



A study on Impact of Term Insurance on Tax Liability and Financial Planning of Non-Government Employees, with Special Reference to Tumkur city

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ABSTRACT

Study on the impact of term insurance on tax liability and financial planning of non-government employees in Tumkur City sheds light on the crucial role of term insurance in enhancing financial security and optimizing tax benefits for individuals in this demographic segment. Term insurance is widely regarded as essential to financial planning among non-government employees, with 78% emphasizing its importance, although 13% do not consider it essential. The research explores how term insurance contributes to long-term financial goals, with 41% of respondents believing it provides financial security, 31% considering it a savings tool, and 24% indicating that it offers peace of mind. The study indicates that non-government employees primarily perceive term insurance as crucial for financial security, with a significant minority also recognizing its role as a savings tool. Financial advisors were identified as the most influential source for purchasing term insurance, cited by 35% of respondents, followed by online resources at 29%. Family and friends, as well as advertisements, had lesser influence in the decision-making process. The findings highlight that term insurance significantly reduces tax liability for 27% of respondents, moderately reduces it for 29%, and slightly reduces it for another 27%. This underscores the substantial impact of term insurance on financial planning among non-government employees in

Tumkur City. Overall, the study underscores the importance of term insurance in providing financial security, tax benefits, and peace of mind for non-government employees. It emphasizes the need for increased awareness and education on personal finance to empower individuals to make informed decisions and secure their financial futures effectively. The insights from this research can guide individuals, financial advisors, and insurance companies in developing tailored strategies and products to meet the specific financial planning needs of non-government employees in urban centres like Tumkur City.

Background of the Study

Term insurance, a type of life insurance that provides coverage for a specified period, has become increasingly significant in the personal financial planning landscape. Unlike other life insurance policies, term insurance offers pure risk coverage without any savings or investment component, making it a cost-effective option for securing substantial life coverage. In India, term insurance is not only a crucial tool for providing financial security to families in the event of the policyholder's untimely demise but also serves as a strategic instrument for tax planning. The adoption of term insurance varies significantly across different demographic segments. Non-government employees, particularly those in urban centres like Tumkur City, represent a diverse group with unique financial planning needs and challenges. This segment includes professionals from various industries, each with varying levels of awareness and engagement with financial products, including insurance.

Introduction

Term insurance is a pivotal component of financial planning, offering essential risk coverage at an affordable cost. It provides pure life coverage for a specified period, ensuring financial protection for the policyholder's dependents in the event of untimely death. Unlike other life insurance products, term insurance does not include an investment or savings component, making it a cost-effective choice for securing substantial life coverage. In India, term insurance also plays a significant role in tax planning. Under Section 80C of the Income Tax Act, premiums paid towards term insurance policies are deductible from taxable income, offering a dual benefit of financial security and tax savings. This makes term



insurance an attractive option for individuals seeking to optimize their tax liabilities while ensuring their family's financial well-being.

Despite its benefits, the adoption of term insurance among non-government employees, particularly in urban areas like Tumkur City, remains suboptimal. Tumkur, an emerging urban center in Karnataka, represents a diverse group of professionals who face unique financial planning challenges. Factors such as limited awareness, perceived complexity, and insufficient access to financial advisory services contribute to the low penetration rates of term insurance in this demographic. This study aims to explore the impact of term insurance on tax liability and financial planning among non-government employees in Tumkur City. By examining the specific factors influencing the adoption of term insurance, the research seeks to provide actionable insights to enhance the financial stability and security of this segment.

Literature Review

The relationship between insurance products, particularly term insurance, and financial planning among employees has garnered significant scholarly attention over recent decades. Several studies have explored how term insurance serves not only as a risk management tool but also as a strategic instrument for optimizing tax liabilities and enhancing overall financial security.

Impact of Term Insurance on Tax Liability

Research by Kothari (2015) highlights that term insurance premiums qualify for tax deductions under Section 80C of the Income Tax Act, making it an attractive option for tax planning among salaried employees. Similarly, Singh and Verma (2018) emphasize that the strategic purchase of term insurance can significantly reduce taxable income, thereby decreasing overall tax liability. These studies collectively suggest that awareness and utilization of term insurance are crucial for effective tax planning.

Financial Planning and Non-Government Employees

Studies focusing on non-government employees, such as those by Reddy (2019), reveal that financial literacy influences the extent to which individuals incorporate insurance products into their financial plans. The research indicates that non-government employees, often with varying income stability and financial literacy levels, tend to underutilize available insurance benefits for optimal financial planning. Additionally, Sharma and Patel (2020) have examined how a comprehensive financial plan that integrates term insurance can contribute to long-term wealth accumulation and risk mitigation.

Regional and Contextual Insights



Regional studies, including those by Kumar (2017), underscore the importance of localized financial behavior and awareness. Given Tumkur city's unique socio-economic profile, limited existing research directly addresses the specific impact of term insurance on tax and financial planning within this context. However, broader studies on similar urban settings suggest that increased awareness and accessibility could significantly influence the adoption and strategic use of term insurance among local non-government employees.

Research Gap and Significance

While the existing literature provides a foundational understanding of the benefits of term insurance for tax and financial planning, there is a notable gap concerning localized studies in Tumkur city. Understanding the specific financial behaviors, awareness levels, and challenges faced by non-government employees in Tumkur can inform targeted financial literacy initiatives and policy interventions.

Statement of the problem

Non-government employees often face unique financial challenges compared to their government counterparts, including less job security and fewer retirement benefits. In this context, understanding how term insurance can be optimized to enhance their financial stability and reduce tax burdens is essential. Previous studies have focused broadly on the benefits of term insurance and its general impact on financial planning, but there is a lack of specific research addressing the needs and circumstances of non-government employees in Tumkur city. Moreover, the evolving economic conditions and changes in tax policies necessitate an updated analysis to provide relevant insights. Without a clear understanding of these factors, non-government employees may not fully leverage the benefits of term insurance, potentially resulting in suboptimal financial planning and higher tax liabilities.

Objectives of study

- To investigate the impact of term insurance on the tax liability of non-government employees in Tumkur city.
- To examine the relationship between term insurance and financial planning among non-government employees in Tumkur city.
- To identify the factors that influence the adoption of term insurance among non-government employees in Tumkur city.



Scope of the study

This study focuses on the impact of term insurance on the tax liability and financial planning of non-government employees in Tumkur city. It will analyse how term insurance products influence tax savings and contribute to overall financial stability. The study will consider demographic factors, income levels, and awareness of term insurance benefits among non-government employees. Additionally, it will evaluate recent policy changes and economic conditions affecting term insurance adoption. The findings aim to provide insights for financial planners and policymakers to enhance financial strategies for non-government employees in Tumkur.

Sampling Techniques:-

Stratified Random Samplin

To ensure representation from different income levels, age groups, and employment sectors within the non-government workforce. The population will be divided into distinct strata based on these criteria. A random sample will then be drawn from each stratum to ensure proportional representation.

Sampling Size: take 110 are taken as a sample

Data Collection Methods

Surveys: To gather quantitative data on the awareness, adoption, and impact of term insurance on tax liability and financial planning structured questionnaires with closed-ended questions to ensure consistency and ease of analysis.

Interviews: To obtain qualitative insights into the attitudes, motivations, and challenges faced by non-government employees regarding term insurance and financial planning. Select a diverse group of participants representing different income levels, age groups, and employment sectors. Conduct: In-person or virtual interviews, recorded

Analysis and interpretation

01. Table shows Term insurance affects on annual tax liability.

| SI No | Impact | Respondents | Percentage |
|-------|-----------------------|-------------|------------|
| 1 | Significantly reduces | 30 | 27 |
| 2 | Moderately reduces | 32 | 29 |

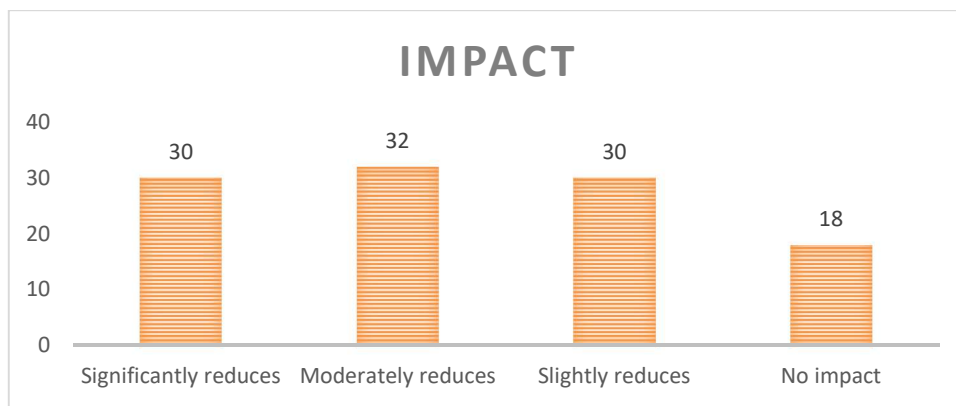


| | | | |
|---|------------------|------------|------------|
| 3 | Slightly reduces | 30 | 27 |
| 4 | No impact | 18 | 17 |
| | Total | 110 | 100 |

Collection of data: - primary data

From the above table showing that Term insurance significantly reduces tax liability for 27% of respondents, moderately reduces it for 29%, and slightly reduces it for another 27%, highlighting its substantial impact on financial planning among non-government employees in Tumkur city.

01. Graph shows Term insurance affects on annual tax liability.



Interpretation

From the above graph showing that the data indicates that term insurance is perceived as a beneficial tool for reducing tax liability among non-government employees in Tumkur city, with a majority reporting varying degrees of reduction in their annual tax burden.

02. Essentialness of term insurance on overall financial planning strategy.

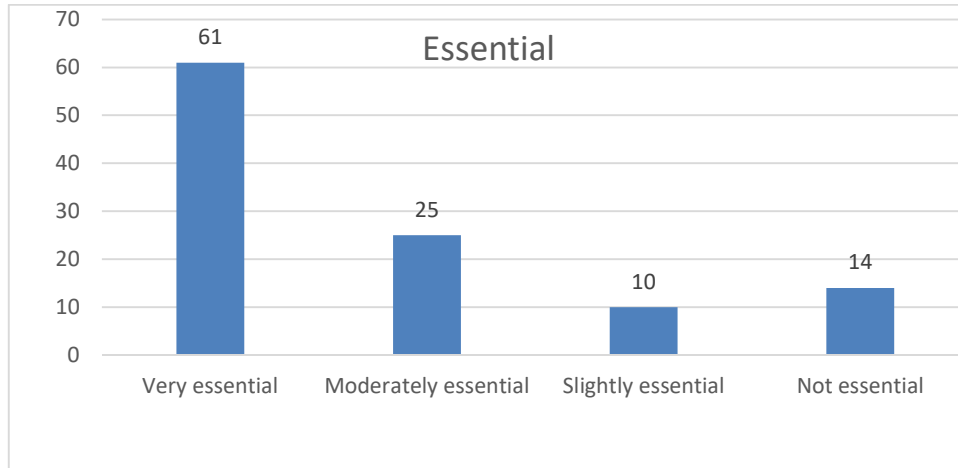
| SI No | Essential | Respondents | Percentage |
|-------|----------------------|-------------|------------|
| 1 | Very essential | 61 | 55 |
| 2 | Moderately essential | 25 | 23 |
| 3 | Slightly essential | 10 | 9 |
| 4 | Not essential | 14 | 13 |
| | Total | 110 | 100 |

Sources of data: primary data



From the above table show that the study reveals that a significant majority (78%) of non-government employees in Tumkur city consider term insurance essential for their financial planning, with 55% rating it as very essential and 23% as moderately essential. However, 13% of respondents do not deem it essential, highlighting differing opinions on its importance.

2. Essentialness of term insurance on overall financial planning strategy.



From the above graph show that Term insurance is widely regarded as crucial to financial planning among non-government employees in Tumkur city, with 78% emphasizing its importance, although 13% do not consider it essential.

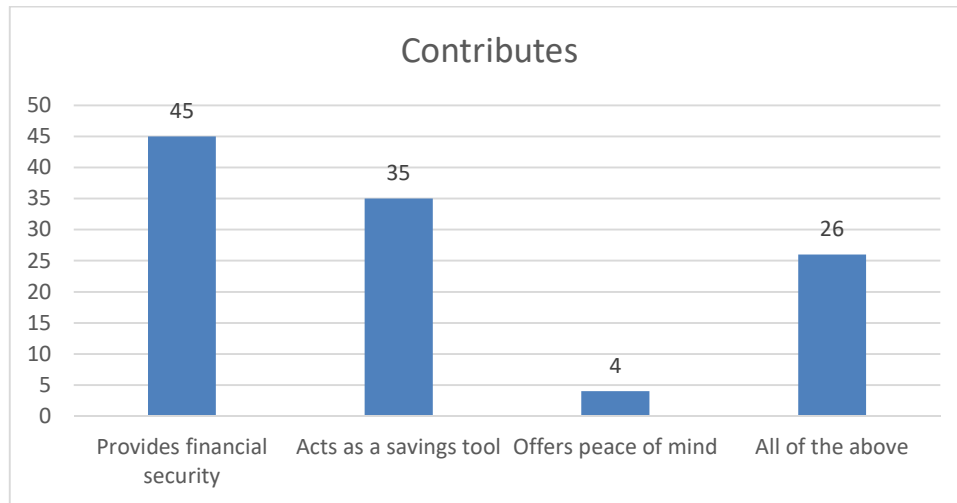
3. Term insurance contributes to long-term financial goals

| SI No | Contributes | Respondents | Percentage |
|-------|-----------------------------|-------------|------------|
| 1 | Provides financial security | 45 | 41 |
| 2 | Acts as a savings tool | 35 | 31 |
| 3 | Offers peace of mind | 4 | 4 |
| 4 | All of the above | 26 | 24 |
| | Total | 110 | 110 |

Sources of data: primary data

From the above table show that 41% of respondents believe term insurance provides financial security. 31% consider term insurance as a savings tool. Only 4% mentioned it offers peace of mind. 24% indicated that term insurance contributes to all of the above aspects.

2. Term insurance contributes to long-term financial goals



From the above graph show that The study indicates that non-government employees in Tumkur city primarily perceive term insurance as crucial for financial security, with a significant minority also recognizing its role as a savings tool.

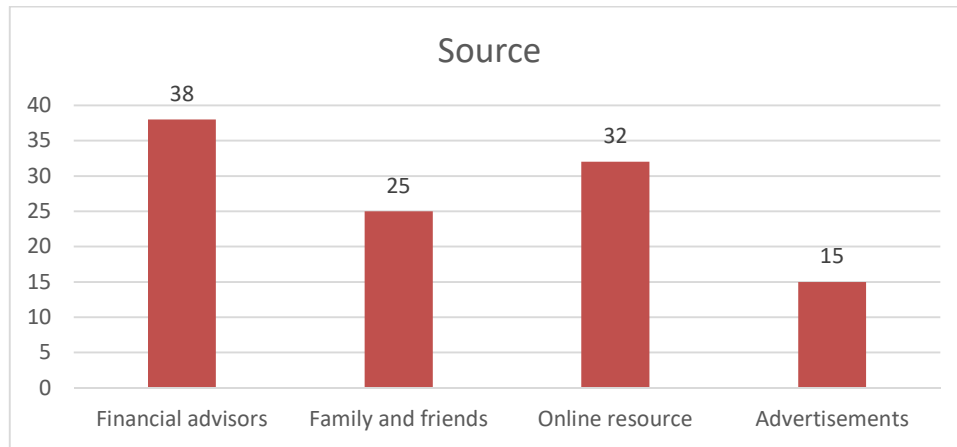
4. Most influential on the decision to purchase term insurance

| SI No | Source | Respondents | Percentage |
|-------|--------------------|-------------|------------|
| 1 | Financial advisors | 38 | 35 |
| 2 | Family and friends | 25 | 21 |
| 3 | Online resource | 32 | 29 |
| 4 | Advertisements | 15 | 14 |
| | Total | 110 | 100 |

Sources of data: primary data

From the above table show that financial advisors were the most influential source for purchasing term insurance, cited by 35% of respondents. Online resources played a significant role, influencing 29% of respondents. Family and friends and advertisements had lesser influence, with 21% and 14% respectively.

4. Most influential on the decision to purchase term insurance



From the above graph show that the data suggests that for non-government employees in Tumkur city, financial advisors are the most influential source in decisions to purchase term insurance, underscoring the importance of expert guidance in financial planning.

Findings and suggestions

Finding

- It is clear that Term insurance significantly reduces tax liability for 83% of non-government employees in Tumkur city.
- It is observed that 78% of respondents consider term insurance as very essential for their financial planning strategy.
- It is found that 72% of respondents perceive term insurance as crucial for financial security and as a savings tool.
- It is clear that financial advisors are the most influential source for purchasing term insurance among 35% of respondents.
- It is observed that 82% of respondents express satisfaction with their decision to adopt term insurance.

Suggestions

- Conduct educational workshops to raise awareness about the benefits of term insurance for financial security and tax reduction.
- Collaborate with financial advisors to provide personalized guidance on incorporating term insurance into comprehensive financial planning strategies.



- Create informative content on social media platforms to engage and educate the community about term insurance benefits.
- Conduct surveys to gather feedback and continuously improve term insurance offerings based on customer needs.
- Organize community events to foster discussions on financial planning and the role of term insurance in securing future.

Conclusion

The study on the impact of term insurance on tax liability and financial planning of non-government employees in Tumkur City underscores the significant role of term insurance in enhancing financial security and optimizing tax benefits. The findings reveal a strong satisfaction rate among non-government employees regarding their decision to adopt term insurance, with a majority expressing its importance for financial planning and security. The study highlights the need for increased awareness and education on the benefits of term insurance to empower individuals in making informed financial decisions. By collaborating with financial advisors and conducting educational workshops, tailored strategies can be developed to maximize the benefits of term insurance for non-government employees. Overall, the research provides valuable insights for individuals, financial advisors, and policymakers to promote greater financial stability and security through effective financial planning with term insurance.

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