

(Article for the Jakarta Globe – 8th October 2012 issue)

MONEY WISE

LIFE INSURANCE – LUXURY OR NECESSITY?

How many people have insured their car but not their own lives? No doubt in many cases the car is insured because it is a condition of a loan agreement. In other cases many people could not bear the thought of the expense of repairing or replacing their pride and joy. Yet so often the far more valuable owner of the car goes through life uninsured.

Who needs life cover and how much?

Life cover is most critical in the case of young to middle-aged family breadwinners. The loss of the breadwinner can be catastrophic. Some professionals may be fortunate to have life cover as part of their benefit packages but if it provides cover of only one or two years' salary it could be seriously inadequate. For someone with a wife and children a more appropriate figure is likely to be in the region of ten times annual salary.

The non-working wife should not undervalue herself. Her loss would also have a big financial impact on the family.

Young single men and women may argue they do not need life cover as they have no dependents. Yet one day this could change and by then the cost of life cover will be much higher and there is always the possibility that a medical condition will have occurred that precludes them from cover.

Why delay can be expensive

No-one wakes up thinking 'today, I really must buy some life cover'; there is always something more pressing to do so it is easy to postpone taking action. But should any medical condition arise it may then be impossible to obtain cover or if it is obtainable it will be conditional or subject to a heavy premium. I recall a case where a man had to have life cover as a condition of employment. Unfortunately he had developed a minor heart ailment; he was offered cover, but at five times the normal premium. He didn't get the job.

Insurance companies are not charitable organizations; they perform an essential service but they are hard-nosed businesses. They want only fit and healthy applicants and will do all they can to ensure their risk is kept to a minimum.

Apart from the result of medical issues premiums also rise with every year of age so the earlier a policy is started the lower the cost.

Do you need to cover a large liability?

Life cover can be used to cover a mortgage or a business loan. It can be used to cover a 'key man or woman', so that a company can afford to buy expertise and not allow the business to fail because it depends so heavily on one person.

Life cover may no longer be necessary once a home is paid for and the family wealth is significant. An exception however is when you come under a regime under which your estate is subject to Inheritance Tax. British expatriates, for example, may be resident in Indonesia but still legally domiciled in the UK, which means that they could be subject to up to 40% tax on their worldwide assets upon death. With tax authorities now far more aggressive it is not a pleasant thought that they would be pursuing dependents to recover their share of those assets. While the cost of life cover to protect the liability will be expensive it would cost far less than the tax bill the family would receive.

What if you are rejected for cover?

Many are surprised to find their applications for life insurance are rejected, with or without a medical examination, even though they are in the best of health. Rejection may be due to a hereditary issue or a minor condition that could one day flare up into something more serious. Occasionally a medical exam will reveal a problem the applicant is totally unaware of.

It may not be the kind of news anyone wishes to hear but on the positive side it is an opportunity to adjust one's lifestyle or seek treatment for the underlying cause of the rejection. It could even turn out to be life-saving so the trouble taken to apply for cover will have been more than worthwhile.

From the financial standpoint dependents would now remain at risk. The best way to compensate would be to allocate what would have been the insurance

premiums to a savings plan and to make an effort to build up wealth faster than would otherwise have been the case.

So you need life cover, but where do you start?

This is where you are faced with confusing choices. The most expensive type of insurance may or may not be right for you. We can look at this next time.

Colin Bloodworth, director of PPI Indonesia, has spent over 20 years in Indonesia. If you have any questions on this or a related subject you can contact the writer at indonesia@ppi-advisory.com

PPi Indonesia