



Life insurance is for everyone.

Key to Life Insurance Coverage...

- *Recommended Sum assured for Critical Illness: \$100,000 + 5 years expenses*
- *Early Critical Illness coverage for self-employed*
- *Recommended Sum assured for Death and TPD: DPS + 10 years expenses*

How much Life Insurance is needed for Critical Illness, Death and Total Permanent Disability?

In the aFp.net Featured Article \$0 Medical Insurance: is it possible?, I recommended that one should purchase as-charged integrated shield plan (ISP) offered by insurance companies and the riders for the ISP so as to cover all medical expenses required for treatments in hospital, effectively cutting it down to \$0.

This article revisits the topic on life insurance but in greater depth. The sum assured for life insurance and estimated premium required for the coverage; early-stage critical illness plan and how it compares to the traditional advanced-stage critical illness plan are clarified in this article.

Coverage for Critical Illness and Factors affecting Insurance Premium

Life insurance plan is medical insurance that covers 30 defined critical illnesses, death and Total Permanent Disability (TPD).

There are a few factors to consider when purchasing life insurance that covers the 30 critical illnesses. These include:

- Sum Assured Required
- Type of Plans (Whole-life or Term insurance)
- Coverage Term
- Early-Stage versus Traditional Advanced-stage Critical Illness Plan



The Start Early, Start Now rule is particularly true for Critical Illness insurance.

Sum Assured Required

The recommended total amount of sum assured required is **\$100,000 plus 3 to 5 times your annual expenses**. The \$100,000 will be used for immediate treatment and medication for boosting the immunity and improving the well-being of the patient. The rest of the payout will be for the Income Replacement for 3 to 5 years when the patient is recuperating at home to recover from the critical illness, such as cancer.

Table 1 shows the yearly and total premium for a non-smoker male to cover \$100,000 with the traditional advanced-stage critical illness whole-life. The premium is payable for 20 years for the whole-life coverage. As the figures suggest, the earlier you start, the lower the premium payable.

Age	Yearly Premium	Total Premium Paid	Protection Value* (40 yrs later)	Cash Value* (40 yrs later)
0	\$942.65	\$18,853	\$156,727	\$59,243
10	\$1256.50	\$25,130	\$156,727	\$76,012
20	\$1644.15	\$32,883	\$156,727	\$93,566
30	\$2170.30	\$43,406	\$156,727	\$110,336
40	\$2982.60	\$59,652	\$156,727	\$125,538
50	\$4404.05	\$88,081	\$156,727	\$137,293

Table 1: Yearly and total premium from NTUC Income for a non-smoker male to cover \$100,000 with advanced-stage critical illness whole-life.

*Assume Investment Rate of Return of 5.25% p.a. achieved by the insurer.

Type of Plans and Coverage Term

Since critical illness can strike at any age, it is advisable to provide the sum assured of **\$100,000 with limited payment term whole-life insurance**. As the protection value increases with time, whole-life insurance will address the increasing medical cost due to inflation. If there is no claim for critical illness or TPD, then the amount can be used for one's FINAL EXPENSES.

The payout for the remaining 3 to 5 times of your annual expenses can either be covered by whole-life or term insurance. Table 2 shows the Pros and Cons in the two types of plans.

The comparison suggests that it is probably **good for the risk-adverse to consider buying whole-life insurance** if the premium amount is not an issue. However, **for investment-savvy person** who is capable of generating other source of income with higher return, **term insurance should be better off**. Even if the coverage is only till age 65, it will not be an issue if your dependents no longer require your financial support by then.

Key in Life Insurance for Critical Illness

- *\$100,000 for immediate treatment and medication*
- *Cover 3-5 years of annual expenses*
- *Early Critical Illness coverage is good for self-employed*

Key in Life Insurance for Death and TPD

- *Add 10 years of annual expenses on top of DPS*
- *Look for group term insurance for lower premium*
- *As usual, start early*

	Whole-life	Term Insurance
Coverage	Whole-life.	Cover till age 65 only, normally.
Premium	Higher cost.	Low cost.
Cash Value	Returns of about 3-5%, depending on duration and insurer.	No cash value.
Opportunity for other Investment	Less money for other investment.	Money saved in buying term insurance should be used for investment to achieve >6% investment returns.
Others	Policy will not lapse if there is sufficient cash value to pay for premium.	Will lapse when premium is not paid for a month.

Table 2: Comparison between Whole-life and Term Insurance.

Early-Stage versus Traditional Advanced-Critical Illness Plan

In general, the early-stage critical illness plan pays only 25% or 50% of the Sum Assured, and up to a cap of \$75,000. A limit is imposed on the maximum claim for early-stage critical illness, no matter how big is the Sum Assured. This is because early-stage critical illness is likely to be cured when one is diagnosed and treated. Patient will then most likely to be sent home to recuperate for half to three months. Hence, if you are employed with hospitalisation leave benefit given by company, there is no loss of income during this period. There is, however, long-term medication, that you may need to take for a few years. The early-stage payout money may then be useful for the medication.

In comparison, the traditional advanced-stage critical illness plan does not impose any percentage on the payout of the Sum Assured. The maximum coverage that you can be purchased depends on your current annual income, age and the number of years that you would like to recuperate at home before rejoining the workforce.

Obviously, **early-stage critical illness plan is particularly beneficial to the self-employed** who are not covered for loss of income during the recuperation period. Young children will also benefit from buying early for the cheaper premium and easy acceptance for their good health in general at this tender age.

As for the premium, the early-stage critical illness plan is normally 20-60% more expensive than the traditional critical illness plan since it needs to price in the higher chance of claim. This is illustrated in Table 3 below - compare this with Table 1 for traditional advanced-stage critical illness plan for a non-smoker male for a sum assured of \$100, 000.

Age	Yearly Premium	Total Premium Paid	Protection Value* (40 yrs later)	Cash Value* (40 yrs later)
0	\$1436.50	\$28,730	\$195,908	\$55,638
10	\$1863.40	\$37,268	\$195,908	\$76,992
20	\$2382.60	\$47,652	\$195,908	\$100,501
30	\$3121.05	\$62,421	\$195,908	\$124,201
40	\$4297.90	\$85,958	\$195,908	\$146,735
50	\$5936.30	\$118,726	\$195,908	\$195,908

Table 3: Yearly and total premium from NTUC Income for a non-smoker male to cover \$100,000 early-stage critical illness whole-life

Life Insurance for Death and Total Permanent Disability (TPD)

All Singapore Citizens and Singapore Permanent Residents who contributes to their CPF will automatically be included in the Dependent Protection Scheme (DPS). This is a term insurance that covers death and TPD with sum assured of \$46,000. The aim of DPS is to insure (CPF) members as early as possible when they are likely to be healthier and insurable at that time.

The downside of DPS is that the coverage ceases at the age of 60, and the annual premium increases when you are older. Hence, it is necessary to consider cheaper and more flexible alternative insurance plans that last till at least age 70 and up to age 99.

The general rule of thumb is to **provide for 10 times your annual expenses for death and TPD**. You can get this through Group Term Insurance (e.g. SAFRA, NTUC Union) which offers cheaper premium. However, take note that such term insurance will terminate once you leave the group. On the other hand, you can get this term insurance coverage from any commercial insurer that provides competitive rate for pure protection.

Table 4 below shows an example of the yearly premium from NTUC Income for a non-smoker male for a Sum Assured of \$500,000 to cover against death and TPD.

Age	Yearly Premium	Total Premium Paid	Payment and Coverage years (Till age 65)
20	\$617.30	\$27,161.20	44 years
30	\$882.10	\$29,991.40	34 years
40	\$1416.60	\$33,998.40	24 years
50	\$1975.60	\$27,658.40	14 years

Table 4: Yearly and total premium from NTUC Income for a non-smoker male to cover \$500,000 against death and TPD.

Conclusion

To be sufficiently covered for critical illness, you can provide yourselves with \$100,000 whole-life insurance and 3 to 5 times of your annual expenses with whole-life or term insurance. Self-employed can consider getting some of these coverage from the early-stage critical illness plan.

Next, insure yourselves with another 10 times your annual expenses with term insurance for death and Total Permanent Disability. This will ensure that your family, particularly the children, is adequately provided in case you are not around to provide the financial support they most needed.



Early-stage Critical Illness Plan is beneficial to self-employed...

On top of DPS, provide 10 times your annual expenses for death and TPD



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