Introduction

It is very important to invest in a long-term financial plan while you are still young and employed or self-employed. Long-term insurance covers life-changing events such as death, retirement and disability. It is called long-term because you have to pay monthly premiums over a long period of time until you pass away or until your policy becomes payable at a pre-determined date.

Buying long-term insurance is one way of saving for your old age to assist you with financial security in retirement. It also helps you to provide for your dependants upon your death or if you become disabled. Some long-term insurance policies ensure that a specified amount of money will be available for settling your debt (e.g. housing bond) after your death.

You must shop around when you are looking to buy insurance. Talk to different licensed financial services providers (FSP) before you choose the financial product that will best suit your needs. You should also check with the FSP to make sure that the FSP is registered with the FSCA.

Let's look at some of the long-term insurance products that you might want to include in your investment portfolio.

Note: Long-term insurance is also known as Life insurance.

1. Long-term insurance products

Long-term insurance policies include

- Endowment policy

- Health policies

- Life cover
  - Whole life cover
  - Universal life cover
  - Term insurance

- Disability cover
  - Capital disability cover
  - Income protector disability cover

Note: the income protector insurance covers life, death and disability.

- Funeral insurance

1.1 Endowment policy

An endowment policy is an investment product that you buy from a life assurance company. It is set up as a regular savings plan and at the end of a set period (usually a minimum of five years) pays out a lump sum.

This is a long-term 'forced savings' product used for investment purposes. Many people use this type of investment to save for their children's education.

How you will benefit?	Endowments promise a, guaranteed return on a specific date provided that you make the required payment Higher returns earned than on bank deposits The minimum period for the investment is 5 years You can stop your monthly payments temporarily if you are short of money, borrow against it, or offer the policy to a bank as security for a loan
Who can help you with this?	An endowment policy is an investment product that you buy from a life assurance company or through your authorised financial advisor.
Investment amounts	A small monthly amount or a large lump sum can be invested. If you add life cover to the policy, it acts as a life insurance product with a life assured and beneficiary, but will only accumulate the investment amounts paid by you plus the growth.
The risk factors	This is a low-risk investment - remember that low risk usually means low returns. Your investment is locked in for a minimum of 5 years and cannot be accessed without penalties.
What are the tax implications?	Your investment is subject to policyholder tax and is taxed before investment.

Note: Life assured is the person whose life has been covered by a life assurance policy. For example if you insure your life, then when you pass away the money will be paid out to the person you nominate in your policy, for example, your partner.

Note: The beneficiary of a life policy is the person who has been nominated by the policyholder to receive the life insurance money when they pass away.

1.2 Health policy

A health policy is a type of insurance policy that pays out a benefit when a specific health event occurs, which is covered by the policy. The benefit could either be a fixed sum of money per day, or maximum lump sum of money which is paid if a specific health event takes place (e.g. a specific health condition develops). This is different to a medical aid scheme that typically covers your medical expenses, or covers the cost of a specific medical procedure. Health cover pays out a benefit every time you suffer from a health event covered by the policy. The money you receive as part of this benefit is not to cover medical costs but rather to assist you in covering incidental costs and things like loss of income because you are in hospital and cannot work.

Medical aid vs. health policies

In contrast to health policies, a medical aid must cover prescribed minimum benefits, and, rather than covering specific events, they have specified yearly limits on events.
Medical aids also pay in-hospital benefits, which may fall short due to the discrepancy between the rates of the hospital and the scheme cover. This is one of the primary reasons that people choose to supplement their medical aid with medical insurance.

1.3 Life cover

Life cover is split into three categories:

- Whole life cover
- Universal life cover
- Term insurance

1.3.1. Whole life cover

Whole life cover is an ordinary life cover, which is valid until you pass away or surrender the policy. It covers you against the risk of death. This policy is ideal for a person who wants to leave a fixed amount of money behind after death, for example, to pay up a home loan. It is the least expensive form of life cover. The monthly premiums are invested by the insurance company.

1.3.2. Universal life cover

Universal life cover is similar to whole life cover but has an investment component. The return-on-investment portion depends on the nature of the investment. It does not guarantee a fixed rate of growth because it is influenced by the investment performance. However, the chance of rapid growth makes it a popular choice. You must be aware of the levels of risk in any investment product as well as your own risk tolerance.

1.3.3. Term insurance

Term or fixed insurance is ideal if you need to provide life cover for a set period of time for example, while paying off a bond on your house. It is not expensive, and you can easily add benefits to it, such as a lump sum for disability. After the agreed period of time, the cover simply stops. As it is a risk product, you should be aware that values could go up and down.

Note: Cash surrender value is the amount of money a person will receive when he/she chooses to end a policy and take the proceeds allocated under the insurance contract.

1.4 Disability cover

You could lose the use of your hands or legs, or suffer from chronic illness, forcing you to stop working. Disability cover is usually added to life cover, but can also be bought separately. There are mainly two kinds of disability cover:

- Capital disability cover
- Income protector disability cover

1.4.1. Capital disability cover

Capital (or lump sum) disability cover can be added to life insurance. However, it can't be greater than the amount of life cover on the policy. You will only be paid out once you provide proof that the disability is permanent. It can also be added to your endowment policy.

1.4.2. Income protector disability cover

The cover provides a monthly income, with or without yearly increases as stated in the policy. It can replace a portion of your salary until you recover or pass away, or the policy matures, whichever comes first if you are permanently or temporarily disabled.

Note: Policy matures is when a policy reaches the end of its term and becomes payable.

1.5 Funeral insurance

Someone for whom you are responsible may pass away, and you will need money for a funeral. Funeral insurance provides you with cash for a funeral or benefits in the form of a funeral. This gives you peace of mind knowing that your loved ones will have the financial means to bury you one day. The cover can be extended for immediate and extended family.

You pay a monthly premium, and you may receive a lump sum or a benefit that could be in the form of a funeral. As the policyholder, you can ask for the benefits to be paid in cash rather than as a funeral.