="list-style-type: none"> - H&S Plan - DI Plan - LTC Plan | <ul style="list-style-type: none"> - H&S Plan - LTC Plan |
| Partial Dismemberment | <ul style="list-style-type: none"> - Hospitalization cost - Medication/Treatment cost - Loss of working ability | <ul style="list-style-type: none"> - H&S Plan - PA Plan - DI Plan | <ul style="list-style-type: none"> - H&S Plan - PA Plan (Some PA plans cover up to age 75) |

Note: WL: Whole Life, H&S: Hospitalization & Surgical, DI: Disability Income, LTC: Long Term Care, PA: Personnel Accident

HOSPITALIZATION & SURGICAL (H&S)

As discussed previously, the first step in protection planning is getting a Hospitalization and Surgical Plan (H&S). A widely known H&S plan is the MediShield plan from the Central Provident Fund Board (CPF Board). However, the current MediShield is “dollar–capped” and is only renewable up to age 85 with an annual limit of \$50,000 and lifetime limit of \$200,000. It is advisable to “upgrade” to a Medisave–Approved Private Integrated Plan that provides additional benefits on top of that provided by MediShield. Policy holders with lower plans that cover the lower wards will have a pro–rated factor if admitted to a higher ward.

WHOLE LIFE (WL)

The main reason for getting a WL coverage is to have a guaranteed coverage in retirement, with critical illness coverage being the main concern. Death coverage in turn may not be as crucial as there is unlikely to be dependents around at that time. Consumers must decide whether to go for a limited premium option or pay–for–life option. Just as the name suggests, the premium are only payable for a limited number of years, typically 5, 10, 15, 20, 25 or up to age 65. Premiums for pay for life plans are typically payable up to age 85 or 99. Annual premiums for limited premium plans will be higher than that for pay–for–life plans but the total premium may not be

depending on the time of claim. Another option to ponder is whether the premiums are guaranteed or not. Only one company offers guaranteed premium WL plans with Critical Illness coverage.

DISABILITY INCOME (DI)

For those earning an income, it is vital to protect the ability to generate income. This is where Disability Income (DI) comes into play. When a misfortune strikes and results in a temporary loss of income–generation ability, the financial impact may be minimized through savings and possible payouts from some insurance policies. However, if the effect is prolonged, savings and insurance payouts may not be

sufficient to take care of the living expenses and still maintain the standard of life. DI can help to avoid such a situation.

TERM

Term plans can be used to protect one’s economically active years because of the low premiums compared to a WL. This will offer a higher coverage during the period of time when there are the most liabilities, like dependents and debts. This low premium is a result of the pure protection. For those who want to delay getting a term until upon arrival of a new born, it is important to take note of the insurability issue. Due

to changes in health status, there may be exclusions, loadings or even declination for new applications for term plans.

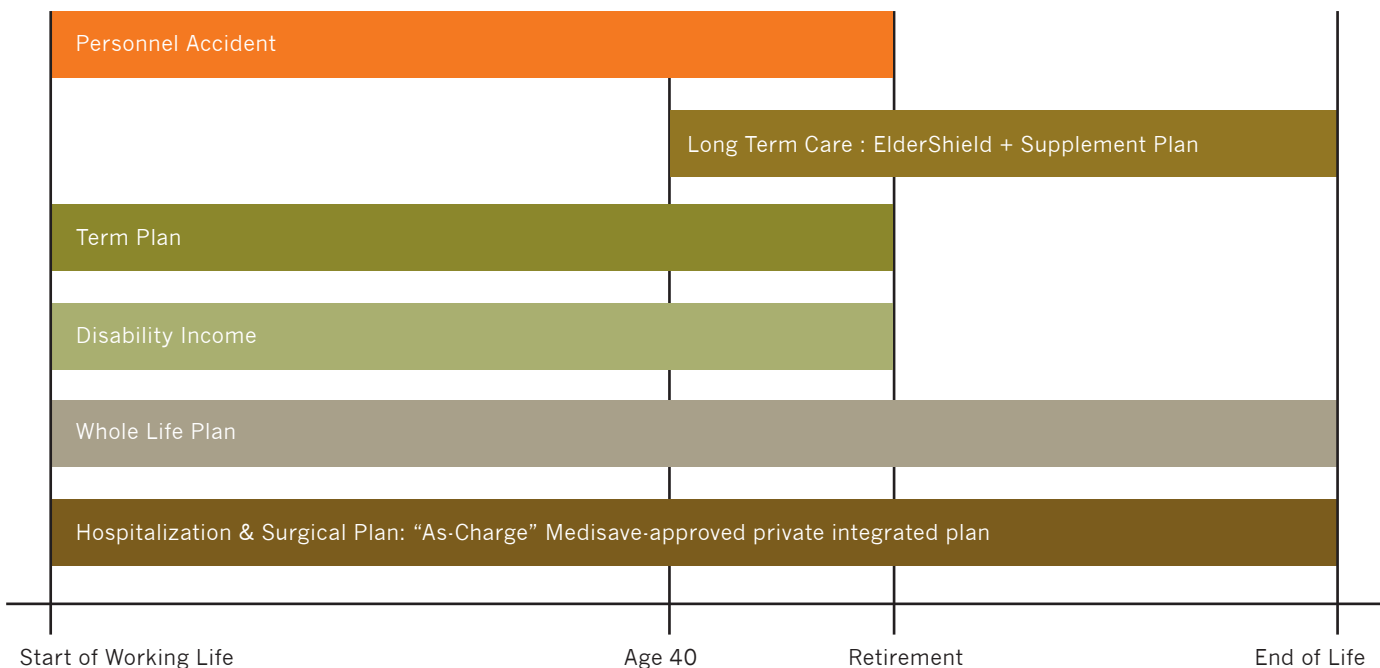
LONG TERM CARE (LTC)

A national LTC plan called ElderShield is available upon reaching the age of 40. Additional ElderShield Supplements are available through private insurers which offers additional payouts and can offer lifetime payout if desired. The most useful part of this plan is the coverage for disability after age 65 as DI and Total Permanent Disability (TPD) coverage normally ends by age 65.

PERSONAL ACCIDENT (PA)

Personnel Accident (PA) plans’ coverage is only enforced if it is due to accidents ONLY. Thus, when compared to H&S, WL, DI or Term, it is of lesser priority. However, PA plans normally covers partial dismemberment which other plans don’t cover and can be a useful addition to one’s Protection Portfolio. For the self-employed, the feature of temporary disablement coverage found in some plans would be beneficial. This would help cover for loss of income due to temporary disablement.

PROTECTION PORTFOLIO USING WHOLE LIFE (WL)



PROTECTION PORTFOLIO USING BTITR

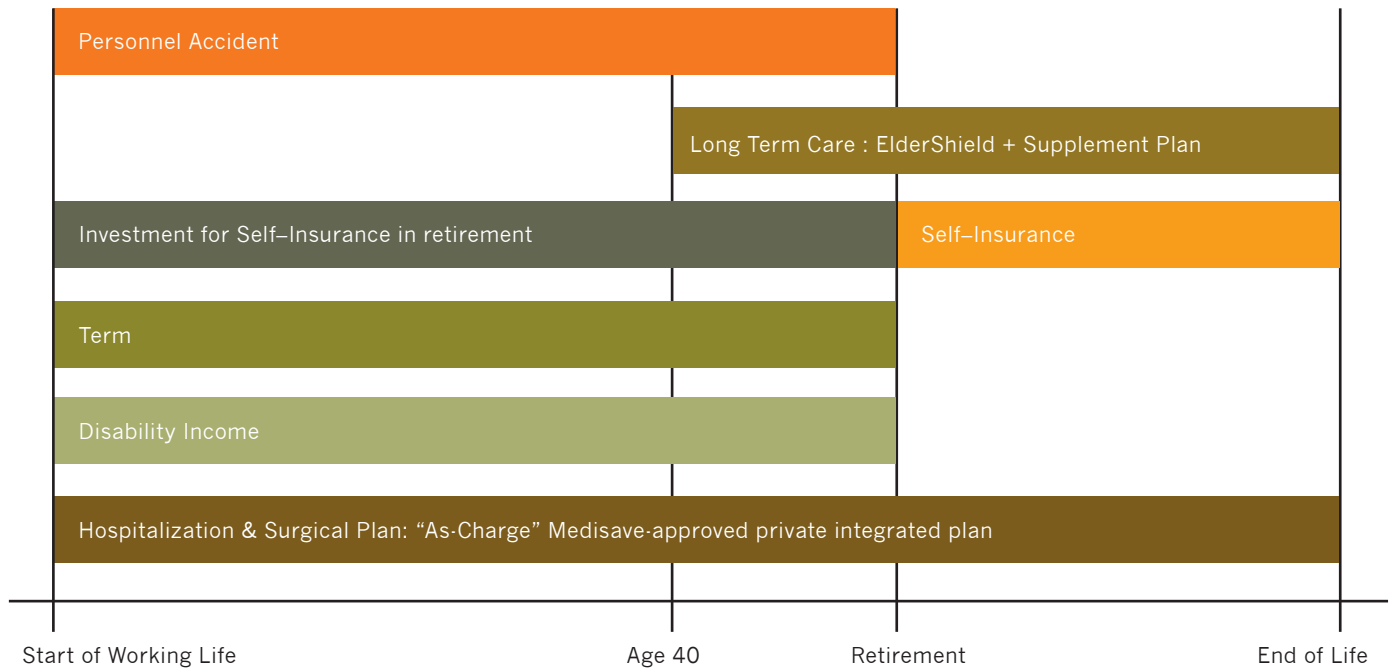
A Protection Portfolio using BTITR bears a lot of resemblance to that of one using WL. The main difference is the replacement of WL with Term and Investments. When choosing the Term plan, consumers can look out for Renewable Term and/or Convertible Term. Renewable Term offers the choice of renewing the Term plan when it matures without any proof of insurability, meaning to say the insurer cannot reject the renewal based on medical grounds.

Convertible Term offers the choice of converting the Term plan to a Whole Life plan without proof of insurability. The premium at renewal or conversion is based at the attained age. BTITR practitioners can have the option of having a Renewable and/or Convertible Term as an insurance against failure to generate sufficient returns for self-insurance during retirement.

However, costs may be incurred by having such options which will lead to a smaller budget for investment, thereby

affecting the returns needed for self-insurance. Also, getting these options does carry risks as the insurance company may withdraw the plans in future and only one renewal at the same terms is possible. There might not even be any WL plan to convert to.

Whichever strategy one takes, it is of paramount importance that the plan is followed through. Changing plans halfway may not be financially viable and one may no longer be insurable. ■■



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