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## How to use life insurance to financially support special needs children; parents can cover expenses this way

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Ideally the life insurance policy amount must cover not only the child care expenses but repay all the liabilities of the parents.



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**By Jitendra P S Solanki**

Parents of a special need child have concerns about the care and finances for the child, after their lifetime. Life insurance is one tool which can help create provisions for creating an estate to take care of the child's funding needs.

### **Right policy**

Ideally the life insurance policy amount must cover not only the child care expenses but repay all the liabilities of the parents. This will require identifying the insurance needs and then buying the required insurance coverage.

Term life policies are the simplest policies to consider. However, many parents buy endowment policies while some buy whole life policies with anticipation that along with life coverage it will provide a cash value to fund the child care at their death. It is important to look at merit and demerit of different types of policies and pick the right one.

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options are the generic policies.

### **Term Insurance**

It is the purest form of life insurance. A risk cover which pays the policy sum assured in case the policyholder dies. There is no payout if the policyholder survives. The biggest advantage to the parent is that this form of insurance creates an instant estate if something happens to them. With cheaper premium rates, parents can buy a high insurance coverage, that can help fund child care after paying-off all dues.

In traditional financial planning, term insurance is not recommended after a certain age – say 65-70 years – as the responsibilities or liabilities may be fulfilled. This is not the case for parents with special needs children. It is recommended to keep term insurance for as long as it will be given.

### **Whole life policies**

These policies would be the next best option after term insurance. Whole life policies are an extension of endowment plans/ULIPs which guarantee to run up to the policyholder lifetime or a maturity age which in most cases is fixed at 100 years. One has to keep paying the premium till the policy runs.

Now, a term policy combined with a whole life insurance policy may prove to be the best solution to secure the child's future. Here a term insurance will provide life Insurance till the defined age and the whole life insurance policy will generate enough cash value to meet the requirement when term is not available.

However, whole life policies suffer disadvantages. The traditional policies do not yield returns good enough to beat even inflation and justify the higher premium outgo for investments.

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special needs family will seek as it can meet dual objective – growing the money and providing a fund to take care of the child future at any stage of life. However, the biggest drawback with these policies is that they fail to meet either of the objectives. Buying a high insurance coverage in these policies is not viable due to very high premiums and the returns from these policies are not good enough to meet inflation. Hence these are best avoided.

### **Housing Loan Insurance**

These policies are specifically design for covering housing loans. Their sum assured is in alignment with home loan it covers and so these policies will run till the housing loan is continued. In case of any eventuality, the insurance will pay the outstanding loan and the family will be free from any liabilities.

However, the premiums are higher than pure term plan and if one has covered the provision of housing loan in the term plan, then you do not need to take this. Parents need to be careful because banks have been selling these polices bundled with home loan and in most cases include the premium in the loan itself – you end up paying interest on the premium.

### **Do the math**

Before signing up, do not trust the assurances or numbers shown. Your own calculation can only identify the actual numbers. You need to calculate the amount needed, after accounting for inflation. For instance, if inflation is at 7%, then you need at least 10% return on your investments to create a sizeable corpus in future.

Traditional plans don't give you the associated costs. ULIPs tie you up with one fund manager and still have lower transparency than mutual funds. Contrary to this, mutual funds bring transparency and flexibility in managing your investments. Thus, it is wiser

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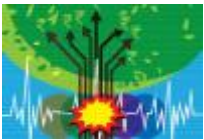
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