

Are Modern ILPs Worth Your Time?

Description

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Traditional ILPs were used to be popular in an era where consumers flocked to hybrid policies that provided both insurance protection and investment returns. However, the cost also meant that customers saw their premiums increasingly get eroded by insurance charges as they got older, with less left for investment. Today, to appeal to the younger generation, many insurers have introduced pure-investment ILPs, with no (or minimal) insurance charges. But are these really worth your time?



The problem with older ILPs

Traditional ILPs were launched as a hybrid policy providing both insurance protection and investment returns, in response to an era where consumers valued 2-in-1 or even 3-in-1 solutions.

However, what was less known was the technical details of how those ILPs were designed to work i.e. your premiums are used to buy into units of sub-funds (investment funds), and then sold to fund the cost of your insurance charges, which naturally go up as you get older.

This structure (which you can check in the fees and allocation table of your policy) meant that for consumers, their premiums got increasingly eroded by charges over time, with less left for investment.

As a result, even for loyal consumers who stuck to the plan for an extended number of years, they started to see their costs go up due to rising mortality charges, to the point where their investment units would soon no longer be enough to pay for the cost of maintaining their protection.

Tough.

Have modern ILPs improved?

Today, we know better. In response to all the discussions surrounding traditional ILPs, many insurers have also kept up with the times and have now introduced **pure-investment ILPs**, with the following improved features:

- 100% of your premiums get invested from Day 1
- No (or minimal) insurance charges
- Welcome bonuses and loyalty bonuses to reward you for staying loyal to the plan over the years

These essentially addressed what consumers didnâ??t like about traditional ILPs:

- Premiums go towards paying for sales charges *first* (front-loaded)
- Less premiums get invested from Day 1 (consumer doesnâ??t get the full effect of compounding)
- Rising insurance charges with age

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What hasnâ??t changed is the cost; obviously, investing your money through an ILP will cost more than if you DIY.

Just like how ordering a birthday cake from an established baker will cost you more than if you bake your own cake.

Hence, if you *do* decide to go with an ILP, you should not be comparing with the costs of DIY, but rather, evaluate the trade-offs and determine if they make sense for your profile.

Hereâ??s an example, using AIA Pro Achiever 3.0 to illustrate:

Important disclaimer: this is merely a general illustration and NOT financial advice.

Using an ILP to ensure you donâ??t veer off-course

Letâ??s imagine Jack, who is a dad of 2 and wants to invest for both his retirement as well as his childrenâ??s futures. He has $50,000 in liquid savings that he wants to grow, but isnâ??t sure of where he should put it in. He tried investing during the pandemic, but is uncertain if he wants to do it himself for the long-term, especially as many of the stocks he was influenced to buy back then (Tesla, Palantir, Roku) are very much in the red.

He meets up with his Financial Services Consultant who then recommends AIA Pro Achiever 3.0 to him, and he likes the idea that he can use the plan to achieve the following investment objectives:

- **100% of his premiums get invested from Day 1**
- He can **choose his own investment duration with Initial Investment Periods (IIP) (10/15/20 years)[1] to â??forceâ?• him into staying committed to the investment plan**, so that he does not â??chicken outâ?• of the market even during bad or emotional times

- **Free fund switching** so that if his risk appetite changes, he will not incur any transaction fees in changing his investment portfolio
- **Supplementary Charges are only for the first 10 years**
- For every 5 years of premiums paid, he gets 1 **premium pass** (option to take a break from paying premiums for up to 12 months, with no charges unlike a premium holiday)
- **High welcome bonus[2]** of up to 75% (53% if he can afford to invest $1,000 a month, for IIP of 10 years)
- Aside from top-ups, customers also can continue to pay regular premiums (beyond the initial investment period) and earn Special Bonuses[3] of up to 8% of regular premiums

The Welcome Bonus rates will be based on the applicable table as follows:

IIP 10:

Number of Regular Premiums paid to and accepted by us				Welcome Bonus Rate (Based on Annualised Regular Premiums)			
Annual	Semi-Annual	Quarterly	Monthly	$2,400 - $4,799	$4,800 - $7,199	$7,200 - $11,999	≥ 12,000
1st	1st – 2nd	1st – 4th	1st – 12th	5%	5%	10%	15%
2nd	3rd – 4th	5th – 8th	13th – 24th	-	8%	13%	18%
3rd	5th – 6th	9th – 12th	25th – 36th	-	10%	15%	20%
Total				5%	23%	38%	53%

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IIP 15:

Number of Regular Premiums paid to and accepted by us				Welcome Bonus Rate (Based on Annualised Regular Premiums)			
Annual	Semi-Annual	Quarterly	Monthly	$2,400 - $4,799	$4,800 - $7,199	$7,200 - $11,999	≥ 12,000
1st	1st – 2nd	1st – 4th	1st – 12th	8%	8%	13%	18%
2nd	3rd – 4th	5th – 8th	13th – 24th	-	11%	16%	21%
3rd	5th – 6th	9th – 12th	25th – 36th	-	14%	19%	24%
Total				8%	33%	48%	63%

IIP 20:

Number of Regular Premiums paid to and accepted by us				Welcome Bonus Rate (Based on Annualised Regular Premiums)			
Annual	Semi-Annual	Quarterly	Monthly	$2,400 - $4,799	$4,800 - $7,199	$7,200 - $11,999	≥ 12,000
1st	1st – 2nd	1st – 4th	1st – 12th	10%	10%	15%	20%
2nd	3rd – 4th	5th – 8th	13th – 24th	-	15%	20%	25%
3rd	5th – 6th	9th – 12th	25th – 36th	-	20%	25%	30%
Total				10%	45%	60%	75%

Source: AIA Pro Achiever 3.0 Product Summary

Of course, he also takes note of **the following trade-offs**:

- If he wants to invest more than what he initially committed to, there will be a **5% sales charge (on ad-hoc top-ups)**
- If he buys this plan, he needs to ensure he is committed to it and does **not cancel it halfway** through, otherwise he will incur hefty penalty charges

While heâ??s not a fan of the lock-up period, he likes how the illiquidity will ensure he stays on track to his long-term investment goals, especially as he worries that he will panic and sell his liquid investments again at the first sign of trouble (like what he did with Tesla).

AIA Pro Achiever 3.0 vs. DIY

Assumptions:
AIA Annual Premium $12k, Elite Adventurous Fund (FMC 1.45%) + SC 3.9% (first 10 years), IIRR 8%
vs.
Annual Investment Capital $12k, High-Risk Portfolio (1% perpetual charge), IIRR 8%

End of Policy Year	IIP 10 year	DIY Platform
1st year	$12,000	0%

> For an investor deciding between whether to commit to a long-term ILP like AIA Pro Achiever 3.0 or to DIY through self-selection of funds on a platform, note how while the DIY method may win in the short-run, but if the platform youâ??re on continues to charge 1% for perpetuity, this will inevitably start to eat into your returns over time, especially as oneâ??s portfolio grows bigger. Most fund platforms typically charge between 1% â?? 3%, and if youâ??re investing via a wrapped account, the fees will be higher.

Jack decides to take some time to mull over it, and calls his savvy DIY investor friend out for a cup of coffee, who then tells him this:

- *â??ILPs have higher costs, youâ??d be better off DIY-ing! Come, I teach you.â?•*

Unfortunately, after spending a week with his investor friend trying to learn how to DIY, **Jack starts to struggle because he realizes that he has absolutely no passion to study businesses** or keep up with their news, and that **he is too emotional for his own good** *(he recalls buying Tesla at $300 in 2021 when Youtubers were talking about it, and then selling it off at $120 in December 2022 after hearing that its CEO Elon Musk cashed out over $3.6 billion of the stock, only to regret it now that Tesla has rebounded back to $200)*. Deep down, Jack also feels that **heâ??d be better off focusing on his career** to earn money, where he has been steadily climbing the corporate ladder and is poised to get promoted to Director in a couple of years.

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Jack makes his decision: he will commit to investing $1,000 a month into AIA Pro Achiever 3.0 with IIP of 10 years, and try to DIY the rest by himself.

To make sure he will never be caught in a situation where he has no choice but to cancel his policy (since there are penalty charges at stake)**, Jack decides to set aside $24,000 into short-term fixed income options**, switching between MAS T-bills, Singapore Savings Bonds, cash management products and fixed income deposits so he retains liquidity.

With the Premium Pass[4] feature that allows him to pause the policy (without incurring charges) if he ever needs to, Jack figures that even in the worst-case scenario (although he doubts he will ever be unemployed for more than 2 years) he decided to play it safe since there are penalty charges at stake once he takes up this policy.

Premium Pass

While this basic policy is in force, you will be entitled to one Premium Pass a annual / 20th quarterly / 60th monthly regular premium has been paid, subject to t Passes applicable for each IIP option.

The maximum number of Premium Passes will vary based on the IIP options a

IIP Option	Maximum number of Pre
IIP 10	1 Premium Pa
IIP 15	2 Premium Pa
IIP 20	3 Premium Pa

Each Premium Pass may be activated more than once, subject to the maximur months for use of the Premium Pass. If the policy is entitled to more than one Passes may be used consecutively.

During the Premium Pass Period, Premium Holiday Charge and Supplementa

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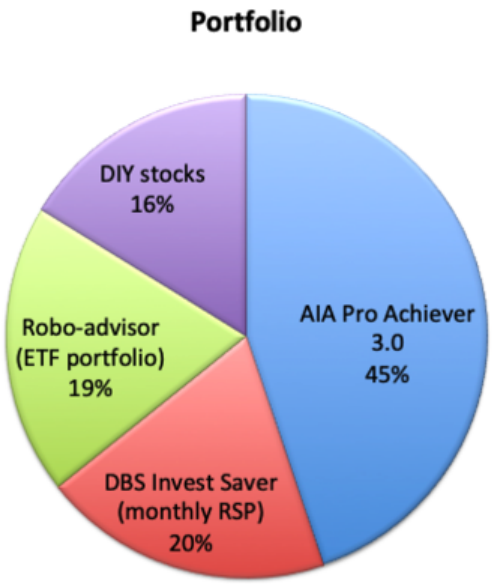
Source: AIA Pro Achiever 3.0 Product Summary

With his remaining funds, he decides to set up 2 investment accounts:

- $500 monthly into a Regular Savings Plan for unit trusts (at 0.82% sales charge monthly)
- $500 monthly into a robo-advisor for ETFs (0.65% p.a. management fee per annum)
- $5,000 to kickstart his stocks portfolio
- $6,000 to keep as cash



A year later, Jack has decided that this combination works for him best as it gives him enough room to DIY some investments without too much stress, while concurrently building his career (where he has just gotten a promotion, hooray!).

Although his investor friend boasts of how heâ??s able to pay less than 1% in fees, Jack feels the charges he pays to AIA for his ILP is worth the trade-off, especially since the fees cease after the first 10 years vs. his other friends who are being charged 1% platform fees perpetually on their portfolio.

The best thing he likes is that after 10 years (his chosen investment period), he gets to decide whether he wants to continue paying premiums or to stop and let the policy roll. At the same time, he will have the liquidity by then to withdraw as and when he likes.

Of course, Jack is an imaginary character, but I hope it gives you an idea of how you might be able to tweak or come up with your own as well.

When is an ILP unsuitable?

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Obviously, for Jackâ??s good friend who is a skilled and disciplined DIY investor who does not bail at the first sign of market volatility, a plan like this may not work for him.

Neither would it be suitable for those who have commitment issues, or those who will be the first to cancel their insurance policies during financial hardship.

It is also not suitable for folks whose ultimate objective is to go for low-cost, because there are always higher fees when you outsource something instead of DIY.

Conclusion

If youâ??re tempted into buying an ILP, the key questions you should first ask yourself are:

- What will you do with the funds if youâ??re not investing it into an ILP?
- Will you, and can you, DIY?
- If not, are you *willing* to learn how to DIY investing?
- Are you confident of investing for your own returns if you go for lower-cost options?

Your own answers to the above questions should give you a good idea of what financial tools will be suitable for you to deploy in your own investment portfolio.

And if youâ??ve considered all these factors and decided that DIY investing would be better for you instead, then Iâ??ll point you to these useful resources here to help you up your investing skills.

Of course, AIA Pro Achiever 3.0 is not the only ILP in the market, but with the higher welcome bonuses and allowing for a premium pass (instead of a premium holiday), you can explore it further to see **if itâ??ll be suitable for you â?? and weigh its pros and cons** like how Jack evaluated it for himself.

Disclosure: This article is sponsored, and has been fact-checked, by AIA to ensure product accuracy. While Jack is an imaginary character, he is inspired by the conversations Iâ??ve had with readers who

told me why they decided to buy an ILP after attempting to DIY by themselves during the pandemic, so I hope this article helps to cover the different considerations you should bear in mind before committing to one.

For detailed product terms and conditions, please head over to AIAâ??s website here.

Notes on AIA Pro Achiever 3.0:

1 The plan offers IIP options of 10, 15 or 20 years. During the IIP, certain charges may apply, such as

2 Welcome Bonus on your regular premium will be payable for the 1st, 2nd, and 3rd annual premium receive

3 Special Bonus of 5% of regular premium will be payable for the 10th - 20th annual premium received, an onwards.

4 You will be entitled to one premium pass after every 5th annual regular premium has been paid, subject

Important Disclaimer:

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This insurance plan is underwritten by AIA Singapore Private Limited (Reg. No. 201106386R) (â??AIAâ?•). All insurance applications are subject to AIAâ??s underwriting and acceptance.

This is not a contract of insurance. The precise terms and conditions of this plan, including exclusions whereby the benefits

AIA Pro Achiever 3.0 is a regular premium Investment-linked Plan (ILP) offered by AIA. Investments in this plan are subject t

The actual policy value will depend on the actual performance of the policy as well as any alterations such as variation in t

You should seek advice from a qualified advisor and read the product summary and product highlights sheet(s) before deciding

As buying a life insurance policy is a long-term commitment, an early termination of the policy usually involves high costs a

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The information is correct as at 25 February 2023.

Category

1. Investing