IRDAI New Regulations: Keeping minimum sum assured will have income tax implications

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The primary objective of life insurance is to act as an income replacement tool and thus provide adequate protection to the insured's family. For such a need, a pure term insurance plan fits the bill. For those who wish to save through life insurance plans, there are several other options as well. There are tax benefits on the premium paid towards life insurance plans as well, but they should only be considered as incidental to your purchase. The Insurance Regulatory and Development Authority of India (IRDAI) has recently revised certain parameters in life insurance plans. Aalok Bhan, Director & Chief Marketing Officer, Max Life Insurance, in an email interview talks about the various offerings of a life insurance company that one may look at for protection and saving needs and the new rules impacting life cover.

It is being proposed to lower the life cover multiple in life insurance policies. How will it help policyholders? How will tax benefits be impacted?

IRDAI's new regulations on life insurance policies have given the flexibility on choices of sum assured multiples. It has also now reduced the minimum sum assured to 7 times the annual premium, from what previously was 10 times the annual premium for those below 45 years of age. The 7 times cover shall mean lower mortality charges, which would result in higher investable corpus leading to superior absolute returns for the customer.

However, opting for only a minimum sum assured of 7 times the annualized premium will have income tax implications where for availing income tax benefits under section 80C & 10 (10D) respectively, the minimum sum assured needs to be 10 times the annualised premium for the policyholders to take advantage of tax exemptions.

For a Millennial, other than term insurance plans, what are the risk covers available with a life insurance company?

The market offers varied policies today that take into account millennials' rapidly changing needs, health risks and existing financial aspirations and offers them myriad options to choose from. Other than opting for pure protection term plans that include Term plan with Return of Premium (TROP) options to secure their families from uncertainties of life, millennials can benefit from Unit Linked Insurance Plans (ULIPs), endowment plans, Child Plans, Retirement and Critical Illness plans as well.

Working millennials in their mid-20s and early 30s with long term wealth creation goals could opt for ULIPs, or traditional platforms depending on their risk appetite. ULIP's will provide a risk cover and enable them to invest into equity or debt markets basis their risk appetite and gain significant returns which can then be used to accommodate their goals. Endowment plans on the other hand, can be suitable for millennials planning to start or have a family. The savings from the plan can be withdrawn and be used for different milestone purposes such as child's education, marriage, etc.

Whom does TROP plan suit? What makes them score over pure term plans?

At times, customers tend to be on the fence when buying a term insurance plan, simply because of the thought that if they outlive the term period, they will receive no returns on the premium paid and will incur a 'loss'. To counter this barrier, Term Plan with Return on Premium Option (TROP) is offered by life insurers that features a premium back option if the life insured outlives the term policy.

TROP offers a pertinent combination of financial security and long-term financial planning by providing survival benefits at the end of the policy term equivalent to all premiums paid. It thus becomes an ideal solution for those seeking guaranteed cash value while also availing life insurance cover for a defined term.

How simple are ULIPs for a potential buyer to understand and save through them?

ULIPs are fairly simple plans to understand. They are highly transparent products where charges are shared as part of benefit illustration at the time of buying the policy. Apart from this, the investment performance is reported daily and monthly for all funds.

Also, part of the investment made into ULIPs are treated as premiums for insurance cover, while the remaining is invested into equity or debt markets, or in both, basis customers' choice and risk appetite. From a long-term perspective, ULIPs can help save for various life goals such as buying assets, weddings, education, starting a family, etc.