HDFC Youngstar Super

This policy provides insurance cover in the name of the earning member of the family.

Suresh Parthasarathy

As a parent, if you are looking at saving for your child's higher education or marriage, insurance could well be among your first choices. Given the emotional aspect involved in these savings, individuals often tend to overlook returns for protection on such products.

With the IRDA capping expenses structure for insurance products, insurance companies have started modifying their existing products and are re-launching the same. HDFC Standard Life has launched one such market-linked product — HDFC Youngstar Super. This policy provides an insurance cover in the name of the earning member of the family rather than the children.

SALIENT FEATURES

The product offers two options — double and triple benefit options. Under the double benefit option, upon the death of life insured, the family will receive the sum assured while the remaining future premiums will be paid by the company until maturity; at the end of the period the beneficiary will receive the fund value.

PRODUCT PRIMER

Similarly under the triple benefit option the sum assured is paid and the future premiums payable by the company are divided into two components, 50 per cent of the original premium is paid to the nominee to manage his/her family while the rest is contributed to serve the policy and at the time of maturity the nominee or beneficiary will receive the fund value.

Critical illness benefit: Under this option the sum assured is paid and the future premium is paid by the company based on the double or triple benefit option preferred. Once the critical illness benefit is availed, death benefit cover is terminated.

Fund option: The plan offers seven fund options and based on individual's risk appetite he or she can choose the funds from 100 per cent debt to 100 per cent equity.

Bumper addition: This is the loyalty addition paid at the time of maturity, based on the term of the policy. For a term of ten years, 50 per cent of the first year premium will be added to the maturity value while for a term of 11 years and above, the same would be 100 per cent of the premium.

The product would suffer premium allocation charge (PAC) which would progressively reduce from the first to the fourth year and remain flat thereafter until premium payment period. This charge is significantly lower than what it was earlier. The plan would also deduct policy administration charges.

Comment on the product: If the HDFC Youngstar Super earns a return of 10 per cent it will deduct 2.62 per cent towards charges such as mortality (risk premium charge), service tax and expenses. This charge is lower than the expense under the earlier version, as commission and other expenses have come down.

Under IRDA's regulations, if risk charges are separated, the deduction will amount to 1.7 per cent from the gross yield and will also be well within the 2.25 per cent expense cap stipulated by IRDA. The risk charges and service tax deduction will account for 0.92 per cent of the yield.

Take the case of a male aged 35 with standard health with a policy for risk cover of Rs 20 lakh paying an annual premium of Rs 1 lakh over the next 20 years. The maturity value of this will be Rs 45. 8 lakh (this is inclusive of bumper addition of Rs 1 lakh).

This illustration is for a double benefit plan. If an individual prefers a triple benefit plan, maturity value is likely to fall based on the date of the triple benefit availed. The drop in the maturity value is on account of 50 per cent of the premium being paid to the nominee or the beneficiary till the maturity of the plan.

Given the reduction in expenses compared with the product's erstwhile form, the yield may be better, especially with equity exposure.

The product may well compete with a portfolio which has a combination of mutual fund (earning similar returns) plus term insurance, given the new expense structure.

Having said this, if one buys a pure debt option under this plan the return may not even beat inflation in such a cases it is better to look for some other option or a combination of PPF and term insurance.