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BONDS & ISSUES

UTILISING WEALTH ENHANCEMENT/ENDOWMENT INSURANCE PRODUCTS FOR YOUR RETIREMENT NEEDS

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As a financial advisory representative, I meet people from all walks of life in various life circumstances. My challenge is to help my clients find the right solutions, which invariably require adjustments to their financial plans. I would like to focus on the concerns of pre-retirement and providing for my clients' families in their retirement years.

I will be highlighting three case scenarios, each unique in their particular circumstance. While the names of my clients have been changed to protect their privacy, these cases nonetheless feature common-placed issues that we all inevitably face in this stage of life.

SCENARIO 1: **RETIREMENT INCOME UTILISING LUMP SUM ENDOWMENT PLANS**

I met Daryl, a businessman in 2002. He was aged 45 and had some insurance concerns then. He made it very clear that he was not keen on having any long-term financial commitments because of his age. However, he was interested in finding out what types of retirement plans were available, so as to provide a steady income stream when he is older.

Armed with the conviction that health insurance coverage is of supreme importance, I always ensure that all my clients have Major Illness and Hospitalisation plans first, before I even embark on any retirement or investment planning with them. It is crucial that my clients understand the importance of such coverage, as their savings can be easily wiped out if they do not have adequate Hospitalisation and Major Illness insurance protection.

After some discussion, I managed to convince Daryl of the impact on his business and family if we did not put in place such basic coverage. In the event of contracting a major illness, he would have wiped out many years of his hard-earned savings, not to mention the loss of further earnings due to illness. Life for his family would inevitably have to change.

Well aware of the consequences, Daryl decided to increase his Major Illness cover and also signed up for a Comprehensive Medical Insurance plan. We designed his Major Illness plan to cease premium payment at age 60, so as not to cause any financial burden in his retirement years.

As for his retirement years, Daryl planned to slow down from age 60 rather than retire completely as he did not see himself stopping work entirely. Through the years, he had accumulated enough funds to generate a constant income stream. He also considered the monthly allowance that he received from his two sons a bonus, which could stop when they start their own families or come into heavier financial commitments in the future.

To generate a constant income stream, I recommended to Daryl four sets of Tokio Marine (TMLS) Wealth Enhancement (Cash) plans. To obtain the maximum tenure of 20 and 21 years of the Wealth Enhancement plans, Daryl purchased them under his spouse's and children's names. We did an absolute assignment so that Daryl is the owner of these policies. In the event of his untimely death, the policies will be surrendered and the money used to support his spouse's living needs.

Being cautious and getting older, Daryl has been selling off his shares and putting his money into single premium endowments, like the TMLS Enhancement (Enrich) and NTUC Capital Plus plans.

These products give a better rate of return and has advanced payouts if clients need money before maturity.

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When Daryl turns 55 in 2012, he will have a maturity sum of about $150,000 from the plan that he purchased in his earlier years of financial planning. With the money, he can either purchase another set of TMLS Enhanced (Cash) or NTUC Sail (SLU) plans.

The TMLS plan will boost his income from age 57 to 76.

The NTUC Sail (SLU) policy will provide another 20 years of income from age 65, which is ideal, as his income from age 70 is slightly less than what is ideal.

Illustrated in Table 1, is a summary of insurance maturities and coupon payouts that will provide Daryl with a constant income stream from here on.

TABLE 1: SUMMARY OF INSURANCE MATURITIES AND COUPON PAYMENTS

YEAR	AGE	NTUC Capital Plus Feb 2002	NTUC Growth Sep 2002	NTUC Capital Plus Jul 2008	NTUC Capital Plus Dec 2008	TM Asia Enrich Nov 2006	TM Asia Enrich Jun 2007	TM Asia HiSaver Jul 2005	TM Asia i-Save Nov 2003	TM Asia i-Save Nov 2003	UOB G'td Cash Jan 2002	Aviva PreCare Mar 2003	TM Asia i-Save Sep 2005	TM Asia i-Save Sep 2005	TM Asia i-Save Mar 2007	TM Asia i-Save Mar 2007	TM Asia Lifestyle Aug 2009	TM Asia Lifestyle Aug 2009	UOB MaxLife Mar 2007	NTUC CapPlus Dec 2010	NTUC Sail (SLU) Apr 2011	EST YEARLY INCOME
2002	45																					$Y
2003	46																					$Y
2004	47									$												$Y
2005	48								$													$Y
2006	49									$				$								$Y
2007	50	$	$						$				$									$Y
2008	51									$		$		$								$Y
2009	52			$					$			$	$		$							$Y
2010	53				$					$		$		$		$						$Y
2011	54					$			$		$	$	$		$		$					$Y
2012	55						$			$	$	$		$		$		$		$		$Y
2013	56								$			$	$		$		$					$Y
2014	57									$		$		$		$		$				$Y
2015	58								$			$	$		$		$					$Y
2016	59									$		$		$		$		$				$Y
2017	60								$			$	$		$		$		$			$Y
2018	61									$		$		$		$		$	$			$Y
2019	62								$			$	$		$		$		$			$Y
2020	63									$		$		$		$		$	$			$Y
2021	64								$			$	$		$		$		$			$Y
2022	65											$		$		$		$	$		$	$Y
2023	66							$				$	$		$		$		$		$	$Y
2024	67											$		$		$		$	$		$	$Y
2025	68											$	$		$		$		$		$	$Y
2026	69											$		$		$		$	$		$	$Y
2027	70											$			$		$		$		$	$Y
2028	71											$				$		$	$		$	$Y
2029	72											$					$				$	$Y
2030	73											$						$			$	$Y
2031	74											$									$	$Y
2032	75											$									$	$Y
2033	76											$									$	$Y
2034	77											$									$	$Y
2035	78											$									$	$Y
2036	79											$									$	$Y
2037	80											$									$	$Y
2038	81											$									$	$Y
2039	82											$									$	$Y
2040	83											$									$	$Y
2041	84											$									$	$Y
2042	85											$									$	$Y
2043	86											$										$Y

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SCENARIO 2: **LEGACY PLANNING FOR CHILDREN'S PROVISION**

Samantha was referred to me in 2007. After obtaining a clear understanding of her existing medical coverage, we decided to further build on her current insurance portfolio as she had a great concern for Major Illness cover. We increased her existing coverage to about $500,000.

Samantha declared in her applications all pre-existing medical conditions, which led to many questions, past reports and follow-up for her fresh application on her IncomeShield upgrade. Consequently Samantha decided against the upgrade, believing that she was sufficiently covered under her Company's group insurance scheme.

In August 2010, I received the shocking news that Samantha was diagnosed with breast cancer. Consolidating all relevant reports, we filed for claims. Samantha received an estimated payout of about $600,000 from her policies.

With the payout, we looked into income provision plans for her teens aged 14 and 17. As the children's education funds were already in place, these plans were meant to provide for them when they are older.

Each child would have $250,000 cover under Whole Life insurance and an Endowment plan with a lump sum payout of about $200,000 in 20 years' time. Although she desired for her children to be independent and to earn their own keep, the lump sum was to be paid out in later years to help them when they had families of their own.

Due to her illness, Samantha was concerned that she might have to stop working should the workload become too heavy or if her health should deteriorate. As such, she was very clear on not committing to any long-term premium payments. The TMLS Wealth Enhancement plans were ideal in this instance.

Samantha placed $55,000 each into two single premium endowment policies, purchasing two sets of TMLS Wealth Enhancement plans for each child (See Table 2).

The annual payouts will be enough to fund their insurance policies for the duration.

In the event where Samantha decides to stop working, the premium payments for her children's insurance policies will be provided for. Alternatively, if she continues on in her job, she could re-deposit the anticipated payout with TMLS to enjoy a non-guaranteed interest rate of 3.75%. This plan then serves as her retirement plan, or could be channelled towards future medical costs.

I have expressed my regrets to Samantha for not pushing her to upgrade her Medishield plans earlier. If the medical insurance had been in place, she would be in a better position to tackle the high medical costs. A cancer relapse impacting her savings in the future is also somewhat of concern. If only I had met her earlier and insisted a little harder on insuring her with a better medical scheme. Thankfully there was recourse and a way forward.

TABLE 2: ANTICIPATED COUPON PAYOUT TO FUND EACH CHILD'S INSURANCE PREMIUMS

21-YR TMLS WEALTH ENHANCEMENT Single Premium – $55,000 Sum Assured – $68,750	GUARANTEED ANTICIPATED PAYMENTS	20-YR TMLS WEALTH ENHANCEMENT Single Premium – $55,000 Sum Assured – $68,750
	$6,875.00	End of Yr Policy Yr 2
End of Yr Policy Yr 3	$6,875.00	
	$6,875.00	End of Yr Policy Yr 4
End of Yr Policy Yr 5	$6,875.00	
	$6,875.00	End of Yr Policy Yr 6
End of Yr Policy Yr 7	$6,875.00	
	$6,875.00	End of Yr Policy Yr 8
End of Yr Policy Yr 9	$6,875.00	
	$6,875.00	End of Yr Policy Yr 10
End of Yr Policy Yr 11	$6,875.00	
	$6,875.00	End of Yr Policy Yr 12
End of Yr Policy Yr 13	$6,875.00	
	$6,875.00	End of Yr Policy Yr 14
End of Yr Policy Yr 15	$6,875.00	
	$6,875.00	End of Yr Policy Yr 16
End of Yr Policy Yr 17	$6,875.00	
	$6,875.00	End of Yr Policy Yr 18
End of Yr Policy Yr 19	$6,875.00	
	$6,875.00 + Bonus	End of Yr Policy Yr 20
End of Yr Policy Yr 21	$6,875.00 + Bonus	

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SCENARIO 3: **PRE-RETIREMENT PLANNING IN YOUR 30s**

To many people, retirement planning is like parking money away in a faraway land that is out of reach until old age. It is perceived as something we can only enjoy when we are no longer working, and depending on it solely for our survival. This could not be further from the truth! One is never too old to plan for retirement.

I first met Calvin about nine years ago when he was around 31 years old. Aside from selling him some Major Illness cover, we did an endowment plan that will mature when he turns 43. It is not a huge policy but something that rewards him for having worked very hard as a lawyer in past years.

Over the years Calvin added two more policies, which will mature when he is 52. This again will help mark another milestone in his life. With the planned maturity, he need not worry about whether he will be receiving his CPF funds at age 55. Also, as Calvin specialises in construction law, he might even want to utilise his CPF funds towards property needs when a good offer comes along.

We met again this year and after some discussions, Calvin felt the need to top-up on Major Illness cover as he has started his own practice with three other partners. By age 65, he would like this health cover to be reduced, as he would have settled most of his liabilities by then.

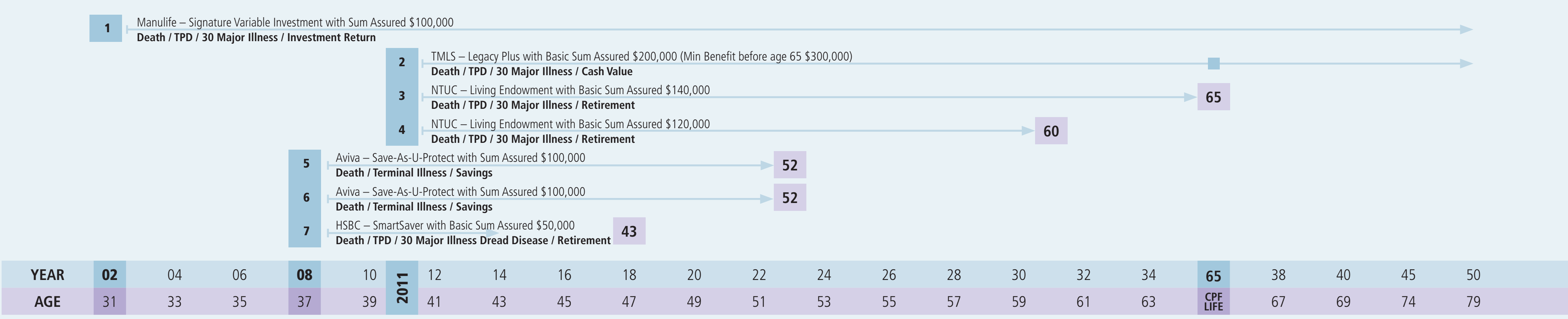
I recommended a $200,000 TMLS Legacy Plus policy, with a minimum benefit of $300,000, insuring against Death/TPD and 30 Major Illnesses. To increase, and later reduce this cover, I recommended the NTUC Living Endowment plans, sum assured $120,000 over 20 years, and sum assured $140,000 over 25 years. By combining these three policies, Calvin's insurance cover was increased to $710,000 before age 60, reducing to $400,000 when he reaches 65. (Refer to Table 3 for Calvin's Insurance Profile.)

These endowments will provide Calvin with lump sum funds at age 60 and age 65. By then, he would be in semi-retirement and these additional funds will boost his retirement reserves. He could take off on a long vacation or choose to travel every month!

Planning for one's retirement can be done in a structured manner with many little treats along the way. Depending on the client's age group and profession, we can help our clients structure retirement plans according to their requirements and preferences. There are many policies with regular guaranteed payouts, which serve as a good way for people to save and enjoy at the same time. It offers the flexibility to use the payout for a gift or a holiday, or to re-deposit the disbursement with the insurance company to earn a higher interest should our clients not wish to spend the money.

Many are the possibilities, and regular financial planning and review are essential to living out a well-endowed retirement in our golden years. Contact your First Principal adviser for a consult.

TABLE 3 CALVIN'S INSURANCE PROFILE



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