For a little extra

Monthly income plans can help you to generate guaranteed income with significant protection, says Chirag Rathod

Life insurance in India has historically been about traditional life insurance products such as participating endowment and money-back plans. After liberalisation of the sector, unit-linked insurance plans (Ulips) took the centre stage and became the fancy of the market and customers.

Customers were thrilled by the bull run in the equity markets and were excited to see exponential returns in their policies till the global financial crisis hit in 2008. Faced with significant volatility in the equity markets, customers shifted their demand back to alternative plans which provide some guarantee to the returns. A rise in demand for traditional products, which can provide smoother returns, prompted insurers to start introducing variations of endowment and money-back plans.

What customers want

Independent research has revealed that while planning for the long term, many customers are averse to taking risks and prefer guaranteed returns. Hence, they tend to prefer traditional products over Ulips. A customer research by Canara HSBC Oriental Bank of Commerce Life Insurance shows that a significant percentage of customers prefer a regular income over a lump sum payout to achieve life stage goals. Hence, the prevalence of guaranteed monthly income plans (MIPs) in the market.

MIPs are typically for customers who either wish to have supplementary income along with their regular income and/or who are looking for a regular income source to support their retirement needs. There are various types of MIPs and it is important to consider which is right for you.

How do MIPs work

Typically, MIPs offer payouts at regular intervals on a monthly basis (although some companies offer annual payout as well) for a period ranging from 10 to 15 years.

Another important feature is that life cover is available in MIPs during the premium payment term. Additionally, some plans offer life cover during the period of income receipt. Life cover is a unique advantage offered by MIPs over simple wealth accumulation products such as fixed or recurring deposits which offer no such benefit in the event of death.

As life cover can vary from plan to plan, it is important to check that the protection is right for you. If protection is very important for you, you may opt for an MIP which covers you not only during the premium payment but also during the income receipt period. Further, you may wish to opt for a plan that does not deduct the monthly income already paid from the death benefits payable to the nominee, so that the life cover is not reduced.

In case you are keen on tax benefits, ensure that the life cover offered is eligible for you to get the relevant tax benefits according to the prevailing income tax laws. Do check with your financial consultant in case you need confirmation.

Decide your goal

First, you must decide the goals that you want to fulfil from your investment. If your goal is to build a lump sum for a defined need, say buying a house or children's marriage, an endowment plan which pays a lump sum may be a more suitable option.

If you are looking for additional income, besides your regular income, to support your lifestyle or your dependants' needs (for instance, your parents or your child), an MIP is more suitable.

Another important factor to consider is the duration of your goal. If you are looking for an income payout for life, an annuity plan will be more suitable since payouts continue throughout life.

Further, if you are looking for a regular income for 10-15 years, an MIP will be more suitable. As the MIP pays income over a shorter period, the income will typically be greater than a similar annuity. In addition, income from an annuity will be taxable whereas it will be non-taxable for an MIP. Remember, tax benefits for monthly income plans will be according to the prevailing income tax laws and are subject to amendments from time to time.

What to buy

You need to assess the level of risk you are comfortable with in investing your money. There are participating and non-participating MIPs in the market. Non-participating plans give you full certainty over your benefits at the outset, but with no upside potential. Participating plans offer lower upfront guarantees but provide potential of higher returns through bonus.

At the time of buying, you must read through the product illustration carefully to understand a plan's "give & get" (what you pay as premium and what you get back as benefits in return). By comparing the "give & get" of various plans in the market, you can see what works best for you.

What after buying

You must keep yourself updated on the progress of the plan purchased to see that it remains on track to fulfil your desired goals. Also ensure that you pay all premium to maximise the value of the plan. Stopping paying premium or surrendering the plan early may impact benefits severely.

MIPs can provide a great means of achieving a tax-efficient supplementary income with in-built life cover. However, it's important to check the "give & get" to determine what's suitable for you.

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