Business Standard

Not tailor-made for your needs

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Instead, start early and invest regularly across asset classes to accumulate the required corpus for funding goals.

Children's plans are products with an emotional appeal. With increasing cost of education and inflation, there is an urgent need for planning for your child's future. There are a variety of products available from insurance companies and mutual funds (MFs) to address this.

INSURANCE PLANS

Insurance plans for children are available in both traditional and unit-linked insurance product (Ulip) categories. Traditional plans primarily invest in debt and the returns are on the lower side. Some traditional plans offer guaranteed returns based on the basic sum assured of the policy. These plans usually have payouts which are a set percentage of the sum assured and start at a pre-defined age of the child, usually 18. Accrued bonuses are added to the last payout. Ulips are market-linked and have a high to medium risk and return profile. The policy holder may opt for a mixture of debt and equity through the various options available. These products are much more flexible in terms of withdrawal. You can have partial or total withdrawals after a certain tenure, without any penalty. This come handy if the funds are required earlier than anticipated.

It is essential to check whose life is insured in these policies. If the child's life is insured then in case of parent's demise, no financial aid is provided, unless a premium waiver rider is purchased. The family might not be in a position to honour the future premium liability. Thus, the funds may not be available as anticipated on maturity.

Mutual fund Plans

MFs are pure investment products. Children's plans from MFs invest across asset classes like debt, equity and gold. And are mostly balanced funds.

'Child plans' need not necessarily be the ideal solution to secure your child's future. Instead have a strategy which creates an adequate corpus for the goal with optimal investments. Let us compare a traditional insurance policy and an equity investment. Take a 30-year-old who buys a policy of Rs 25 lakh sum assured for his child. The premium for this comes to about Rs 1.68 lakh yearly (with premium waiver rider). He pays for 17 years. The payouts are for four years, when his child turns 18.

If we assume a bonus rate of Rs 50/1,000 of sum assured and a terminal bonus addition of Rs 100/1000 of sum assured, the total payout he will get will be about Rs 53.75 lakh. Instead of this policy, if he decides to invest Rs 1.5 lakh yearly in direct equity or equity-oriented funds, he will accumulate about Rs 73.32 lakh at the end of 17 years, assuming a return of 12 per cent. The money he saves (Rs 1.5- 1.68 lakh) can be used to buy term insurance and disability insurance covers. This way, he will create a bigger corpus with the same amount of investment, and cover his risks at the same time.

POINTERS TO DECIDE

- **Time horizon:** If you have a longer time horizon for your goal, you will need to invest smaller amounts. And can invest in riskier asset classes like equity. If the funds are required in the near future, investments have to be primarily debt-oriented.
- **How much:** A corpus of Rs 25 lakh might sound good but may

not suffice 15 years later. You need to get a realistic estimate of the corpus needed.

- **Investible surplus:** There will be other responsibilities besides planning for the child's future. You must prioritise the demands on your investible surplus. Don't start an investment and leave it midway due to lack of funds. Rather, start small and steadily increase the amount.
- **Liquidity:** Before investing, decide if you are comfortable with the funds locked-in till a pre-decided tenure or need the flexibility to withdraw any time after a certain period.
- **Risk coverage:** All plans for your child's future will depend on continued investments for a long duration. If your income stops, due to death or disability, the goal will not be met. Take adequate life insurance and disability cover before embarking on your investment plans.

Start early, be regular and invest in a judicious mix of asset classes for successful completion of your endeavour. Purchasing a pre-packaged product without understanding the underlying assets will not do so.

The writer is a certified financial planner