

## How to use the benefit illustration of a life insurance policy

23<sup>rd</sup> April 2017, Mint

Often we advise you to sit with the benefit illustration of a life insurance policy to understand the benefits in detail. But how can you make best use of it? We take you through the answers.

### **What is a benefit illustration?**

A benefit illustration is a year-by-year summary of the costs and benefits. With it, you can assess how costs impact your corpus every year. You pay a premium every year and your insurer deducts costs from this money on account of fund management, distributor incentives, insurance cover and other administrative expenses. These costs are clearly spelt out in the case of a unit linked insurance plan (Ulip), and the benefit illustration shows you how each of these costs impact your money each year. For the purpose of illustration, it's important to assume that the fund grows at a certain rate each year, so the regulator has allowed the insurer to assume a rate of 4% and 8%. So you get two illustrations: one assumed at a rate of 4% and the second at 8%. In each of the illustrations, the costs are spelt out for each year so you know how much you invest, how much you pay in charges and the amount left at the end of the year. Being an insurance product, the death benefit is also stated.

In the case of traditional plans, the costs are embedded so while the benefit illustration will not show costs under different heads, the impact of costs can be ascertained from the maturity corpus. Benefit illustrations for a bundled life insurance policy also contain a column that shows the surrender value—this is the amount that you get if you were to opt out of the policy.

Looking at the surrender value is very important in the case of a traditional plan, as surrender costs in these are exorbitant.

### **What you should do**

The insurance regulator has mandated all sales to be accompanied by a customised benefit illustration. Insurance plans, where all the benefits are stated upfront (i.e., term plans) are an exception to this rule. Additionally, in the case of Ulips, the illustration will state the net yield. However, the published net yields may not be a true reflection of the rate of return, given that it excludes mortality cost, service tax and costs on account of offering a guarantee. For an older person or someone with a large sum assured, mortality costs can severely impact the net yield.

Given that just the net yield may not help, we recommend you take the corpus accumulated on maturity and use a financial calculator or take the help of a financial planner to calculate the net yield and then compare the plans. Benefit illustrations give you important information, so you need to do your due diligence before selecting a policy.