

Introduction

This is an introductory guide to help you understand the importance of planning for your child's education fund. The booklet guides you on the factors affecting the cost of education and how life insurance products can help you fund your child's education.

What is a child education policy?

A child education policy is a life insurance product specially designed as a savings tool to provide an amount of money when your child reaches the age for entry into college (18 years and above). The funds can be utilised to partly meet your child's higher education expenses. Also, if you opt for a payor benefit rider, an education policy provides the assurance that, in the event of an untimely demise of the parents or legal guardian, the child will have access to funds to help finance his/her education expenses.

Under a child education policy, the child is the life assured, while the parent/legal guardian is the policy owner.

Why do you need to plan early for your child's education?

The cost of higher education is increasing, either due to inflation or some other economic factors. The increasing cost can result in financial strain for parents/legal guardians when their children begin higher education. Therefore, it is important to plan early to provide adequately for their higher education. The earlier you begin, the more time you give your money to grow and compound to better finance your child's higher education. There is more flexibility on the amount of money you need to contribute regularly into the chosen savings or investment plan, i.e. you can begin with modest amounts and increase the amounts gradually as your salary increases. It is important that you choose a policy that provides flexibility to increase the amount of savings in the future.

How much coverage do you need?

The first step in determining the amount of coverage is to have a goal in mind. What are your goals for your child's education? The following are some of the factors you may need to consider in determining the level of coverage:-

- Place of study - abroad or locally? If abroad, what is the likely country of choice and related costs of living?
- Level of qualification - diploma or degree?
- University of choice? - A top-notch university usually will cost more.
- Field of study ? - Courses in the medical field usually involve higher costs than others.
- Length of study?

Working through these factors will help you figure out the expected costs. As a guide, you may add the annual course fees to the expected living expenses and multiply this by the number of years of study. This will give you an indication of how much it would cost you today. Since the education costs will be incurred in the future, you need to also account for inflation. Once you have factored in inflation, you may end up with an amount you find difficult to afford. However, the good news is that by wisely putting your money to work through a savings or investment plan, the returns from such investment or savings can be accumulated over the years to help cover the costs.

Types of child education policies available

There are two main types, i.e. an endowment or investment-linked policy. The difference between the two lies in the structure as well as the nature of investments.

- Endowment policy

An endowment policy combines a savings component with protection coverage. Endowment policy may be either *participating* or *non-participating*. As the name implies, *non-participating policy* do not participate in the life insurance fund's profits but all insurance benefits are fully guaranteed. On the other hand, for *participating policy*, a portion of insurance benefits are guaranteed. However, the ultimate amount of benefits at maturity are not guaranteed as these depend on the performance of the insurance company's participating life insurance fund.

- Investment-linked policy

An investment-linked policy combines the elements of investment and protection based on your requirement as the policy owner. It offers flexibility as you are able to increase or top-up your monthly premium contribution as your income improves. If you wish to be more aggressive with the instruments of investment, an investment-linked policy will also allow you to choose the types of funds your money will be invested in. However, like any other similar investment, there are higher risks involved and there are no guarantees on the returns, which may be higher or lower than projected.

For more information on how the two products are structured, please refer to two other InsuranceInfo booklets titled "Life Insurance" and "Investment-linked Insurance".

Which policy should you purchase?

Which policy you purchase depends on your objectives and your risk tolerance. Before you buy a policy, ensure that your agent carries out a fact-finding evaluation process to help in determining the most appropriate policy based on your needs and financial capacity.

It would be useful to choose a policy that will allow you access to the funds when needed, i.e. the policy matures when your child starts higher education, or the policy allows you to receive part of the insurance benefits prior to maturity, if necessary.

Tips when buying a child education policy

- **Ensure that you opt for the payor benefit rider**

Look for a policy that waives premium payment in the event the parent/legal guardian can no longer pay for the policy, arising from events such as untimely death, diagnosis of a critical illness or total and permanent disability. By opting for the payor benefit rider, your child's education fund will be taken care of should anything happen to you as the parent/legal guardian.

- **Make sure that the premium is affordable**

Saving through insurance disciplines a person to regularly continue putting aside money year after year. It is a long-term process and therefore, you need to be realistic in estimating how much you can afford based on your current income and expenses. If you start on an amount bigger than you can afford, you may end up having to terminate the policy early and incur financial loss. So, if you cannot afford much now, start with a small amount.

- **Monitor the funds**

After you have purchased a policy, you will need to monitor it to ensure that you are on your way to reaching your goals. For one, actual returns declared by the insurance company may differ from initial illustrations (particularly for participating policy and investment-linked policy) as a result of changes in financial markets. You may also find that the actual cost of higher education may differ as the course chosen by your child is different from the one initially planned, or currency exchange rates may rise and fall if an overseas education is preferred. If there is a shortfall in the funds required, some policies do provide an additional benefit of a study loan.

- **Do not add unnecessary coverage**

Many education policies also offer the ability to add insurance coverage like hospital and surgical medical insurance, or critical illness coverage. Be careful about adding too much insurance coverage as the costs will eat into the amount of savings. Furthermore, bear in mind that you are insuring the life of your child, and certain coverage like critical illness may not be essential as the chances for such illness in children are minimal.

- **Check whether the policy qualifies for tax incentive**

One of the benefits of using life insurance as a savings tool for a child's education policy is the tax advantage. Insurance proceeds are tax-free and you can also obtain an annual tax relief of up to RM3,000 for the payment of premiums for education insurance, subject to approval by the Inland Revenue Board. In order to qualify for tax relief, the education plan must be taken up by the parent/legal guardian and it must mature when the child reaches the age of between 13 to 25. It is also important that you opt for a payor benefit rider throughout the life of the policy.

How to lodge a complaint and the redress avenues available

- If you have a complaint about the product or services of your insurance company or if you are not satisfied with the rejection or offer of settlement of a claim, you should first try to resolve the complaint with the Complaints Unit of the insurance company concerned.
- If you are still not satisfied with the decision, you can write either to the Financial Mediation Bureau (FMB) or Bank Negara Malaysia (BNM), which will handle your complaint free of charge. You may wish to check with the officer of the Complaints Unit of the insurance company on the proper avenue for dealing with your complaint.
- If you need to submit your complaint to FMB, it must be done within six months from the date of the insurance company's final decision. The FMB handles disputes between claimants and their own or third party insurance company.
- The FMB is an independent body that provides consumers with fast, convenient and efficient avenue to refer their complaints or disputes for resolution as an alternative to the courts.
- The FMB, however, will not handle disputes involving pricing of insurance products and underwriting issues, fraud cases and cases that have been or are referred to the court.
 - In addition, complaints referred to the FMB are limited to the following:-
 - RM200,000 for motor and fire insurance policies.
 - RM100,000 for other types of insurance policies.
 - RM5,000 for third party property damage claims.
- For cases not within the purview of the FMB, you may refer them to BNM.

Detailed information on how to lodge a complaint is available in the booklet entitled "The Fundamentals of Insurance and Takaful" or access FMB website at www.fmb.org.my. Alternatively, you can also get access to the information through our website at www.insuranceinfo.com.my.