Contents

INTRODUCTION TO INVESTMENT-LINKED INSURANCE PLANS (ILPS)

Investment-linked insurance plans started gaining popularity in Singapore from the early 1990s. Similar plans around the world have been marketed widely for more than 30 years.

What is an ILP?

An ILP is a life insurance policy which provides a combination of protection and investment. Premiums buy life insurance protection and investment units in professionally managed investment-linked fund(s).

ILPs do not provide guaranteed cash values. The value of the ILP depends on the price of the underlying units, which in turn depends on how the investments in the fund perform. Fees, expenses and insurance charges for an ILP are paid for through a deduction of the premium and/or sale of purchased units.

ILPs can be broadly classified into two categories:
Single premium ILPs where premium is payable in one lump sum; and
Regular premium ILPs where on-going premiums are payable.

What is an Investment-Linked Fund?

An investment-linked fund pools together the premiums paid by policyholders and invests in a portfolio of assets to achieve the fund s objective. The price of each unit in a fund depends on how the investments in that fund perform. The fund may be managed by the insurer or external fund manager(s).

What are the Benefits of Purchasing ILPs?

Flexibility

ILPs offer you flexibility. For example, they allow you to top up your investments on an ad-hoc or regular basis, make withdrawals and switch funds. In addition, many regular premium ILPs give you the flexibility to vary your level of insurance coverage and allow premium holidays, during which premium payments can be temporarily stopped without having to terminate your plan.

Note that there may be charges when you effect any of the above changes. Do check the Policy Contract and Product Summary for information on the various charges.

Choice of Funds

ILPs let you choose from a wide range of investment-linked funds, managed by professional fund managers. It is important to select fund(s) that suit your financial goals and risk profile, for example, low, medium or high risk. ILPs also allow you to move your money from one fund to another to suit your financial situation and risk profile as they change over time. Most insurers offer a limited number of free switches and charge a nominal fee per switch thereafter. Before switching from one fund to another, check whether you are entitled to free switches and if not, how much you would need to pay for the switch.

Diversification

The investment-linked funds offer you access to different portfolios to help you diversify your investments and protect against the risk of "putting too many eggs in one basket".

Potential Returns

With ILPs, you can earn potentially higher returns over the long term compared to other life insurance policies such as traditional whole life and endowment plans since you will enjoy the full benefit of any growth in the value of the units that have been allocated to you (please also see question below).

Guaranteed Insurability

Once you purchase an ILP, you will enjoy guaranteed insurability for the duration of the plan, regardless of any changes in your health status.

What are the Risks of Purchasing ILPs?

Investment Returns are Not Guaranteed

When you purchase an ILP, the investment risk will be borne entirely by you. The performance of the funds is not guaranteed and the price of the units can rise or fall. As such, if a fund does not perform well, the cash and maturity values will be adversely affected.

Insurance Coverage Charges are Not Guaranteed

Most single premium ILPs offer lower insurance coverage levels and consequently have lower insurance coverage charges as compared with regular premium ILPs.

For regular premium ILPs, the scale of insurance coverage charges is not usually guaranteed and may be adjusted by insurers (within any maximum limits stated in the Policy Contract). An increase in the scale of charges would only arise if there was a general and sustained worsening of claim experience. If such an increase were deemed necessary, it would be applied to an entire class of policy and not in isolation to an individual policy.

Units May Be Insufficient to Pay the Insurance Coverage Charges

As the risk of death, disability and illness generally increases with age, Insurance Coverage Charges typically increase as you grow older. For most regular premium ILPs, insurance coverage charges are paid through the sale of units. As you get older, it is possible that a combination of high insurance protection and a poorly performing fund may result in the value of the units being inadequate to meet insurance coverage charges for the level of coverage provided by your plan.

Do review your plan regularly, assess the benefits and costs, and discuss with your insurance adviser if changes are needed to ensure that the plan meets your changing needs.

What Key Factors Should I Consider Before Purchasing an ILP?

Insurance Protection Needs: This will determine what type of insurance coverage you should be taking, for example protection for death, critical illness, disability and accidents, and the level and duration of insurance coverage suitable to meet your needs.

Risk Profile: Your risk profile refers to how much investment risk you are willing to bear. It varies from individual to individual, and changes as you grow older, as your financial situation and investment objectives change. The cash value of an ILP depends on the performance of the investment-linked fund(s) selected. The returns are not guaranteed. If you invest in an ILP, you need to be prepared that the cash value of your policy will fluctuate according to the fund(s) performance. You need to re-evaluate your investment at different points of time as your risk profile changes.

Investment Objective: Different investment-linked funds focus on different asset classes, geographical regions or industry sectors, and have different levels of volatility. It is important to select a fund or funds that is/are commensurate with your risk profile and investment objectives.

Time Horizon: This refers to the period that you can stay invested before you expect to cash out your investment. Regular premium ILPs are generally regarded as long term insurance plans. A longer time horizon is particularly important when investing in these types of plans as there are usually significant charges in the early policy years.

Are ILPs Suitable for Older People?

As a general rule, older people have less pressing needs for life insurance — they may already have made adequate provision or may have fewer needs once their children are financially independent.

An important factor that comes into play for the older person is his or her ability to sustain premium payments if retirement is approaching. For an older person in this situation, who is unlikely to be able to continue with his premium payments beyond retirement and for whom the primary aim is investment, a regular premium ILP will not be a suitable option. The initial costs and the short term investment horizon will seriously limit the potential returns and there will be other investment options that will better suit his or her needs.

Similarly, if insurance protection is a significant objective, but cover is only required for a very limited period, there are likely to be other insurance options that could be considered.

What Are the Key Differences Between ILPs and Other Life Insurance Plans?

The key differences between ILPs and other life insurance plans, such as traditional whole life, endowment and term plans, are summarised in the following table:

	ILPS	Traditional Whole Life, Endowment & Term Plans
Investment Mandate	The part of your premiums that are allocated for the purchase of units will be invested in your chosen investment-linked fund. The fund is invested according to its specified investment objective. The performance of the fund can be tracked through the daily publication of unit prices.	All of your premiums go into the insurer's participating fund. The insurer decides on the appropriate investment portfolio for this fund after taking into account the nature, term and currency of the insurer's overall liabilities. The performance of the fund will depend not only upon investment performance but also upon other factors such as claims experience (whether this is more or less than anticipated) and expense levels.
Investment Returns	The investment risk is usually borne entirely by you.	There are two categories of benefits - guaranteed and non-guaranteed. For guaranteed benefits, the insurer bears the investment risk. However, for non-guaranteed benefits, such as bonuses, benefits depend on the performance of the insurer's participating fund.
Cash Value	You may withdraw the cash value of the units that have been allocated to you. Note that there may be a surrender charge. As life insurance policies are long term plans, an early termination of the policy usually involves high costs and the cash value payable may be less than the total premiums paid.	Whole life and endowment plans guarantee a minimum cash value usually after a few years' premiums have been paid. However, note that as life insurance policies are long term plans, an early termination of the policy usually involves high costs and the cash value payable may be less than the total premiums paid. Term plans do not have any cash value.

	ILPS	Traditional Whole Life, Endowment & Term Plans
Bonuses	No bonuses are payable. The value of your ILP depends on the performance of your chosen funds.	For participating whole life and endowment plans, bonuses may be payable depending on the insurer's profits. Bonuses are not guaranteed. However, once they are declared by the insurer, they become guaranteed additions to the plans. For term plans, bonuses are not payable as these plans provide protection only and do not have any investment/savings element.
Premium Breakdown	The amount of the premium used for insurance coverage, other charges and the purchase of units are unbundled and transparent. They are disclosed in the Product Summary and Policy Contract.	The premium amount used for insurance coverage, other charges and investment are bundled up. They are not separately identified in the Product Summary and Policy Contract.

HOW ILPs WORK

Do I Pay A One-Time Premium or Do I Need to Pay Regularly?

ILPs can be broadly classified into two categories:

Single Premium ILPs
In a single premium ILP, you pay a lump sum amount to purchase units in a fund.

Regular Premium ILPs
In a regular premium ILP, you pay premiums on a regular basis such as monthly, quarterly, semi-annually or annually.

In addition to single and regular premium payments, most plans give you the option of investing an additional amount to your ILP at any time. This additional amount (known as a top-up premium) can be invested on a regular or ad-hoc basis. Some single premium ILPs offer you the option of making top-ups at specific intervals. These options are commonly known as recurring single premium options .

Can I Invest With My Central Provident Fund (CPF) Savings?

Premiums and top-ups can be made with CPF savings if the ILP is included under the CPF Investment Scheme. Since January 2001, only single premium plans have been allowed under the CPF Investment Scheme. However, CPF members who have purchased regular premium plans prior to 2001 can continue to have the regular premiums paid from their CPF savings.

What are Offer and Bid Prices?

Premiums are used to purchase units in the investment-linked fund(s) of your choice. The offer price is the price that is used to purchase units. For example, if the offer price is $1 and the whole of a $1,000 premium is used to buy units, it will buy 1,000 units.

Units are then sold to pay for the various charges. The bid price is the price that is used when units are sold. There is typically a 5% difference between bid and offer prices. For example, if the bid price is $0.95, 1,000 units can be cashed in for $950. The difference between the bid and offer prices is used to help defray the insurer’s expenses.

The cash value of the ILP depends on the number of units you have and the bid price of those units. The bid price in turn depends on the performance of the underlying investment-linked fund(s). The bid and offer prices change on a daily basis.

How Much of the Premium is Used to Purchase units?

The full amount of premium paid may not always be allocated to purchase units. Before buying an ILP, it is important to find out what percentage of your premium would be used to purchase units. This information, commonly known as allocation rate , is available in the Product Summary and/or Policy Contract.

For most single premium plans and top-ups, 100% of your premium is used to purchase units. For regular premium plans, the amount of premium used to purchase units will depend on the structure of the plan i.e. whether it has a "front-end" or "back-end" loading.

Front-End Loading

In a front-end loaded plan, a certain amount of premiums would be used to help defray the insurer s expenses such as distribution and administration costs in the early years. These expenses decrease over time. As such, less than 100% of premiums are allocated to purchase units in the initial years. The premium allocation increases over time until it reaches 100%. Some insurers also provide premium allocations in excess of 100% in the later policy years, usually to reward policyholders who keep their policies in force for the long term.

For example, the allocation rates for a regular premium plan may be:

15% in policy year 1
30% in policy year 2
50% in policy year 3
100% in policy years 4 to 9
102% thereafter

This means that 15% of the first year's premium will be used to purchase units. In the second year, 30% will be allocated to purchase units, and 50% for the third year. From the fourth to ninth year, the full premium will be used to buy units. From the tenth year onwards, 102% of the premium will buy units.

The diagram below illustrates how the allocation rate is applied to the first year premium for a regular premium ILP with front-end loading.

	Example
Payment of Premium Policyholder pays premium.	Annual premium of $1,200 is paid.
Allocation of Premium Insurer allocates a portion of the premium to purchase units in investment-linked fund(s) that the policyholder selects.	Year 1 Allocation Rate: 15%. This means that $180 (15% of $1,200) is allocated to purchase units. $1,020 (85% of $1,200) goes to pay for initial expenses, which includes distribution and administration costs.
Purchasing Units Units are purchased at the Offer Price.	Offer Price: $1 Premium Allocated: $180 Number of Units Purchased: 180

Selling Units To Cover Charges Units are sold at the Bid Price to pay charges in the ILP. The Bid Price is usually lower than the Offer Price. Charges include charges for insurance protection. Insurance coverage charges are commensurate with the amount and type of insurance protection selected. As the risk of death, disability and illness increases with age, the insurance charges increase as the insured person grows older.	Bid Price: $0.95 Insurance Charge: $50 Number of Units Sold to Pay Insurance Charge: 53 [$50 / $0.95] Remaining Number of Units in the ILP: 127 [180 — 53] Cash value of the ILP: $121 [127 units x bid price of $0.95

Note: In the above example, the number of units is rounded to nearest whole number.

Back-End Loading

Under a back-end loaded plan, 100% of premiums are allocated to purchase units from the start. However, to help insurers defray distribution and administration costs, back-end charges are imposed if you wish to surrender your plan, in whole or part, within a certain period of time.

It should be noted that, although the premium allocation structure differs for front-end and back-end loaded ILPs, the overall effect of the charges will be similar.

How Are Unit Prices Computed?

The frequency and methodology for computing unit prices vary from fund to fund. Details can be found in the Product Summary and Policy Contract.

For most ILPs, unit prices are computed based on forward pricing. This means that the fund manager re-calculates the fund s net asset value based on the value of the investment-linked fund s underlying assets, after the market closes. The fund management charges are then deducted from the net asset value, and the balance is then divided by the total number of units to derive the unit price. All ILP orders to purchase or sell units are then settled based on the next computed unit price.

INSURANCE PROTECTION

What Types of Insurance Protection Do ILPs Provide?

ILPs provide insurance protection in the event of death. Additional benefits may include total and permanent disability, accidental death, critical illness and hospitalisation coverage.

Regular premium ILPs also generally give you the flexibility to vary the level of insurance coverage to meet your individual protection needs. However, an increase in coverage may be subject to the insurer's underwriting approval.

It should be noted that the cost of insurance, based on your age, scope and type of protection chosen, would be charged accordingly.

Most single premium ILPs provide lower levels of insurance protection as compared to regular premiums ILPs.

Does the Cost of Insurance Increase with Age?

Yes, it is an inescapable fact of life that from your 30s onwards there is, year by year, an increasing risk of death, disability or of contracting a critical illness. This increasing risk of claim has to be factored into the calculation of the premiums for any life insurance product.

Do I Need to Pay Higher Premiums as I Get Older?

Not necessarily. Most life insurance products, including regular premium ILPs, are designed so that the premium you pay remains level throughout the life of the policy. For most regular premium ILPs, the premium, which is usually payable monthly, is used to buy units in your chosen investment-linked fund. Units are then sold to pay for the insurance cover that month.

Whilst these insurance coverage charges increase year by year, the premium that you pay — that is, the sum of money that actually leaves your bank account each month — will have been determined with the expectation that the premium will remain unchanged for the intended duration of the policy. This premium will have been based on certain assumptions about the performance of the fund but, if the fund performs poorly, the units may not be adequate to meet the insurance coverage charges. Under these circumstances you may need to increase your premiums or reduce the level of insurance protection.

It should be noted that some insurers offer plans that limit insurance cover to modest levels for which there is no explicit charge and where the cost is borne by the insurer out of the management fees.

How Does the Level of Protection Affect Cash Values?

For regular premium ILPs, it is important to understand that, for the premium you wish to pay, there will be a trade off between the amount of insurance coverage provided and the amount available for investment. The higher the level of coverage selected, the more units will be absorbed to pay for the insurance charges and the fewer units will remain to accumulate cash values under your policy.

INVESTMENT RETURNS

Are Investment Returns Guaranteed?

Investment returns from ILPs depend on the performance of your chosen fund. The returns are not guaranteed. You will have to bear the investment losses if the funds perform poorly. Conversely, you will enjoy the full benefit of investment gains if the funds perform well. It should also be noted that the past returns of a fund are not necessarily indicative of the future performance of the fund.

What Types of Funds Do ILPs Offer?

Most insurers offer a wide range of funds to suit your investment objectives, risk profile and time horizons. There is a correlation between risk and reward so that there will be a trade off between the risks associated with the fund and its potential returns. For example, higher risk investments, such as equity funds, offer greater potential for higher returns whereas the relative safety of cash funds may be expected to yield more modest returns.

Your risk preference — and, therefore, the appropriate fund — may well change during the lifetime of your policy as your time horizons shorten. As a general rule, the closer one gets to the time when the value of the policy will be realised, the less risk one wishes to take.

For investments under the CPF Investment Scheme, the CPF assigns a risk classification to all participating ILP funds.

The following are some of the more common types of funds available along with an indication of their risk characteristics. The risk classification can only be a very broad guide since the risks associated with any fund will depend upon how, precisely, it is invested. For example, a Bond Fund specialising in low investment grade bonds will be a high risk investment. More information on the risk classification of funds authorised to participate in the CPF Investment Scheme can be found on the CPF website.

Type	General Description	Risk Category	Minimum Time Horizon*
Equity Funds	Primarily invested in company stocks with the general aim of capital appreciation	Medium to High	10 years plus
Income, Fixed Interest and Bond Funds	Invested in corporate bonds, government securities and other fixed income instruments	Medium	4 years plus
Cash Funds	Sometimes known as Money Market Funds — invested in cash, bank deposits and other money market instruments	Low	Up to 3 years
Balanced Funds	Combining equity investment with fixed interest instruments	Medium	4 years plus
Geographically Specialised Funds	Investments restricted to a particular country or region	High	10 years plus

* Please check the allocation rate of your ILP as not all premiums may be invested (see page 8). Also note that actual returns would depend on the performance of the respective investment-linked fund(s).

What Happens If I Find that the Fund is No Longer Appropriate?

You would normally have the flexibility to move part or all of your money from one fund to another (known as fund switching). When selecting or switching investment-linked fund(s), it is important that you take your risk profile, investment objective and time horizon into consideration.

How Would I Know If a Fund is Performing Well?

You can monitor the investment performance of investment-linked funds by checking the unit prices regularly. Unit prices of investment-linked funds are published in a number of publications including The Straits Times, The Business Times and Lianhe Zaobao. Some insurers also publish unit prices on their website. You should not make hasty decisions just by looking at the daily prices of the units you have invested. You should seek the advice of the insurance adviser.

FEES AND CHARGES

What are the Fees and Charges for ILPs?

ILPs offered by different insurers will have varying charge structures. These charges provide the means through which the insurer recoups its distribution and administrative expenses and the cost of insurance coverage. Details of all charges for a particular ILP can be found in the Product Summary and Policy Contract of that plan.

Broadly, the different types of fees and charges are as follows. While insurers have the right to revise fees and charges over time, most policy contracts state the maximum that the insurer may charge. You should take note of this when considering an ILP.

Insurance Coverage Charges

These are charges to provide for the cost of insurance coverage, for example death coverage, under the plan. These charges can be on a monthly basis and are usually funded by sale of units.

The insurance coverage charges will depend on a number of factors, such as the amount of coverage, your age, gender and whether or not you are a smoker. Insurance coverage charges increase with age.

The majority of single premium ILPs do not impose insurance coverage charges.

Fund Management Fees

These are fees payable to the fund manager for management of the fund.

Policy/ Administration Charges

These are the fees for administration of the plan.

Surrender Charges

You may sell units in your ILP at any time. However there may be a surrender charge for partial or full encashing of units before a certain period of time. You should bear in mind that if you sell some of your units you should also review the level of insurance protection as the remaining units may not be adequate to sustain the level of cover that you had originally selected.

Bid-Offer Spread

This is the difference between the unit offer price and unit bid price. Units are purchased at offer price, and sold at bid price. The bid-offer spread helps to cover distribution costs, marketing and other general administration expenses.

Fund Switching Charge

Generally a limited number of fund switches are allowed each year without charge, but subsequent switches will be subject to a charge.

KEY QUESTIONS TO ASK & DOCUMENTS TO NOTE

What Questions Should I Ask My Insurance Adviser When Considering Whether to Buy an ILP?

To determine the suitability of any life insurance plan to meet your needs, you should first go through a proper Financial Needs Analysis with your insurance adviser. This is important as it will help to identify your financial goals, protection needs, risk preference and affordability. After understanding this, your insurance adviser will be able to recommend suitable products to meet your needs. The following are key questions you should ask your insurance adviser:

Type of Plan

What type of ILP is it e.g. single or regular premium, front-end or back-end loaded?
What are the benefits and risks of the plan?
Do I have to monitor the investment?
What kind of commitments do I have to make to ensure that the investment is sustained in the long run?

Premiums

What options do I have if I want to stop my premiums temporarily?
What happens to my insurance coverage if I stop my premiums?
For how long do I need to pay the premiums?

Returns

Are the returns guaranteed?
What kind of investment risk am I exposed to for my returns?
Can I lose some or all of my money in this plan?

Insurance Protection

What type of insurance protection is provided?
What is the amount and period of coverage?
Can I change the amount of coverage as my needs change?
What are the costs involved?

Funds

What are the types of funds available, their performance track record and their charges?
Who are the fund managers?
Which funds suit my risk preference?
Can I switch funds?

Fees and Charges

What are the fees and charges for the plan?
Where can I find details of the fees and charges?

Surrender and Withdrawals

What are the charges if I want to terminate my plan?
Can I make partial withdrawals?
What are the pros and cons when I terminate my plan?

Review of My Plan

What happens if my financial needs or personal circumstances change e.g. retirement or become unemployed?

Market Knowledge

What are other insurers offering?
How does your plan compare with other insurers' plans?

What Documents Should I Take Note Of?

You will receive the following sales documents from your insurance adviser before you purchase an ILP. It is important to read these documents and understand the product before making a purchase:

A Financial Needs Analysis

This document is based upon the personal and financial information that you share with your insurance adviser, and is intended to help identify your financial goals, protection needs, risk preference and affordability. Your insurance adviser should also state the basis for his or her product recommendation. You should discuss this basis with your adviser and assess if the recommended plan meets your needs.

A Product Summary

This describes the features, fees and charges of the plan you are purchasing.

A Benefit Illustration

This illustrates the benefits of the plan, both guaranteed and non-guaranteed, and the costs and charges associated with the ILP you are purchasing, including distribution costs, which take into account the commission the insurer will pay to your insurance adviser, and the charges for insurance coverage.

Your Guide to Life Insurance

This is a guide which gives general information about life insurance and the types of products available.

After you have bought your ILP, your insurer will send you a statement, at least once a year. This statement shows the value of units in the policy, transactions for the period and charges paid through the sale of units. It is advisable to review this statement together with your insurance adviser to check if the ILP and fund(s) selected continue to be relevant to your needs.

What If I Change My Mind After Purchasing An ILP?

As with all life insurance policies, after purchasing an ILP you will have 14 days to review your plan. If you decide that the plan is not suitable for your needs, you can cancel it.

The insurer will refund all of the premiums that you have paid (with adjustment for any change in the market value of the investments which back the plan) less medical and other expenses the insurer has had to pay. You will need to send the insurer a written notice within 14 days from the date you receive your Policy Contract.

DISPUTE RESOLUTION

What If I Have a Complaint About My ILP?

If you have a complaint about your ILP, you should first refer the matter to your insurer or the insurance adviser who sold you the ILP. However, if you fail to reach an agreement, the Financial Industry Disputes Resolution Centre (FIDReC) provides an independent alternative dispute resolution scheme. You must lodge your complaint with FIDReC within six months from the date when you failed to reach an agreement with your insurer. FIDReC is staffed by full-time employees who are familiar with insurance law and practice. FIDReC aims to tackle and sort out disputes in a fair and cost-efficient way. This should hopefully mean you avoid time-consuming, stressful and costly legal proceedings.

At present, FIDReC covers the following:

Claims between insured persons and insurance companies: up to S$100,000 per claim

Other claims (including disputes between banks and consumers, capital market disputes, third party claims and market conduct claims): up to S$50,000 per claim

FIDReC's rulings are final and binding on the financial institution, but not on you. You may choose to accept or reject FIDReC's decision. If you are unhappy with the ruling by FIDReC, you can choose to pursue legal action or other options such as approaching the Consumers Association of Singapore, the Singapore Mediation Centre or the Small Claims Tribunal. However, if you do accept FIDReC s ruling, you may lose your right to proceed with legal action against the financial institution.

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Tuesdays and Thursdays, 9am to 7.30 pm

CONCLUSION

Investing in an ILP requires careful evaluation of your risk profile, age, financial commitment and a good understanding of how ILPs work. In the case of regular premium ILPs, be aware that these are generally regarded as long term insurance plans, and a longer time horizon is particularly important as there are usually significant charges in the early policy years. Exercise caution and seek professional advice before making a purchase decision.

There is a wide array of investment and insurance products in the market. It is important to understand and select products that best meet your needs. Your insurance adviser is required to disclose product information and to have a reasonable basis for his or her recommendation. Work with your insurance adviser to assess if an ILP is suitable for your needs, and review your plan regularly to ensure that it meets your changing needs.