Mistakes to avoid while buying Life Insurance!!

EXECUTIVE SUMMARY: Life insurance is a product which people do not buy, it is sold to them and with less knowledge they make mistake which turns out to be harmful for their financial health. Most of the times people make mistake of buying expensive policies, they do not care about the right amount of insurance required, they blindly trust the illustration and also buy policies only for tax saving. So it’s better to be informed while buying life insurance so that family stays safe in future.

Life insurance is nothing but a protection tool for the family in case of any loss of income that may happen if the insured passes away. This risk may happen in the future and hence we prepare ourselves from the present day. Once a youngster starts working, along with the investments and the savings kept on one side, one should also start searching out for a life insurance policy that may suit one’s needs. In India people take it very lightly especially in terms of Life Insurance, they use it only as a saving tool and consider it seriously unless and until one goes through a very hard time of sickness. It is recommended to get a suitable policy as soon as one gets a job or starts earning. It is also an important part of one’s financial plan. Often while buying life insurance policies people commit mistakes. Here we are discussing some of the common mistakes which one should avoid while buying Life Insurance Policies:

1. **Getting pricey**: Since many people are not aware of Term insurance they are sold Endowment, money back or whole life plans which offer minimum insurance. They are unaware that pure insurance is available at very less cost. Before buying any policy, first people should consider their needs. One has to predict the complications that may arise in the future and accordingly take a policy. Once the need is defined then only one should go for different policies available. This exercise can save a lot of money to invest for future goals.

2. **Not buying enough coverage**: Consumers often underestimate the amount of insurance that is needed to provide a proper coverage to one’s family. How much money one’s dependents would need and for how long will they need it are the two most important key factors in determining the right amount of coverage for one’s family. Most of the times people who invest in life-insurance only consider that everyone in the family should have life insurance. However the correct way is that only the earning members in the family should have life insurance. Also, to calculate the required amount one can either follow thumb rule which states that life cover = Annual income x 20 time or one can use human life value method to calculate the required cover.
3. **Considering illustrations as a fact:** While selling life insurance policies, agents use the illustrations as a marketing technique where they supposedly demonstrate the cost of insurance and the future cash value of the policy. But one has to be aware that these are mere illustrations and there is no guarantee as to the same amount of interest will be given unless printed there. The actual interest rate is lower and thus people should not trust illustrations blindly.

4. **Buy Insurance just for tax saving:** In order to save taxes, there are many who end up buying a number of insurance policies that may or may not meet their financial objectives. While the insurance portfolio looks full, it does not necessarily add value to one’s financial plan. It is better not to fall prey to such misconceptions of tax-saving. Tax-saving is just one of the benefits that come along with the insurance. It does not fulfil the main objective of providing a proper coverage as such.

5. **Only naming one beneficiary for the policy:** Most of the people assume that listing just one person as a beneficiary on the life insurance policies will be enough. The problem with this is that there may be a situation where the beneficiary could pass away before the main person does, a situation that would end with the proceeds of the plan being paid to one’s estate which causes a bunch of other problems for any survivors that it is eventually passed on to. So it is better if beneficiaries in the policy are named properly.

These are some of the mistakes that people end up making while buying life insurance policies. It is always better to be informed while shopping for life insurance so that in case of any uncertainty it may not prove disastrous to family. So, do you think there are more points which we missed out? Do let us know and we’ll try to include them.