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Insurance or Investment-An Ongoing Dilemma

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Recently, a Financial Advisor sent me a WhatsApp message about an insurance cum investment scheme from HDFC Life Sanchay Plus – Guaranteed Income scheme. Any scheme is very attractive if the word "guaranteed" is added to it. As per this scheme, if I invest Rs. 100,000 each year for the next 10 years, 12th year onwards, I will be paid Rs. 200,000 for 10 years.

So, the sales pitch goes like this- A person has to pay only Rs. 10 lakhs in all and he will get back Rs. 20 lakhs. Moreover, because of the insurance element, if he dies in the next 20 years, nominee will get Rs.10 lakhs more. So, all in all, minimum 20 lakhs (if the insured does not die) and Maximum Rs.30 lakhs (if the insured dies in 20 years) can be paid by the insurance company.

It sounds like a very attractive plan as the amount doubles up and if the insured dies, the sum assured goes to 3 times the paid up amount of Rs. 10 lakhs. I took a survey and asked few people if they would be interested in such insurance plan. Almost everybody said, they would be interested in it as the amount doubles up at least. No doubt, this insurance plan will be a big hit in the market. Many people would invest in it and that is the reason why such schemes keep on coming in the market.

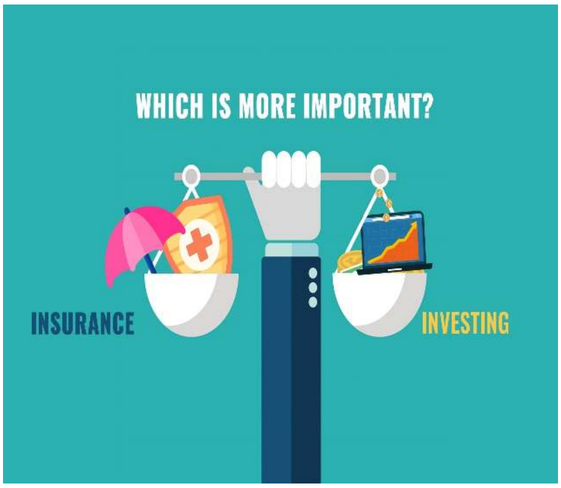
Now, when I think as a Financial Trainer, I can understand, what was attractive in the sales pitch might not be actually good. Let me explain this. If I go for Term insurance plan for Rs. 30 lakhs sum assured, I need to pay only around Rs. 6100 p.a, whereas HDFC Life Sanchay Plus Income Guaranteed scheme asks for Rs. 1 lakh p.a. See the huge difference here. It comes to Rs. 100,000 - Rs. 6100 = Rs. 93900 p.a. If I invest this money into a good mutual fund under SIP scheme for 10 years, on an average, it will grow at around 12% p.a. Therefore, after 10 years of investment, it can grow to 24,30,326. The formula to calculate is 93900* $(1+0.12)^{10}/0.12$

Even if I stop my SIP after 10 years (not advised to stop though), this amount can further grow for 10 more years to 75,48,224. The formula to get figure is 24,30,326$(1+0.12)^{10}$

So, if a person follows this strategy, he will be insured for Rs. 30 lakhs by paying just Rs. 6100 p.a for 30 years. It comes to Rs. 183,000 (6100*30) for pure term insurance and can invest Rs. 93900 into Mutual Fund SIP for 10 years and can withdraw Rs. 75,48,224 after 20 years which would be far better for your retirement, instead of Rs. 30

lakhs offered by HDFC Life Sanchay Plus-Guaranteed Income.

For the Term insurance, if the insured survives, he would not be paid anything, however, that should be fine as the mutual fund will take care of the retirement. In case, if the insured dies, the Term insurance would come handy for his family.So, the conclusion is, strategy should be to buy Term plan insurance and invest in a better performing mutual fund.One will not find many insurance agents selling Term insurance. Reason is very simple; they don't get paid as much as they get paid as the commission in Insurance + Investment scheme like HDFC Life Sanchay plus income guaranteed scheme.



Source:DollarsAndSense.sg

Summary:

HDFC Life Sanchay Plus Income Guaranteed Scheme:

1st year to 10th year, pay Rs. 1 lakh each year.	12th year onwards for 10 years, get Rs. 2 lakhs each year.
Total investment = Rs. 10,00,000 Returns= 20,00,000 + 10,00,000 (if the insured dies)	

Term Insurance + SIP Scheme:

Term Insurance - Rs. 6100 p.a for 30 years = 6100 * 30 = 183,000 (for sum assured Rs. 30 lakhs)
Mutual Fund SIP – Rs. 93900 for 10 years. After 20 years, the fund can go to 75,48,224 @ 12% p.a.

Clearly, Term Insurance + Mutual Fund SIP is the winner.