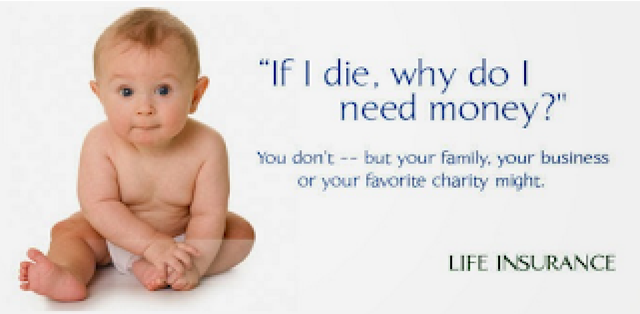
Prudential says majority of Singaporeans are under-insured – is that really true?

Description

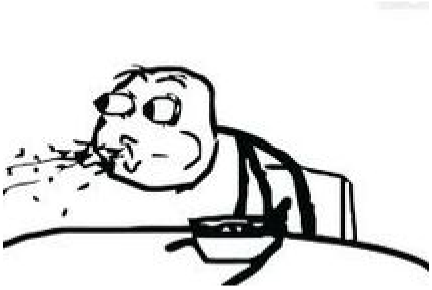


A survey on Singaporeans' life insurance was recently released by Prudential, which was covered by our mainstream media, with the headline suggesting that the majority of Singaporeans are at risk of not being adequately prepared to cope with the financial of life crises.

You might have seen the news article going around, but before you take the results of the survey at face value, let me first share my thoughts.

If you asked me, there were many elements of the survey results that seemed highly problematic. Here's my take on it.

Do I really need to increase my life insurance cover to keep pace with rising income levels? Budget Babe says no.



According to Prudential, they stated that 70% of Singaporeans did not do so, and that 85% were "potentially under-insured by industry standards".

Is setting aside 5 times of your annual earnings as emergency funds for unexpected personal and financial events really too little? According to Prudential, the answer is yes, saying that the aim should be 10 times of one's annual earnings as a basic life cover.

Let's examine the following 2 scenarios:
– Adam and Billy each earn $3000 a month as a fresh graduate i.e. $36,000 annually
– Once they reach your 30s, both have gotten promoted their pay has risen to $60,000 a year (or $5k a

month)
– In their 40s and 50s, they climb to the peak of their career and manage to hit $84,000 in annual wages, if not more.

Scenario 1:
Adam gets happy and has the habit of rewarding himself whenever he gets a pay raise or bonus. After he got promoted in his 30s, he held an extravagant wedding costing $60k, bought a condominium for his wife and himself to stay in, as well as a BMW as a status symbol to show the world that he was doing well in life. He also enjoys going on vacation at least twice a year to exotic countries such as Europe. Later on, his wife gives birth to 2 children, and Adam believes in giving the best that he possibly can, so he spends on quality tuition teachers and extra-curricular activities in order to groom their talents.

Adam does not have a habit of saving regularly, and therefore purchases life insurance to ensure that if anything were to happen to him, his wife and children will be taken care of financially. As a result, he finds himself often increasing the value of his life insurance cover to maintain this standard.

Scenario 2:
Billy has always been a frugal person, and started investing when he was in his late 20s. Despite his wage increments, he has always kept expenditures low, choosing to stay in a 3-room HDB flat and taking public transport whenever he can. His savings has grown from a mere 10% of his monthly pay to 60% as his salary increased. Similarly, with compounded interest and continuous capital injections into his portfolio of bonds and stocks, Billy boasts a value of $800,000 in his investment portfolio by the time he reaches his late 40s.

His monthly expenses average $2,500 and he gets a 4% dividend yield on his investment portfolio, which gives him $32,000 in a year (or $2667 monthly). At this rate, Billy can afford to stop working and have assurance that his investments can continue to cover his expenses for the rest of his life. He therefore does not see a need to increase his life insurance cover, since he has another financial tool to help him cope with life's financial needs.

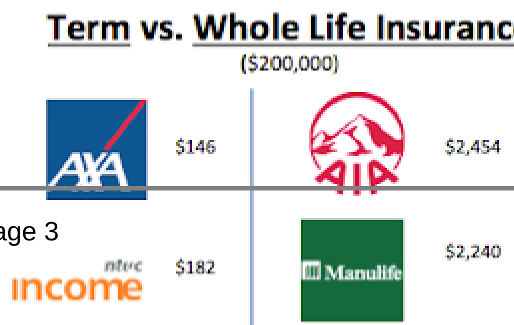
See the difference here?

If you're like Adam and you've increased your spending accordingly – including splurging on branded goods to keep up with the Joneses, travelling on exotic holidays more often, buying a big house or a car (which I've mentioned before could potentially cost you millions in the long-term)…then obviously you'll need a higher sum of emergency savings to keep up with your (inflated) lifestyle standards. In this case, you might need to take Prudential's advice at face value and increase your life insurance cover since that is the only financial tool you're relying on.

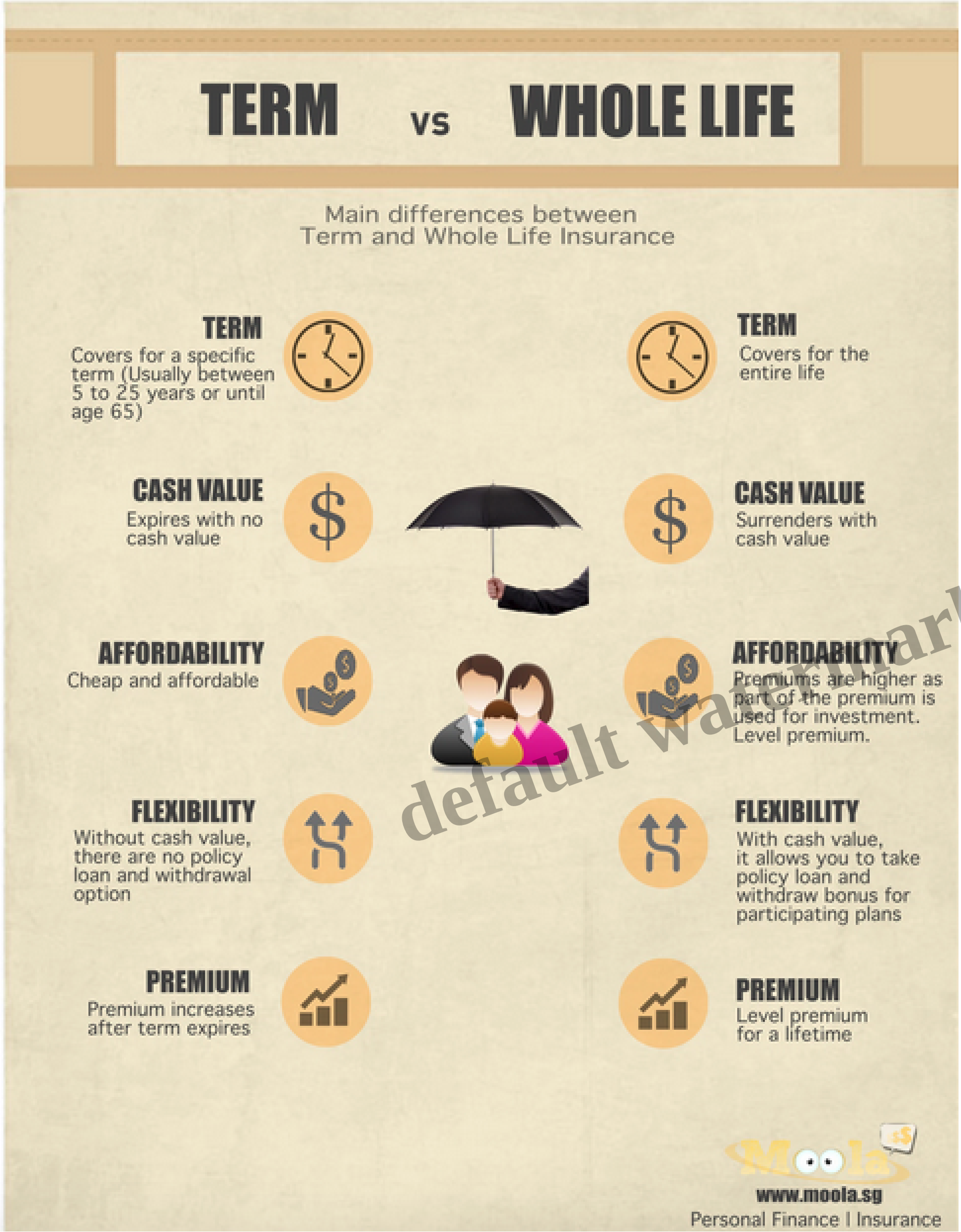
On the other hand, if you're more like Billy and **you've continued to live frugally while putting your income increments into other investment vehicles such as bonds or stocks, then over time, your money is actually GENERATING more money for you.** In such a case, there is hardly a need for you to chalk up greater emergency funds, much less increase your life insurance cover! (For reasons on what your emergency fund is for, click here.)

Prudential believes this "under-insured" situation can be attributed to a lack of awareness on the right level of financial protection needed during times of crisis. This could be true if one is to assume that spending increases exponentially in accordance to one's rise in wages, but remember that not everyone spends more just because they start to earn a little more.

Last but not least, remember that the poll merely surveyed 353 working adults – this is a small fraction of Singapore's numbers and are not definitely representative. As such, you probably shouldn't simply take the results at face value to extrapolate the findings to the rest of the Singapore population.



[I also prefer and advocate term insurance over life insurance – click on this link to find out why.]



Remember that ultimately, you need to be able to discern your own financial needs and act accordingly. Don't always take what the insurers tell you at face value – look at the obvious conflict of interest here!

With love,
Budget Babe

Category

1. Insurance