

Comparison of Unit Link Insurance Plan and Whole life Insurance

Talk to any insurance advisor and you are bound to be bombarded by hordes of different kinds of insurance policies. Is it any surprise that a normal person gets confused when choosing a right insurance policy for his needs? Advisors take advantage of this buyer's ignorance and promote those policies that fetch them the highest returns. Two such widely promoted types of insurance policies are unit link insurance plan and whole life insurance plan. However there are quite a few differences between these policies. We take a look at how both these policies differ.

• Unit link insurance plan: Unit link insurance plan or ULIP is the most widely promoted type of insurance plan. When you pay a premium, you are given an insurance cover and part of premium is invested in the fund of your choice. In the initial years, a major part of the premium goes towards buying an insurance cover and remaining portion is invested. Most unit link plans offer choice of 3 funds: pure equity, balanced which contains a mixture of debt and equity in varied proportion and pure debt. Depending on your risk appetite as well as market scenario, you can choose appropriate fund(s). You can also switch between funds if the market condition or your personal circumstance changes. However the drawback of unit link insurance plan is the high charges. Also many advisors mis-sold these plans by telling that there is no need to keep on paying the premium for the duration of the plan, just three years would suffice. Though conceptually this is correct, fund will keep on debiting its charges from the amount invested. So if there is no sufficient amount in your account to pay these charges, your life cover will cease and you'll have to buy a new policy.

• Whole life insurance: A whole life insurance policy is an insurance policy that provides you with insurance cover for as long as you live or 100 years, whichever is earlier. This means when buying a whole life insurance you have to keep on paying premiums till the end. Due to this drawback, this plan lost out to ULIP. To combat this Tata AIG has introduced its Mahalife Gold where you need to pay premiums just for 12 years while the life cover continues till your death. In addition, you start getting 5% of sum assured from sixth year onwards along with bonuses accrued. Once 12 years are over, you can use this money as pension for old age. However unlike ULIP, a whole life insurance plan does not give you flexibility of investing as per your risk profile. Also their charges are not transparent.

Study your risk profile. Do you want to earn higher returns while enjoying insurance cover? Do you want the flexibility of deciding where your monies would be invested and know what are the charges for buying an insurance? Then an [unit link insurance plan](#) is your best bet. But if you want an uninterrupted life cover without any increase in premium, then a whole life insurance plan is right for you.

About the Author

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