The Case of Term vs Whole Life Insurance:
A Comprehensive Consumer Guide

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MoneyOwl
Making Wise Decisions Easy

Contents

Credits

Writing a book can never be an individual effort, especially for a book of such nature. As such, I am grateful to the following colleagues and friends for helping and supporting me, in the completion of this endeavour in just 2 weeks.

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The author, Christopher Tan, is Executive Director of MoneyOwl and CEO of Providend. MoneyOwl and Providend are associate companies and share a similar financial planning philosophy.

Chapter 1
Insurance Philosophy

Whether in investment or insurance planning, there is great importance to establish a philosophy. The purpose of the philosophy is to set forth a belief, a conviction, a doctrine, a theory behind the practice. The philosophy becomes a basis where all planning and execution start. It also ensures consistency in a professional service firm.

However, philosophies are not cast in stones. But by large, they hold true for most scenarios. Outliers are always there, but they should be taken care of separately, after being sure that they are really, outliers. And we will not know, unless we have already a philosophy that we can anchor on.

As the saying goes, "if you stand for nothing, you will fall for anything." The philosophy and in this case, insurance philosophy, is where we can stand upon when we plan our insurance needs.

OUR PHILOSOPHY

The primary purpose of insurance is for protection and not savings and investments. For if we want to save and invest, there are plenty of options (see below for the many options available to investors). There is no need to use insurance. Insurance (less annuities) is not the best instrument for savings and investments. This is because, for the low returns, the lack of liquidity and flexibility just do not justify it.

And if insurance is primarily for protection, we should buy as much as we need but spend as little as we can on it. This is because, insurance is a risk management tool. We really don't want to "use" it. As such, we should minimise this expense so that the cost (premiums) vs benefits (coverage, sum assured) is reasonable and justifiable. In minimising expenses spent on a risk management tool, we also free up financial resources to achieve our other life goals, such as accumulating for retirement, funding children's tertiary education and also, live an enjoyable life now.

In executing this philosophy, we make the following reasonable assumptions:

1. If we are financially savvy, we may make financial and investment decisions without an adviser
2. If we are not financially savvy, or we don't have time, we should work with a trusted adviser
3. We have limited financial resources but unlimited wants & many needs

But before we go and talk about protection, let's look at some of the possible savings and investment options for investors.

SOME SAVINGS AND INVESTMENT OPTIONS

Here are some of the broad asset classes investors can invest into:

Investment Options	Estimated Expected Returns	Estimated Volatility	Advantages	Disadvantages
Cash (e.g. Fixed Deposits)	0.05% - 1.8% p.a.	N.A.	1. Very low risk of capital loss	1. Very low returns and are unlikely to keep up with inflation over the long term, so the real returns (which take inflation into account) are likely to be negative
Bonds (e.g. investment-grade SGD issues)	1.8% - 4.5% p.a. (assume tenure of up to 10 years)	Relatively low	1. Regular fixed income 2. Maintain capital upon maturity (for bonds) or call by issuer (for perpetual bonds) 3. Less risky/volatile (compared to equities)	1. Returns are relatively low (compared to equities) 2. Issuers of perpetual bonds have the option not to pay coupons 3. In the event of a default, the investor could potentially lose all his capital
Equities (e.g. Global)	4.5%-7% p.a.	Relatively high	1. Potential high returns on capital 2. Dividend income 3. Transparent prices 4. Good liquidity	1. Risk of capital loss is relatively high 2. Price movements can be very volatile
Commodities (e.g. Gold)	3% p.a.	Relatively high	1. Correlation with other asset classes is relatively low, making it a suitable asset class for diversification of risk 2. Inflation hedge	1. Commodities are non-income-producing 2. Price movements are generally speculative in nature

Table 1.1: Broad asset classes that investors can invest in (cont in the next page)

Investment Options	Estimated Expected Returns	Estimated Volatility	Advantages	Disadvantages
Property (e.g. Singapore)	5%-7% p.a.	Relatively low to moderate	1. Potentially high returns on capital 2. Rental income 3. Correlation with other asset classes is relatively low, making it a suitable asset class for diversification of risk	1. Subject to Government intervention measures (e.g. restrictions on borrowing/high taxes on buying and selling) 2. Generally requires a large investment capital (unlike other asset classes) 3. Relatively illiquid 4. Requires maintenance 5. Subject to taxes (e.g. property tax)
Alternative Investments (e.g. Hedge Funds/ Private Equity/Art and Wine etc)	5%-10% p.a.	Relatively high	1. Potential high returns on capital 2. Correlation with other asset classes is relatively low, making it a suitable asset class for diversification of risk	1. Returns can be very unpredictable and volatile 2. It can be difficult to value the investment holdings 3. Liquidity may be restricted

Table 1.1: Broad asset classes that investors can invest in (cont)

Here are some of the investment options in greater detail:

Investment Options	Minimum Investment Amount	Minimum RSP Amount	Advantages	Disadvantages
Savings Account	N.A.	N.A.	1. No loss of capital	1. Returns will not keep up with long-term inflation, so capital is eroded when inflation is taken into account

Table 1.2: Investment options (cont in the next page)

Investment Options	Minimum Investment Amount	Minimum RSP Amount	Advantages	Disadvantages
Fixed Deposit	$1000	N.A.	1. No loss of capital 2. Returns generally higher than most savings accounts 3. Good liquidity	1. Returns will not keep up with long-term inflation, so capital is eroded when inflation is taken into account 2. Generally less liquid than a savings account because if the depositor withdraws before maturity, the yield will be reduced
Singapore Government Bonds	$500	N.A.	1. Returns will not keep up with long-term inflation, so capital is eroded when inflation is taken into account 2. Generally less liquid than a savings account because if the depositor withdraws before maturity, the yield will be reduced1. Returns will not keep up with long-term inflation, so capital is eroded when inflation is taken into account 2. Generally less liquid than a savings account because if the depositor withdraws before maturity, the yield will be reduced	1. Returns are unlikely to keep up with long-term inflation 2. If the investor withdraws before maturity, the yield will be reduced

Table 1.2: Investment options (cont)

Investment Options	**Minimum Investment Amount**	**Minimum RSP Amount**	**Advantages**	**Disadvantages**
Individual Bonds or Perpetual Bonds (Perpetuals) Note: The above assumes investment-grade issues. Non-investment grade issues will have higher returns compared to investment-grade issues, but with higher risk of non-coupon payment and default, which would lead to capital loss.	$250,000	N.A.	1. Regular fixed income 2. Maintain capital upon maturity (for bonds) or call by issuer (for perpetuals) 3. Less risky/volatile (compared to equities)	1. Returns are relatively low (compared to equities) 2. Issuers of perpetuals have the option not to pay coupons 3. In the event of a default, the investor could potentially lose all his capital
Bond Mutual Funds Note: The above assumes bond mutual funds which are comprised mostly of short-term investment-grade issues. Longer-term, non-investment-grade (high yield) bond mutual funds will have higher income payments, but with higher volatility and risk of capital loss.	$1,000	$100	1. Regular income 2. Less risky/volatile (compared to equities) 3. More diversified holdings mean that even if an issuer were to default, an issuer were to default, the investor will not lose his entire capital (unlike buying a single bond or perpetual)	1. The amount of the income payments are usually inconsistent and based on the net asset value (NAV) of the fund, not on the capital invested 2. Unlike bonds, bond mutual funds have no maturity date. Hence volatility and the risk of capital loss is potentially higher for bond mutual funds (compared to bonds) 3. Returns are relatively low (compared to equities) 4. Costs are generally higher than Bond ETFs

Table 1.2: Investment options (cont)

Investment Options	Minimum Investment Amount	Minimum RSP Amount	Advantages	Disadvantages
Bond Exchange Traded Funds (ETFs) Note: The above assumes bond ETFs which are comprised mostly of short-term investment-grade issues. Longer-term, non-investment-grade (high yield) bond mutual funds will have higher income payments, but with higher volatility and risk of capital loss.	Depends on the relevant market; as low as the price of 1 share (U.S. market)	N.A.	1. Regular income 2. Less risky/volatile (compared to equities) 3. More diversified holdings mean that even if an issuer were to default, the investor will not lose his entire capital (unlike buying an individual bond or perpetual) 4. Generally lower costs compared to bond mutual funds	1. The amount of the income payments are usually inconsistent and based on the net asset value (NAV) of the fund, not on the capital invested 2. Unlike individual bonds, bond ETFs have no maturity date. Hence volatility and the risk of capital loss is potentially higher for bond ETFs (compared to individual bonds) 3. Returns are relatively low (compared to equities)
Individual Equities Note: The above assumes mid to large market capitalisation companies in exchanges with good liquidity. Small market capitalisation companies and/ or exchanges with poor liquidity may have wide bid-ask spreads or little to no liquidity.	Depends on the relevant market; as low as the price of 1 share (U.S. market)	N.A.	1. Potential high returns on capital 2. Dividend income 3. Transparent prices 4. Good liquidity	1. Risk of capital loss is relatively high 2. Price movements can be very volatile 3. Can be stressful and time-consuming

Table 1.2: Investment options (cont)

Investment Options	**Minimum Investment Amount**	**Minimum RSP Amount**	**Advantages**	**Disadvantages**
Equities Mutual Funds Note: The above assumes traditional, long-only equities funds.	$1,000	$100	1. Potential high returns on capital 2. Some equity funds pay a regular dividend income 3. Diversified holdings mean that even if a few companies in the portfolio were to do very badly, the overall impact to the portfolio will not be too significant	1. Fees are relatively high (compared to exchange-traded funds) 2. Fund performance can be inconsistent 3. Most funds underperform their benchmarks in the long run 4. Fund manager may engage in 'style drift', meaning that he manages in a way that differs from the investment purpose of a portfolio, which may cause difficulties in asset allocation
Equities ETFs Note: The above assumes traditional, unleveraged, long-only equities ETFs.	Depends on the relevant market; as low as the price of 1 share (U.S. market)	N.A.	1. Potential high returns on capital 2. Some equity funds pay a regular dividend income 3. Diversified holdings mean that even if a few companies in the portfolio were to do very badly, the overall impact to the portfolio will not be too significant 4. Lower costs compared to a equities mutual fund 5. Consistent market performance	1. More risky/volatile than cash/fixed income asset classes 2. Will not outperform the benchmark
Gold and silver coins/ certificates/ bars/savings accounts	Less than $100	N.A.	1. Traditional hedge against long-term inflation 2. Safe haven currency	1. Prices can be volatile 2. Usually involves storage costs

Table 1.2: Investment options (cont)

Investment Options	**Minimum Investment Amount**	**Minimum RSP Amount**	**Advantages**	**Disadvantages**
Commodities Mutual Funds	$1,000	$100	1. Capital appreciation and hedge against inflation 2. Usually invests into mining companies along with physical commodities which can give higher returns	1. Performance can be very volatile, particularly due to mining stock investments 2. Fees can be relatively high 3. May not provide the pure gold/silver exposure that the investor is looking for
Commodities ETFs	Depends on the relevant market; as low as the price of 1 share (U.S. market)	N.A.	1. Hedge against long-term inflation 2. Safe haven investment 3. Allows exposure to gold/silver/ almost any commodity at a relatively low investment amount with relatively low fees	1. Prices can be volatile 2. There may be less liquidity in exchanges where there are lower trading volumes
Properties	Depends on type of property and market prices at the time	N.A.	1. Capital appreciation 2. Rental Income 3. Correlation with other asset classes is relatively low, making it a suitable asset class for diversification of risk	1. Subject to Government intervention measures (e.g. restrictions on borrowing/high taxes on buying and selling) 2. Generally requires a large investment capital (unlike other asset classes) 3. Relatively illiquid 4. Requires maintenance 5. Subject to taxes (e.g. property tax)

Table 1.2: Investment options (cont)

Investment Options	**Minimum Investment Amount**	**Minimum RSP Amount**	**Advantages**	**Disadvantages**
Real Estate Investment Trusts (REITs)	Depends on the relevant market; as low as the price of 1 share (U.S. market)	N.A.	1. Capital appreciation 2. Regular dividend income 3. Gain diversification in property investments 4. Correlation with other asset classes is relatively low, making it a suitable asset class for diversification of risk 5. No need to manage the properties on your own	1. The underlying properties are subject to Government intervention measures 2. Subject to management fees 3. Performance is subject to management's competence
Hedge Funds (Accredited Investors Only)	Typically USD 1 mil	At hedge fund's discretion	1. Potentially high capital appreciation 2. Strategies are usually meant to provide returns in any market environment 3. Correlation with other asset classes is relatively low, making it a suitable asset class for diversification of risk	1. Fees are usually very high (typically a fixed 2%p.a. fee and a 20% performance fee) 2. Risk/volatility is usually high 3. Long-term performance can be very inconsistent 4. Liquidity may be an issue
Private Equity Funds (Accredited Investors Only)	Typically $100,000-$250,000	At fund manager's discretion	1. Potentially high capital appreciation 2. Strategies are usually meant to provide returns in any market environment 3. Correlation with other asset classes is relatively low, making it a suitable asset class for diversification of risk	1. Fees are usually very high (typically a fixed 2%p.a. fee and a 20% performance fee) 2. Risk/volatility is usually high 3.Long-term performance can be very inconsistent 4. Liquidity may be an issue

Table 1.2: Investment options (cont)

Investment Options	Minimum Investment Amount	Minimum RSP Amount	Advantages	Disadvantages
Alternative Investments (E.g. Art/Wine/ Collectibles etc)	N.A.	N.A.	1. Potentially high capital appreciation 2. Correlation with other asset classes is relatively low, making it a suitable asset class for diversification of risk 3. One can actually enjoy the ownership of the item (e.g. derive pleasure from admiring the artwork)	1. As values are dependent on supply and demand, the market values of such items can be unpredictable and volatile 2. It can be difficult to value the items 3. Liquidity may be an issue
Alternative Investments Funds (E.g. Art/Wine/ Collectibles etc)	At fund manager's discretion, indicatively $10,000	At fund manager's discretion	1. Potentially high capital appreciation 2. Correlation with other asset classes is relatively low, making it a suitable asset class for diversification of risk	1. Returns can be unpredictable and volatile 2. It can be difficult to value the investment holdings 3. Liquidity may be restricted 4. Fees are usually high, with subscription fees, fixed fees and performance fees similar to hedge funds 5. Funds may be unregulated by authorities, so invested capital may be at a higher risk

Table 1.2: Investment options

So once again, as we can see from the table above, there are so many options to save and invest. There is really no need and may not be advantageous to use insurance for saving and investing.

THE THREE KEY QUESTIONS TO ASK BEFORE BUYING OUR INSURANCE

So if insurance is primarily for protection, what do we need to do to ensure that we are adequately covered at the minimum cost? To be able to do that, we need to answer three fundamental questions

1. **How long do we need insurance cover?**

2. **How much coverage do we need?**

3. **Which type of insurance is suitable, after answering question 1 and 2.**

We will answer these questions over the next few chapters.

Chapter 2

How Long Do We Need Insurance Coverage For?

DEATH/TOTAL PERMANENT DISABILITY (TPD) COVERAGE

Why does one buy insurance that pays upon death/TPD? For most people, the primary reason is to replace loss of income for the family and dependants when the income earner is no longer around. There are other secondary reasons why people buy this type of insurance but we will discuss that later in this chapter. For now, let's focus on people whom buy insurance for the purpose of income replacement. For this same group of people, the following situations are when such insurance is not or no longer needed:

a. When there are no more dependants

There will come a time in our life when we have no more dependants or they have become independent of us. Such situations are when:

1. Our children have all grown up and are working. Our parents are no longer around as they have predeceased us.

2. We are single and our parents, whom were dependent on us, have predeceased us.

3. Our children have all grown up and are working. Our spouse is working and can support himself/herself with his/her own income plus accumulated assets.

b. And when our earned income is no longer needed

There will also come a time in our life where we will no longer earn or need an income. Such situations are when:

1. We have retired. During this stage of our life, we will be living off our retirement nest egg and our children if any, would be independent of us. If death occurs, there is no income to replace as we have already retired.

2. We have sufficient assets to fund the family lifestyle, even upon our demise. Assets can come in the form of property investments, stocks and shares, business and so on and so forth.

Summary

So if we are buying insurance that pays upon death/TPD, for the purpose of replacing income loss, when we don't have or no longer have dependants and when our earned income is no longer needed, there is no need for coverage. Our need for this kind of insurance is therefore temporary and not permanent.

DREAD DISEASE/CRITICAL ILLNESS COVERAGE

Why does one buy insurance that pays upon diagnosis of a dread disease (a.k.a critical illness)? There are 2 primary reasons:

1. To replace income loss as one might not be able to work due to illness

2. To pay for the cost of alternative medicine and care that may not be covered by hospital plans

So if we are buying it for the purpose of replacing income loss, the following situations are when such dread disease insurance is not or no longer needed:

a. When there are no more dependants

There will come a time in our life when we have no more dependants or they have become independent of us. Such situations are when:

1. Our children have all grown up and are working. Our parents are no longer around as they have predeceased us.

2. We are single and our parents have predeceased us

3. Our children have all grown up and are working. Our spouse is working and can support himself/herself with his/her own income plus accumulated assets

b. When our earned income is no longer needed

There will also come a time in our life where we will no longer earn or need an income. Such situations are when:

1. We have retired. During this stage of our life, we will be living off our retirement nest egg and our children if any, would be independent of us. If death occurs, there is no income to replace as we have already retired.

2. We have sufficient asset to fund the family lifestyle, even upon our demise. Assets can come in the form of property investments, stocks and shares, business and so on and so forth.

And if we are buying it for the purpose of paying for the cost of alternative medicine and care that may not be covered by hospital plans, we will likely need this dread disease insurance for as long as we want it. When we no longer want this option, then we don't need this kind of insurance anymore.

Summary

So if we are buying insurance that pays upon diagnosis of a dread disease, for the purpose of replacing income loss, there will come a time when we will no longer need it. This is when we don't have or no longer have dependants and when our earned income is no longer needed. Our need for this kind of insurance is therefore temporary and not permanent.

But if we are buying it for the purpose of paying for the cost of alternative medicine and care that may not be covered by hospital plans, we will need this kind of insurance for as long as we want it. Our need for this kind of insurance is permanent and not temporary.

SOME OTHER REASONS WHY PEOPLE BUY INSURANCE THAT PAYS UPON DEATH AND/OR DIAGNOSIS OF A DREAD DISEASE

1. Paying off liabilities such as mortgage loans, car loan and other liabilities

Most of us will have some liabilities such as mortgage loans or car loans. When we pass away, we would want to ensure that these liabilities can be fully taken care of, so that we do not leave behind financial burdens for our loved ones to undertake. The good thing about loans is that there is an end point to them. There will be a day when they will be fully repaid. So if we are buying insurance to allow our family to pay off these liabilities in the event of our unfortunate demise, there will come a time when we no longer need it, because the loans have been fully taken care of. Once again, our need for this kind of insurance is therefore temporary and not permanent.

2. Ability to fund children's education upon demise

For those of us with children, we would have plans to accumulate towards funding their tertiary education. However, the concern is when death occurs, we may not have accumulated enough funds yet. Buying insurance to provide an immediate lump sum upon demise is useful. But if we survive till the time when the kids have graduated, such insurance coverage is no longer necessary. Once again, our need for this kind of insurance is temporary and not permanent.

3. Legacy planning & gifting

For more affluent individuals, many buy insurance for the purpose of legacy planning (leaving behind financial wealth for the family) or gifting, usually for philanthropic reasons upon their demise. If we are buying insurance for these reasons, we will need it for as long as we live. It is a permanent need. However, we need to mention that there are many other ways of legacy planning and gifting that goes beyond insurance. But it is usually the more affluent that will consider it. Some common ways of gifting is through setting up a trust and putting into the trust properties, investment funds, etc. Of course, insurance has the advantage of setting aside a small capital (in the form of premiums) in exchange for a huge death benefit. One can also place the insurance policy into the trust for the purpose of distribution, gifting upon demise.

4. Taking care of children with special needs

For those that may have children with special needs, we may want to ensure that our children can be well taken care of when we predecease them. Insurance is one way of solving this problem. There are 2 approaches to using insurance in this case.

a. We can buy an insurance that covers us for as long as we live, so that when we pass on, the insurance proceeds will be able to take care of our children.

b. We can buy an insurance that covers us till we retire. Meanwhile, we can accumulate towards an amount that will be sufficient to take care of our children, if death occurs after our retirement.

So for this need, our need for insurance coverage can be a temporary or permanent need.

5. Providing for alternative medicine and care for children, in the event if they are diagnosed with a dread disease

One of the worries of parents is that our children may be diagnosed with a dread disease. So if we are buying insurance for the purpose of paying for the cost of alternative medicine and care that is not covered by hospital plans, we will likely need a dread disease insurance for as long as we want it. For this kind of coverage, our need is a permanent need.

6. Replacement of a keyman in an organization

In business, it is often difficult to replace the loss of a key man, such as a CEO or a key employee. The loss of a key man can result in potential business losses. The payout from insurance can replace this loss, until another suitable employee is found. If we are buying insurance for this purpose, we only need to cover the key man till his planned retirement or when he no longer works for the organization. Our need for this kind of insurance is therefore temporary.

7. Funding a buy-sell agreement contract between business partners

In business, the death of a business partners can create havoc for the organization, especially so if the surviving owner may have to work with the family members, who have just inherited the shares of the deceased partner. One of the common solutions to solve this, is by way of a buy-sell agreement between partners, whereby both partners agree to sell to each other their shares upon one of their demise. But in order for the surviving partner to have immediate cash to buy the shares, the partners buy an insurance on each of the partners' life. When there is a demise, the insurance paid out will be given to the deceased partner's family, in exchange for his shares. If we are buying insurance for this purpose. We will need insurance coverage until the planned exit of the partners from the business. Our need for insurance in this case can be temporary or permanent, depending on when the partners planned for their exit. Although in our experience working with business clients, the need is usually temporary.

TYPES OF INSURANCE NEEDS

Type of Need	How Long Do You Need	Remarks
Replacement of income due to death and TPD of income earner	Temporary - We need it only for a period of time	Higher priority planning need by most people
Replacement of income due to diagnosis of dread disease of income earner	Temporary - We need it only for a period of time	Higher priority planning need by most people
Paying for alternative medicine and care for one who suffers from dread disease	Permanent - We need it for as long as you live	Only if we want this as an option and have a conviction in alternative medicine
Paying off liabilities such as mortgage	Temporary - We need it only for a period of time	Higher priority planning need by most people
Funding children's tertiary education even after demise	Temporary - We need it only for a period of time	Higher priority planning need by most people
Legacy planning and gifting	Permanent - We need it for as long as you live	Usually done by the more affluent and not a first priority planning need by most of us
Taking care of children with special needs	Can be temporary or permanent	Most of us do not have children with special needs
Providing for alternative medicine and care for children, in the event if they are diagnose with a dread disease	Permanent - We need it for as long as you live	Only want this as an option and has conviction in alternative medicine
Replacement of a keyman in the organization	Temporary - We need it only for a period of time	Most of us are not keyman in an organization
Funding a buy-sell agreement contract between business partners	Can be temporary or permanent	Can be temporary or permanent

Table 2.1: Types of insurance needs and whether temporary or permanent?

What if I know that I only need insurance coverage temporarily but I don't mind paying more for coverage for my entire life?

Today if we have unlimited resources, and insurance needs are our only concern, we can buy as much insurance for as long a cover as we want, even if we don't need it. Unfortunately because we have limited income, but unlimited planning needs, we really need to prioritise our needs. For every extra dollar we pay to buy insurance that we don't need, it simply means we will have lesser money to save and invest towards our life goals, such as retirement and accumulating towards children's education.

Remember that when we plan for ourselves financially, we are really planning to live and not to die! We buy insurance as a "contingency plan". We don't really want to use it. We have insurance, just in case if the unforeseen happens, and we are no longer able to earn an income, an insurance payout allows us and our family to carry on with life.

So if we buy so much insurance, and especially coverage that we don't need, leaving insufficient financial resources to save for our life goals, the only way for our family to achieve their life goals is to delay the achievement of these goals (such as retirement) or for us to die so that the insurance payout will fund our lives! What a joke that will be, isn't it?

Conclusion

So how long do we need insurance cover? Based on the above discussion, we will realise that in almost all situations, especially the higher priority planning needs, we don't need it forever. We only need it for a period of our life, when we are still earning an income, or have dependants that need the income. The only main exception, is, if we are buying insurance for the purpose of paying for alternative medicine or care. And this is provided that we want this option and have a conviction for the use of alternative medicine.

In other circumstances where we need insurance cover for as long as we live, such as

1. Legacy planning and gifting

2. Taking care of children with special needs

3. Funding a buy-sell agreement between business owners (which in many instances, could also be a temporary need)

These are either not higher priority planning needs or they are unique circumstances for the minority.

Advisers may argue that clients and not advisers, should determine what their higher priority planning needs are. We submit that as professional advisers, there are times when we must exercise our responsibilities and obligations to our clients, in advising them what is right for them. If we are always giving in to clients every want, we are not advisers, but we become salespeople.

Chapter 3

How Much Insurance Do We Need?

We do not think it is right to just use the rule of thumb way (such as 10% of your income going into insurance or insure yourself up to 10 times of your annual income) when it comes to financial planning and in this case, insurance planning. We are convinced that a better way is to understand the needs of each individual.

Some of the factors that differ from person to person, that will affect how much insurance a person needs are:

1. How much of our monthly income do we need to replace on our unfortunate demise?

2. How many years do we need to replace this income for?

3. Do we need to pay off our liabilities (such as mortgage) upon our demise?

4. Do we need to fund our children's tertiary education, even after our demise?

5. What is our current insurance situation and how much assets do we have now?

And of course, there could be additional factors, depending on our situation.

Using a case study of 2 different individual profiles of Tony and Peter, we did a needs analysis for them to determine their needs if death or total and permanent disability were to occur.

Scenario: Male, Age 45 (DOB 010171), Non-smoker, family with 1 child

Role	**Tony**	**Peter**	**Remarks**
Monthly Income	$3,500	$10,000	
Monthly Income Provided for Dependants	$2,625	$7,500	Assumption: 75% of income used to provide for dependants needs
Dependency Period (years)	15	15	Assumption: inflation-adjusted returns at 0% to keep pace with inflation
Income Replacement	**$472,500**	**$1,350,000**	
Children Tertiary Education	$88,400	$177,000	Guided figures: 4 years non-medicine study & 5-year medicine study respectively in local university
Home Loan & Liabilities	$166,875	$462,500	

Table 3.1: Needs analysis for death, TPD coverage (cont in the next page)

Role	Tony	Peter	Remarks
Total Death Needs:	**$727,775**	**$1,989,500**	
Existing Death Cover	$200,000	$600,000	*Assumption: No existing death coverage - scenario used to illustrate actual shortfall in protection*
Current Assets for Consumption	$30,000	$400,000	Assumption: Cash in bank and investments
Shortfall / (Surplus) in coverage:	**$497,775**	**$989,500**	

Table 3.1: Needs analysis for death, TPD coverage (cont)

Using the same case study, we did a needs analysis for them to determine their need of replacing their income if they were to be diagnosed with critical illness or dread disease.

	Tony	Peter
Monthly Income	$3,500	$10,000
No. of years of income that needs to be replaced	3	3
Total needs	$126,000	$360,000
Existing insurance	$0	$0
Shortfall	**$126,000**	**$360,000**

Table 3.2: Need analysis for critical illness coverage

Based on the above analysis, for the purpose of replacing income, cancelling liabilities and funding children's education upon demise or total and permanent disability:

a. Tony will need an additional of about $500,000 coverage

b. Peter will need an additional of about $1 million coverage

Based on the above analysis, for the purpose of replacing income upon diagnosis of critical illness or dread disease:

a. Tony will need an additional of about $130,000 coverage

b. Peter will need an additional of about $360,000 coverage

Tony and Peter have also indicated that they want the option of paying for alternative medicine, which might not be covered under hospitalisation and surgical insurance. The amount each of them want is $50,000.

	Tony	**Peter**
Death/TPD Coverage Needs	$500,000	$1,000,000
Critical Illness Coverage (Replacement of income)	$130,000	$360,000
Alternative Medicine Payment	**$50,000**	**$50,000**

Table 3.2: Need analysis for critical illness coverage

Chapter 4

Which Type Of Insurance Is Suitable To Cover Our Needs?

There are 4 main types of insurance that pay out upon death, total and permanent disability (TPD) and dread disease (critical illness):

1. Endowment

Endowment policies are designed to help us save for the future. We contribute a regular premium for a number of years and at the end of the policy duration we receive a lump sum maturity pay out. Some Endowment policies have a "Cash Back" feature, whereby yearly cash benefits are given at specified years in addition to the maturity pay out.

As endowment plans are mainly meant for savings, a much smaller portion of our premiums are used to pay insurance charges (mortality charge) that gives us the insurance coverage. Therefore, endowments are not suitable, if we are buying it for the purpose of protection.

We have no objection if we are using it for savings, either towards our retirement fund or children's education fund. But we are not big advocates for endowments, simply because the returns may not be sufficient for us to achieve our goals, and also because of its inflexibility. In addition, we have given many other savings and investment options in Chapter 1. So if we want to buy an endowment plan, do consider if they are enough for us to reach our goals. We might need to supplement it with other options.

To understand more about endowments, we might like to read the following educational articles:
Choosing The Right Endowment Plan
5 Best Child's Education Savings Plan in Singapore

2. Investment-Linked Policy (ILP)

ILPs are insurance policies that combine life insurance coverage with investments into unit trusts. Part of our premiums goes to pay for insurance charges that pay for the cost of insurance benefits, and part of it is used for investing. The investment value is liquid and it can be withdrawn from anytime.

For a regular premium ILP, the policyholder determines the annual premium amount, which stays level, as well as the percentage allocations to insurance charges and investments. However, ILPs are usually structured such that the insurance charges increase over time, which means that the remaining portion of the premiums that goes into investments shrinks over time.

We have written an article on why we do not advocate ILP at all. We can read more about it here.

In gist, the main reason why we do not advocate buying an ILP is that we are limited by the choice of funds (unit trusts) that are being sold by that insurer. And if we are really keen to invest in unit trusts, there are plenty of choices outside the ILP space, why do we want to tie our hands unnecessarily?
As such, we do not advocate using ILPs for the purpose of protection.

3. Term Plan

A term plan is one where by we only pay for pure protection. We do not give extra money to the insurance companies for them to invest it into their life fund. We also decide how long we want to cover ourselves for, using a term plan. As such, when a term plan runs its course, we no longer have any cover and also we do not get any money back.

Because of this, the premium for term plans is very low, for the same amount of coverage we would have paid for using a whole life plan or an ILP. As such, term plan is the most affordable way for us to be fully covered for our needs.

SOME ADVANTAGES AND DISADVANTAGES OF TERM PLANS

Features of Term Plan	Advantages
Pure insurance coverage with no investment component	1. Premium is low and very affordable. We can afford full coverage of our needs 2. We only pay what we need - insurance But that is what insurance should be for - protection, not savings or investments.
We decide the term of coverage	We can decide how many years of coverage we need and we pay for what we need. No money wasted and premium is affordable.
No cash value	As there is no investment component in term plans, there is no cash value, simply protection. But that is what insurance is for - protection, not savings or investments. And because there is no cash value, we can terminate this plan anytime when we don't need it, or there is a better plan out there. There is no fear of not being able to breakeven our premium paid.

Table 4.1: Advantages of term plans

Features of Term Plan	Disadvantages	Remarks
No more coverage after term ends	We may be afraid that when the term plan ends, we might have miscalculated in that we have yet to retire or our retirement has been delayed, due to unforeseen circumstances. We might still need the coverage but now we have none.	This can be easily solved by giving ourselves a buffer in our planning. Instead of buying a term till 60 or 65, we can stretch it until aged 70. If we retire earlier than 70, we can always terminate it earlier without fear of losing cash value, etc. It is simple, no complications.

Table 4.2: Disadvantages of term plans (cont to next page)

Features of Term Plan	Disadvantages	Remarks
No cash values - cannot do automatic premium loan (APL)	An APL is an insurance policy provision that allows the insurer to deduct the outstanding premium amount from the cash value if the insured does not pay it after the grace period (30 days). This ensures that the policy will not lapse if the premium is not paid. Because term plans have no cash value, if we forget to pay premium, after 30 days, a term plan may lapse.	While having an APL feature is useful, to buy a high premium whole life plan, just to hedge against forgetfulness to pay insurance premium does not make sense. One can easily prevent it from happening by setting up a direct debit facility with the bank to do regular premium deduction.
No cash values - After term ends, no money back	No cash values - After term ends, no money back	The primary purpose of insurance is for protection, not savings or investment. For if we want to save or invest, there are many other options available as described in Chapter 1. Furthermore, having no cash value makes terminating a policy when we need to, easier. No fear of not breaking even our premium paid.

Table 4.2: Disadvantages of term plans

In our experience working with clients over the past almost 2 decades, many have told us that they bought whole life plans because they get some returns on the premiums they paid from whole life insurance whereas from term plans, they get nothing back at the end of say, 20 years. But this is a misunderstanding because the only reason why they get something back from whole life plan is because they gave the insurance company extra money above the insurance cost to invest. The insurance cost they paid for their protection portion of whole life plans has no return. It is an expense, just like term insurance.

4. Whole Life Policy and Whole Life Hybrid Policy

A whole life plan is one where we get permanent coverage - meaning that the insurance policy will continue for as long as we live. It used to be that we will also need to pay our premiums for as long as we live as well. However, nowadays, insurers are coming out mostly with limited pay whole life plans where we only pay for a limited period of your life, for example, till age 70 years old but the coverage is for as long as we live. So it seems like a steal, isn't it? Well, we all know there is no free lunch. What this means is that the insurance companies have already calculated the amount that we didn't have to pay from, say aged 70 and brought forward so that we pay more premium per year, till aged 65.

The premium for whole life plan is high because for every dollar that we pay, a small proportion of it is taken to pay for insurance cost (mortality charge) and the rest is invested into the insurance companies' life fund. The life fund return is currently projected between 3.25% - 4.75% p.a. This is of course not guaranteed. What that means is that even if the life fund can return 4.75% p.a., we will only get 4.75% p.a return on the portion of the premium that is invested into the life fund. The portion of the premium that is paid for insurance cost is an expense. There is no return.

Increasingly, we see insurance companies launching what are known as "Whole Life Hybrid" products. These are packaged products that put a whole life plan and a term plan together. How a hybrid can be structured might be like this: A $50,000 whole life plan is packaged together with a $100,000 term plan that run till aged 70. So we get covered say $150K plus cash values for death, total and permanent disability, if it happens before say aged 70. If death, total and permanent disability happens after aged 70, we only get covered $50,000 plus cash value.

Hybrid plans are cheaper than pure whole life plans for the same coverage because of the embedded term component. But the premium is still much higher relative to a term plan.

SOME ADVANTAGES AND DISADVANTAGES OF WHOLE LIFE PLANS

Features of Whole Life Plan	Advantages	Remarks
Automatic Premium Loan - APL	An APL is an insurance policy provision that allows the insurer to deduct the outstanding premium amount from the cash value if the insured does not pay it after the grace period (30 days). This ensures that the policy will not lapse if the premiums are not paid. When the insurer deducts from our cash value, we are effectively taking a loan from the insurer. If we want to pay back the premium amount back into the cash value, we have to pay the insurer an interest	While having an APL feature is useful, to buy a high premium whole life plan, just to hedge against forgetfulness to pay insurance premium does not make sense. One can easily prevent it from happening by setting up a direct debit facility with the bank to do regular premium deduction. In addition, we have to pay an interest to the insurer for the loan taken.
Paid-up Policy	If we do not wish to continue paying the premium or, if we cannot afford the premium, we can request the insurer to lower our sum assured to a level whereby they estimate that the cash value of our insurance policy is sufficient to pay our monthly premium for our new lowered sum assured, until we probably pass away.	While this gives us some flexibility if we can no longer afford our premium, our sum assured is reduced and we may not be sufficiently covered. Also, if we surrender this policy subsequently, we won't have much cash value to take back.

Table 4.3: Advantages of whole life plans (cont to next page)

Features of Whole Life Plan	Advantages	Remarks
Has cash value	When we surrender the policy, we get back some money. Whether the amount we get back will be more than the premium paid depends on how well the life fund has done and when we surrender it. Early surrender usually mean inability to breakeven our premium paid.	The primary purpose of insurance is for protection, not savings or investment. For if we want to save or invest, there are many other options available as described in Chapter 1. Furthermore, having cash value makes terminating a policy when we need to, complicated. There is a fear of not breaking even our premium paid if we terminate early.
Higher death benefit pay out than the amount we initially bought	Due to the policy bonus that is declared regularly, the protection value may increase over time as bonus is declared when the insurance companies' life fund performance is good. This may help to mitigate the effects of inflation	While mitigating the effects of inflation is important, the high premium of whole life plans may only afford us a much lower coverage than what we actually need. Buying a low cost term plan with a slightly higher coverage than what we need will easily solve the problem of hedging against inflation.

Table 4.3: Advantages of whole life plans

Disadvantages of Whole Life Plan	Remarks
Disadvantages of Whole Life Plan	When we buy a whole life plan, we are paying for insurance coverage for as long as we live. However, as we have discussed above, in most situations, we only need coverage for a period of time. As such, we are paying premiums for what we don't need.
Returns	The primary purpose of insurance is for protection, not savings or investment. For if we want to save or invest, there are many other options available as described in Chapter 1. Furthermore, having cash value makes terminating a policy when we need to, complicated. There is a fear of not breaking-even. That if we terminate early, we may have paid more premium than the cash value we would receive. If we are depending on this "return" for the purpose of saving towards retirement, the return might not be enough to reach our goals.
Inflexible	Having cash value makes terminating a policy when we need to, complicated. If we terminate early, there is a fear of not breaking-even. Over the years, insurers are coming out with good term plans with very competitive premium. But even if we are healthy enough to switch plans, we might find it hard to do it because of this consideration.
High premium	The biggest disadvantage of whole life plan is that the premium is so high that we might not be able to afford the cost to provide full coverage of our needs. This defeats the primary purpose of insurance, which is to give us sufficient protection against our risks.

Table 4.4: Disadvantages of whole life plans

Many people buy whole life plans for dual purpose: coverage and saving for retirement. The problem with this approach is that because whole life's premium is too high for us to afford ourselves full cover, and the return is probably too low for us to reach our retirement goal, we end up not achieving both objectives. We are stuck in the middle.

So whilst whole life plans are meant for protection purpose, the premium is expensive because:

1. There is an investment component

2. The protection is for the entire life

As we have said the primary purpose of insurance is for protection and not saving or investment, the question really is: Should we use term or whole life plan to meet our insurance needs? To answer this question, let's put all our discussion in the previous chapters together

Higher Priority Needs	How Long Do You Need Insurance?	How Much Coverage?	*Whole Life Plan Premiums (p.a.)	*Whole Life Hybrid Premiums (p.a.)	*Term Plan Premiums (p.a.)	Recommended Plan
1. Income replacement due to death and TPD **2. Repayment of all liabilities** **3. Funding of children's tertiary education need upon demise**	Temporary - You only need it for a period of time	Tony - $500K Peter: $1 mil	Tony - $14,320 Peter -$28,640	Tony - $5,761 Peter -$11,189	Tony - $1,922 Peter - $2,913	Term Plan
Income replacement due to critical illness	Temporary - You only need it for a period of time	Tony - $130K Peter - $360K	Tony – Peter –	Tony – Peter –	Tony - $1,699 Peter - $3,810	Term Plan

Table 4.5: Term or whole life? (cont to next page)

Higher Priority Needs	How Long Do You Need Insurance?	How Much Coverage?	*Whole Life Plan Premiums (p.a.)	*Whole Life Hybrid Premiums (p.a.)	*Term Plan Premiums (p.a.)	Recommended Plan
Income replacement due to critical illness + **Alternative medicine and care**	Permanent (due to the desire to have the option for alternative medicine and care)	Tony - $130K Peter - $360K Tony - $50k Peter - $50K	Tony - $6,439 (combined $180K coverage) Peter- $14,666 (combined $410K coverage)	Tony - $3,061 (combined $180K coverage) Peter - $6,720 (combined $410K coverage)	Term Plan (to cover income replacement) Tony - $1,699 Peter - $3,810 Whole life (to cover for alternative medicine and care) Tony - $1,814 Peter -$1,814	Whole Life Hybrid (as premium for whole life hybrid is cheaper than buying term and whole life separately)

Table 4.5: Term or whole life?

**We used the lowest premiums based on the 5 insurers we compared. Please go to appendix 1- 4 (Table A) for a detailed breakdown of the various insurance companies' premiums. The premium for the whole life and whole life hybrid is over a limited period of 25 years.*

Conclusion

Based on our discussion so far, we can safely conclude that **term plans are the most suitable plans for most people with higher priority needs. It is the most suitable because all of our higher priority needs are temporary needs. Secondly, as our need for coverage is quite high, it will simply be too expensive to use whole life plan to cover ourselves fully.**

However, if we want the option of providing a lifetime of alternative medicine and care, then a whole life or a whole life hybrid insurance plan may be more appropriate.

Many a time, when we advocate the use of term plan for insurance planning purpose, people often question whether we are too broad stroke, too presumptuous to assume that all clients' needs are the same. Many have commented that we should not be one size fit all in our approach. The truth is, we agree that we should customise recommendations based on clients' needs.

But the customisation is based on how much coverage one needs, based on the different factors which we have described above. After calculating the coverage amount needed, we can see that term plan is the most suitable, because all of our higher priority needs are temporary needs and the amount of coverage needed is usually too large to use a whole life plan to cover cost effectively.

Can someone insist on using whole life plan to cover that amount? The answer is obviously yes. But not many people can afford the premium and this person must have so much financial resources that after buying all the insurance he needs, he still has enough to plan for other areas of his life.

Because of the above, we strongly advocate term plan as the insurance plan of choice, once the amount of coverage is established.

Chapter 5

Why Are More Whole Life Plans Sold Rather than Term Plans?

Congratulations, for reading up till this chapter. By now, we will begin to understand why term plans are the most suitable plans to use for our higher priority needs. But the question we might have on our mind is: if term is more suitable, why then are there more whole life plans being sold, rather than term plans?

To begin answering this question, let us first verify if this statement is indeed true: Are there more whole life plans being sold in Singapore rather than term plans?

Year	**Whole Life (%)**	**Endowment (%)**	**Term (%)**	**Others (%)**	**Total (%)**
2000	24.90	34.50	6.70	33.90	100
2001	15.90	57.90	4.90	21.30	100
2002	7.02	18.33	2.15	72.50	100
2003	18.43	36.91	7.29	37.37	100
2004	13.20	38.40	9.50	38.50	100
2005	2.95	5.97	68.91	22.17	100
2006	10.99	23.93	23.51	41.58	100
2007	9.21	20.21	21.70	48.87	100
2008	8.81	23.08	16.3	16.3	100
2009	7.76	19.29	15.29	57.66	100
2010	8.05	19.73	13.18	59.04	100
2011	7.45	20.88	13.29	58.38	100
2012	8.23	18.98	14.59	58.20	100
2013	8.83	21.33	11.26	58.58	100
2014	8.29	22.73	11.02	57.56	100

Table 5.1: Distribution of new individual business (non-linked)

Source: MAS

From the table above, we can see that prior to 2005, there are indeed a higher proportion of whole life plans being sold rather than term plans. In fact, though not shown in this table (but we can refer to MAS website), if we go back even to the mid 90s, we will see that there are also a higher proportion of whole life plans being sold. This is not surprising because term plans weren't popular back then.

In 2005, the data was skewed as we can see a big spike in the proportion of term plans being sold (68.91% of the total non-linked plans). According to Life Insurance Association (LIA), it is understood that the privatisation of Dependent Protection Scheme (DPS) has caused the huge increase. It used to be that DPS was administered under CPF Board. But in 2005, it was privatised and all CPF members who bought DPS would either purchased through Great Eastern Life or NTUC Income. This explain a jump in the proportion of term plans sold in 2005 as DPS are term plans.

But one thing is clear, from 2000 onwards, we see a change in trend, the proportion of whole life plans being sold decreased steadily as term plans picked up pace.

One more thing to note: From 2013 onwards, term plans sales started coming down, with no increase in the proportion of sales of whole life plans. Where did the decrease in proportion of sales in term plans go to? We will notice an increase in percentage in the category “others”, which we could not find an explanation on what it constitutes on the MAS website.

Summary

It is true that more whole life plans (relative to term plans) were sold in the past. However, from 2000 onwards, the proportion of sales of whole life plans started dropping. Instead, the proportion of term plan sales started increasing steadily. We believe the reasons why this is so because:

1. A lot more were written about term versus whole life insurance. When we started writing about term insurance in 2003, we faced a lot of flak from the industry. At that time, very few, in fact, almost no one in the industry wrote about term insurance. Today, we see journalists, magazine writers, and financial bloggers writing more and more about term insurance. Even some advisers are beginning to see the advantages of term over whole life insurance.

2. Consumers are more educated today and are beginning to understand the advantages of term plans. Again, since 2003, most of our clients bought term insurance through us.

3. The insurers are coming out with better term products with more competitive prices.

So why is it so, that in the past and even now, many people still buy whole life insurance? Besides the fact that many consumers and advisers out there are still not aware of the advantages of term versus whole life insurance, we believe that the key reason is because of compensation. What do we mean?

Using the same case study of Tony and Peter, we look at the various insurance plans that we can use to meet their needs.

	Tony	Peter
Death/TPD Coverage Needs	$500,000	$1,000,000
Critical Illness Coverage (Replacement of income)	$130,000	$360,000
Alternative Medicine Payment	$50,000	$50,000

Table 5.2: Summary of coverage needs

1. Tony: Possible insurance plans to cover $500,000 death/TPD

We compared the premium cost using term plans, whole life plans, whole life hybrid plans in order for Tony to meet his shortage of $500,000 coverage in the event of death and TPD and also put up the agent's first year commission if he has sold each of the plans.

We only show the first year commission because although commissions can be paid over a number of years, the first year commission is typically the highest and it is enough to show the difference without making it overly complicated for readers to understand.

In the tables below, the premium for the whole life and whole life hybrid is over a limited period of 25 years. In order to make this segment more readable, we show the comparison of just one company.

You can go to the Appendix 1 (Table A and B) to see the comparison between other companies.

	Term Plans Premium	Traditional Whole Life Plans	Whole Life Hybrid Plans
Company B (Premium p.a.)	$1,922	$15,670	$7,410
Agent's First Year Commission	$748	$7,052	$3,335

Table 5.3: Various insurance options for Tony and agent's first year commission for these options

Conclusion 1: For the same amount of coverage, the premiums are a lot higher if you buy traditional whole life plans or whole life hybrid plans. As a result of this, agents get higher commission selling traditional whole life or whole life hybrid plans.

2. Tony: Possible insurance plans to cover $130,000 for replacement of income due to critical illness and $50,000 for alternative medicine and care

We compared the premium cost using term plans, whole life plans, whole life hybrid plans in order for Tony to meet his shortage of $130,000 coverage in the event of critical illness as well as $50,000 in the event Tony wants an option to pay for alternative medicine (due to critical illness) and care.

You can go to Appendix 3 (Table A and B) to see the comparison between other companies.

There are a few options to solve Tony's problem and the table below shows the various combination.

(a) For income replacement need ($130,000)

	Option 1 $130,000 Term Plan (till aged 70)	**Option 2 $130,000 whole life plan**	**Option 3 $130,000 whole life hybrid**
Company C (Premium p.a.)	$1,700	$4,884	$2,484
Agent's First Year Commission	$612	$1,905	$969

Table 5.4: Various insurance options and agent's first year commission for these options

(b) For income replacement ($130,000) and alternative medicine provision ($50,000)

	Option 1 $130,000 Term Plan (till aged 70) + $50,000 whole life plan	**Option 2 $180,000 whole life plan**	**Option 3 $180,000 whole life hybrid**
Company C (Premium p.a.)	$1,700 + $1,986 = $3,686	$6,763	$3,249
Agent's First Year Commission	$612 + $774 = $1,386	$2,637	$1,267

Table 5.5: Various insurance options and agent's first year commission for these options

Conclusion 2: If you are just buying critical illness plan for the purpose of replacement of income (higher priority need), the premium (and therefore the commission) for term insurance is lower than whole life plans and whole life hybrid plans. But if you want the additional option of buying critical illness for the

purpose of providing alternative medicine and care, buying a whole life hybrid plan makes sense as the premium is slightly lower.

3. Peter: Possible insurance plans to cover $1,000,000 death/TPD

We compared the premium cost using term plans, whole life plans, whole life hybrid plans in order for Peter to meet his shortage of $1,000,000 coverage in the event of death and TPD.

You can go to Appendix 2 (Table A and B) to see the comparison between other companies.

	Term Plans Premium (p.a.) (Term till age 70)	**Traditional Whole Life Plans Premium (p.a.)**	**Whole Life Hybrid Plans (Premium p.a.)**
Company B (Premium p.a.)	$2,913	$31,340	$14,720
Agent's First Year Commission	$1,133	$14,103	$6,624

Table 5.6: Various insurance options for Peter and agent's first year commission for these options

Conclusion 3: For the same amount of coverage, the premiums are a lot higher if you buy traditional whole life plans or whole life hybrid plans. As a result of this, agents get a higher commission selling traditional whole life or whole life hybrid.

4. Peter: Possible insurance plans to cover $360,000 for replacement of income due to critical illness and $50,000 for alternative medicine and care

We compared the premium cost using term plans, whole life plans, whole life hybrid plans in order for Peter to meet his shortage of $360,000 coverage in the event of critical illness as well as $50,000 in the event Peter wants an option to pay for alternative medicine (due to critical illness) and care.

You can go to the Appendix 4 (Table A and B) to see the comparison between other companies.

There are a few options to solve Peter's problem and the table below shows the various combinations.

(a) For income replacement need ($360,000)

	Option 1 $360,000 Term Plan (till aged 70)	**Option 2 $360,000 whole life plan**	**Option 3 $360,000 whole life hybrid**
Company C (Premium p.a.)	$4,662	$13,010	$6,242
Agent's First Year Commission	$1,678	$5,074	$2,434

Table 5.7: Various insurance options and agent's first year commission for these options

(b) For income replacement ($360,000) and alternative medicine provision ($50,000)

	Option 1 $360,000 Term Plan (till aged 70) + $50,000 whole life plan	**Option 2 $410,000 whole life plan**	**Option 3 $410,000 whole life hybrid**
Company C (Premium p.a.)	$4,662 + $1,986 = $6,648	$14,817	$7,110
Agent's First Year Commission	$1,678 + $774 = $2,452	$5,779	$2,773

Table 5.8: Various insurance options and agent's first year commission for these options

Conclusion 4: It is cheaper to buy a term plan to cover your need of income replacement due to critical illness. If you want the option of providing alternative medicine and care, buy a term policy and a whole life plan separately. Alternatively, if you are prepared to pay a bit more, you may also consider getting a whole life hybrid instead to take care of both needs.

So what do the 4 conclusions tell us?

For all our higher priority needs, not only does it make sense to buy a term plan (as we have explained in chapter 4, in terms of commission, we also pay (and agents/advisers get) lower commission. You only consider a whole life or a whole life hybrid plan if you want the option of alternative medicine and care.

We want to clarify that we are not saying that all agents and financial advisers out there are simply selling whole life plans/whole life hybrid to consumers because they are paid better. In fact, we know that there are agents and advisers who do the right thing, even though they are paid lesser. These agents/advisers truly look after the interest of the clients and they need to be recognised.

However, the truth is, compensation does drives behaviour. As long as there is a huge difference in commission between term, whole life, and whole life hybrid, there is always that temptation for us to sell products that pay better, especially so, if sales awards, incentives, promotions are tied to the amount of sales we bring in.

As we have painstakingly explained, for our higher level needs, our need for insurance is temporary. And for us to be fully covered, the premium for whole life plans are so expensive that most of us will not be able to afford it. Why then is it so that before 2005, there is a higher proportion of sales in whole life plans rather than term plans? And because a lot more people are sold whole life plans, many would have just bought what they can afford in terms of premiums and as a result, they are not fully covered. Perhaps this explains why we are an underinsured nation.

Chapter 6

The Journey To MoneyOwl (March 2019)

At the age of 27 years old, I started my career in the financial services industry as an insurance adviser with a large insurer. I had wanted to be a financial adviser then. But there was no such "animal" back in the late 90s as not only it was a new idea, the Financial Advisers Act was not put in place. You either join the insurance companies, the banks or the stockbroking house to do something like that. Although I was promised that I will get a chance to do financial planning in the agency that I joined, I was never taught how to.

In 1999, I discovered by accident that there were good books on how to write a financial plan in NUS Hon Sui Sen Library. That was the beginning of my financial advisory career. But, regardless of how good a plan I wrote for clients, I only had one product to implement their plans - insurance. And I was using lots of whole life insurance.

You see, back in my agency days, no one really talk about term plans. In almost all of our trainings, we were taught how to sell whole life plans, endowments and investment-linked policies to clients. These were the plans that pay us well and also allow us to achieve the coveted Million Dollar Round Table (MDRT), Court of the Table (COT) and Top of the Table (TOT) award.

And in the 3 years I was with the insurance company, I did well. I was second top rookie adviser in my first year and by the time I reached my third year, I was top 25 in the company. Besides being financially well paid, every year, I get to go on 2-3 overseas incentive trips. Life was good.

Sometime in early 2000, I read an article on Business Times, written by Ms Genevieve Cua. She interviewed US financial planner Ms Suze Orman. In that article, it was reported that Ms Orman said something to the effect that "if you sell whole life plans to your clients, you are like serving them a plate of poison". When I read that, I was of course fuming mad. I thought to myself back then: "how could she say such a thing?! This is not true!" I ignored what I read and continued selling whole life plans.

For the next 6 months, what Suze Orman said kept coming back into my mind and troubled me. And after doing enough research and realised what she said was in many ways true, I could not take it anymore. I decided that if I want to leave the insurance company, I better leave when I was still young, where the recurring insurance commissions are still small and when I still have the courage to do so.

At the peak of my insurance career, I left and subsequently set up Providend, Singapore's first fee-only firm on 11th September 2001. When Providend started, we wanted to build a company that represents "trust". But how can we build trust? We decided that in order to do that, we must exist to give the most honest, independent and competent advice. You can read more about Providend's early days here.

While we appreciated the Providend's advisory model, we realised that most of the clients that came to us were the mass affluent clients whose financial situations were more complex, and they also had the ability and was willing to pay us a fee. However, we were unable to reach out to the rest of the people whom genuinely need good advice but were not able or unwilling to pay a fee. In truth, their financial needs are also a lot simpler, which do not require them to pay a fee for advice. This was when we decided to birth DIYInsurance in June 2014, to bridge this gap.

In year 2018, Providend Holding Private Limited entered into a joint venture with NTUC Enterprise Co-operative Limited and set-up MoneyOwl, a financial adviser and fund management company licensed by the MAS.

So, DIYInsurance has become part of MoneyOwl. Our website continues to provide the insurance analysis and comparison capabilities and by mid of year 2019, MoneyOwl will be offering a full suite of services which include online will writing, low cost investment and comprehensive financial planning.

MoneyOwl is Singapore's first bionic financial adviser that will deliver competent, conflict-free and comprehensive financial advice that integrates CPF and other national schemes to the mass market, underpinned by a strong social DNA and best-in-class advisory expertise. We serve our clients through a combination of human interactions via client advisers and a technology platform via our website, a hybrid model known as Bionic Financial Advisory. With a robust fit for purpose financial plan, ordinary folks will benefit to achieve greater financial security and retirement adequacy which support their life decisions. To deliver conflict-free advice, our client advisers are fully salaried and are not compensated by commissions or incentives.

At MoneyOwl, we want to create a transparent platform where people with financial planning needs can come to a safe environment, to get advice, without feeling pressured to buy and knowing that whatever they are getting is best for them, and not because we earn the most from it.

On our insurance service, we achieve this by:

1. Openly stating that we **advocate term insurance and not whole life insurance**. By saying that we advocate term insurance, we are not saying that whole life insurance are of no use and we will not recommend it to clients. What we are saying is that for your higher priority needs, you only need term. Once you have taken care of your basic needs, including retirement planning, funding children's tertiary education, and if you still have budget, you can take care of the lower priority insurance needs and use whole life plans if you want. 1 out 4 policies that we recommend are whole life insurance. They are only sold to meet those unique needs that are usually not of top priority, and only after the higher priority needs are met.

2. Putting up an engine to **compare the premiums and features** of different insurance companies that are on our platform. In this way, clients know which the cost-effective plans that are suitable for them are.

3. Putting up educational materials and planning tools to **empower clients** to decide what they need and not what advisers want to sell them. And if they need advice, by

4. Using **salary-based advisers** to advise clients, we minimise conflict of interest. On top of that, the advice is backed by the deep experience of the senior team

5. Ensuring that there is absolutely no pressure selling. On average, clients only need to meet us once, for between 20 minutes to an hour, to apply for their insurance.

6. Letting clients know all the various promotions from the insurance companies, so that clients get the **best deal**.

7. Having a client service team to help clients with **post-sales service** such as claims.

On top of the above, we give a 50% rebate of salesperson's commission (for as long as the insurance companies pay us) to **reduce the cost** of purchasing insurance.

But MoneyOwl is not about giving rebates. Our clients really come to us because they feel absolutely safe doing their insurance plans with us. Since the launch of DIYInsurance till now, we have received so much encouragements and recognitions from clients. You can read them here.

It has been a long journey since 2001 and the road hasn't been easy. In my near 20 years in this industry, I have realised that in order to do the right thing and to always put clients' interest first, we must be prepared to make sacrifices. One such sacrifice is in the form of receiving flak from advisers, for not all of them agree with our stand. But we believe that this sacrifice is worth it, because we can answer to ourselves and above all, our clients.

I salute all my colleagues at Providend and MoneyOwl staff for sharing the same dream and walking this journey together. I thank all our clients for being part of this adventure in making honest advice work.

Appendix

Appendix 1: Possible insurance plans for Tony to cover $500,000 death/TPD

	Term Plans (Term till age 70) Premium (p.a.)	Whole Life Hybrid Plans (Premium p.a.)	Traditional Whole Life Plans Premium (p.a.)
Company A	$2,345	$5,761	Not Available
Company B	$1,922	$7,410	$15,670
Company C	$2,310	$5,849	$14,581
Company D	$2,131	$8,739	Not available
Company E	$2,178	Not available	$14,320

Table A: Various insurance options for Tony

**Not Available: Insurers either do not have the product or do not have products that have the same 25-year limited premium term.*

***The premium for the whole life and whole life hybrid is over a limited period of 25 years.*

	Term Plans	Whole Life Hybrid	Traditional Whole Life Plans
Company A	$1,351	$2,938	Not applicable
Company B	$748	$3,335	$7,052
Company C	$845	$2,281	$5,687
Company D	$852	$3,495	Not applicable
Company E	$1,089	Not applicable	$5,728

Table B: Estimated agent's first year's commission for selling the above policies in table A

Appendix 2: Possible insurance plans for Peter to cover $1,000,000 death/TPD

	Term Plans (Term till age 70) Premium (p.a.)	Whole Life Hybrid Plans (Premium p.a.)	Traditional Whole Life Plans Premium (p.a.)
Company A	$3,203	$11,189	Not Available
Company B	$2,913	$14,720	$31,340
Company C	$3,391	$11,253	$29,162
Company D	$4,622	$17,472	Not Available
Company E	$3,261	Not Available	$28,640

Table A: Various insurance options for Tony

**Not Available: Insurers either do not have the product or do not have products that have the same 25-year limited premium term.*

***The premium for the whole life and whole life hybrid is over a limited period of 25 years.*

	Term Plans	Whole Life Hybrid Plans	Traditional Whole Life Plans
Company A	$1,845	$5,706	Not applicable
Company B	$1,133	$6,624	$14,103
Company C	$1,241	$4,388	$11,373
Company D	$1,849	$6,989	Not applicable
Company E	$1,631	Not applicable	$11,456

Table B: Estimated agent's first year's commission for selling the above policies in table 5.5

Appendix 3: Possible insurance plans for Tony to cover $130,000 for income replacement due to a critical illness and $50,000 for alternative medicine and care

	Term Plan (till ALB 70) with $130,000	Whole Life with $130,000	Whole Life Hybrid with $130,000	Whole Life with $50,000	Whole Life Hybrid with $50,000	Whole Life with $180,000	Whole Life Hybrid with $180,000
Company A	$1,707	Not Available	Not Available	Not Available	Not Available	Not Available	Not Available
Company B	$1,699	Not Available	$2,843	$2,166	Not Available	$8,098	$3,061
Company C	$1,700	$4,884	$2,484	$1,986	Not Available	$6,763	$3,249
Company D	Not Available	Not Available	$2,269	Not Available	Not Available	Not Available	$3,143
Company E	Not Available	$4,650	Not Available	$1,814	Not Available	$6,439	Not Available

Table A: Various options for Tony to cover $130,000 income replacement for critical illness and $50,000 for alternative medicine and care

**Not Available: Insurers either do not have the product or do not have products that has limited 25 years premium term*

***The premium for the whole life and whole life hybrid is over a limited period of 25 years.*

	Term Plan (till ALB 70) with $130,000	Whole Life with $130,000	Whole Life Hybrid with $130,000	Whole Life with $50,000	Whole Life Hybrid with $50,000	Whole Life with $180,000	Whole Life Hybrid with $180,000
Company A	$983	Not Available	Not Available	Not applicable	Not applicable	Not applicable	Not applicable
Company B	$637	Not Available	$1,279	$974	Not applicable	$3,644	$1,652
Company C	$612	$1,905	$969	$774	Not applicable	$2,637	$1,267
Company D	Not applicable	Not Available	$907	Not Available	Not applicable	Not applicable	$1,257
Company E	Not applicable	$1,860	Not Available	$726	Not applicable	$2,575	Not applicable

Table B: Estimated agent's first year's commission for selling the above policies in table A

Appendix 4: Possible insurance plans for Peter to cover $360,000 for income replacement due to a critical illness and $50,000 for alternative medicine and care

	Term Plan (till ALB 70) with $360,000	Whole Life with $360,000	Whole Life Hybrid with $360,000	Whole Life with $50,000	Whole Life Hybrid with $50,000	Whole Life Plan with $410,000	Whole Life Hybrid Plan with $410,000
Company A	$4,364	Not Available	Not Available	Not Available	Not Available	Not Available	$6,782
Company B	$3,810	Not Available	$7,728	$2,166	Not Available	$17,142	$7,834
Company C	$4,662	$13,010	$6,242	$1,986	Not Available	$14,817	$7,110
Company D	Not Available	Not Available	$6,293	Not Available	Not Available	Not Available	$7,167
Company E	Not Available	$12,877	Not Available	$1,814	Not Available	$14,666	Not Available

Table A: Various options for Peter to cover $360,000 income replacement for critical illness and $50,000 for alternative medicine and care

**Not Available: Insurers either do not have the product or do not have products that has limited 25 years premium term*

*** The premium for the whole life and whole life hybrid is over a limited period of 25 years.*

	Term Plan (till ALB 70) with $360,000	Whole Life with $360,000	Whole Life Hybrid with $360,000	Whole Life with $50,000	Whole Life Hybrid with $50,000	Whole Life Plan with $410,000	Whole Life Hybrid Plan with $410,000
Company A	$2,514	Not Available	Not Available	Not applicable	Not applicable	Not applicable	$3,459
Company B	$1,429	Not Available	$3,478	$974	Not applicable	$7,714	$3,525
Company C	$1,678	$5,074	$2,434	$774	Not applicable	$5,779	$2,773
Company D	Not applicable	Not Available	$2,517	Not Available	Not applicable	Not applicable	$2,867
Company E	Not applicable	$5,151	Not Available	$726	Not applicable	$5,866	Not applicable

Table B: Estimated agent's first year's commission for selling the above policies in table A

Appendix 5 - How much cover you can get from whole life and whole life hybrid plans with the same premium you pay to get term plans

	Premium for $500,000 term plan till age 70	Sum Assured of Whole Life Plan for the same premium of $500,000 Term	Sum Assured of Whole Life Hybrid Plan for the same premium of $500,000 Term
Company A	$2,345	Not Available	$195,000
Company B	$1,922	$59,000	$125,000
Company C	$2,310	$71,000	$186,000
Company D	$2,131	Not Available	$122,500
Company E	$2,178	$73,000	Not Available

Table A: How much cover you can get from whole life and whole life hybrid with the same premium to get $500,000 term plan

	Agent's First Year Commission (Term Plan)	Agent's First Year Commission (Whole Life Plan)	Agent's First Year Commission (Whole Life Hybrid Plan)
Company A	$1,351	Not applicable	$1,196
Company B	$748	$865	$865
Company C	$845	$900	$900
Company D	$852	Not applicable	$852
Company E	$1,089	$871	Not applicable

Table B: Estimated agent's first year's commission for selling the above policies in table C

	Premium for $1,00,000 term plan till age 70	Sum Assured of Whole Life Plan for the same premium of $1,000,000 Term	Sum Assured of Whole Life Hybrid Plan for the same premium of $1,000,000 Term
Company A	$3,203	Not Available	$264,000
Company B	$2,913	$89,000	$190,000
Company C	$3,391	$112,000	$274,305
Company D	$4,622	Not Available	$264,514
Company E	$3,261	$112,000	$186,000

Table C: How much cover you can get from whole life and whole life hybrid with the same premium to get $1,000,000 term plan

**Not Available: Insurers either do not have the product or do not have products that has limited 25 years premium term*

***The premium for the whole life and whole life hybrid is over a limited period of 25 years.*

	Agent's First Year Commission (Term Plan)	Agent's First Year Commission (Whole Life Plan)	Agent's First Year Commission (Whole Life Hybrid Plan)
Company A	$1,845	Not applicable	$1,652
Company B	$2,267	$1,315	$1,323
Company C	$1,241	$1,323	$900
Company D	$1,849	Not applicable	$1,849
Company E	$1,631	$1,305	$1,298

Table D: Estimated agent's first year's commission for selling the above policies in table C

END

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Making Wise Decisions Easy