

Policy will help your dependants

● Why do I need life insurance?

THE main purpose of life insurance is for protection against the adverse financial consequences of untimely death of the breadwinner.

In actual sense, you won't be the one needing life insurance — it's your family and loved ones that need it more than you. Life insurance is meant to replace your income for your dependants — your children, spouse, parents, siblings or anyone who will be financially affected by your demise. In a way it's no longer an option but a necessity in this modern society.

● What if I do not have any income to replace?

If you are a stay-at-home mum/dad or currently not earning an income, there is technically nothing to replace. However, do not forget about the implicit value of a stay-at-home mum/dad. If you're not around to take care of your kids and your home, additional expenses have to be incurred to make other arrangements. The breadwinner's income may be affected as he/she may have to take some time off to put everything in order.

If you're currently not earning an income, it does not mean that you won't be earning an income in the future. There is always your income earning potential which can be

Last week, we unveiled what really is this thing called life insurance. This week, we'll get behind the purpose of taking out a life insurance policy on our lives



protected.

● Are life insurance benefits only payable upon death?

Apart from death coverage, life insurance generally extends to cover total and permanent disability. In the event that you're certified by a registered medical practitioner of such condition, you'd be advanced the sum assured amount, subject to certain limits.

● How about death coverage due to an accident?

Yes, your life insurance policy also covers accidental death. In fact, it covers death from any causes. It also

extends to cover the case of total and permanent disability due to an accident. This benefit is payable in addition to any other personal accident policies that you may have.

● How about death coverage due to suicide?

There is a suicide clause in your policy that states: "The death of the life assured by suicide, while sane or insane, within one year from the date of issue of the policy or from the date of any reinstatement, whichever is later, will render the policy void." This means after that said one-year period, death by suicide is also covered.

● What are the other uses of life insurance?

Apart from the reasons mentioned earlier, life insurance also serves the following purpose:

1. To pay for final expenses

Nothing in this world is free — even when we leave, there's an "exit fee"! These fees include probate and other estate administration costs, debts

and medical expenses not covered by your health insurance policy.

Life insurance may come in very handy to defray some of these costs and ensure that the family has sufficient liquidity to carry on with their lives uninterrupted.

2. To create an inheritance

While most of us are struggling just to survive, the question of leaving behind something for our loved ones seldom crosses our minds.

Life insurance is one of the most cost-efficient ways of creating an inheritance for your loved ones with whatever little that you may have.

You only need to determine how much you can comfortably set aside as your premiums and decide who you wish to name as a nominee in your life insurance policy.

Life insurance may be the only financial instrument whereby you pay discounted ringgit to create a sizeable inheritance.

What it means here is that with a small amount of premium, you can obtain quite a large sum of coverage, depending on your age and type of products. An added advantage is that such proceeds are exempted from tax.

Apart from that, life insurance may also be used to make a charitable contribution to your favourite charity.

By utilising a life insurance policy, you can actually make a much larger contribution than if you donated the cash equivalent of the policy's premiums.

3. To create a source of savings

Life insurance may act as a form of "forced savings", especially for those who find it challenging to save. Most life insurance plans come with some form of cash value which you may cash out at some point or borrow against.

This serves as another reservoir of funds for emergency purposes or perhaps, for your children's education or your own retirement.

However, the main purposes of having life insurance are wealth protection and accumulation. It is not a substitute for your other savings/investment programme but merely complements them.

In conclusion, there is really no other financial instrument in the market that can serve the same purpose as life insurance.

When we look at the purpose behind the purpose, we discover that it is indeed a marvellous instrument to protect the livelihood of our loved ones.

■ Next week, we'll look at how much insurance we really need and see if we've got ourselves covered adequately.