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Buying child insurance not an impulse decision by [Soloman]

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There is a bewildering range of choices available today in the child insurance plan market. There are terms bandied about â€“ triple benefits, premium waiver and guaranteed benefits, to name a few.

Financial planning doesnâ€™t come naturally to us and when we are bombarded with such jargons, our instinct is to procrastinate (which by the way comes naturally to us). So, what should parents do?

Well, letâ€™s start with what got them to evaluate child insurance plans. Firstly, there is this sense of responsibility that sets in with new parents about giving the best to their child. Next, there is stronger awareness of the escalating costs of primary education, professional courses and key life events like wedding. Lastly, possibly for the first time, parents start thinking about their own mortality and what would happen to the child in the event of an untimely death. These factors prompt parents to search for a financial vehicle that can address these needs.

Child insurance plans are designed to serve these needs and, if chosen well, are a solid long-term vehicle to manage a childâ€™s future. These plans inculcate a sense of discipline among parents to invest systematically over the long term. These investments can be made in funds that can earn returns that match the escalating costs of education. Finally, these plans have options that protect these future plans in the unfortunate event of death of the parents.

So, how should you choose an insurance plan for your child? Here are four simple tips:

â€¢ Start planning and invest for your childâ€™s future as early as possible: Insurance companies offer plans with maturity benefits structured to coincide with the child attaining 18 years in age or â€˜timedâ€™ release of payouts at critical lifestages from 18 years onwards. These plans offer a long horizon to invest, which helps you systematically build a corpus. So, quantify your goals with a certified financial planner and choose a plan that encourages such long-term behaviour.

â€¢ Invest in plans that offer premium waiver benefit: Most child plans offer premium waiver benefit either as an option or as an essential feature in the main plan. What premium waiver does is this â€“ in case of the death of the parent, the insurer waives off future premiums to be paid, while the insurer continues to fund the insurance policy till maturity. This makes sure that the maturity benefit that was set for a certain age remains intact as planned in addition to the death benefit paid.

â€¢ Choose a plan that offers a mix of investment options and adequate risk cover: Make sure you invest in a child plan, which offers a balanced mix of growth and debt funds and a risk cover option. Empirically, equities provide the best returns over the long run. Make sure that the insurance plan you choose offers you the right mix of capital protection and growth. Also, choose a plan that has the system transfer option to make sure your gains in the investment are protected. Lastly, take adequate risk cover (at least 20 times the annual premium) to ensure that the death benefit is a substantial lumpsum that can help your family in case of your demise.

â€¢ Read the product brochure and understand costs of the product: Insurers lay out the charges that the customer needs to pay for the policy clearly in the product brochure. Compare the products available in the market on their charges, the reputation of the insurer, repudiation rates (available on the websites), flexibility offered and their service quality perception.

Buying a child insurance plan is a significant step in securing your childâ€™s future. I suggest you make it a high- involvement purchase by researching the products in the market, probing the insurance agent on features, charges and past performance. Satisfy yourself with evidence on every feature of the product. Do this and your child will think of you as smart parents 20 years from now. That should make it worth your while.

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