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Insure first, invest later

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What should I do with my surplus? A question that is commonly asked diligent investors. There are many options. And with marketers piling up all kinds of information, especially on returns from investment, the choice is never easy. But a wrong decision can undo a well-laid financial plan. This decision will vary from person to person. Let us see how -

YOUNG LIFE
Name: Rishi Kakkar
Age: 25 years
Monthly income: Rs 30,000
Monthly expenses: Rs 15,000
Dependent: No one

Goals:

- Buy a house, on Rs 25 lakh loan
- Needs Rs 3 lakh for wedding in a couple of years

Scenario I: We assume his income will rise at 8 per cent a year and his investments earn 10 per cent. Till retirement, he would have Rs 13.45 crore. In reality, this may not happen as he will have other goals to meet.

Scenario II: Rishi will eventually have dependants, home loan liability and retirement needs. His life insurance requirement works out to Rs 1.6 crore. The cost of a term cover for this amount will be Rs 28,000 yearly. At 30, it will be Rs 38,000; at 35, Rs 55,000. An insurance of Rs 1.6 crore for 30 years and balance invested, would result in Rs 12.61 crore.

Conclusion: He can buy insurance and invest the balance through mutual funds or stocks. His advantage: Early insurance has cost benefits. He'd be avoiding extra charges for ill-health later.

Caveat: He might not get the suggested risk cover on his current income. He can insure himself upto the maximum eligibility and then, increase it over time as his income and liabilities go up.

MIDDLE LIFE
Name: Manan Sharma
Age: 38 years
Insurance: Rs 25 lakh
Investments: Rs 20 lakh
Dependents: Wife, children and parents

Goals:

- Buy a second home
- Children's education and marriage
- Retirement planning

Scenario I: Assuming his pay will increase at 8 per cent and his investments will earn 10 per cent. Till retirement, he should have garnered Rs 10.17 crore. If he dies early, his goals will not be met, as there will be no income. Even prolonged illness can cause setback.

Scenario II : If he takes an insurance cover of Rs 3 crore for 22 years, and the balance is invested as mentioned above, the corpus will be Rs 9.37 crore.

Conclusion : Life and health insurance is top priority.

NEAR RETIREMENT
Name: Naresh Dua
Age: 58 years
Assets: Rs 3.3 crore
Dependent: Wife

Goals:

- Retirement planning

Conclusion : No need for life insurance.

In all the three cases, one point comes out clearly - it is important to have a health cover. If there is an untimely death, life insurance can come to the rescue. But the person suffers from illness or there is an accident, a life insurance policy is not of use. A prolonged hospitalisation or a major surgery can set back all your goal-oriented accumulation, as you will have to dip into your savings and investments to cover your expenses.

The basic thing to be kept in mind is that insurance requirement should be linked to expenses and goals. Investments can be done if protection, both life and health, are in place. Creation of wealth can happen only if the earner is in good health. If accumulated wealth is sufficient to cover life goals at all stages, then insurance is not required.

The writer is a certified financial planner