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Don't Leave Home Without One

Whole Life Insurance Policies

The Singaporean's penchant for private property is well documented, but a recent survey by OCBC suggests that people are much less interested in life insurance coverage. The survey, which the bank completed in April, found that one in three Singaporeans do not even own such a policy, but are they right to ignore such protection?

By Patrick Lim

Whole life insurance transfers the risks of three events – death, disability and dreaded diseases – to a life insurance company, offering an assured indemnity payment in return for regular premiums.

The three 'D's

Whole life insurance covers **death** from the moment that the policy starts, with relatively few exclusions, unlike the Personal Accident Plans that pay only if death is the result of violent external injuries. The most notable exclusion clause deals with suicide – all 12 life insurers here in Singapore impose a standard one-year waiting period. If a person dies by his or her own hand during that first year, there will be no payout.

In Japan, incidentally, it is customary for insurers to impose a three-year waiting period, and an increase in the number of suicides means that the introduction of a longer period is being contemplated. According to Japanese National Policy Agency data, the number of recorded suicides jumped an astonishing 34.7% in 1998, with 32,860 cases. Since then, the figure has remained above 30,000 a year, mainly, it is believed, due to high unemployment.

Whole life insurance also provides coverage for total and permanent **disability** (extended up to the age of 65) as well as for **dreaded diseases.** This benefit was only introduced in the late 1980s and at the time it covered fewer than 10 diseases. It is now, however, limited to 30 dreaded diseases, which are also known as critical illnesses. Note that these vary from one insurer to another, with around 20 examples covered by all 12 insurers. By taking up a number of whole-life plans with different insurers, it is possible to be covered for 40 or so different diseases. All insurers, remember, impose a 90-day waiting clause from the policy's inception for cancer, heart attacks and coronary artery bypass surgery.

Total and permanent disability (TPD)

- the loss of sight in both eyes; or
- loss of sight of one eye and the loss, by severance, of one limb at or above the ankle or wrist; or
- loss, by severance, of:
  - (i) both hands at or above the wrists; or
  - (ii) both feet at or above the ankles; or
  - (iii) one hand at or above the wrist and one foot at or above the ankle.

Why take up whole life insurance?

The most compelling reason for taking out whole life coverage is that no one is immortal. We may not know when or where, but we will all die, sooner or later. There are, however, a number of other reasons to consider such a policy.

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A 20-year-old male taking advantage of Aviva's Enhanced Living Assurance Plan (ELA) can, for example, pay a monthly premium of $110 for a sum assured of $100,000. No other instrument can match this sort of payout so quickly, and the premium is smaller still if you choose to pay a yearly sum of $1,257.

Whole life insurance is also an extremely simple yet effective means of cultivating a disciplined savings habit. Regular premiums effectively mean regular savings, and gone are the days when investors had to pay rigid premiums for the rest of their lives. Policyholders can take out single-premium plans or choose to pay over 5-, 10-, 15- or 20-year terms. The consumer is spoilt for choice and can plan their savings program on a short-, medium- or long-term basis.

Unhealthy trends

Medical statistics are a constant reminder that Singapore ranks amongst the more unhealthy of the world's developed nations. According to the Health Promotion Board, a quarter of Singaporean adults have high blood pressure, a quarter have high cholesterol, and one in 10 has diabetes.

Ministry of Health numbers reveal that cancer was the cause of 28.2% of Singapore's deaths in 2001, with heart diseases close behind. Ten thousand Singaporeans suffer a stroke every year, and nine out of 10 consume almost twice the recommended daily intake of salt, raising the chances of high blood pressure, a heart attack or diabetes. In this country, the average daily sodium intake is something like 3,527 milligrams, the equivalent of almost 2 teaspoons of salt, or 8 teaspoons of soy sauce.

Whole life insurance helps the investor to hedge against the risk of high medical costs, though it should always be borne in mind that there is a cap on the critical illness benefit. Irrespective of the number of plans taken up, and the total amount assured, AIA will not pay out more than $500,000, while Manulife imposes a limit of $750,000.

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Looking at insurers like Aviva, AXA Life, NTUC Income and UOB Life, it looks like Aviva's ELA and ELA 15 plans offer the lowest premiums for every $1,000 assured, with the highest guaranteed benefits in terms of both protection and cash values. Insurers like AIA, Great Eastern Life, OAC and Prudential only include dreaded diseases as a 'rider', which means that a clause states the insurer's right to adjust the rider premiums, giving policyholders 30 to 45 days' notice.

Longevity risks and retirement funding

The knowledge derived from the Human Genome Project will greatly enhance our understanding of how genetics influences the development of diseases, and should speed up the discovery of new treatments.

With additional advances in biotechnology and life sciences, it is looking increasingly plausible that men and women will live to see 130, and only whole life insurance addresses the consequences of such a long life. The substantial cash values accrued over such a period will also constitute a valuable source of retirement funding.

Rising costs and guarantees

Insurers, like all other business entities, can go bust, which means it is comforting to learn that the Monetary Authority of Singapore (MAS) is dusting off a little-known clause that protects policyholders. "There is," the MAS reveals, "a provision under the Insurance Act for a Policy Owners' Protection Fund, and this is currently under review."

What that means is that if an insurer should fail, the fund will basically pay up to 90% of the amount due to a policyholder, a guarantee that few other instruments come close to matching.

In the final analysis, the uncertainties of life and the higher costs of medical treatment make whole life insurance more relevant and more useful than ever before. Medical costs are bound to rise, as the recent government announcements concerning subsidised medical care in government hospitals make clear.

Life insurers are, it seems, gradually withdrawing traditional products like whole life insurance from the marketplace, so hopefully people will stop procrastinating and start investing. You really should not leave home without a whole life policy. Si

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