

This publication is supported by the following BIA members:

Life & Savings **Insurance** Your Guide



✉ 2851 Manama - Kingdom of Bahrain

☎ +973 1753 2555 📠 +973 1753 6006

www.bia-bh.com

Life & Savings

Insurance

Your Guide

INDEX

Chapter 1: Why Life Insurance	3
Term Insurance	6
Family Income Benefit	8
How much cover do I need?	10
How much does it cost?	11
Chapter 2: Critical Illness Cover	15
Chapter 3: Education Plans	19
Chapter 4: Retirement Plans	23
Glossary	25



Life INSURANCE



Being a responsible adult means making sure loved ones who depend on you are financially safe guarded if you unexpectedly leave them behind. The way you provide that protection is with life insurance.

Variable Life

A type of life insurance where the premium and benefits are adjustable and the policy holder may assign the premium payments to a specific and separate investment account, similar to a mutual fund.

Waiver of Premium (total disability)

A rider to an insurance policy providing that the policy and coverage will remain in effect for a specified period of time. In the event the insured becomes totally disabled during that time, the insured does not have to make premium payments.

Whole of Life

Life insurance which provides coverage for an individual's whole life, rather than a specified term. It includes a savings component, called cash value that builds over time and can be used for wealth accumulation.

Life

Why INSURANCE ?

Permanent Insurance-Whole of Life	Life insurance that does not expire after a certain time limit - provides coverage for the entire lifetime of the insured.
Policy	The contract between the insurance company and the insured which contains all the terms and conditions of the insurance arrangement.
Premium	The price of an insurance policy, typically quoted on an annual, semi-annual, quarterly or monthly basis.
Rider	An optional benefit to the insurance policy which can provide additional benefits under certain conditions.
Term	The length of time for which an insurance policy remains effective.
Term Life	A type of life insurance that covers the insured for a specified period of time only.

Life insurance could prove to be the most important financial product that you ever buy.

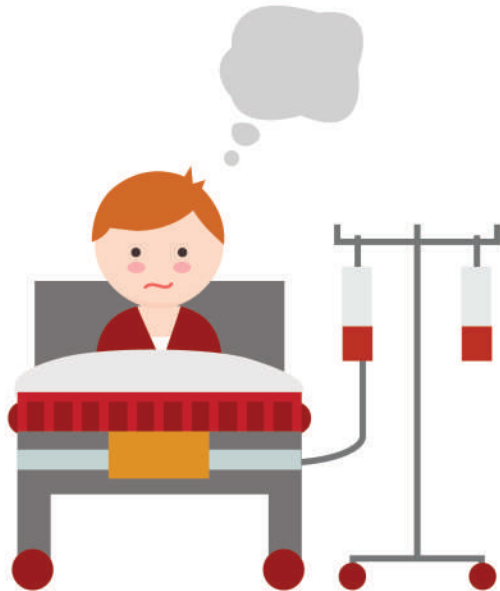
You may not realise this as yet, but when you pass away you still have dependents, and them being able to claim on a life insurance policy could mean the difference between your loved ones struggling to make ends meet, and them being financially secure.

Despite this, many in the GCC region simply don't have any life protection cover in place - which is sometimes hard to understand when you think of how vulnerable we all are to accidents and serious ill-health in the region.



It is not so easy to consider purchasing life protection. Thinking about our own demise or the death of a spouse can be very difficult.

But just take a moment to think, "Who would provide for my family if I were not around for them tomorrow", and the then importance of having life insurance protection becomes crystal clear.



Purchasing Life protection today is the smartest move you can make to be sure that your loved ones will always be protected, even if you are not there to take care of them.

Glossary

Accidental Death Benefit	life insurance that pays a benefit to the beneficiary should death be due to an accident.
Beneficiary	the person or entity named to receive the death benefit.
Claim	A request for payment of the benefit of an insurance policy made by the policyholder or beneficiary.
Death benefit	The amount of money to be paid to a beneficiary when the insured dies.
Insurance Contract	Coverage by contract whereby one party indemnifies another against a specified type of loss.
Lump Sum Payment	A single payment - either payment for the total amount due to the beneficiary or a single premium paid to fully fund an insurance policy.

whenever that may be. In essence a retirement plan is a medium to long term insured savings plan. Once you have worked out when you wish to finally retire from all employment you work back and start putting aside each month an amount of money to save and invest for the long term.

Once you reach your plan retirement date, e.g. 60 or 65 you can decide how you wish to take your plan proceeds, either as a lump sum to enjoy for that special lifetime trip or purchase that special gift you always promised yourself, or take an income from your capital to make it last for a number of years, the choice is up to you.

One of the main benefits of using an insured retirement savings plan, is that you can add protection benefits to your plan so that if anything were to happen to you before you reached your retirement, your spouse and children would benefit from this

But it's also not hard to see why so many of us put it off. After all, most of us have enough money worries in our everyday lives without also having to think about what will happen in the event of our death.

However, if you don't consider what your dependents would do without your income, you could end up leaving them financially burdened at what is already likely to be a very stressful and emotional time.

There are several different kinds of life insurance policies to choose from, so it's important to understand exactly what's available before buying. This is what this Guide is aimed to do for you. Here we explain how various kinds of insurance plans work, so you can decide which policy might be right for you.



Term Insurance

A Term insurance policy does exactly what it says, it provides you with valuable protection cover for a set number of years, and pays out should you the policy holder die within the term of the policy.

Most policies run for between 10 to 25 years, but you can specify how long or short you want the term to be. If you die during the term, the policy will pay out the agreed amount of cover, which is known as the 'sum assured.' Some policies will also pay out if you are diagnosed with a terminal illness.

There are of course different types of Term Insurances which can be more suitable for you and your family's needs.

There are normally two main kinds of term insurance policies.

The simplest form is level term insurance, the amount of cover – the 'sum assured' – is the same in the final year of your policy as it is in the first.

We all look forward to enjoy our retirement years in later life. We may have worked for the same company for all of our working lives, or we may have run our own business, but at some stage it will be time to take a step back from work or hand over the business to your children and start to enjoy your retirement years.

If we have worked for a company, you can look forward to a retirement salary from GOSI, the amount that you will actually receive will be based on the number of years that you had contributed to GOSI and based on your last average salary. If you have been running your own business you will need to make your own arrangements, either the sale or part sale of your business, or rely on some rental income.

Either way, you may need a personal retirement plan to supplement your income,

Retirement PLANS

Retirement is expensive. Experts estimate that you will need at least 70 percent of your preretirement income – lower earners, 90 percent or more – to maintain your standard of living when you stop working. Take charge of your financial future. The key to a secure retirement is to plan ahead.



If you have decreasing term insurance, the potential pay-out will reduce over the term. This sort of cover is often taken out by people when they purchase their home and have a mortgage to pay. The sum assured reduces year by year as you make repayments to your loan. The cost is less than that of level term cover.



Home Mortgage providers will often try to encourage you to take life cover at the same time you apply for your mortgage, but remember that you are always free to get quotes from other insurance providers before buying to ensure you find the best possible deal for yourself.

What other types of life insurance are there?

Although term insurance is a cost effective way of providing cover for your family over a specified term, there are other types of cover which can provide financial protection for your dependents should the worst happen.

Family Income Benefit

If you consider that standard term insurance pays out a lump sum – all very welcome in a time of financial crisis. But it also brings with it decisions about how the money should be managed once immediate debts and other obligations have been settled.

You may prefer for your family and dependents to receive a regular income after your demise, in which case a family income benefit policy could be worth considering.

This sort of policy will provide your dependents with a monthly income which will be paid until the end of

for your child to attend university even if you are no longer there to save for their future.

Education plans are simply term related savings contracts which coincide to encash during the year that you intend your son or daughter to enter University. Normally you may have an idea of where and when your child will attend further education. International Universities can offer better prospects for your children's future; however the cost of sending your child to an international university can be daunting.

Once you have worked out the cost of the University Fees and factored in some living costs as well, we can work backwards to determine a rate of monthly savings that have to be maintained into an insurance savings plan to then be available for you to use at the time your child goes to university, which may be 10 – 15 years in the future.

The benefit of having an insured education plan is that should anything happen to you from now to the date that your child starts university, valuable insurance benefits can be paid out in the event of death or disability, so that the funds are still available

the agreed policy term. You can even opt to have the payment increase over the term to mimic would-be pay rises and increases in the cost of living.

The biggest disadvantage of this type of cover is that, once the policy term finishes, the income will stop. For example, if you take out a 25-year policy, but die two years before this policy expires, your dependents will only receive an income for the final two years.

Education PLANS

An example on how much life insurance cover you will need for your family:

Lump Sum Need	Amount in BHD	Life Cover in BHD
Final Expenses - Funeral/Repatriation	5,000	
Outstanding Debts (Car Loan, Consumer Loan etc.)	+ 12,000	
Home Loan Mortgage	+ 90,000	
Children's University Funding	+ 20,000	
Total Capital Sum Need		127,000
Income Need		
Annual Income to be provided	10,000	
Number of years to provide income for family	20 years	
Estimated Rate of Inflation	3% p.a.	
Net Investment Yield	5% p.a.	
Calculation & Results		
Income Need expressed as Lump Sum		167,000
Other Capital Needs		127,000
Total Capital Need		294,000
Less existing life insurance		- 90,000
You need additional for life insurance		204,000

We all want our children to have good prospects, which is why education fee planning is a vital wealth management matter that shouldn't be overlooked. There really are very few things that are more important than making sure that they have a bright and happy future ahead of them. Organizing your financial planning to take education fees into account is even more crucial.

A quality education will open many doors for your children, offering important benefits such as:

- Enhanced study opportunities
- Enhanced career opportunities
- Better teaching/learning resources
- Increased extra-curricular opportunities
- Increased self-esteem

Education PLANS

It is important to start planning for your child's education as soon as possible, because the earlier you begin, the more time you allow your money to grow.



What does life insurance cost?

The cost of life insurance has fallen over the past few years, so putting in place cover for you and the family should not affect the family budget.

Normally, in the Middle East, women could expect to pay lower premiums than men for life cover, as they have a longer life expectancy. This is not the case in some parts of the world (eg European Union), where legislation has introduced gender neutral pricing. There are other factors to also consider.

Insurers will look at your age, health and occupation. For example, if your work is very physical or dangerous, premiums will be higher than if you sit behind a desk all day.

Similarly, if you have always been in the peak of health, your premiums will be much lower than if you have suffered from a serious medical condition at any point, as your life expectancy will be considered longer.

You will also pay less for cover if you are a non-smoker. However, don't assume you can kick the

habit and then take out cover as a non-smoker. You will need to have given up nicotine products, including e-cigarettes, for at least 12 months, and not be using any nicotine replacement products to qualify as a non-smoker. If you already have life cover in place and stop smoking, let your insurer know, as they might be able to reduce your premiums.

Example Cost

Protection Benefit of BD 200,000

Non Smoker	Male Aged 30 BD 23 per month Term 25 years	Male Aged 45 BD 58 per month Terms 20 years
Smoker	Male Aged 30 BD 30 per month Term 25 years	Male Aged 45 BD 102 per month Term 20 years

More and more attention is now being paid to our lifestyles and family history. If we love our fast food and ignore regular exercise, then we are certain to be on the road to Diabetes, or at least pre-diabetes and Obesity.

But remember that there is normally only one payout. So, if you claim for a critical illness, you would not receive a further payout on death.

Remember to always make sure you answer all the questions in detail, paying particular attention to the medical questions. Insurers sometimes refuse claims because the policy-holder failed to disclose all relevant health information.

Although all critical illness policies will cover a range of core conditions, some are more comprehensive than others. For example, the average policy typically pays out for 10 to 20 illnesses.

Normally Critical illness policies stop providing cover if you stop paying the premiums. You should therefore be certain that you can afford the insurance at the outset.

There is no cash-in value to critical illness cover, so you don't get any money back if you survive to the end of the term or stop the policy part-way through.

Premiums for critical illness cover depend largely on the likelihood of a claim. So, the older and more unhealthy the applicant, the higher the premium.

You can often bring down the cost of cover by adopting a healthier lifestyle, for example, by losing weight or quitting smoking.

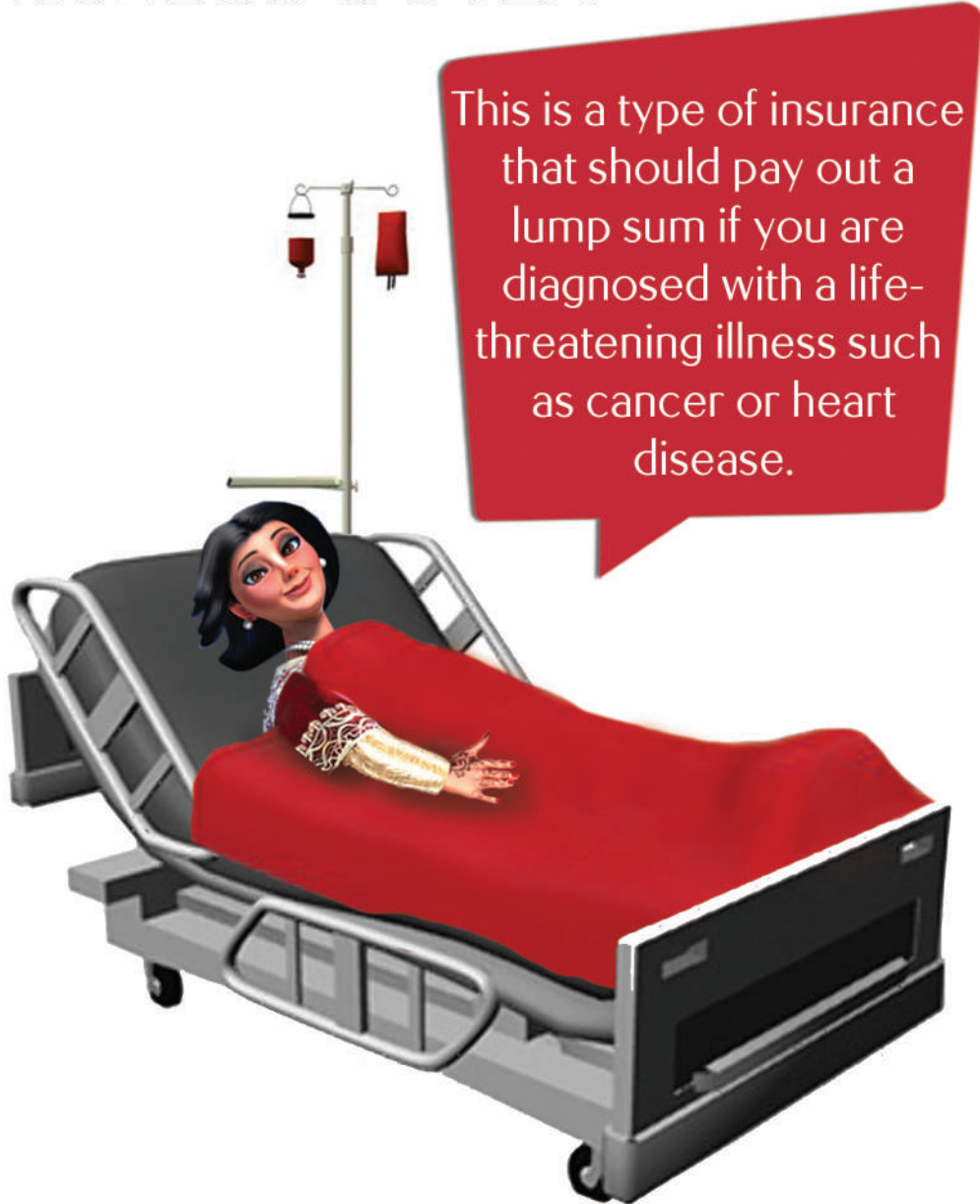
Critical illness cover is also usually cheaper if you buy it alongside life insurance. In fact, some insurers do not even sell standalone critical illness cover.

My advice to you is that honesty is the best policy. Don't be tempted to be economical with the truth when applying for life cover in a bid to reduce the cost of your premiums.

If, for example, you have been seriously ill in the past, or are currently receiving medical treatment, or you are a smoker, you should declare this when applying.

Even though your premiums maybe higher, if you aren't transparent and your insurer discovers after your death that you didn't tell the truth, your policy will be invalidated and won't pay out.

Critical ILLNESS COVER



This is a type of insurance that should pay out a lump sum if you are diagnosed with a life-threatening illness such as cancer or heart disease.

Critical ILLNESS COVER

What is Critical Illness Cover? Can I insure against falling critically ill?

Many people opt to take out critical illness insurance at the same time they take out life cover.

Critical illness cover pays out a lump sum in the event you are diagnosed with a serious illness such as cancer, stroke or heart attack or if you are permanently incapacitated following an accident.

You can use the pay-out for whatever you want, perhaps to pay off any loans, or to cover the cost of private medical treatment, refurbish and adapt your house, or pay for a convalescent holiday.

In other words, you don't have to account for how the money is spent.

According to statistics, prior to age 65, the chances of suffering a serious illness at some stage in their life are: -

For Men:	1 in 4 non-smokers	1 in 2 smokers
For Women:	1 in 5 non-smokers	1 in 3 smokers