Why buy Life Insurance when the Chances are so Small?

By David Choo, PromiseLand Independent

The question which is often unsaid but at the back of the minds of many is "WHY bother about life insurance – the chances are so slim of my dying before 60?"

By age 60, most people reckon their children will already be working and they would have amassed enough wealth for their own retirement.

To be sure, the mortality table from <www.singstat.gov.sg> shows that the chance or possibility of a 30-year-old male dying before age 60 is about six per cent only, i.e. of the whole cohort of male 30 years old, the chance of one dying in the next 30 years is one out of twenty.

But the probability of such a male dying at age 100 is almost 100 per cent, which actually provides a golden opportunity (more of this later).

I think being concerned about probability is an intelligent thing. But the wise thing is to ask what is the IMPACT of an early death on one's family even though the probability is one out of twenty. For prudent financial planning, we ask what are the possible scenarios, and premature death is one such scenario which has a big financial impact.

It is not the thought of death alone which brings dread but the consequence of death which means the Death of Income. For a family of three dependants (wife and two children) in Singapore, the projected living and educational expenses from birth to completion of university education can amount to a few millions depending on family situation and educational routes. The amount needed for a specific family can be determined easily by a few calculations, even taking yearly inflation into account.

Physical death (mortality risk) is not the only risk. A higher risk is death of income (or working) due to disability of varying kinds (morbidity risks). Life insurance typically covers total and permanent disability (TPD) and total disability defined either as inability to perform work or some forms of daily activities unaided. (There are many types of disability covered by different insurance policies and this will be the subject of another article.)

We have to be concerned about all possible causes that will prevent a person from working. Unfortunately, there are some causes of unemployment which private insurers are not keen to insure, e.g. unemployment insurance. My point is that we have to protect the loss of earning ability as comprehensively as possible no matter how low the possibility if we cannot stomach the financial consequences or do not want to burden others with the consequences.

The question I am often asked next is: “What if everything turns out fine and I get to celebrate my 60th birthday?” My answer is: “Go ahead and have a great celebration”, like what I did when I turned 60.

Yes, all my premiums for TERM insurance like the CPF Dependants’ Protection Scheme (DPS), the SAFRA Reservist Group Term, the company Group Term Life and my personal term policies were spent without any claims made but they have not gone down the drain. These premiums have bought me the peace of mind and the security and assurance that if something had happened to stop my earnings and support for my family, the insurance payout would have provided for them just as if I had been around.

Do I regret “losing” the thousands of dollars of premiums of my TERM insurance over the last 30 years? Well, not regret because I had prepared mentally for it, just as I was prepared to expend the motor car insurance premiums and homeowners insurance.

I know that TERM insurance was the cheapest of all life insurance products typically with no cash back. Imagine, for a cost of 1 drink a day, a 30-year-old can protect himself for one million dollar for one year term policy.

But I could celebrate my “survival” from age 30 to 60 more happily because I had also “invested” in a few whole life policies which I am still keeping and which are worth some money now because of the “cash surrender value” benefit.

Being in the financial services industry, I knew that whole life policies serve as a “hedge” or counterweight against the TERM policies. If I don’t survive from 30 to 60, both the TERM and whole life policies would have provided handsomely for my wife and four sons. But if I pulled through, the TERM policies would have served their purpose like a time-controlled parachute which I did not need to open. The whole life policies which have no time limit, but are valid for the whole of my life, are still there to provide the eventual certain death benefit which would form my estate and legacy for my loved ones and my religious or charitable cause I choose to bequeath my proceeds to.

The certainty of death is the event that provides the opportunity to us to make our death count financially and yield a good return on investment too – a guaranteed return of sorts. The term “PAU CHIAK” as applied to whole life policies refer to the definiteness of making a claim provided you keep the policy to the end.

Actually, whether you claim early or later in life, the “return on investment” of a whole policy is competitive against other investments, with almost no risk.

Of course, there are details to consider like whether you should pay premiums for as long as you live or for a shorter period (limited pay), whether you should buy a participating plan (with profits) or non-participating (without profits), whether you add additional covers (riders), etc.

There are differences in the types of whole life plan ranging from traditional whole life, to investment-linked, to universal life, to variable universal life term. There are also differences between the same type of whole life plan from the different insurers.

Choosing a whole life plan is thus very challenging compared to TERM insurance. It is certainly good to consult a financial adviser especially one who is able to distribute the products of many insurers and who is able to provide fair and objective advice. (More about the different type of financial advisers too in another article.)

This article was prepared by David Choo in his personal capacity. The opinions expressed in this article are the author's own and do not reflect the view or position of PromiseLand Independent Pte Ltd.

> *"Hindsight is a wonderful thing but foresight is better, especially when it comes to saving life, or some pain."*
>
> William Blake

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