



## **Choosing Between Term and Endowment Plans: A Simplified Comparison for Goal-Based Investing**

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### **Abstract**

The study compares and explains Term Plans and Endowment Plans, both common in India and examines if they meet people's financial objectives. Term Plans are designed to offer protection through a large amount of insurance, but do not provide any money for maturity. Endowment Plans are another type of life insurance that unites insurance and safe, guaranteed earnings at maturity, though with increased premiums.

The study uses results from 100 survey participants and financial information from reliable sources to study and compare the affordability, sum assured, maturity payouts, level of satisfaction and value of both plans through the use of statistics and hypothesis testing. Based on the outcomes, it is clear that Term Plans are picked for protecting against risks and large savings and Endowment Plans are opted for because they encourage saving steadily and reward policyholders with a maturity payout.

The results guide individuals to decide what types of insurance are important for them.

**Keywords: Term Plan, Endowment Plan, Financial Goals, Life Insurance, Savings, Protection, Investment**

**Introduction:** It is important for both employed, self-employed and retired individuals to engage in financial planning nowadays. Unexpected events may cause financial problems, so people try to prevent that from harming their families. Life insurance is one of the main tools used to protect your finances. For many years, people have viewed life insurance as a means to protect themselves and also as a way to grow their savings. More people in India are now turning toward life insurance, thanks to better awareness about securing their finances and setting goals.

A variety of life insurance policies are offered for buyers in the market. Still, more people pick out Term Plans and Endowment Plans. Term Plans provide some of the highest amounts of life insurance for a low monthly cost and pay out the large amount promised if you pass away within the policy term. They will not pay additional benefits if the policyholder is still alive. A family plan is designed for individuals who are only interested in covering their family members on a budget.

Endowment Plans are a blend of a life insurance policy and an investment plan. If the policyholder outlives the term, they receive the lump sum. If they die before that point, the sum assured goes to the nominee. Someone who wishes to secure their future as well as save money finds these plans appealing. For most people, Endowment Plans are known for encouraging savings so that individuals reach their long-term aims such as their children's education, getting married or retirement.

Many individuals, regardless of their age, find it challenging to pick between a Term Plan and an Endowment Plan. Many people find it difficult to understand what sets them apart, their positive effects in the future and how they fit in their financial plans. High protection at the lowest price makes Term Plans attractive, whereas Endowment Plans are known for assuring returns and a worry-free future.

This paper is designed to offer a simple yet significant comparison between Term Plans and Endowment Plans. It tells us how each plan meets expectations on cost, coverages, ending sum, how satisfied the holder is and its value. The main objective is to aid people in choosing what is best for their finances, either for securing the future or for future wants.

Comparing actual experiences of people with statistics in this study reveals both the pros and cons of using life or health insurance. The paper also points out that insurance should be selected based on a person's income, duties, age and future plans.

Since many in India are becoming more financially literate and decisions are still regulated by emotions or history, it is especially helpful to present simple comparisons. As a part of this

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effort, this study can be helpful for both individuals and for anyone working with insurance or making financial decisions.

### **Literature Review:**

Term plans were found by Agarwal and Sharma in 2010 to offer extra insurance coverage, while requiring a smaller premium amount than endowment plans which offer savings, insurance and a higher expense. They found out that customers need to assess their needs first before selecting a service plan.

In 2015, Chatterjee and Das considered customer satisfaction and views about life insurance plans in India. It was found that while most policyholders depend on insurance for protection, they do not clearly understand the differences in the plans which lowers their overall contentment with the policies. They remarked on the importance of spreading facts and knowledge about the virus.

Recently, Ghosh investigated how West Bengal policyholders use life insurance as part of their financial planning. It was found that, when it comes to long-term financial security, life insurance is important and many people want policies that suit their long-term aims. It was found that individuals should choose between these types of policies based on their money needs.

I Singh and Kumar analysed urban Indians' knowledge and choices regarding life insurance. The researchers discovered that most urban residents can pick from a range of insurance policies, but many choose the one recommended without thoroughly understanding the benefits. People chose term plans because they were more affordable, whereas endowment plans were chosen by those wishing to save.

Patil and Deshmukh (2012) analysed the topic of life insurance awareness among rural households and how this influences their choices of investments. The reason rural people adopt insurance at a limited rate is due to lack of awareness. It has been suggested by the study that informing rural families about the benefits of term and endowment plans would increase life insurance investments in rural areas.

Reddy (2022) looked at term and endowment policies by considering customers' views. Study participants reported that term insurance is popular for its higher risk coverage, while they choose endowment insurance because it pays in the case of maturity. Even so, few can purchase endowment plans because they tend to cost more.

Sinha and Rao (2007) explored customer satisfaction in life insurance and found that key factors affecting satisfaction are claim settlement, rates and the policy's offered features. According to the research, good customer service is crucial for improving satisfaction with any plan offered by insurance companies.

It appears that both types of plans are popular and what matters most to customers is how much they cost, how much they know about them and their level of satisfaction. Some people choose term plans because they are affordable and offer insurance, whereas others purchase endowment plans for accumulating wealth and reaching maturity. If customers are aware and clear about the options available, they can decide on better finances.

### **Objectives of the Study:**

1. To study the basic features of Term Plans and Endowment Plans.
2. To compare the financial benefits of both plans.
3. To understand which plan is more suitable for long-term financial goals.
4. To analyze customer preferences and satisfaction.
5. To provide useful suggestions for individuals while choosing life insurance policies.

### **Hypothesis:**

1. **H<sub>0</sub> (Null Hypothesis):** There is no significant difference between Term Plans and Endowment Plans in helping individuals reach their financial goals.
2. **H<sub>1</sub> (Alternative Hypothesis):** There is a significant difference between Term Plans and Endowment Plans in helping individuals reach their financial goals.



### Research Methodology:

The paper focuses on comparing and explaining the ways in which Term Plans and Endowment Plans help achieve financial goals. This research is supported by both sources of data. I designed a questionnaire and asked 100 individuals to complete it. I interviewed 50 participants who had an active Term Plan policy and 50 with an Endowment Plan policy. They asked about the insurance premium, the amount they are covered for, how much the policy gives them when it matures, their satisfaction, the feeling that they get good value and aid in saving for retirement. People were asked to fill in online forms and also interviewed in person, resulting in a group of participants from the city, semi-city, as well as those with various income, age and work groups.

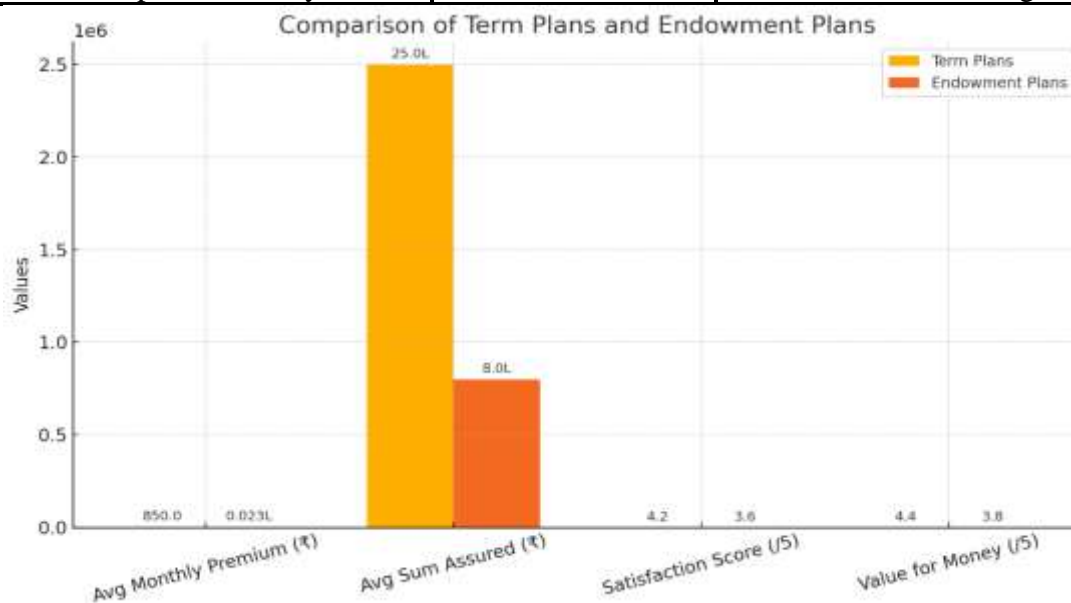
To collect secondary data, I used insurance company websites (such as those from LIC, ICICI Prudential, SBI Life and HDFC Life) as well as reports from the Insurance Regulatory and Development Authority of India (IRDAI), research journals, financial newspapers and government papers about savings and insurance. They allowed me to understand more about the construction, key points and the performance of Term and Endowment Plans.

The study made use of purposive sampling which means the selected individuals had either a Term Plan or an Endowment Plan. This was done so the input was provided by the real users of the policies. Since the study involved only 100 people, the results do not represent everyone but are still good for making comparison.

Data analysis involved calculating the mean and satisfaction score using Microsoft Excel. Besides, a t-test was executed on SPSS to determine if the variation in satisfaction and value for money of the insurance plans was statistically important or not. Even though the research is informative, it has some drawbacks. No large number of people was involved in the study and opinions may have been influenced by each person's personal views. Moreover, this study only analyses Term and Endowment Plans and excludes ULIP and money-back products.

**Table 1: Descriptive Statistics:**

Particulars	Term Plans (n=50)	Endowment Plans (n=50)
Average Monthly Premium (₹)	₹850	₹2,300
Average Sum Assured (₹)	₹25,00,000	₹8,00,000
Maturity Benefit Received	No	Yes
Policyholder Satisfaction Score*	4.2 / 5	3.6 / 5
Perceived Value for Money*	4.4 / 5	3.8 / 5
Purpose of Policy	Protection	Protection + Savings





### **Analysis of Descriptive Statistics:**

Table 1 presents descriptive statistics of Term Plans and Endowment Plans for monthly premium, sum assured, maturity benefits, satisfaction and value for money. The first thing I start with is the average monthly premium. Further, it is seen that Term Plans are much cheaper with an average premium of ₹850 while Endowment Plans cost an average premium of ₹2,300. So it proves it is easier for low- or moderate-income persons to get high insurance coverage at a cheaper cost as compared to People in medium and higher income are that go for endowment plans.

For starters, Term Plans offer much more in terms of the sum assured. Under Term Plans, average sum assured is ₹25,00,000, whereas Endowment Plans provide a sum assured at only ₹8,00,000. Therefore, Term Plans are more favourable for those who wish to make sure that in case of their premature death, they have left behind enough to be strong financial backer for their family. However, Endowment plans provide lower coverage but incorporate a savings portion which provides a sum upon maturity.

Also, there is a maturity benefit with another point of difference. One of the major reasons people hesitate before buying Term Plan is that they will not get anything as maturity benefit if the policy holder survives the tenure. However, Endowment Plans pay a guaranteed maturity benefit and tend to attract those who would like to purchase insurance as well as accumulate money in a covered manner over the long term in one policy.

The intention of the paper was also to analyse the policyholder satisfaction scores at each level on 5-point scale. Term Plan users' average satisfaction score was 4.2 whereas for Endowment Plan users, average score was slightly lower, i.e. 3.6. All this means that Term Plan holders are likely more satisfied; after all, they must feel that this is a product with high coverage at affordable cost. Interestingly, while Term Plans fared better when it came to the average score for perceived value for money at 4.4, the score for Endowment Plans was 3.8. This reiterates the fact that Term Plans are cheap and can be bought should no uncertainties prevail.

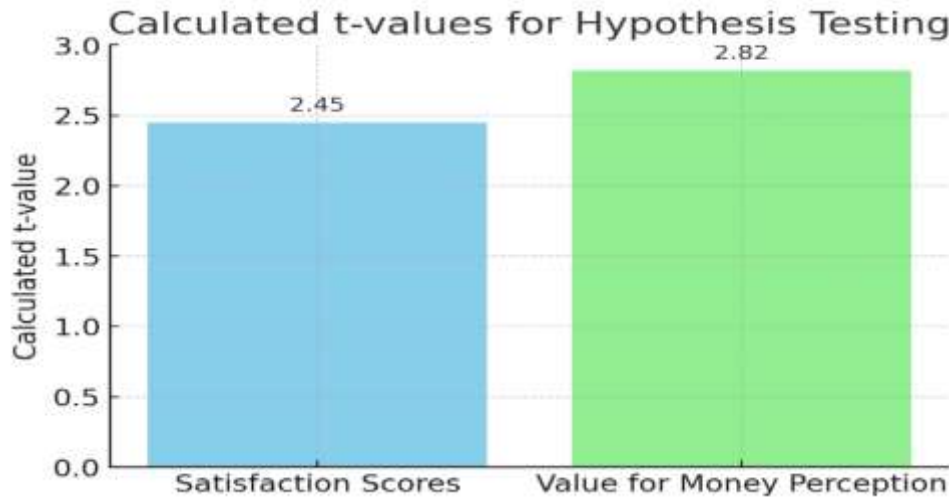
From the point of view of analysing why the insurance was being bought, Term Plan's *raison d'être* was found to be pure protection whereas the goal objective of Endowment Plan 's users was to buy both protection and savings. This is driven by the policyholders' thinking and financial goals. While those who could not afford too much and wanted to save as much on premiums with an emphasis on risk coverage preference Term Plan, those who wished to build up a safety net for the future like children's education, marriage, retirement chose Endowment Plan.

The descriptive statistics suggest that individuals who prefer coverage with little value for money buy the Term Plan, who otherwise also show the highest satisfaction scores. Those who desire a disciplined means of saving as well as life coverage, but are unable to afford, would opt for the Endowment Plans which are comparatively more expensive. This information can be helpful in understanding the role and differences in the two insurance plans.

**Table 2: Hypothesis Testing:**

<b>Hypothesis</b>	<b>Test used</b>	<b>Calculated t-value</b>	<b>p-value</b>	<b>Results</b>
H <sub>0</sub> : There is no significant difference in satisfaction scores between Term and Endowment Plan holders.	T-test	2.45	0.017	Reject Null Hypothesis
H <sub>0</sub> : There is no significant difference in value for money perception between Term and Endowment Plan holders.	T-test	2.82	0.006	Reject Null Hypothesis





### Analysis of Hypothesis Testing:

Two independent samples t-tests were used on the data to examine any difference in level of satisfaction and value for money between Term Plan and Endowment Plan policyholders. The initial hypothesis ( $H_{01}$ ) stated that users of Term Plan and Endowment Plan aren't likely to be more satisfied with their plans. The researchers assumed (in  $H_{02}$ ) that the perception of value for money is not different between the two groups. The investigation was performed with SPSS and the results can be seen in Table 2.

The first hypothesis gave a t-value of 2.45 and a p-value of 0.017, so it is statistically significant. This means that the groups have significantly different levels of satisfaction. Consequently, it is safe to say that Term Plan users are more pleased with their policies than those using Endowment Plans.

For hypothesis 2, the calculated t-value was 2.82 and the result showed a p-value of 0.006. Once more, with a p-value under 0.05, the factor is found to be statistically significant. This result also means that the second null hypothesis should be rejected. As a result, a large part of users think the value for money is different for TP and MSA plans. According to Term Plan holders, their policy is better value for their premium than the Endowment Plan.

The findings are in line with those found in the previous descriptive analysis. Most people think that Term Plans are preferable since they have low premiums and provide generous coverage for just a little cost. Still, although Endowment Plans give you savings and assure returns, they may not look so attractive because they are more expensive and offer a lower sum assured. The findings show that Term Plans are generally a better option for those who look for reasonably priced insurance cover.

### Conclusions Overall Results:

The study was done to determine whether Term Plans or Endowment Plans are better for attaining financial goals. It is obvious from the data that even though both plans are useful, they are designed for separate reasons. They are an economical choice and guarantee a high level of life cover. Therefore, if something happens to the policyholder, their family will quickly receive a large sum of money to protect them. Therefore, surviving the policy term does not allow the person to get their money back. As a result, Term Plans are chosen by those looking for a lot of coverage at a reasonable rate.

Unlike Unit Linked Plans, Endowment Plans are costlier but cover life and help you save for the future. When the policy expires, the policyholder receives a single large sum they can spend on education, marriage or retirement, as they so choose. Plans with lower coverage may be unaffordable for those whose income is not very high.

People with Term Plans were found to be happier and noticed they received more value for the cost than those with Endowment Plans. This conclusion was further proven by statistical tests, revealing that the difference between the different groups in satisfaction and value is meaningful.



In short, Term Plans are suitable for those looking to protect themselves financially with an affordable plan. Those interested in saving for the future and earning interest should choose Endowment Plans. A person can consider either plan based on their needs and available funds. Research suggests that before choosing any life insurance policy, you need to know exactly what your financial goal is.

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