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Why life insurance should not be ignored during financial planning

Shiv Maheshwari, Max Life Insurance | Mumbai | September 22, 2016 17:46 IST

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Are we sure what life has in store for you on the next turn? Are we aware of where the next turn in our life is? For almost every one of us, the unknown, is the only certainty in life. If the next turn brings happy tidings, there is nothing but joy and all is right in our world. However, when it delivers a shock, the need for and the readiness to be suitably prepared comes to the fore and is truly put to the test. Therefore, given the uncertainties of life today it is imperative to have a financial plan and be financially ready to ensure that all your life stage goals are

met.

A financial plan, not only helps you to provide adequate resources for your current needs but also helps you save enough to meet the future financial goals of your family. The primary purpose of a financial plan is to ensure that the lifestyle and life stage goals of you and your loved ones are fulfilled. However, people often get pre-occupied with the investment and 'returns' aspect of a financial plan, and more often than not overlook their financial 'protection' needs. Even though insurance is synonymous with protection, insurance is often purchased more from either an investment / tax savings perspective rather than its true purpose of protection.

Not being adequately protected through a life cover before chalking out investment and wealth creation plans is a cardinal financial sin. It is our primary responsibility to safeguard the future

of our families in case something was to happen to us. Without a life insurance policy in place, if the breadwinner is not around anymore, any and all grandiose wealth creation plans will remain incomplete. Hence, before anything else, it is critical to determine your life insurance need for the sake of your family.

The rule of thumb says that you should have enough life insurance cover that is approximately equivalent to ten times your current annual income. However, this is merely a rough barometer while trying to arrive at the actual amount of cover needed to take care of one's life stage goals. It is important to take into account matters like your current and future financial obligations, the rate of inflation, the health and financial condition of your dependents and the amount of current liabilities to arrive at an estimate of how much total life insurance will be needed.

Life Insurance is not just about protecting loved ones from the risk of financial stress due to the breadwinner dying too early. It also plays an important role in building a corpus to meet various life stage needs through disciplined savings. To meet the dual purpose of savings and long term protection, there are many efficient endowment plans which provide life cover, create long term wealth, provide financial support to enjoy peace of mind as well as prove to be an effective tax-saving instrument.

To widen the scope of coverage at a fairly affordable cost, it is also financially prudent to consider adding 'riders' to the base life insurance policy. These Riders help to cover unforeseen calamities such as disabilities arising from accidents that can adversely impact income earning ability or a critical illness cover that pays out a lump sum if diagnosed with a serious ailment that may require long term care.

While looking to purchase a life insurance policy, bear in mind that the insurance plan you choose should ideally offer a combination of adequate protection from risk while ensuring that your family's financial liabilities are met without causing additional financial burden and that the continuity of the lifestyle that they enjoy is maintained. Empirical evidence in India suggests that life insurance needs to become the cornerstone of every Indian's financial plan. Unfortunately for many, life insurance enters the consumer's 'consideration set' as just another financial instrument that is purchased without giving it the due thought and importance one's life cover deserves. In order for this to change, we must realize that life insurance is uniquely different from all other financial products because it has the protection of your financial interests as its core proposition and thus should be the foundation of everyone's financial plan.

The author Shiv Maheshwari is EVP & Head – Agency of Max Life Insurance