

WHAT IS AN INVESTMENT-LINKED INSURANCE POLICY?



An investment-linked insurance policy (ILP) comprises both a life insurance and an investment component, offering policyholders the potential for growth in their investments alongside the assurance of insurance protection.

The performance of an ILP is based on investment-linked policy sub-funds, which pool together the premiums paid by policyholders to invest in a diverse portfolio of assets.

ILPs can be broadly classified into two categories:

- Single premium ILPs where premium is payable in one lump sum to purchase units in a sub-fund
- Regular premium ILPs where premiums are payable on a regular basis, such as quarterly, half-yearly or annually

WHAT KEY FACTORS SHOULD I CONSIDER BEFORE PURCHASING AN INVESTMENT-LINKED INSURANCE POLICY?



Purpose

Define your objective for buying an ILP: investment growth, insurance coverage, or both. If you are focusing on one, compare against other investment instruments or insurance products.



Insurance Protection vs Investment

ILPs vary in terms of investment and insurance coverage. Higher coverage requires more units, leaving less units to be invested.



Risk Profile

Your risk profile varies depending on your financial situation and investment objectives. Assess your risk tolerance and be prepared that the cash value of your policy will fluctuate according to the sub-fund(s)' performance.



Choice of Sub-Funds

Sub-funds differ in asset class, geography, and industry exposure. Select sub-funds that align with your risk profile and investment objectives.



Time Horizon

ILPs are long-term insurance policies with potentially significant changes in the early years, meaning a longer time horizon is important when investing in them.



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WHAT ARE THE BENEFITS AND RISKS OF PURCHASING INVESTMENT-LINKED INSURANCE POLICIES?



Flexibility & potential returns

An ILP offers flexibility by allowing you to top up premiums, make withdrawals, switch sub-funds, adjust insurance coverage, take premium holidays, and potentially earn higher long-term returns from the growth of your units.



Choice of sub-funds

ILPs allow you to choose from a range of sub-funds, and it is important to select and switch to those that align with your financial goals and risk profile.



Diversification

ILP sub-funds provide access to different portfolios that can help diversify your investments, though the level of diversification may vary depending on the fund size, asset mix, and market conditions.

BENEFITS

RISKS



Variable charges

Insurers may increase coverage charges within policy limits if there is a sustained rise in claims, which would apply to all policies within the same class, and certain policy changes (such as activating premium holidays) may incur additional charges.



Non-guaranteed investment returns:

The performance of the sub-funds is not guaranteed, and the value of units may rise or fall. Past performance is not indicative of future performance, and ILPs typically do not offer guaranteed cash values.



Insufficient units for insurance coverage charges

As health risks increase with age, insurance charges typically rise, and if combined with high coverage and poorly performing sub-funds, you may need to top up premiums or reduce coverage to sustain the policy.

CONCLUSION

Investing in an ILP requires careful evaluation of your risk profile, age, financial commitment, and a good understanding of how ILPs work. Be aware that ILPs are generally regarded as long-term insurance policies, and a longer time horizon is particularly important as there are usually significant changes in early policy years. Exercise caution and seek professional advice before making a purchase decision.