Everybody is confronted by uncertainties at various stages in life, from illnesses to injuries. Here are some common half-truths about personal insurance products , which have only added to the uncertainties.

Myth 1 - Everyone should allocate X% of his/her income towards paying for insurance

Insurance is not a savings tool and therefore should not be a direct function of your income. Insurance is a hedge against unexpected events in life, such as death, disability, injury and illness. The amount of premiums paid should depend on your insurance needs rather than how much insurance you can afford.

Key takeaway: As long as the needs justify it, it is not unreasonable for someone earning $3,000 a month to pay $500 in premiums, while another earning $5,000 pays $300.

Myth 2 - It is always better to start young

This is what insurance companies would have you believe, so as to gain a young captive customer. The statement would be true if for example at the age of 25, you are certain that you

will be marrying by age 30, will have two children by 35, will be at the top of a career trajectory by age 45 and will remain married.

The reality is that for most people, insurance needs only become more apparent over time, as their working and family lives stabilize. It is all too often to hear of people buying whole life or personal accident insurance at age 20 to “take advantage” of low premiums, only to spend years regretting the decision and finally terminate it prematurely.{loadposition advert1}

We may sometimes be attracted by the proposition of paying very low premiums from a young age, but again the primary criteria for purchasing insurance should be your needs, rather than the level of premiums.

If there is a significant benefit to be insured from a young age, it is that the chances of exclusions from pre-existing conditions are much lower, since such symptoms don’t usually turn up until one is older. Even then, some insurance companies explicitly exclude hereditary conditions (such as when heart attacks run in the family). Starting young may not automatically include coverage for hereditary conditions whose symptoms have not appeared at the time of signing up for insurance.

Key takeaway: Your insurance needs change with time and you should refrain from making long-term insurance commitments simply on the basis that it is better to start young.

Myth 3 - Everybody needs life insurance

Life insurance (whether term or whole life) is mainly intended to provide a sum of money upon death or total permanent disability. If there is no one who depends on your income for his/her well-being, the amount of money paid out by the life insurance policy would not serve any meaningful purpose. The benefit to oneself from life insurance is very limited due to the strict criteria (usually death or thereabouts) for a payout from a life insurance.

On the other hand, if you have dependents, a whole life or term life insurance would be useful in giving financial assistance to your dependents for the years ahead, should you meet with a fatal

mishap.

Key takeaway: If you are just starting your career or don't have any dependents, you probably don't need life insurance.

Myth 4 - Critical illness plans assure completely against all major illnesses

Most critical illness plans (such as Medishield) provide cover only a standard list of 30 critical illnesses. Some plans also differ in that payouts are applicable only during the late stages of illnesses such as cancer. Alternative treatments (e.g. for cancer) are also generally excluded from such basic shield plans.

Moreover, such plans generally have a deductibles and/or 10% to 20% co-insurance condition. To enjoy 100% coverage, you can use a Hospitalization & Surgical (H&S) rider to obtain coverage for the remaining costs and possibly partial compensation for a loss of income during hospitalization. To get coverage from a wider list of illnesses, an additional rider would be required.

Even then, nearly all policies would exclude pre-existing conditions, such that any illness that one may have (or had have) at the commencement of the policy will not be covered. An example is the pre-existing condition of high blood pressure, which leads to stroke later in life. It maybe possible to obtain a waiver of such exclusions from some insurers, but at a huge premium.

Key takeaway: You would have to accept that it is not possible to cover every eventuality of illnesses, without paying a fortune for it.

Myth 5 - Personal accident plans are necessary

Personal accident plans cover injuries arising from accidents, such as fractures and loss of

fingers/limbs. However, most people today lead a fairly sedentary lifestyle and a significant proportion of residents in big cities like Singapore do not drive. The probability of one being involved in accidents would be very low. As one reaches retirement age, the chance of meeting an accident may decrease even further.

People working in dangerous professions, such as in chemical plants or the military, would be more susceptible to accidents, but are generally excluded from payouts on personal accidents, even if they had bought the plans.

Key takeaway: Personal accident plans probably belong in the “good-to-have” category and would rank lower in priority to other forms of insurance.

Myth 6 - Company group insurance makes personal insurance unnecessary

The terms and objectives of corporate insurance programmes vary so much across organizations that it is hard to make a generalization. However, it is safe to say that many of these programmes may only cover for injuries or deaths directly resulting from a discharge of official duties. In some cases, the beneficiaries of the insurance policies are the employers, rather than employees.

Key takeaway: Company group insurance programmes should not be viewed as a substitute for personal insurance planning.

Myth 7 - The higher the total insurance coverage the better

As one grows older, he/she may purchase more insurance, but it is not uncommon for people to become over-insured.

Over-insurance can arise in 2 main ways.

An individual may have purchased comprehensive critical illnesses insurance from one or more agents (most of whom would have no qualms doing the selling). However, the insurance company (or companies) may decline to pay in full if the level of coverage offered by two or more separate policies exceeds the expenses from a critical illness, on the basis that the individual is over-insured. To avoid such a scenario, a good financial advisor would be valuable in ensuring that there are no unnecessary overlaps between policies.

Another form of over-insurance occurs when an individual over-estimates the amount of monetary assurance required for his/her dependents, should he/she pass away or become totally disabled. The drawback is that a person may be squirreling away his/her money on paying premiums on life insurance when he/she could be better off paying down an expensive home mortgage or personal credit line. High insurance premiums can in fact become a liability should you lose your job or need to raise money for personal emergencies.

In this case, it is important to work out the minimum amount of money required to support your dependents (e.g. living expenses for your children until they reach working age) plus any outstanding mortgage on your home. This would then be the targeted coverage, insuring for the excess of which would only make your life worth more if you were dead than alive.

Key takeaway: Avoid being over-insured. Get a good and objective insurance advisor.

Conclusion

Many of these myths arise because of attempts to use a one-size-fits-all approach in insurance planning. Other half-truths may be perpetuated because of vested interests on the part of some insurance companies and their agents. Your needs should be the over-arching priority in insurance planning, constrained by your budget. Everything else is secondary.

Glossary | Forum | Disclaimer