

[Too young for life insurance? The debate over policies for children](#)

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Deciding whether to buy a life insurance policy for a child can be difficult, and there is strong disagreement over the benefits of such policies.

Advocates assure you that life insurance policies for children are great financial tools as part of larger portfolios of savings and investments.

In contrast, critics assert that insurance for kids is a waste of money for most families, since it rarely replaces lost income. Their message? Just say “no.”

Typically it is not a good buy, says James Miles, a consulting fellow for the Society of Actuaries.

Tony Steuer, author of the book “Questions and Answers on Life Insurance,” agrees.

“You get back to the real reason for life insurance,” Steuer says. “You are replacing somebody’s income.”

Unlike typical term life insurance policies, which are less expensive, permanent life builds up cash value that you can tap into. One reason frequently given for buying permanent life policies for children is to protect their future insurability. Permanent life can be maintained after the child becomes an adult.

Saving for college

Matt Rowles, a director in advanced marketing for individual life insurance at Prudential Financial, doesn’t encourage parents to use child life insurance as a method of saving money.

“There are a lot of better ways to save money, particularly if there is a college funding need in mind,” he says.

Certified Financial Planner Larry Ginsburg, a board member of the United Policyholders consumer advocacy group, says 529 education plans are far better college savings tools. These qualified tuition plans are sponsored by states, state agencies or educational institutions and are authorized by Section 529 of the Internal Revenue Code. There are two types of 529 plans: pre-paid tuition plans and college savings plans.

In their early years, permanent life policies grow slowly. The trade-off is that they have predictable returns, while 529 plans rely on the performance of the investments in their funds.

Permanent life monies are guaranteed and the annual growth is predictable, says Miles. Although you may be able to earn more with a 529 plan, there is no guarantee you will.

While saving for college may not be the best use for life insurance, permanent policies — as part of a larger financial portfolio for children — can be beneficial in certain cases because you can borrow from the cash value of the policy.

First things first: Insure the parents

Jack Hungelmann, the author of the book “Insurance for Dummies,” says parents and grandparents sometimes make the mistake of insuring children’s lives “when the worst economic loss would be the loss of a parent’s income.”

“The first and foremost thing to do is make sure that Mom and Dad have enough life insurance,” he adds. “The only thing worse than losing a parent is losing a parent without adequate life insurance. That is where the focus should be.”

Children typically don’t need life insurance, says James H. Hunt, a life insurance actuary at the Consumer Federation of America’s EvaluateLifeInsurance.org . “Frequently, the policies are bought in small amounts that 20 years later don’t amount to much. My feeling is parents should buy insurance on themselves.”

If you feel you must buy life insurance for your children, Hunt favors the cheaper term life policies. In the past, some insurance companies pushed their agents to sell permanent life insurance policies for kids simply because they generate more profits for insurers, he adds.

“When I was first in the life insurance business in 1955, the agents had a saying,” Hunt recalls. “If you can’t sell the old man, sell the kid.”

Advocating cash value life insurance

There are times when it makes sense to buy life insurance for children as a part of a long-term financial strategy, says Marvin H. Feldman, president and CEO of the Life and Health Insurance Foundation for Education (LIFE), a nonprofit organization that helps consumers make insurance decisions. He considers permanent life insurance to be a special asset class, like bonds or cash.

Traditionally, there have been easier ways to build wealth for children, he says, but in today’s low-interest-rate investment climate, permanent life insurance is looking more attractive. The rate of return can be a combination of the guaranteed cash value and dividends that may be paid in the future, Feldman explains.

“People would say, ‘You only have a 3 [percent] to 5 percent rate of return over 20 years,’ but that is better than just about anything you can do today with safe, secure monies, and insurance has low risk,” he says.

Permanent life insurance isn't appealing to parents who are prepared to roll the dice in the stock market to build an investment portfolio for their child, he adds. It's a slow-but-steady approach.

"Investment advisers are looking at permanent whole life insurance and saying, 'This is a tool for safe, secure rates of return,'" he says. "When that child is ready to get married, start a business, those values will be there for them. There will never be an 8 [percent] or 10 [percent] or 12 percent return, but the trade-off is that there's little or no risk. The vast majority of investments insurance companies make are in government bonds."

Creating a legacy

Some people buy permanent life insurance policies for their kids or grandchildren as a way of ensuring that the children will remember them fondly.

"When each of my grandchildren were born I purchased whole life policies guaranteed to be fully paid up at age 18," says Feldman. "At that time there are no further premiums to pay. They can surrender the policy for the cash value or they can keep [the] death benefit and borrow the cash value. The net death benefit will be reduced by what they borrow. If they choose to repay the loan at some point, they can do so," restoring the cash value.

Feldman acknowledges that permanent life insurance is a financial tool that doesn't work for every family.

"You have tremendous flexibility [but] it's important to work with an insurance professional or a financial adviser, because you do have to design the products carefully," he says.

There are so many varieties of permanent life insurance that buying it can be an overwhelming experience. "It is not for everyone," says Jeff Lipscomb, a Certified Financial Consultant based in San Diego. "This is for people with disposable income."

Larry Dahl, vice president of Allstate Financial, cautions that you should be very careful when choosing a permanent life policy for a child or an adult.

"Unless someone really takes the time to understand what is available and has a good financial background, the role of a life insurance professional is very important to make sure the right product is selected to fulfill an individual and a family's needs," he says. "There are just so many different types out there."