

## Money Matters

# Take cover



The protection that you need at 35 is likely to be very different from when you were 25. What financial areas should you be concerned about at each stage of your life?

THIRTY-YEAR-OLD TEACHER CHRISTINE YEO HAD A DAY operation to remove several ovarian cysts and had assumed that her insurance programme would reimburse part of the \$4,000 surgery bill. To her dismay, she was told by her insurance adviser that her hospital cash rider would not pay as she was not warded overnight.

"How can it be? I thought I had a plan that covers against critical illnesses?" exclaimed Christine. "Why can't I claim this hospitalisation bill? I have been paying 10 per cent of my salary for insurance premiums faithfully for the past six years!"

Examples like the above are a dime a dozen in my course of practice. Many people have the false security in the many

insurance policies they own or the amount of premiums they pay, that they have adequate protection for their needs. Let me put this myth to rest once and for all: it is not how many plans you have or how much of your salary goes to insurance premiums that matter, it is more so whether the plans you have are suitable and adequate for your unique needs and circumstances that counts.

An article in *Business Times* in September 2003 reported that though Singapore is said to have one of the highest penetration rates for insurance, statistics show that most are grossly under-insured, with the average coverage equivalent to just one year's income. One in three Singaporeans are not covered by life insurance, according to a survey done by OCBC Bank in 2002.

So is insurance necessary? Consider this: at least 75 per cent of deaths in Singapore in 2003 were due to critical illnesses such as heart diseases and cancer (see below).

#### PRINCIPAL CAUSES OF DEATH

Cancer	25.9%
Heart Diseases	25.0%
Pneumonia	14.6%
Cerebrovascular Disease	9.7%
Chronic Obstructive Lung Disease	3.3%
Diabetes Mellitus	2.3%

(Ministry of Health, 2003)

Considering most hospitalisations are also due to such major illnesses and the high cost of treatments, it is no wonder managing medical inflation and ensuring long term medical financing list are two of the Ministry of Health's eight priorities!

Why then is something so important so neglected? The following are some reasons:

- People do not know what type and how much is necessary
- Some have bought costly but inappropriate insurance
- Most do not like to discuss insurance
- Most times insurance is sold and not bought. The plan that pays the most commissions may not be the most appropriate for the customer

If we believe in making provisions to ensure that our dependents can be well taken of in our demise, or that an illness or a disability that we unfortunately contract will not leave behind a financial burden, then it is about time we take responsibility for this area of our financial well-being.

Learn and understand more about what constitute the

needs and if they are relevant to your unique circumstances. As you pass through each stage of life, certain areas of concern become more important.

#### CASE STUDY #1 Single in her 20s

Tania Ng is a 27-year-old single professional. She is servicing a car loan and looking forward to purchasing her first home with her fiancé whom she will marry in two years' time. Her parents are retired teachers whose financial needs are well taken care of by the pension scheme they were on.

Since Tania does not have any dependents, having a big sum of money paid out on her death would not be a real necessity. What she needs to look into is more of ensuring that she can take care of herself financially should an illness or disability take place.

#### What if she becomes disabled?

Given that Tania has been earning her keep since graduation, she would not want to be a financial burden to her parents should a disability rob her of her income-earning ability. To look into income replacement or supplement when disability strikes due to an illness or an accident would therefore be important.

There are two types of disability: total and permanent disability (TPD) and partial and/or temporary disability. Most life insurance policies would have TPD cover build into the basic plan though some insurers have begun to unbundle it. The likelihood of anyone ending up in the state of total and permanent disability is less than 10 per cent due to the 'restrictive' definition. See box for some common TPD definitions.

Partial disability coverage, on the other hand, replaces income when the insured is unable to perform one's own occupation (up to a period of typically 24 months) and thereafter, what he may

### Total and Permanent Disability

- Cannot sufficiently do any work, occupation, or profession from henceforth, or
- Cannot follow to earn or obtain wages, remuneration or profit from henceforth, or
- Has become totally blind, or
- Has lost two limbs (by complete severance) at or above the wrist or ankle, or
- Has lost the sight of one eye and one limb (by complete severance) at or above the wrist or ankle

be suited by reason of education, training or experience.

If Tania is a surgeon, the loss of an index finger would mean an inability to continue in her profession. Her disability income insurance could provide her an income of up to \$7,500 a month (assuming her last drawn monthly pay of \$10,000). If Tania managed to find work as a lecturer but suffers a pay cut, the disability insurance would then help cover the loss in pay.

### What if she falls seriously ill?

If Tania encounter a serious and prolong illness, like leukemia, she would be faced with two financial concerns:

#### ■ Medical bills

Depending on the type of treatment and how prolonged the illness is, the total medical bill could come up to a fairly substantial amount. A comprehensive medical programme (with provision of between \$100,000 to \$200,000 of annual claimable limit) should give the peace of mind that Tania could get the kind of medical treatment, eg a ward in a private hospital, without having to worry about out-of-pocket expenses.

It should take into consideration the national healthcare programme like her Medisave and Medishield. As the objective of the Medishield programme is to take care of large hospital bills by absorbing a portion of it with the rest payable by the policyholder, those facing

huge medical bills will currently need to pay about 60 per cent or more from their pockets.

It is thus important to supplement that with a hospital and surgical (H&S) plan from a private insurance company. A suitable H&S plan with no deductible (eg the first \$2,500 that the insured has to pay upfront before any claims can be paid out) and co-insurance can effectively cover the gaps inherent in the Shield plans.

Some may question the need for this when they are already covered under their company medical programme. The question is the portability of the company programme. Can you bring along the medical plan when you leave this company? If you can't, it is not a portable plan. The danger lies in your insurability (whether the next insurance company would cover you or not) should you develop a medical condition prior to joining the medical programme under the new employer.

#### ■ Income Loss

No company will continually pay an employee who is perpetually not there. Typically, the employers will pay her up to three months until her medical and hospitalisation leave is exhausted. There is thus a need for income replacement to help pay for her living expenses during the period of treatment and recovery.

Should Tania want to seek overseas medical treatment or Traditional Chinese Medicine, H&S plans do not cover



such expenses and this is where a replacement of two to three years of her annual income is necessary.

### **CASE STUDY #2**

#### **Thirtysomething working mum with children**

In her mid thirties, Mabel Ong is a working mother of two young children. Her three-year-old son and a one-year-old daughter are taken care of by her mother who stays with her family. "My family needs my income, and I am really blessed to be able to entrust the care-giving of my young children to my mom, whom I trust," says Mabel.

For a person like Mabel, whom falls into the category of the "sandwich" generation – she has young children plus elderly parents to take care of – medical provision for the entire household is important.

In addition to her husband and her own provision in the event of disability and illness, she should also include her children and elderly parents or in-laws in the medical programme. Young children and the elderly tend to be susceptible to medical problems due to lower immunity and physical infirmity. It may be wiser to "farm out" such risks through a comprehensive medical programme for them than to shoulder the potentially high medical expenses.

#### **What if she dies?**

An area pertinent to Mabel is income replacement in the event of death. Being a bread winner, it is important for Mabel to have the assurance that she leaves behind enough to contribute to the household income, and to take care of her children till they can be independent (defined as having completed tertiary education) should she pass away prematurely.

To be thorough, the analysis should take into account the outstanding mortgage (to ensure that the roof over the family's heads are fully paid for) and

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capital needed to accumulate towards their tertiary education needs, among other things.

### **CASE STUDY #3**

#### **Retiree in her 50s**

Grace Pong is a retiree with grown up children. Similar to Tania, she does not have any dependents to worry about and the main area of concern would be for medical needs.

#### **What if she has a prolonged illness?**

Designed to pay out cash in event of severe disabilities, Long Term Care (LTC) products help reduce the burden of caring for your own living needs, whether at home with private nursing help or in nursing homes.

If an insured were to be unable to perform at least three out of six Activities of Daily Living (ADLs) (mobility, feeding, transferring, dressing, bathing and toileting), the LTC plan will issue monthly payouts for the rest of her life. Statistics from developed countries like the United Kingdom show that severe disabilities condition is likely to happen to about 35 per cent of men and 45 per cent of women.

Because each individual's needs and circumstances are unique, I have not given rule-of-thumb type of how much provision is needed at each life stage. To do a self-assessment (free of charge), visit [www.commissionsfreeinsurance.com](http://www.commissionsfreeinsurance.com). Special templates are designed for broad categories like Just Starting Out, Singles, Married, The Seniors as well as a place to key in your special request for customised solutions.

Take charge and take care over your own financial provisions. Do not leave to chance over what could potentially cause great financial strain for you and your family. ▢

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*Evelyn Goh, B.Bus (Hons), CFPCM is a Director at Providend Ptd Ltd, an independent financial advisory firm that provides comprehensive financial consultancy to families and businesses. Providend provides fee-for-advice service and refunds all commissions back to clients. Evelyn can be contacted at [evelyn\\_goh@providend.com](mailto:evelyn_goh@providend.com)*

