LIFE INSURANCE

Don't Know What Investment-Linked Insurance Policies Are? Here Are 5 Things You Need to Know

by MoneySmart on 8 October 2020

Sponsored article

This post was written in collaboration with Great Eastern. While we are financially compensated by them, we nonetheless strive to maintain our editorial integrity and review products with the same objective lens. We are committed to providing the best recommendations and advice in order for you to make personal financial decisions with confidence. You can view our Editorial Guidelines here.

Investment-linked policies (ILPs) are essentially a comprehensive insurance solution that can fulfill both protection needs and wealth accumulation goals. You have the flexibility to adjust your coverage and/or your financial goals depending on your lifestyle, stage of life and needs.

If you're reading this, it's likely that you may be considering purchasing such an insurance policy, or you're just curious and doing research on different types of insurance plans in general. To help you make your decision, here are 5 things about this type of insurance you need to know:

1. What exactly are ILPs?

ILPs are insurance plans with both protection and investment elements in their structure. Some of these are paid through regular premiums — with options for policyholders to pay for them on a monthly, quarterly, half-yearly or yearly basis. Regular premium ILPs also give you the flexibility to adjust your insurance protection. Separately, there are also single premium ILPs where you pay for your premiums in a lump sum.

Whole of Life ILPs offer a range of choices of the amount of coverage for a chosen budget and allow you the flexibility to change the coverage amounts as your needs evolve, and are good all-in-one insurance solutions. There are also wealth accumulation plans that help you put in place a long-term savings programme, giving you choices of funds that suit your risk profile.

So what do ILPs invest into?

On the investment front, most insurers will have carefully selected pre-packaged portfolio funds to cater to customers who are not as active as investors, or have basic investment knowledge and who prefer to leave the portfolio management to the fund manager. For customers who are more investment savvy and prefer to be hands-on, the class of funds invested into can be selected based on their expectations and objectives through "investment units".

Do note that the value of the invested units depend on performance. ILPs usually do not have guaranteed cash values, so the upside or downside depends on what they are invested into. Regular review with a financial advisory representative is important as it ensures that the ILP remains relevant to one's needs.

On the protection side, these insurance plans typically cover policyholders for death, total and permanent disability (TPD) and terminal illness, and riders can be added for additional coverage. Depending on the policy bought, the policyholder's death or TPD benefit could comprise a combination of the sum assured and/or the value of the units in the sub-fund.

2. How are ILPs different from other types of insurance policies?

Here's a quick summary of the main differences between 3 types of life insurance policies: Term Policy, Participating Policy, and Investment-Linked Policies.

Popular Articles

01 The Best 1-for-1 Hotel Buffet Dining Promotions in Singapore (July 2020)

02 The Best Fixed Deposit Rates in Singapore (September 2020)

03 Wedding Ang Bao Rates in Singapore (2020) – How Much Should You Give?

04 Best Money Changers in Singapore (2020) – 13 Places to Go for Good Exchange Rates

05 Train to JB Guide (2020) – How Much KTM Train Tickets Cost & How to Get There

	Term Policy	Participating Policy (Whole Life/ Endowment)	Investment-Linked Policies (Whole Life/ Endowment)
What it is	Protection only with no cash value	Dependent on choice of plan: can provide protection and/or savings with cash value (guaranteed and non-guaranteed)	Dependent on choice of protection or investment focused plan; can provide protection and/or investment returns. This plan will have an account value, where the value is non-guaranteed and dependent on the performance of the selected fund(s)
Period of coverage	Term specified by life assured	Dependent on plan	Whole of Life
Cash value	None	Yes, comprises of guaranteed and non-guaranteed values	Yes, non-guaranteed, dependent on the performance of the selected fund(s)
Flexibility to choose sub-funds?	N/A	No	Yes, usually with prescribed number of free fund-switching per year
What happens if I am unable to make my premium payments?	Policy will lapse	Automatic premium loan will kick in if there is policy value in the policy. Policy will lapse after cash value is fully exhausted	Policy will remain inforce as long as there are sufficient fund value to cover policy charges and cost of insurance. Policy will lapse after fund value is fully exhausted
Payout for early surrender	None	Cash value of policy plus any bonuses up to the point policy is surrendered. For early surrender, there is a high probability that surrendered value is lesser than total premium paid	Cash value of investments at the point the policy is surrendered less any fees for early surrenders

3. ILPs could be a good first insurance policy

The usual advice is for first-jobbers to get a term life plan as it is affordable. Then you build on this with different types of insurance plans — for example, a personal accident plan, health insurance, critical illness insurance, maybe a second or third term life plan, mortgage insurance and so on.

However, the protection & investment-focused insurance plan is a good alternative to consider. As you grow in your career, you can increase the protection coverage and premium amount; at the same time, know that your plan also has the potential for an investment yield, according to your needs.

Say you get married, buy a house and start a family. A policy such as GREAT Life Advantage II gives you the flexibility to increase your coverage as you hit certain life stages without the need for an additional medical assessment. Plus, it also offers free Child Cover Benefit for every child, including your future children. Adjustable coverage starts from as low as $100 a month.

In comparison, while a Term Plan may require a lower outlay for the same level of protection, it doesn't accumulate any cash value nor offer flexibility in coverage. If you are investing on a long-term basis, the ILP fund value can grow with you as you go through your different life stages.

4. Some Common Misconceptions about ILPs

<u>Misconception 1: ILPs are only investment focused, are too rigid and do not offer flexibility</u>
ILPs are essentially insurance plans, and you are able to control your coverage based on your protection needs. You can reduce your cover when your children have grown up and liabilities are paid off to focus the allocation towards accumulation for retirement. If you're a savvy investor, you could also look into switching sub-funds depending on market conditions and your financial goals. ILPs may help you to achieve your short-term and long-term goals faster due to the investment component of the plan.

<u>Misconception 2: My money is 100% locked in</u>
Some ILPs allow for partial withdrawals as long as you maintain a minimum value of units. You can make single-premium top-ups to help you grow your investment, and your insurer may even include bonuses along the way to help you along. In short, ILPs can be flexible — so go ahead and withdraw that much-deserved lump sum for your anticipated holiday once Covid-19 blows over!

<u>Misconception 3: ILPs have low insurance benefit</u>
This is not true. Remember, ILPs are at the core, insurance plans. How much protection coverage really depends on which ILP you pick — one that is protection-heavy or one with a stronger wealth accumulation focus.

The latter will naturally have a much lower protection benefit as you're channelling most of your premiums into the investment sub-fund and protection remains basic. With the protection-focused ILP, you can allocate more for protection, including critical illness coverage through add-on riders or get higher coverage as you need it.

5. Monitoring and Managing Your ILPs

Many policyholders don't actively manage such insurance plans. However, some insurers offer convenient ways for you to monitor and manage your ILPs. For example, through the Great Eastern App, you have the flexibility to manage your ILPs (and monitor other Great Eastern policies), even at 2am when the day is done or if you are awake, having soothed the baby.

Find out more about Great Eastern's ILP solutions today. From 1 October to 31 December 2020, enjoy 20% off your first year premiums when you purchase GREAT Life Advantage II.

****

This advertisement has not been reviewed by the Monetary Authority of Singapore.

Terms and Conditions apply. Protected up to specified limits by SDIC.

Investments in these plans are subject to investment risks including the possible loss of the principal amount invested. The value of the units in the Fund(s) and the income accruing to the units, if any, may fall or rise. Please refer to Fund Details and Product Highlights Sheet for the specific risks of the Fund(s). Past performance is not necessarily indicative of future performance.

TAGS: GREAT EASTERN, ILPS, INSURANCE, INVESTMENT-LINKED POLICY, SPONSORED

Related Articles

LIFE INSURANCE
Term Life Insurance – Why You Should Start Here When Figuring Out What Coverage You Need

LIFE INSURANCE
5 Things You May Not Know About Personal Insurance in 2020

LIFE INSURANCE
When & Why Do People Think About Buying Term Life Insurance Anyway?

LIFE INSURANCE
Critical Illness Insurance Definitions Will Change in 2020 – How This Could Affect New Policies

LIFE INSURANCE
NTUC Income Insurance Singapore — SNACK Review

LIFE INSURANCE
Critical Illness Definitions Will Change from 26 August 2020 — What Does This Mean to Me?

BUDGETING
Dengue Fever in Singapore — Symptoms, Insurance & Treatment Costs

LIFE INSURANCE
Why Standalone Critical Illness (CI) Plans Are Cheaper In Your 20s