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READER'S CORNER : LIFE INSURANCE

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Can you help me understand the taxation of unit-linked insurance plans (Ulip)?
A unit-linked insurance plan (Ulip) is an investment-cum-protection product. Premium paid for a Ulip policy is eligible for tax deduction under Section 80C of the Income-Tax Act, 1961, subject to fulfilment of the following condition: The premium paid should not exceed 10 per cent of the sum assured during the policy term. Further, the tax deduction is restricted to ₹1.5 lakh, as permissible under Section 80C. Ulip also offers tax benefits on withdrawal. In case of death of the policyholder, the death benefit paid is tax-free. At the time of maturity of the policy, or in case of partial withdrawal, the benefit is tax-free under Section 10(10D).

I am 35, a non-smoker and in excellent health. My advisor is, however, asking me to purchase a critical illness policy. Is it advisable?
There are many other factors that can affect one's health adversely, like pollution, lifestyle, eating habits, quality of food, and so on. These may also lead to critical illness. Keeping in view the occurrence of such diseases and the spiralling cost of their treatment, it is prudent for one to opt for a critical illness policy. Such a cover will help you by not only providing funds for timely treatment of the illness, as many of such diseases are curable, but will also assist in keeping you and your family's financial responsibilities, goals and dreams shielded even when you are unable to earn.

I am 29 and have just got married. How do I calculate my life insurance needs?
The primary objective of a life insurance plan is to protect you and your family's life, dreams and goals. It eliminates the financial burden that falls on the family due to the untimely death of the earning member by acting as an income replacement tool. It can also work as an alternative savings tool. You should first evaluate your annual income, savings and investments, medical condition, lifestyle and future financial requirements to opt for the appropriate policy and adequate sum assured. The rule of thumb says that an individual requires a cover that is 10 to 15 times his annual income. You can also opt for a plan with an increasing sum assured that will boost your insurance cover every year by a certain percentage and make sure that your policy always remains relevant, providing complete financial protection to you and your family at any given moment.

Is claim settlement ratio a good parameter for judging a life insurance company? Are there other parameters one should look at when shortlisting insurers?
Claim settlement ratio is certainly one of the critical parameters for judging a life insurance company, as it reflects how the company will fare at the moment of truth and when the policyholder needs it the most. Besides claim settlement ratio, one should also evaluate products, their features, and the reputation and brand of the insurer before short-listing the appropriate one.

How are proceeds from pension plans taxed?
Pension policies are also known as retirement planning policies. The premiums paid for a pension policy are eligible for tax deduction under Section 80CCC, subject to maximum deduction of ₹1.5 lakh. This threshold is cumulative for sections 80C and 80CCC. Pension policies also offer tax benefits on withdrawal. On maturity of the plan, the commuted amount (one-third of the entire corpus) received from the specified pension fund is exempt from tax as per Section 10(10A). The un-commuted portion (two-thirds of the corpus amount) which is received by way of annuity is taxable. In case of surrender of the policy the amount received is taxable.

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