



# Insurance for newborns

Parents should insure themselves before they buy policies for their children, says Eddy Cheong

Finally, your baby has arrived. After nine months of anxious waiting, the climax at the delivery ward is awesome, especially for first-time parents. Before long from basking in your bundle of joy, two things are almost certain – many years of sleepless nights and a myriad of financial products for your newborn vying for your attention.

The trend here is for parents to buy life insurance and endowment policies for their children. The reasons are manifold and convincing. Buying insurance is much cheaper when they are still infants. Moreover, you are guaranteeing them insurance policies regardless of their health condition later. It is also parents'

best gift for them to have a financial head-start in life as the maturity value or cash value can be used for their tertiary education later. But before you sign on the dotted line, parents should consider if this is a savvy financial decision.

## Insurance 101

The purpose of life insurance is to protect one against loss of income and to provide for the dependants when the insured passes on. In other words, insurance protects a person's economic value and ensures that food is still served on the table even if he or she dies prematurely. A child has hardly any economic value to protect. From a financial viewpoint, many would agree that a child has only financial liabilities – diapers, child care, toys, medicine and education are expenses that come with bringing up a child. Not to say that a child has no value; it is just not a financial asset. How about endowment policies for education? Let's take a close look at the cost of Singapore university education.

Currently the cost of a four-year local university is about \$58,600 per child (see table on opposite page). With inflation, this figure will become \$137,501 in 20 years' time. And that is only for one child. If you are going to have three kids, be prepared to set aside more than \$400,000 for them! A competitive 20-year endowment will cost about \$4,427 per annum to meet the university cost for one child and a whopping \$13,281 per annum for three children! That is a lot of money for the average Singaporean. Granted, an endowment policy is definitely a better option than just leaving money in the bank, but it is not exactly the best way to grow your money.

## What parents should consider

The following are what parents should focus on: Firstly, they should purchase a good hospital and surgical (H&S) plan for their children. Such a plan helps to take care of medical costs when warded in

hospital. Experienced parents will know that children fall sick easily and are prone to accidents. Bills can typically run up into thousands of dollars per hospitalisation. Moreover, not all H&S plans are the same. Generally you should consider H&S plans that are guaranteed renewable – that is, the insurer does not have the right to terminate your policy even if the claim experience is bad. Naturally such plans will cost slightly more, but they are worth the money as nobody wishes to lose coverage later in life especially when good health is an issue. It also makes sense to start early for your child as the underwriting for such a plan is very stringent. New H&S applications will generally exclude any causes of previous hospitalisation – something you don't wish to happen.

Don't forget to apply the MediShield or the private 'shield' scheme for your children too. The combination of the shield scheme and the H&S plan will help to defray most of your hospital bill. To find out how you should package your shield and H&S plan, you can visit the website at [www.commissionsfreeinsurance.com](http://www.commissionsfreeinsurance.com) for more information.

Secondly, parents should make sure they have sufficient insurance. Question: if you have a goose that lays golden eggs, which would you insure? Obvious, isn't it?

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But I have seen cases where children have more insurance than their parents. The motivation behind this is understandable but who will provide food if the breadwinner dies prematurely? It will do injustice to the family if he or she is under-protected.

### Consider investing

Thirdly, to accumulate sufficient educational funds, parents should consider investment. Many shy away from this due to bad experiences or a lack of awareness. However, looking at the enormous education fund needed, and not forgetting personal retirement goals, is enough to scare even the most conscientious saver. Suffice it to say, parents should generally assume some investment risk to reap potentially better returns on their capital. Based on a reasonable six per cent annualised return, only \$3,526 needs to be set aside per annum for 20 years to provide for one child's education (\$900 per annum less than required for an

endowment policy). Needless to say, a good investment adviser is critical to help parents achieve their financial goals.

Last but not least, parents should have a will executed and CPF properly nominated to ensure that if the unthinkable does happen, their children will be taken care of by guardian(s) of their choice and their estate managed by intended trustees. Otherwise the courts may appoint trustees that may not be their best choice.

As the saying goes, insurance is one thing where parents' needs come first before the children's. 

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