

Buy a health insurance plan because what your firm provides may not be enough

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FACED with an ageing population and increasing operational and research outlays, the cost of healthcare in Singapore is estimated to rise by 3 to 5 per cent annually.

In developed countries, the consumer price indices, or CPI, for healthcare have been known to rise by double digits in percentage terms each year, according to Dr Yii Hee Seng, who has been practising for the last 20 years.

Many Singaporeans are covered by company insurance when they are employed, but experts think that this alone may not be sufficient.

Unlike the good old days where workers received pension payouts upon retirement, employees today need to set aside money for their medical expenses in the later years of their lives.

"Statistics have shown that 80 per cent of a person's medical costs is incurred in the last 20 per cent of his or her life," said Dr Yii, who is also the general manager at International Medical Insurers, or IMI.

With the concept of co-insurance getting more popular, people must play a more active part in looking after their healthcare expenses.

"We have to look at the concept of insurability," urged Dr Yii. "Buy a plan when you are still insurable. After you are diagnosed with a chronic illness, premiums may be much higher or insurance companies may not want to insure you."

Company medical insurance schemes usually cover employees while they are with the firm. Typically, such schemes do not cover the employee's dependants, un-

Take the pain out of rising medical expenses



OUCH: Typically, 80 per cent of one's medical costs is incurred in the last 20 per cent of one's life.

less he or she holds a senior position within the company.

"It is therefore critical for one to ensure that one has medical coverage for dependants, in between jobs and upon retirement," said Mr Jason Sadler, chief executive of HSBC Insurance (Singapore).

OPT FOR PORTABILITY

Traditional corporate insurance schemes subject employees to varying terms and conditions, clinics and doctors. When they move from job to job, this can be a cause of frustration and inconvenience.

In a move to address this issue, the insurance industry designed a portable medical plan called the Transferable Medical Insurance Scheme, or TMIS. It is an em-

ployer-sponsored group hospitalisation and surgical insurance programme with transferability and continuation of coverage when the employee changes jobs. It enables the insured to enjoy the same medical coverage — without worrying about an employer's decision or a change in employment.

An ideal situation would be for employers and/or employees to buy personal and portable insurance. This will enable employees to enjoy portability of their medical insurance for the relatively economical premiums of group insurance, said Mr Sadler.

However, the portable plan is not popular among companies for various reasons, especially the cost factor.

"Currently, there is a portable medical scheme for corporates in the market, but

take up is generally slow as portable medical schemes cost more than traditional group hospital and surgical insurance," said Mr Sadler.

Another reason for the low take-up could be low awareness among employees and a lack of willingness on their part to co-pay the insurance premium for these portable plans, said Dr Yii.

"Employees can buy this portable plans but we need a huge group of people. That way, the premiums can be as low as \$50 or so a year for the portability benefit," he said.

For now, the Shield plan is a good form of portable insurance scheme that protects you financially from catastrophe.

But buyers must remember that most Shield plans come along with deductibles, an annual limit and lifetime limit, said Dr Yii.

"So if you wish to preserve the lifetime limit of this plan, it would be useful to get a rider, or a separate private insurance plan. This could be your own private one or the company's plan, but most company insurance plans are not portable yet," said Dr Yii.

While the amount of medical coverage needed would vary from person to person, it would be fair to say that health insurance needs and death/disability cover will increase with age.

The amount of health insurance should at least cover the current and future estimated cost of the insured's health and medical needs, said Mr Sadler.

"There is no one size fits all solution. We would recommend that customers do a financial review, which will be useful in helping them to identify their insurance protection needs and ensure that they are adequately covered for death, total and permanent disability, critical illnesses as well as medical and health expenses."

Dr Yii said: "Buy the right plan — if you intend to stay in an "A" class ward, you must buy a plan to meet your needs."

experttalks

ABOUT SHARE FINANCING



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OCBC Securities recently relaunched its share financing service, which promises to process new applications within the same day. Its managing director Hui Yew Ping spoke to Wealth about the risks of and returns from using share financing.

What are the pros and cons of share financing?

Share Financing is a secured revolving credit line backed by cash or shares. Like any debt tool, share financing, if used properly, can boost one's wealth over time or bring about financial losses.

With share financing, you can leverage with cash or capitalise on your idle share asset, such as shares sitting in your Central Depository, or CDP, account, to buy more shares. This minimises your investment outlay since you do not have to lock up these monies, which may be earmarked for other purposes.

To this end, OCBC Securities offers the largest list of shares across Singapore, Malaysia and Hong Kong, numbering over 1,000, which customers can pledge as collateral for trading. This gives flexibility to customers who wish to take advantage of market opportunities.

Of course, there are also risks, such as getting margin calls when the share value drops. But we have processes to manage these risks, and we also equip our customers with skills to manage the risks through a series of investment seminars.

How do you ensure that the users of this

facility know how to manage their risks?

Our clients can enrol in education programmes so that they can be better-equipped to use share financing wisely. OCBC Securities has held regular investment seminars for both our existing and new customers in the areas of charting and fundamental analysis.

Going forward, we will be offering to our share financing customers, "Trade Calls" to help them seek out value stocks. In addition, with our Internet portal, investors know exactly what is their outstanding credit line and how much more shares they can buy. It's really loan management made simple.

OCBC Securities limits the number of shares an investor is exposed to in a particular company. The risk of using share financing rests largely on the profile of the investor and whether he fully utilises his credit limit.

Can you give an example of how a customer would get a margin call?

The following illustrates two investors — Know-How and Don't-Know-How — with the scenario being that there is a price dip the following day.

Investor Know-How

Collateral share value: \$10,000
Available Credit Line: \$25,000 (2.5 times)

The customer utilises \$20,000 on Day 1. A minimal margin percentage of 140 per cent needs to be maintained, calculated as follows:

Share Value/Used Credit Line =
(\$10,000 + \$20,000) / \$20,000 = 150 per cent.

On Day 2, the share price dips 5 per cent. The Margin percentage is now:
Share Value/Used Credit Line =
\$28,500 / \$20,000 = 142 per cent There is no margin call as the minimal 140 per cent is maintained.

Investor Don't-Know-How

Collateral share value: \$10,000
Available Credit Line: \$25,000 (2.5 times)
The customer fully utilises the credit line of \$25,000 on Day 1. A minimal margin percentage of 140 per cent needs to be maintained, calculated:

Share Value/Used Credit Line =
(\$10,000 + \$25,000) / \$25,000 = 140 per cent.
On Day 2, the share price dips 5 per cent, the margin percentage is now:
Share Value/Used Credit Line =
\$33,250 / \$25,000 = 133 per cent

This investor will get a margin call from a trading representative to bring the margin percentage up to the minimal 140-per-cent mark.