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Insurance
Questions

for your Retirement Years





About the Investor and Financial Education Council

Established in 2012 and supported by four financial regulators and the Education Bureau, the Investor and Financial Education Council (IFEC) is a public organisation dedicated to leading financial literacy in Hong Kong. The IFEC promotes and delivers free and impartial financial education resources and programmes through its consumer education platform, The Chin Family, and leads the Financial Literacy Strategy to create a conducive environment for stakeholders to deliver more quality financial education to various segments of the Hong Kong population.

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Preface



We all need protection

Everyone recognises the need to protect themselves against the uncertainties of life. But when it comes to insuring your retirement, we often see things differently.

As we approach retirement age, we look forward to lessening our financial commitments, such as paying off our mortgages and seeing our children grow up and become independent. Some may think that insurance is not a must for retirement, as it only serves to protect those around us and not ourselves, but this may not be an accurate assumption.

With the increase in life expectancies, retirement needs will also have to be adjusted accordingly as your retirement years may potentially stretch into decades. Without proper insurance protection, you could put your retirement at risk and become a burden on your family and loved ones. Today's insurance products are not only for financial protection but they are also money management and bequest tools.

In this booklet, we answer 36 of the most commonly asked questions about insurance for a more secure retirement. They cover basic concepts, selection of insurance intermediaries as well as various insurance products that are currently available. We hope that the insights and knowledge will help you to open the door to a happy and secure retirement.

If you would like more information about insurance, please visit our website: www.ifec.org.hk.

We would like to acknowledge the input from the Insurance Authority in the development of content for this booklet.



The importance of retirement insurance



01

Why do I still need insurance after I retire?

Many unforeseen things can disrupt our lives after retirement and make us vulnerable to financial shocks.

► **The biggest risks in retirement**

Longevity and illness expose us to financial risks that often cannot be managed by retirement savings.

- Illnesses and lifespans **cannot be predicted or calculated.**
- **Medical expenses** can be huge during retirement and can have a deep impact on your finances.

02

Why not invest instead of buying insurance?

Rather than buying insurance, some prefer to invest and rely on the returns for their protection.

► Use insurance to transfer financial risk

It is important to avoid confusing insurance and investment.

- Investment is about risk and return, whereas insurance is **about protection**.
- Insurance is about **spending a little for a lot of security**. It allows you to protect against financial risk arising from unforeseen events, like illness and longevity.
- Investment and insurance are **equally important** for retirement — it is not a ‘choose one or the other’ proposition.

03

There is no deadline for retirement. What about insurance?

Some products such as medical and critical illness insurance do have age limits in terms of application and protection.

► **There's a deadline for taking out insurance**

Insurance companies can reject an insurance application for health conditions. Even if the application is accepted, the insurance company can charge an extra premium, or consider those pre-existing conditions as exclusions.

Insurance — including life insurance — normally offers a lower premium if you join the plan earlier.

04

What kind of insurance is best suited for retirement?

Choosing the wrong type of insurance will not only cost money but won't give the protection you actually need.

► Understand the protection you need

- Life insurance provides a **death benefit**, and can provide critical illness and medical protection in the form of riders.
- Medical insurance provides reimbursement for **medical expenses** incurred by illness or accidental injury.
- Coverage with travel insurance ranges from a **trip delay or cancellation** to personal or property loss while travelling.
- Annuities provide a **stable cash income** for retirement.



Medical insurance is crucial



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Why buy medical insurance when public services are available?

Insurance gives you the option to use private medical services with a reduced financial burden.

► **Public and private medical services**

Government medical services are a safety net for the society that ensures all citizens receive treatment. However, there are usually long queues for treatment that can take many hours.

Medical insurance also covers public medical expenses. You can still opt for public medical services even if you have medical insurance.

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Why should I buy medical insurance when my employer already provides it?

The medical benefits provided by your employer may not meet your personal needs.

► Consider a comprehensive medical protection

- Medical benefits from employers generally only cover basic in-patient care and outpatient services, **which may not be adequate**.
- Employees normally do not enjoy employer-provided medical benefits **after resignation or retirement**.
- **Applications being rejected** due to health conditions, could be a major concern when buying insurance after retirement.

07

Should I choose: Medical or critical illness insurance?

Medical and critical illness insurance offer different protections that can complement each other.

► **The differences**

Medical insurance covers the expenses of medication and hospitalisation. The compensation is on a reimbursement basis.

Critical illness insurance provides lump sum benefit after the insured is diagnosed with the covered critical illness. The benefit can be used for medical treatment, a living allowance or subsidy for rehabilitation. The policyholder can make one claim or multiple claims, depending on the policy terms.

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What does medical insurance cover?

Like other kinds of insurance, medical insurance will not cover everything. Certain things will be excluded.

▶ **Common exclusions**

The details of exclusions vary between insurance companies, so you should read the policy terms carefully.

- **Congenital diseases and pre-existing diagnosed diseases.**
- **Cosmetic or plastic surgery.**
- Injuries due to involvement in **illegal activities, self-harm or drug abuse.**
- Special treatment such as curing **insanity or rehabilitation.**

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Should I be especially aware of certain terms used in medical insurance policies?

Medical insurance policies contain many terms that must be clearly understood so as to make an informed purchasing decision.

► Important medical insurance policy terms

- Coverage of **in-patient care and outpatient service**.
- Items of **exclusion**. (see Question 8)
- Terms of **renewal** such as age limits and whether there is guaranteed renewal.
- **The maximum benefit limit** to each medical and hospitalisation item.
- Methodologies and factors used to calculate **annual premium adjustment**.
- Ways to **pay premiums**.

What are the features of the Voluntary Health Insurance Scheme?

The government's Voluntary Health Insurance Scheme (VHIS) encourages people to buy hospital insurance.

► **Government-certified hospital insurance plans**

The government-certified hospital insurance plans (Certified Plans) under VHIS includes Standard and Flexi Plans with the following features:

- **Standardized** insurance policy terms and conditions, coverage and benefits.
- **Guaranteed renewal** up to 100 years of age.
- **No “lifetime benefit limit”**.
- **21-day cooling-off period** allowing policyholder to cancel the policy with a full refund of paid premiums.
- **Coverage extended to** unknown pre-existing conditions (beware of the waiting period), congenital diseases and ambulatory procedures, including endoscopy and in-patient psychiatric treatment.

What to consider when buying the Certified Plans?

The VHIS is open to everyone, including those who are retired or planning for retirement, and those with or without medical insurance.

► Before buying the Certified Plans

- Understand the details, including **the coverage, benefits and premiums**.
- Pay attention to the **migration arrangements** of insurance companies if you wish to transfer your current policy to a Certified Plan under the scheme.
- Premiums will **increase with age and medical inflation**.
- **Understand your medical service needs** and the medical benefits to which you are entitled to.
- Consider the scheme's **tax deduction**.



Different types of life insurance



Is life insurance worthwhile if I am retired with no liability ?

One of the main purposes of life insurance is to provide a death benefit that gives financial protection to your family.

► **Post-retirement life insurance needs**

By the time you reach retirement age, you may have paid off all or most of your debts such as mortgages and no longer need to financially support your family.

In this case, you may not need the protection of a death benefit. However, there are many life insurance products that provide other protections and serve different purposes that may still be important to you. (see Question 13)

Is there more than just a death benefit?

Many life insurance products offer different protections and serve different purposes besides providing a death benefit.

► Life insurance options

- Term life insurance, also known as **pure life insurance**, provides a death benefit within a fixed policy term.
- Whole life insurance includes **both life insurance and savings components**, with a policy term that usually extends up to age 100.
- Endowment life insurance **focuses on savings** with a relatively short policy term.
- Life insurance can also include riders for **critical illness, medical, permanent disability, and loss of income due to incapable to perform work duty caused by injury**.

Can the premiums for life insurance be reduced?

The cost of premiums may be beyond the ability of some who want life insurance protection for their families.

► Considering term life insurance

This type of insurance is 'pure life insurance', with no savings component. The relatively low premiums and high death benefit make it suitable for those who are just starting their career and have less income, and breadwinners who need large sum insured.

- Choose a **policy term and sum insured** carefully, based on actual personal needs.
- The premium will increase upon renewal. The older you get, the more significant the **premium increase**.
- **Age limits** apply to life insurance protection. Coverage typically lasts up to age 80.
- There is no savings component, and in general **no cash value** at the end of policy term.

Can life insurance plus savings provide enough protection?

This type of life insurance helps you to save for retirement and provides a death benefit.

► Life insurance with a savings component

Whole life and endowment life insurance provide guaranteed cash value and non-guaranteed dividends. This makes it suitable for those who need savings and can afford a higher premium.

- **Lower life insurance components.** For same premium amount, the death benefit is usually less than that of term life insurance.
- In the case of **early surrender**, the surrender value can be significantly lower than the premium paid, or even have no surrender value.
- Premium payment terms range from a one-off payment to lifelong payments. Choose carefully and suggest to **pay up the premiums before retirement.**

Are common illnesses for the elderly covered?

As with other insurance products, critical illness protection under critical illness insurance does not cover everything.

► **Protection for common critical illnesses among the elderly**

Common critical illnesses among the elderly, such as dementia, stroke, diabetes and coronary heart disease, are often covered by the critical illness insurance available on the market.

However, details of the coverage vary between insurance companies. Their definitions of illnesses such as cancer may vary too. Therefore, it is important to understand the policy terms and conditions before you buy.

What should I do with my insurance as I approach retirement?

If you have purchased insurance while still relatively young, it is a good idea to check the policies from time to time to ensure they still meet your needs.

► **Check your life insurance protection regularly**

The life insurance you need after retirement may be different from what you needed before. You may consider to switch into other life insurance products or adjust the protection amount.

- Some term life insurance policies can be **converted to whole life insurance policies** without a health re-underwriting. However, terms, coverage and premium may also be subject to change, so pay attention to the details.
- **Premium payment period may require adjustment** in keeping with changes in income and expenses after retirement, but this is subject to the policy terms.

Can I plan my protection and my estates at the same time?

Apart from making a will, we can also plan our estates with life insurance.

► Estate planning with life insurance

As well as giving you the leverage of 'spending a little to secure a lot', life insurance can also perform the function of a will.

- **Select one or multiple beneficiaries** to receive specific percentages of death benefit.
- Beneficiaries can receive the death benefit **without probate registration.**
- Some insurance companies allow the policyholder to set an instruction enabling **their beneficiaries to receive a death benefit by instalments.**



Annuities as insurance



Should I choose an annuity for longevity protection ?

Average lifespans are growing longer and longer. Retirement savings have thus become a critical issue: Will they last over an entire retirement?

► **Create a secure retirement income with an annuity**

Annuities provide a steady stream of income as a retirement wealth management tool. They can provide protection against financial risk arising from longevity.

- They provide a steady monthly income for the annuitant **within a fixed term or lifelong**.
- A life insurance component is included but this is not its main purpose, so the **death benefit is lower**. (see Question 20)

Will my annuity plan suffer loss in the event of early death ?

It is a common concern that the annuity payment received by the annuitant will be insufficient to cover the premium paid in the event of annuitant's pre-mature death.

► **Understand the death benefit protection of annuities**

If the annuitant passes away during the premium payment period, some annuity products will provide the beneficiary a lump sum death benefit amounting to 'a specific percentage of the total premium paid', such as 105%.

If the annuitant passes away during the annuity period, whether if the beneficiary will receive a death benefit depends on the policy terms. If there is death benefit, the beneficiary can generally either choose a lump sum payment or continue to receive monthly annuity payments.

What are the differences between deferred and immediate annuities ?

Annuities can be categorised as 'deferred' and 'immediate'. With a deferred annuity, a period exists between the premium payment term and annuity period for the insurance company to invest. With an immediate annuity, the annuitants can receive their annuity once the premium payments are completed.

▶ **Deferred and immediate annuity**

The two types of annuity plans suit different people. A deferred annuity allows young people to pay premium by instalment, accumulate the cash values, and create a steady stream of income for their retirement.

An immediate annuity allows people who are retired or near retirement to convert a sum of money into a long-term and stable cash income.

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What do I need to know when insuring for longevity ?

Both public and private annuity plans are available, catering to a range of financial needs in retirement.

► An annuity is not a free lunch

- It should not be regarded as **an alternative to life insurance**.
- An annuity is usually a fixed amount, which may be **eroded by inflation** over time.
- The premium payment term is usually longer for a deferred annuity. Make sure you are **able to pay the premium in full** and complete them before retirement.
- Returns on annuity plans can generally be categorised as **'guaranteed' and 'non-guaranteed'**.
- You cannot withdraw the money invested in annuity plans. The amount obtainable from the policy surrender **may be lower than the total premium paid or even zero**.
- Premium paid to the qualifying deferred annuity policy (QDAP) is **tax deductible**.

What are the features of the public annuity plan ?

The HKMC Annuity Plan, the first public annuity scheme in Hong Kong, was launched in July 2018.

► About the HKMC Annuity Plan

Hong Kong residents aged 60 years or above can participate. Notable features of this plan include the following:

- It is an **immediate annuity** requiring a one-off premium payment.
- It is a **life annuity** which provides a lifelong monthly guaranteed income to the annuitant.
- In case the insured passes away, the beneficiary will receive death benefit as lump sum or in the form of monthly payments.
- **A one-off special withdrawal** is available. The insured can withdraw part of the premium paid for medical and dental expenses.
- To find out more, please visit the **HKMC Annuity Limited** website.

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Do life annuities benefit those who live longer ?

The HKMC Annuity Plan is a life annuity scheme, which some consider to be a 'game of endurance'.

► Understanding the return from the public annuity plan

The scheme sets a minimum guaranteed return of 105% of the premium paid.

- The above applies unless the policyholder opts to surrender early, or there is **no loss incurred**.
- The longer you live, the more annuity you receive and the higher the return. Therefore, the **guaranteed return may be outstripped**.
- If the insured passes away within the Guaranteed Period, the designated beneficiary/ies will receive **death benefit**. Please refer to the HKMC Annuity Limited website for how this is calculated.

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What are the common misunderstandings regarding annuities ?

Annuities are generally not among the more popular life insurance products, so it is understandable that the public may not know much about them.

▶ **The truth about annuities**

It is easy to get the wrong picture if you confuse annuities with other investment and wealth management tools.

- An annuity is **not an investment** comparable with stocks, bonds and time deposits in terms of return.
- An annuity is **not an endowment life insurance**. Endowment life insurance focuses on the guaranteed and non-guaranteed cash values obtained at its maturity. Although these cash values can mimic monthly annuity payments, the amount may be insufficient and will not protect against financial risk arising from longevity risk.



Travel insurance for peace of mind



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When should you buy travel insurance?

Travel insurance protection usually takes effect immediately upon purchase. Therefore, a good time to purchase is soon after booking your transportation and accommodations.

► **Don't wait until the last minute**

Many travel insurance plans cover events causing delays or cancellations, so it is best to be insured somewhat in advance.

- **Flight delays or cancellations** due to weather issues such as a No. 8 Storm Signal or Black Rainstorm Warning Signal.
- A **Black Outbound Travel Alert** was issued for your planned destination.
- You are unable to leave due to an **illness of your own or illness or death of your family members**.

Are there any limitations for the elderly when purchasing travel insurance?

There usually will be some limitations for elderly purchasers of travel insurance.

► **Typical limitations**

Coverage for the elderly can be less than for younger persons under the same travel insurance policy.

- Many travel insurance policies have an **upper age limit** ranging from 70-85 years.
- The **benefits will vary according to age**, such as the upper limit of death benefit and benefits on medical expenses. Benefits for the elderly will be less than for younger persons.

What should I look for when insuring a trip?

As when considering any kind of insurance, you should ensure that the coverage meets your actual needs.

► **A note for elderly persons buying travel insurance**

Elderly persons should pay special attention to the following:

- The **maximum benefit** for medical expenses, including emergency evacuation and repatriation services, hospital deposit and treatment expenses after returning to Hong Kong.
- Exclusions such as **unknown pre-existing** injuries and conditions.
- Any **age limit on protection** of participation in high-risk sports and activities.
- **Get insured as soon as possible** to protect yourself against features such as 'cancellation of trip'. This provides protection even if you cannot make your trip due to illness.

Which is best: single-trip or annual travel insurance?

Retirees who travel multiple times a year should consider buying travel insurance on an annual rather than a single-trip basis.

▶ **Annual travel insurance plan**

In addition to matters such as premiums and coverage, you should also understand the following:

- Annual travel insurance plan does not provide a 365-day insured period. The **insured period** for most travel insurance policies is only 60-90 days.
- The **maximum benefit** for certain items in annual travel insurance plan may not be higher than that of a single-trip travel insurance plan.

Is terrorist attack covered?

Terrorist attacks are becoming more of a concern in recent years, and this has led to questions on whether travel insurance covers personal and financial losses caused by such events.

► Understanding terrorist attack protection

Travel insurance usually does cover terrorist attack, but you should consider the following:

- When an incident occurs, insurance companies will determine whether it can be classified as a terrorist attack, based on the local government's statement. Individual insurance companies may have **different definitions**.
- Most travel insurance policies **will not cover loss caused by** war or nuclear risks.
- Take note of the **protection coverage and maximum benefit**.

Are high-risk activities covered?

If your travel plans include activities such as hot air ballooning or diving, you should enquire as to whether your insurance will cover them.

► **Understanding high-risk activity coverage**

What you regard as a 'high-risk activity' may be very different from how an insurance company defines it.

- Find out which activities and sports the policy **does and does not cover**.
- By their very definition, high-risk activities can easily cause injury. Take the time to understand your policy's **benefits on medical expenses**.



Find a professional insurance intermediary



Is it a good idea to buy insurance from an acquaintance?

It is totally reasonable to buy insurance from someone you know in the industry.

► **What's more important**

Even if the intermediary is a friend, he or she should be held to the same standard of professionalism and trustworthiness as any one else. Make sure that the intermediary...

- Holds the **appropriate licenses**.
- Is capable of properly handling clients' **personal data**.
- Has **extensive knowledge about insurance** and is able to recommend insurance plans appropriate to clients' needs.
- Is **responsible**. Contacts clients regularly and reviews their insurance needs.

Should I keep in touch with my intermediary?

Some people contact their insurance intermediaries only when they need to file a claim or buy insurance.

► The pros of staying in touch

Staying in contact with your insurance intermediary is necessary, as both retirement planning and actual retirement can spread across decades.

- Buying life, medical and critical illness insurance is a long-term commitment. The contract period can **last for decades**.
- Personal insurance needs will change at different stages of life and should be **regularly reviewed** with your insurance intermediary.

Why should I meet with my intermediary?

Meetings with your insurance intermediary are not for idle chat. The purpose of these meetings is to understand each other and provide the intermediary with updates.

► Analysis of financial needs

Before recommending any product, the insurance intermediary will conduct a financial needs analysis in order to understand your insurance needs and affordability to pay.

- You should answer questions **honestly**.
- If the insurance intermediary's **recommendations differ** from what is indicated by the financial needs analysis, ask the insurance intermediary to explain the discrepancy.
- Signing any form indicates that you agree with the content in the form. **Make sure you understand the content** before signing.
- **Don't sign a blank form.**

What if I made the wrong decision on long-term protection?

Buying life and medical insurance is a long-term commitment, with a contract period that can last for decades. It is very important to understand the policy in detail and make sure it is appropriate for you.

► **21-day cooling-off period**

Currently, a 21-day cooling-off period is stipulated for certain types of life insurance. This gives the policyholder a reasonable period in which to review the policy's terms after purchase.

- **Make good use of the cooling-off period.** Carefully review the policy's terms and conditions, or seek advice from other insurance intermediaries for comparison.
- If you conclude that the insurance plan is not suitable for you, you may **cancel the policy and be refunded with the paid premium** during the cooling-off period.

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Any more insurance advice for the elderly?

Recent years have seen a proliferation of insurance products aimed at protecting the retirement of seniors.

► Some useful advice

- Understand your **insurance needs and your affordability for your protection**.
- **Insurance premiums for the elderly are generally higher than those for younger people**. Elderly buyers should take a cautious approach when purchasing long-term insurance.
- If needed, **bring your family** along when meeting insurance intermediaries.
- Whenever in doubt, **ask questions**. If there is anything you do not understand in the documents, be sure to clear up the issue before you purchase.

Money Management Tools

A suite of interactive tools for managing your finances

The IFEC offers a suite of interactive tools to help you better plan and manage your personal finances anytime, anywhere.



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English version:



  Money Management Tools and Mobile App 85% 

	Borrowing and Debt Calculator	Work out borrowing costs, help manage debts and provide practical tips.
	Life Protection Coverage Calculator	Calculate how much life protection coverage you need.
	Financial Health Check	Assess your financial health and get a free analysis report and an action plan to improve it.
	Budget Planner	Develop your budget and take control of your spending and savings.
	Cut-back	Work out where you can save and cut back on non-essential expenses.
	Savings Goal	Come up with a plan to achieve your saving goals.
	Debt	Get an overview of all your personal debts and tips to help you manage your debts.
	Net Worth	Assess your assets and debts and how well you are at managing your wealth.
	Retirement Planner	Work out your retirement budget with action plans.
	Money Tracker	Download this mobile app to help you plan, budget and track your expenses and income anytime, anywhere.

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