Life Insurance - Common mistakes to avoid

This new year, let's give you some guidance on what mistakes should be avoided while buying Life insurance policies.

1. **Do not combine Insurance and Investment.** This is the no. 1, most popular, mistake amongst investors. When we expect something in return, we are combining Insurance with Investment and in most cases opting for lower yield investments. Taking a pure term plan, preferably online, is cheapest. With the premium saved, you can invest in an asset class like Equity MF, based on your goals and risk profile.
2. **There are other ways to help your relative who sells Insurance policies.** Please don't create a problem for yourself by trying to 'help' your relative. You can refer them to people who actually need insurance. You can question them on the policies so that they improve their product knowledge. You can connect them to an association or a group in your Company. If someone wants to sell, there must be a viable proposition for both the sides.
3. **Do not extend the cover beyond Retirement.** Insurance is a function of your net liabilities. If your Financial Assets are sufficient to take care of your liabilities, then you don't need insurance. Remember that Insurance is a cost and one has to balance between the need to manage the risk against the cost of risk management.
4. **Buy Insurance only for earning members.** Insurance is to replace your economic value and to fund your net liabilities. When your spouse or child does not earn, you don't have to buy an insurance cover for them.
5. **Don't buy on emotions.** Like a Builder selling a flat giving you a picture of a beautiful place with amenities, the insurance ads make you visualize your dreams. We should only buy what we need, when we need and only if the comparative cost and returns are reasonable.
6. **Don't listen to short cuts**. One trick you will often hear is that buy this ULIP and you just need to pay for 3 years. After that, if you don't like to pay, no problem. The devil is in the details. When you go for a premium holiday, there may be cost implications. If the investment is for a long term, then why look at from a 3 year perspective?
7. **Ask for alternate investments and product comparisons.** If you are taking help of an adviser, ask for a detailed comparison with alternate investments. You must review Benefit Illustration Table and understand the charge structure, to avoid surprises. Your adviser is mandated to share the details of the commission he will receive, so please don't hesitate to ask.
8. **Don't avoid medicals.** If you have a medical situation, then you must declare it upfront. There is no point in hiding when the tests can anyway find the truth. If you want to avoid medicals because you are busy, that's even worst. It's a best practice that you get medicals done.
9. **Fill up forms on your own.** You must insist to fill up the form yourself and ask questions. It takes time and patience but remember that short cuts can be costly.
10. **Study personal finance resources.** Visit leading personal finance websites and look up for product reviews of the policy you are planning to buy. Look out for alternate investments. Do a smart check that you are going in the right direction.
11. **Avoid high cost structure products.** Look at the effective IRR (Internal Rate of Return) based on cash flows. You can do this yourself by making a list of negative and positive cash flows in excel and use IRR formula. You can find videos on YouTube to help you do this.

12. **Look at your overall budget.** Review your monthly cash flows. Check the premiums that you have already committed. Try and restrict your total yearly insurance costs to 10% of your yearly take home income. These insurance costs should include premium for Life, Health, Critical Illness, Personal Accident, Hospital Cash and Home Protection insurance. This is a high level guidance but works in most cases.