

How to arrive at the life cover you need

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ONE of the many dangers of having no or less-than-adequate life insurance is that, in your absence, your family members and dependants could struggle to meet current expenses and future needs. Therefore, it is necessary to find out the right life insurance amount so that your family continues to lead a normal life even when you are not there.

□ **Why you need to find out your "Human life Value":** Your family is dependent on your earnings to take care of their daily expenses and to accomplish future goals, such as buying a house, children's higher education, wedding and spouse's welfare after retirement. If you take the present value of all the future earnings throughout your work life which you would contribute to your family, it would give you an amount that could take care of the family in your absence. This, is your Human life Value.

This is the basic life insurance your family needs to maintain its current lifestyle and fulfil all life goals in your absence. There are many websites with calculators that could help you arrive at this value. A quick way to get a ballpark estimate of the amount is to take your annual expense amount and multiply it with number of years left of your work life. For instance, if your annual expense is Rs 5 lakh and the number of years of work life remaining is 20 years, you would need Rs 1 crore as base insurance cover amount. Ideally you would need greater than this figure since expenses would be increasing with time.

□ **Consider number of dependants:** The more dependants you have, say, spouse, children, parents, siblings and in-laws, higher the life insurance you would need to make provision for their sustenance. For your spouse, you would have to make a provision till the end of your work life as well as for the duration of retired life. As a rule of thumb, this provision can be 10 times your annual expense. For those who are completely dependent and partially-dependent on your income, make this provision at 5 times and 2.5 times your annual expenses, respectively.

□ **Figure out the amount needed for future life goals:** There are many life goals, such as children's higher education and wedding, for which you need to invest regularly. Though the basic cover amount would help your family meet regular expenses of all the dependants, including your children till the time they get independent, expenses like higher education and wedding are typically borne by parents. You will also need to make provisions for these future expenses in your life insurance cover, to secure the future of your family members such as your children.

□ **Factor in all your obligations:** When you start acquiring various assets, you also take up loans, such as home, auto and personal loans. In your absence, it would be difficult for your family to clear these obligations and that may wipe out your existing savings. If you add the outstanding loan

amounts to your desired insurance cover amount, it would become sufficient to protect your family from all financial obligations.

□ **Periodically review life insurance coverage:** While the approach we have just described helps you arrive at the right life insurance amount you need, this requirement keeps changing over time. This means you need to periodically review the adequacy of the life insurance coverage. Based on growth of your income, lifestyle changes, assets accumulated, besides life milestones like parenthood, your insurance coverage requirement can increase or decrease.

When you have less assets i.e. investments that can create income in the future, you need more life insurance. Similarly, as the number of dependants or your income increases, you need a larger insurance cover. Flexible term life insurance plans are available, which provide high life covers at affordable premiums and allow you to increase your life cover after milestones like birth of a child, and decrease it after accumulation of ample assets or fulfilment of major responsibilities like child's higher education.

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FOR
YOU

