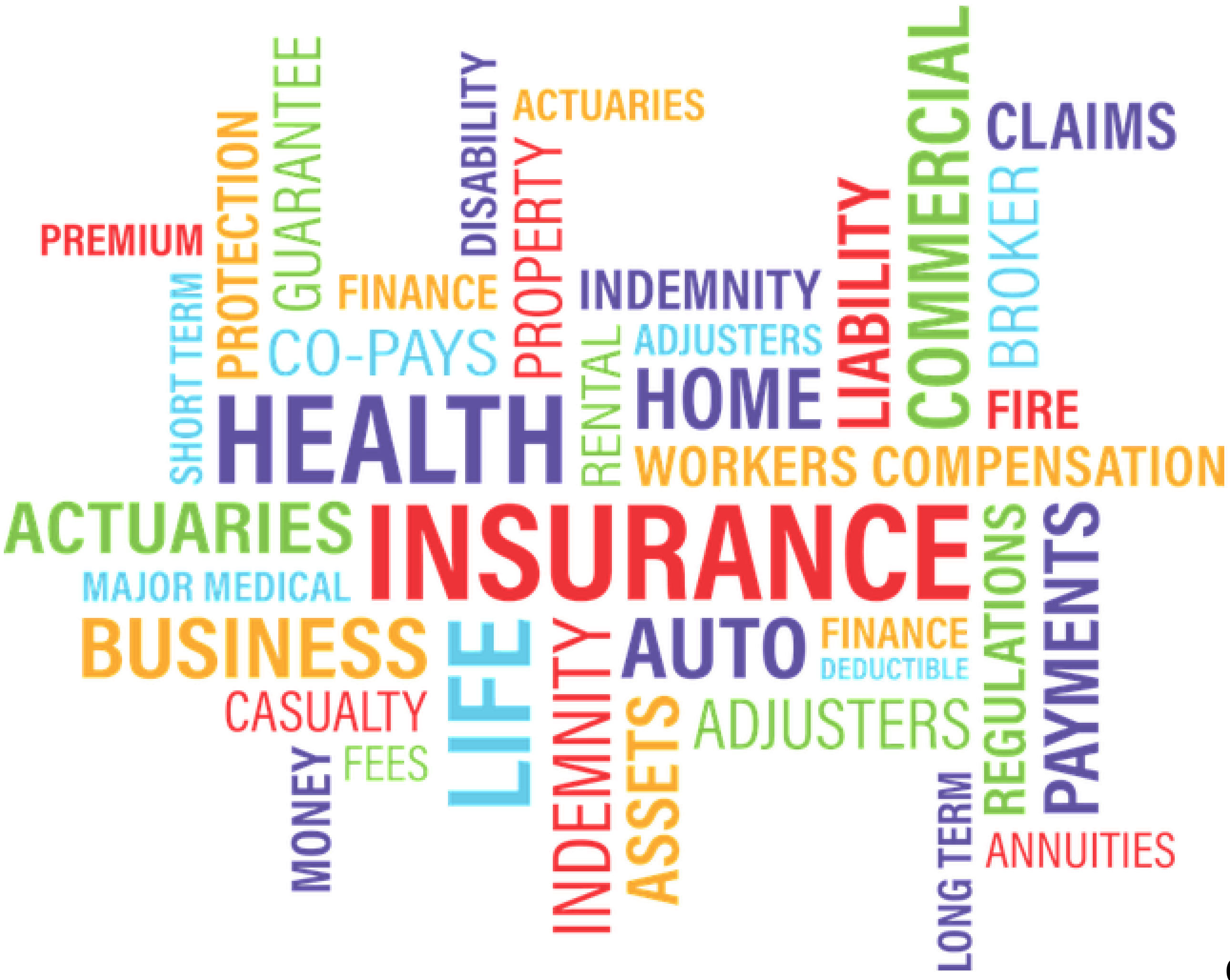
Do You Have a Safety Net for Your Dependents?

“A man who dies without adequate life insurance should have to come back and see the mess he created”

–Will Rogers

Doctors fear the risk of life just the same as any normal individual or actually even more. Who can deny that specifically in the moments like the ongoing health crisis, where irrespective of how much worse the situation goes, the warriors are always on the battlefield with their armours on. Doctors are among the professionals whose income starts late, mostly in their 30s and surges in the later part of their practice. Going through all the thick medical books for years and having large education loans to pay-off, along with the pressure to balance both personal and professional commitments with utmost diligence makes them strive harder for everything in life. What more? Well, the responsibility of saving their dependents from the uncertainties of life through Life Insurance.

In January this year, Indiaspend- a data-driven public interest journalism initiative released a report that was an eye-opener. The insurance segment has still not penetrated Indian markets as much as it should have as nearly 988 million Indians(more than the population of Europe) that makes a whopping 75% of all Indians, are not covered by any form of life insurance. It exposes the sorrowful state of the Indian population as it stands highly unprotected against the risk of not safeguarding their loved ones from the uncertainty of life.



Considering the emerging mortality, term plans are becoming expensive. Prominent insurers such as HDFC Life, Max Life, and Tata AIA have witnessed a price hike between 20-35 per cent in April this year. Also, ICICI Prudential Life has increased it by up 40 per cent. While some insurers have already hiked their premiums, others may do it in the next few months.

The Indiaspend report also highlighted how in the event of the death of an earning member, the amount insured barely covers 8% of the amount actually required by the deceased’s family. In such scenarios, the Insurance cannot perform its core principle of acting as an income replacement in case the family loses its sole breadwinner and the dependents have to suffer because of not being covered at all or being under-insured.

The loss of the bread-winner of the family puts the dependents' financial life off-the-cuff. Quantifying a Human Life Value (HLV) is not plausible but at least a numerical measure of how much money can save the family from financial turmoil can guide you in taking suitable term plan cover. In the case of bread winner's death, the family faces two kinds of losses – Financial Loss & Emotional Loss. Buying your term plan, as per your human life value ensures that your family doesn't face any financial loss after you.

The three main determinant factors are your age, current and future expenses.

Let's understand it with a case study!

Basic info of Mr.Manish Sharma Spouse age-Mrs Sharma Child age-Master Arjun Sharma	**45yrs(Service) 45 yrs 12 yrs**
Monthly income	**52,800**
Monthly Expenses EMI, Household, School fees, Weekend, Investments	**29,300**
Assets	**25,00,000**
Loans & Liabilities	**2,43,170**
Cost of kids future education in today's value	**4,00,000**
Amount required by spouse per month to continue her life till age 85 @ 6% inflation	**45,55,139**

Human Life Value(HLV) Calculator	**Your total loan outstanding (as of today)**	**2,43,170**

To make sure your children's higher education and marriage goals are achieved, your spouse will need this amount now			3,04,127
Inflation of children's education expenses (before age 18)			7%
To make provision for your children's primary and secondary education expenses in your absence, you need to include this amount (approx.)			6,72,658
Spouse's life expectancy	85	Discount % on self's demise	20%
Assumed return on insurance proceeds	10.00%	Spouse's tax slab	20%
To be able to continue with current lifestyle & household expenses till life expectancy, your spouse will need this amount now			45,55,139
Total Life Insurance Cover Required			57,75,094
Existing life cover or sum assured			–
Value of your all existing liquidable financial assets (today's value)			25,00,000

Manish's Final HLV Additional Life Insurance Cover Required	**32,75,094**	

Now let's calculate Mr Manish's HLV=

(Corpus of expenses + Corpus of goal + Outstanding liabilities) – (Existing Life Insurance + Value of all liquid assets)

=(Rs. 45,55,139+Rs. 3,04,127+Rs. 6,72,658+Rs. 2,43,170) – (Rs.0+Rs.25,00,000)

=Rs. – Rs.25,00,000= Rs.32,75,094/-.

Therefore, Manish's final human life value is **Rs.32,75,094/-**

One's HLV keeps on changing based on the financial needs taking into account the life stage, risk profile, dependants, disposable income and liabilities, etc. This will help identify the protection and savings needs of the person. Most of the term plan gives the option of increasing the sum assured on different occasions like promotion, marriage, childbirth, etc.

As a doctor as your constantly leading a life engaged in servicing others it is also important to check that Insurance is a cost you pay to protect your family against the risks and uncertainties, not an Investment. Like in general insurance of car and home, we do not wait for our assets to be damaged to claim returns from the insurer. Similarly in life insurance, we should not expect returns on our life cover policies.

The Covid-19 pandemic affecting the lives of people globally has made FY2020-21 highly volatile and has given you the respect your noble profession deserves but that is also little compared to what you all are doing. But with improved awareness about the importance of life insurance as a risk cover rather than a mere investment product has also come in the view. So now, don’t just buy life insurance, buy it for an adequate amount.

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