

Tobacco costs dearly when it comes to insurance

Users may have to pay 40-70% more premium than non-users. So a smoker is burning a hole not just in his lungs, but also in his wallet!

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We all know that smoking is injurious to health. Apart from direct money spent on tobacco products, (around 1,000-2,500 per month for most tobacco slaves) indirect costs on healthcare and loss of productivity due to illnesses caused by tobacco usage is quite substantial. Now add insurance costs to this long list of expenses. In fact, the extent of such extra insurance costs became clear when we received a query from a reader. Here is that query:

I am 38 years old and plan to buy a 30-year unit-linked insurance plan, where I will pay a premium of ₹39,000 per annum for a sum assured of ₹75 lakh. After deducting all charges including mortality charges, the indicative fund value at the end of 30 years comes to around ₹45.0 lakh at a gross return of 6% per annum and ₹9 lakh at a gross return of 10% per annum. If I invest the premium amount in the Public Provident Fund for the same tenure, the fund value would be around ₹44 lakh @ 8% per annum. Since I am getting such a poor return, should I invest in PPF rather than a policy?

When we got the query, the cheapest premium worked out to ₹22,000.

| Name of policy | Premium paid by (in ₹) | Age-30, term-30 | Age-40, term-30 |
|----------------------------------|------------------------|-----------------|-----------------|
| ICICI Pru Life – iProtect Plan | Non-tobacco user | 9,348 | 19,523 |
| | Tobacco user | 12,988 | 27,712 |
| | Difference (in ₹) | 3,640 | 8,189 |
| | Difference (%) | 39% | 42% |
| Kotak Life – Preferred Term Plan | Non-tobacco user | 11,719 | 26,362 |
| | Tobacco user | 18,310 | 45,526 |
| | Difference (in ₹) | 6,591 | 19,164 |
| | Difference (%) | 56% | 73% |



genious plan — what if he does not tell the insurance company of his habit and uses the resultant savings in premium to build up the nest egg? I told him the plan would not work because the insurance company would not pay up on the policy in case he died; and that it would discover his smoking habit in the medical tests.

He refused to give up. He said he would give up smoking for a while before he applied for insurance, so that the medical tests would not reveal that he smoked. I replied it would still not work — the insurance company would discover on his death that he was a smoker, and his premiums would be wasted. Unwilling to give up, he asked what the company would do if a policyholder who was a non-smoker at the time he took the policy started smoking later on.

Well, I was stumped at that one. The insurance company would probably have to pay if a non-smoker (at the time of taking the policy) turned a smoker later on. But I said this did not apply to him as he was already a smoker.

So if you are a smoker or considering taking up the habit, remember, you will be burning a hole not just in your lungs, but also in your wallet!

Assuming he invested the difference of 17,000 (39,000 less 22,000) in PPF @ 8% per annum it would accumulate to around Rs 19 lakh.

So we advised him to take a term policy and invest the remaining amount in various instruments depending upon his risk appetite to get better returns. Also, his tenure for investment was quite long so we suggested he go for a more aggressive portfolio that includes equity. But there was a sting in the tale. The customer came back and told us that in spite of excellent medical reports, he was getting the term policy at a premium of 36,000 per annum and not 22,000 as we had told him.

On further enquiry, we realised the higher premium was being charged not because of any health issues, but

because he was a smoker (the premiums indicated were for non-tobacco users only). Now the equations changed completely. The money left from the premium payable on the Ulip was only 3,000 and the gross amount accumulated on that would be much lower than the fund value even at a lower return of 6%.

This was happening because the Ulip plan did not differentiate between a smoker and a non-smoker. (Smoking and tobacco usage have been used interchangeably in this article — lower premiums are available only where the policyholder does not use tobacco in any form — smoking, chewing, snuff, etc.) We asked the customer to take the Ulip policy immediately if it was still available.

But this episode highlighted the fi-

nancial costs of using tobacco. Here is an example to put the figures in perspective. Assume that the direct and indirect cost of cigarettes/ gutka is around 3,000 per month on a conservative basis. If the same money is invested in a diversified equity plan for 20 years, considering a return of 15% p.a., they would be enough to pay for a course costing 14 lakh in today's money (assuming inflation is at 6% per annum). Readers who are in their 30s and 40s and are looking for a policy of 75 lakh with a 30 year-period can refer to the table above, which compares premiums for tobacco and non-tobacco users.

But the story does not end here. I used the same illustration to convince a cousin of mine to kick the butt. In stead, he sought my advice on an in-

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