COVERING ALL BASES

THERE IS NO IDEAL TIME, SO REVIEW YOUR INSURANCE PORTFOLIO AT LEAST ONCE A YEAR TO ENSURE IT STILL MEETS YOUR NEEDS AND EXPECTATIONS

By Daniel Lum

PHOTO: AFP

AROUND this time every year, millions of people around the world make resolutions to lose weight, save money, take care of family members, eat healthily, and other things that they hope will improve their lives.

Make a resolution

Building up your insurance portfolio is a gradual process, and even as you are building your portfolio, there is a need to relook previously purchased plans to ensure they are still relevant to your needs. You should be reviewing your portfolio at least once a year. Changes in your life such as the number of family members, your age, income and lifestyle, also all mean that the level of protection you require will change.

Here, we list some common factors that could trigger the need to meet up with your financial adviser to review your insurance portfolio.

A growing family

As you move through life stages such as getting married and having children, some key changes that should prompt an insurance review are the changes in the people who are dependent on you. Particularly when you are the sole breadwinner, you would need to consider what your dependants – such as aged parents, spouse and children – would do with an unpaid mortgage, outstanding bills, education fees and their daily expenses, if you were no longer around to provide for them.

You should consider if the types of coverage you have are comprehensive enough to protect you and your loved ones in scenarios that you might be concerned about such as critical illness, hospitalisation, death or disability. Apart from the type of coverage, you should also review the level of coverage – known in insurance terms as the sum assured – and whether it is sufficient to protect all your dependants.

With certain types of plans, such as hospital and surgical cover, there may be economies of scale you can reap when you purchase for your family members.

Maintaining your lifestyle

Another reason to review your insurance portfolio is to keep your coverage aligned with your income. As your income level rises, you should increase the amount of coverage you have in accordance with your higher net worth and more expensive lifestyle that you and your family members may be used to.

You may also want to consider if an income protection plan is necessary for your circumstances. Such plans typically allow you to purchase coverage for up to 75 per cent of your current salary. The benefit kicks in when you are not able to work due to illness or disability, to provide some income, so you and your loved ones can continue paying the bills and daily expenses.

You can't take it with you

If you are switching employers, you might want to review the employee benefits that your new company offers. There may be gaps in coverage that your previous company had provided but you are no longer entitled to. For example, your previous company may have extended your medical benefits to your spouse and children, while your new company does not cover dependants. You would then have to plug those gaps.

However, a word of caution: You should not rely solely on employee benefits for insurance coverage. Employee benefits are typically not portable and you lose the coverage once you leave the job; yet it may be too late to obtain fresh coverage at that point as you may have developed pre-existing conditions then. While employee benefits can offer additional layers of protection, you should have in place your own individual plans that stay with you even when you change jobs.

Protect your home

The most expensive purchase that most Singaporeans would make in their lives is likely to be an apartment or house. With such a huge financial commitment, it only makes sense to protect it so that your loved ones will not have to face a situation where they might not be able to afford to keep the roof over their heads.

Mortgage protection plans are designed to offer a decreasing level of coverage over time, in line with your loan amount which would also decrease as you pay it off. Such plans typically cover death and terminal illness; if either of these unfortunate events occurs, the insurer then provides a payout that will cover the outstanding mortgage loan amount.

It takes just 20 years to halve your money

A consideration that often discourages Singaporeans when it comes to financial planning is inflation. In the past couple of years, the inflation rate in Singapore has been hovering at 3.9 to 4.7 per cent. With an inflation rate of 4 per cent, $100,000 today will be worth $45,639 – less than half – in 20 years!

Because of such high inflation rates, it is all the more important for you to regularly review your insurance portfolio. As the cost of living rises, is your existing protection level still enough to provide an adequate financial safety net for your loved ones?

Age is not just a number

As you get older, you would also become more prone to illnesses.

You should review your health insurance to ensure it is up to date and sufficient for the quality of healthcare you expect. For example, does your plan cover the type of hospital (whether government or private) and ward where you would want to receive healthcare?

Health insurance, however, should always be bought while young and healthy to obtain full coverage. The older you are when you purchase health insurance, the higher the likelihood that you would have developed pre-existing conditions which could lead to exclusions. In light of this, a sensible route is to consider medical inflation at the point of purchase and buffer it such that the claimable limits would still be sufficient in the future.

An area that is often overlooked is long-term care. As you grow older, you should consider whether you have enough protection to cover the cost of long-term care which is often expensive and for a prolonged period of time. In Singapore we have the national ElderShield scheme which is designed to provide monthly cash payouts to help with the costs of long-term care in the event of disability.

All Singaporeans and PRs are automatically covered when they turn 40 unless they choose to opt-out. You can also increase the payout amount and payout duration with ElderShield-approved supplements.

Ultimately, there is no "ideal" time to review your insurance portfolio; various factors may trigger the need to review it. At the very least, you should review it once a year to ensure your portfolio still meets your needs and expectations. So, why not start your new year by doing a thorough review of your current assets and coverage? ■

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