



# KARVY BAZAAR BAATEIN

**A Weekly Investment Newsletter From KARVY**  
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## The Very Important Child Plan

Child plan is an important means of securing the future of a child, making it an important part of the overall insurance cover required for a family

Every year, November 14 is celebrated in our country as the birth anniversary of Pandit Jawahar Lal Nehru. An astute lawyer, a prominent statesman and one of the main founders of the independent India, Pandit Nehru is remembered as a great visionary who saw the secured future of India in the able hands of a young and vibrant generation. Lovingly known as 'Chacha Nehru' by the children, Pandit Nehru laid the foundation of development of children as the future leaders of the country.

As someone has rightly said 'every child is special'. And each child has the potential to excel in the desired field of profession and earn laurels not only for himself / herself or the parents, but for the nation as a whole. The requirement is just for identifying the talent and providing the right direction and education and/or training to cultivate this potential. While all the parents dream big for their children, it is relatively fewer of them who are actually able to provide for the realization of these dreams. In the modern times, every profession is built on the foundation of the basic education in general and specialized courses and curriculum in particular. And as days pass by, costs of education and the professional studies continue to move northwards, in turn gradually making the financial provision of a child's future, a priority for every parent.

Here, it will be appropriate to mention that the ability of the parents to provide for their child's education is not the only

important factor. It is also important to ensure that this ability is continuously present and actually contributes to the provision of the necessary finances for the education. However, as life itself is uncertain, an unfortunate death or disability of the parent, who was to provide for the education of his child, can take away the very basis and opportunity of this education. This need for securing a child's future against any eventuality has thus been recognised by life insurance, leading to the evolution of the concept of 'child plans'.

A child plan is a life assurance plan making the necessary provision for the successful life of a child while assuring the life of the parent or the child. As life insurance policy is a contract, the same to be a valid contract cannot be concluded with a minor (a person who has not attained the age of 18 years) as the party to the contract, as the minor is not qualified to enter into a contract. Hence, in case of a child plan, the contract is between the life insurance company and the parent or guardian of the child with the child as the beneficiary under the policy. A child plan generally provides benefits after a certain period of time coinciding with the usual age for higher studies, start in life or marriage. These are the important events in a child's life requiring considerable amount of money. Moreover, the contributions to the plan in form of regular premium payments are waived in the event of death of the parent during the premium payment term.

Also, as the value in a child plan is exclusively meant for benefit of the child, the plan does not provide the option of loan against the policy value or the option of assignment of the policy to a third party.

Child plans are mainly of two types. The first is the ordinary child plan where the life to be assured is that of the parent. The benefit payment is made as lump sum or in installments under the plan, on the child achieving the age for higher studies, etc. After this payment the policy usually gets terminated. In case of the earlier death of the parent during the policy tenure, all the future premium payments will be waived off. The policy may provide for a death benefit, but it is the mainly the maturity benefit that is paid for the child's welfare irrespective of the continuance of the life assured.

The second type of child plan is known as the 'children deferred plan'. Here, the life to be assured is that of the child. The policy term is broken down into two periods. The first one is from the commencement of the policy and upto the child attaining the age of majority or the 'vesting age'. At this point, the original contract between the parent/ guardian and the insurance company

is, with the consent of the child (who at this point is capable of entering into a contract), replaced by a life insurance contract between the 'child' and the insurance company. This is seen as the transfer of the rights, property and liabilities under the original policy from the parent to the 'child'. Hence, the policy 'vests' with the child as a normal life insurance policy. This is the second period under the policy. As such, a continued life insurance cover is available to the child throughout his / her life. The policy provides an option of being terminated at the vesting age. In the event of death of the child before attaining the majority age, the premium paid till date will be returned to the parents with / without interest. In the deferred children plan also, the future premium payments will be waived off in case of death of the parent during the deferred period.

A child plan could be in form of a traditional endowment assurance plan or a unit linked insurance plan, from the point of view of the investments under the plan.

With an insight into the importance of the child plan, we will now look at few recommendable child plans.

## Product Showcase :: Reliance Secure Child Plan

Reliance Secure Child Plan is a unit linked plan from Reliance Life Insurance Company Limited.

### Unique features of the policy

- ❖ The insurance cover under the plan is provided on the life of the child with an inbuilt premium waiver benefit available on the life of the parent (father / mother). In the event of an unfortunate death of the parent, all the future premium payable under the plan are paid by the insurance company to enable the plan to be in full force. If accidental death benefit rider is opted for, then premium upto Rs.40,000 will be waived on total or partial disablement of the life assured (child).
- ❖ The policy provides for the facilitation of the child's development through an online community specially designed for the educational and recreational needs of the child.

- All the achievements of the child, however small or big, are appreciable through an e-point program. 1% of the annual premium under the basic plan will be transferred to the e-account, apart from the loyalty addition of 1% to be paid by the insurance company, to be used by the child for availing the benefits offered by the online community.
- ❖ The policy is available as a single / limited / regular premium policy
- ❖ Policy holder has a choice of 3 investment funds
- ❖ 95% of premium paid under the policy is guaranteed as part of the death/maturity benefits, subject to policy conditions. Also, the unique **Return Shield** option ensures the safety of the returns earned on the policy investments. On selection

of this option, the returns earned on basic plan and top-ups during a policy month will be utilized to purchase units in Return Shield Fund at the end of the policy month.

- ❖ Policy provides for premium holiday.
- ❖ **Commencement of risk cover** on the life of the child will depend on the age of the child at the time of commencement of the policy.
  - If age of the child is less than 6 years last birthday, on commencement of the policy, the risk cover will commence either one year from the date of commencement of the policy or from the policy anniversary falling on or immediately after the sixth birthday of the child, whichever is later.
  - If age of the child is equal to or more than 6 years last birthday but less than 12 years last birthday, on commencement of the policy then the risk cover on the life of child will commence after one year from the date of commencement of the policy.
  - If age of the child is equal to or greater than 12 years last birthday, on commencement of the policy, the risk cover on the life of child will commence immediately.
- ❖ **Life time guarantee income** – If the child is totally & permanently disabled as a result of an accident, the policy will pay 10% of sum assured per annum. This benefit is paid for lifetime of the child. The policy contract will continue, however no rider benefit will be available.

## Eligibility parameters

- ❖ **Age at entry** – for the child: minimum – 0 years; maximum – 15 years (last birthday). For the parent: minimum – 21 years; maximum – 50 years (last birthday).
- ❖ **Maturity age** – for the child – 10 years (last birthday); for the parent – 70 years (last birthday)
- ❖ **Policy term** – minimum – 10 years; maximum – 25 years
- ❖ **Premium payment term** – for regular premium policy – premium payment term will be equal to the policy term; for limited premium policy – premium payment term will be in multiples of 5 years, subject to a minimum of 10 years.

- ❖ **Minimum premium** – for regular premium policy – Rs.10,000 annually; for limited premium policy – Rs.20,000 annually; for single premium policy – Rs.25,000; for top-up premium – Rs.2500 (subject to the condition that the total top-up premiums at any point of time shall not exceed 25% of the total regular/limited premium or single premium paid till that time).
- ❖ **Sum assured** – For regular / limited premium policy the sum assured is fixed. It is equal to the annualized premium multiplied by the half of the policy term. For single premium policy, minimum sum assured is 125% of single premium amount and maximum sum assured is 5 times (i.e. 500%) of the single premium amount.

## Policy benefits

**Death benefit** – The policy terminates on the death of the child. The death benefit:

**Before commencement of the risk** – is equal to the fund value\* relating to the basic policy as well as to the top-ups (if any), as on the date of intimation of death.

**After commencement of the risk** – will be maximum of the sum assured or the total fund value\* and 95% of premium paid under the basic plan less extra or additional premiums (if any) plus maximum of fund value in top-up account and 95% of top up premiums paid.

**Maturity benefit** – The maturity benefit will be payable on survival of the child up to the date of maturity of policy. It will be maximum of the fund value\* and 95% of total premiums paid under the basic plan less extra or additional premiums (if any) plus maximum of fund value\* in top-up account or 95% of top-up premium paid.

\* including fund value under Return Shield fund and e-Account

## Main Policy charges

**Premium allocation charge** – For the 1st year, the charge ranges between 20% and 25% of the premium paid. It is 7% for the 2nd year and is 5% from the 3rd year to the 10th year of the policy. Thereafter, it is 4% of premium every year.

The premium allocation charge for top-up premiums is 3%.

## Policy administration charge – The charge:

During the premium payment tenure – Rs.40 / month

After the premium payment tenure (for limited premium payment policies) – Rs.35 / month

For single premium payment policies – Rs.35 / month

**Fund management charge** – The charge ranges between 1.25% and 1.50% p.a. depending on the investment fund chosen

## Mortality charge – The charge is applicable:

In case of the child – after the risk commencement date

In case of the parent – from the policy commencement date

**Miscellaneous charge** – A fixed charge of Rs.2 per Rs.1000 sum assured will be collected at the inception of the policy.

**Charge for Return Shield Fund** – A fixed charge of Rs.100 is a payable every time the Returns Shield Option is selected

## Investment options

The policy provides options for investments in 3 funds i.e. Fund G, Fund H and Equity Fund. An additional Fund I will be available in respect of the Return Shield Option if the same is selected.

Fund Name	Risk Profile	Investment Allocation		
		Money Market Instruments	Debt Securities	Equities
Fund G	Low to moderate	0% to 40%	0% to 100%	0% to 20%
Fund H	Moderate	0% to 40%	0% to 100%	0% to 40%
Equity Fund	High	0% to 100%	0%	0% to 100%
Fund I	Moderate	0% to 40%	0% to 100%	0%

## Switching of funds

- ❖ Four free switches are available in a policy year
- ❖ Unused free switches cannot be carried forward
- ❖ Once a switch is made in to Equity fund, the capital guarantee will cease immediately. The capital guarantee cannot be re-established by switching out of Equity fund.
- ❖ Switching in to and out of e-account and Return Shield fund is not allowed.

- ❖ Eligibility criteria for riders remains unchanged
- ❖ Premium for the rider is payable over and above the premium for the basic plan and not by the cancellation of units.
- ❖ Maximum sum assured under rider will be equal to the sum assured under basic plan.
- ❖ Rider benefit is available only under regular premium policies and not under limited premium policies and single premium policies.

## Riders available

- ❖ Term Assurance rider
- ❖ Accidental death and total & permanent disablement rider with inbuilt waiver of premium
- ❖ Critical conditions rider

## The conditions applicable for the riders are:

- ❖ Riders can be taken on the life of child only on completion of age 18,

## Tax benefits

Premium payable under the policy are eligible for deduction under Section 80C of the Income Tax Act, 1961. The withdrawals and the death benefits are exempt from tax under Section 10(10D) of the Act.

**Important:** In this policy, the investment risk in the investment portfolio is borne by the policy holder.

## Product Showcase :: Headstart Future Protect

Headstart Future Protect is a unit linked child plan which aims at securing the financial basis for important events in the child's life. The policy has been introduced by Kotak Mahindra Old Mutual Life Insurance Company Limited.

### Unique features

**2 child plan:** Policy is a hassle-free, cost-effective saving vehicle for one or two children. In other words, a single plan can provide for the savings for 2 children.

**Joint life insurance option:** Policy provides for joint life insurance option with two persons being insurable as primary & joint life insured. As such, both parents can be covered under the policy, with the sum assured payable on the second death.

**Additional units:** Policy provides for allocation of additional units to the investment funds. Additional units of equivalent to 1%, 1.5% and 2% of the fund value will be allocated at the end of policy year 10, 15 and 20 respectively, provided all premiums are paid up to date and the policy has not yet reached maturity.

**Automatic cover maintenance:** In the event of the policy holder missing on a premium payment, this facility will ensure that with adequate fund value, the insurance cover remains in force. This facility is available after the premium for 3 policy years has been paid in full. Application of this feature however takes away the additional risk cover benefit. The policy will terminate if it is not revived or the policyholder does not elect to retain the policy in automatic cover maintenance mode post the revival period.

**Top-up premiums:** Payment of top-up premiums increases the investment fund value to the benefit of the child. Top-up premium can be paid upto maximum 25% of the regular premium amount paid till date.

### Policy benefits

**Death benefit:** In case of death of the life assured, if single life option is chosen, 100% of sum assured is paid immediately with the value of unpaid (future) premiums payable immediately or in semi-annual installments over 5 years. In case if the joint life option is selected, then: (1) on death of primary life assured, the value of unpaid (future) premiums will be paid into the investment fund(s) as chosen earlier. This fund value will be payable to the child at policy maturity with no further premium

payable by the joint life. (2) on death of the joint life or latter of both lives, the benefit payable will be the same as applicable on death of the life assured under single life option.

To boost the life insurance protection, the policy holder can opt for additional cover in forms of riders available under the policy.

**Maturity benefit:** On policy maturity any amount can be withdrawn from the fund value existing at that point of time. The balance fund value, if any, can be received in pre-specified (annual, semi-annual, quarterly or monthly) installments.

### Eligibility parameters

**Age at entry:** minimum – 18 years (for parent); maximum – 60 years (for parent)

**Maturity age:** minimum – 18 years (for younger beneficiary); maximum – 70 years (older policy holder)

**Policy term:** minimum – greater of 10 years or 18 less younger child's age (as on last birthday); maximum – 25 years

**Annual premium:** minimum – Rs.15,000 for regular premium payment policy; Rs.50,000 for a limited premium payment term of 3 years; Rs.25,000 for a limited premium payment term of 4 years to 10 years

**Premium payment term:** limited premium payment term of 3 years to 10 years or more upto an equivalent of the policy term

**Sum assured:** minimum – higher of 5 x annual premium or 0.5 x term x annual premium; maximum – subject to underwriting decisions and guidelines

**Premium payment frequency:** annual, semi-annual, quarterly or monthly (through direct debit facility)

### Investment funds

Policy provides for an automatically managed investment fund option under the unique Dynamic Floor Fund. This fund option is suitable for policy holders who may find it difficult to take a

view on the markets and may not be in a position to switch their money efficiently from one fund to another to balance risk and return. Also, this fund is ideally suited to the more risk-averse investor whose priority is capital preservation but who as well wants to participate in actively managed upside market growth.

For policy holders who are confident of managing their investment portfolio, the policy provides the choice of seven funds. The policy holder can choose one or more of these funds to suit the unique financial profile. The details for these funds are:

Fund Name	Investment Objective	Risk – Return Profile	Investment Allocation in		
			Equity	Debt	Cash & Money Market
Kotak Aggressive Growth	High level of capital growth with significant investment in equities. Can experience high levels of shorter term volatility (downside risk).	Aggressive	60% to 100%	0% to 40%	
Kotak Dynamic Growth			40% to 80%	0% to 40%	0% to 20%
Kotak Dynamic Balanced	Moderate capital growth through a diversified mix of equities and fixed interest instruments. Can also be susceptible to moderate levels of shorter-term volatility (downside risk).	Moderate	30% to 60%	20% to 70%	0% to 20%
Kotak Dynamic Floor	Stable long-term inflation beating growth, defending capital against short term capital shocks. Likely to out-perform traditional balanced or equity funds during sideways or falling markets and shadow the rising equity markets.	Cautious	0% to 75%	0% to 100%	0% to 20%
Kotak Dynamic Bond	Returns in line with those of fixed interest instruments with little protection against unexpected inflation. Can preserve capital and minimize downside risk, with investment in debt and government instruments	Conservative	-	0% to 100%	0% to 20%
Kotak Dynamic Floating Rate			-	80% to 100%	0% to 20%
Kotak Dynamic Gilt			-	-	100%
Kotak Dynamic Money Market	Protect capital and not have downside risks	Secure	-	-	100%

Policy provides the option of the changing the allocation of future premiums to various investment funds. Also available is the option to switch the already existing fund value between the funds to maximize the returns from various investment avenues.

## Policy charges

**Premium allocation charge** – in the details of the charge applicable as a percentage of the premium amount are:

Policy Term	Less than 15 years			15 years & above		
	Rs.15,000 to Rs.25,000	Rs.25,001 to Rs.1,50,000	Rs.1,50,000 & Above	Rs.15,000 to Rs.25,000	Rs.25,001 to Rs.1,50,000	Rs.1,50,000 & Above
<b>Year 1</b>	32%	28%	19.50%	36%	71.50%	21.0%
<b>Year 2</b>	14%	9%	7%	14%	9%	7%
<b>Year 3</b>	7%	5%	4%	7%	5%	4%
<b>Year 4 to 11</b>	1%	1%	1%	1%	1%	1%
<b>Year 11 onwards</b>	0%	0%	0%	0%	0%	0%

The premium allocation charge for top-up premiums is 1%

**Fund management charge:** Ranges between 0.6% p.a. to 1.60% p.a. depending on the choice of the investment funds. If Dynamic Floor Fund is opted for, the charge will be 1.75% p.a.

**Policy administration charge:** For annual premium value of less than Rs.1,00,000, this is a fixed charge of Rs.75 per month in the first year and Rs.40 per month from the second year onwards. In case of annual premium value of Rs.1,00,000 & above, no policy administration charge is applicable.

**Mortality charge:** This is the charge for provision of the life insurance cover and is based on the age of the life assured.

**Fund switching charge:** The first four switches in a policy year are free-of-charge. Rs.500 will be charged for every additional switch.

**Rider charge:** These charges are applicable for the provision of additional benefits when riders are opted for.

## Policy surrender

Policy surrender is not allowed in the first 3 policy years. Thereafter the surrender charge applicable (expressed as a % of fund value) is 3% in year 4, 2% in year 5, 1% in year 6, 0% from year 7 onwards. No surrender charges are however applicable to the top-up premium accounts.

## Partial withdrawal

Partial withdrawals are available after the completion of the 3rd policy year. These withdrawals are mainly available to meet the child's expenses during the policy term, from 4th policy year

onwards. Partial withdrawals are subject to a minimum fund balance of Rs.25,000 remaining after the withdrawals and must be made from the qualifying top-up premium accounts first. If these withdrawals are made after the 7th policy year, there will be no charges applicable on the withdrawals. Charge structure is the same as that for policy surrender.

## Riders available

**Critical Illness Benefit rider:** provides for a portion of sum assured (upto maximum of 75% of sum assured) to be paid on admission of a claim on a critical illness.

**Permanent Disability Benefit rider:** provides for the stipulated installments on admission of a claim on becoming disabled.

**Accidental Death Benefit rider:** provides for a lump sum benefit to be paid in case of an accidental death, in addition to the basic sum assured.

**Accidental Disability Guardian Benefit rider:** provides for the payment of the remaining (future) premiums on behalf of the policy holder in case of his disability.

## Tax benefits

Premium paid under the policy is eligible for deduction under the provisions of Section 80C and 80D (only for premium payable towards Critical Illness Benefit rider) of the Income Tax Act, 1961. The policy benefits are exempt from tax under Section 10(10D) of the Act.

**Important:** In this policy, the investment risk in the investment portfolio is borne by the policy holder.

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Some activities you  
could take up soon

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Insurance Planning

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Retirement Planning


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