Life Insurance For Children: Is It Worth It?

Did that cute baby in the life insurance commercial catch your eye? Did the words "cash value" make you swoon? Did the phrase "pennies a day" make you shake out your pockets and think, *I should take out a life insurance policy on my child*? Before you get caught up in all that marketing, let's take a look at what taking out a policy on your child gets you.

Premiums And Fees

higher premiums because it's guaranteed throughout your child's lifetime. Whole life insurance sets aside a portion of your premiums in what's called a policy's "cash value," a big selling point for companies. This set-aside portion accumulates in an account invested by the company. When your child turns 21, they can choose to continue the policy into adulthood or opt for the cash that's built up.

So what's the catch? Well, there are two. Fees can lessen any value accumulated in the policy even with a great return if your child chooses to take the cash to pay for education, a house, or anything else. Surrender charges can oftentimes start at 10%. (1) And what exactly is that accumulated portion being invested in? If you scour the cute baby life insurance company's website, it doesn't lay out how they invest the cash built up in the policy. Cuteness, yes; transparency, no. Yes, buying life insurance for your child is an easy way to save for education and have protection if something should happen to your child. Just set it to auto-debit and forget about it. But there are so many other ways to do the same thing just as easily, more affordably, and with more control.

Alternatives To A Life Insurance Policy

There are some alternatives to taking out a policy on your child. If you are worried about funeral expenses and medical bills, then adding your child to your term policy is an option. Premiums are usually not cost-prohibitive (typically $5 per $1,000 unit per year). (2) Also, there are several ways to save for your child's education that let you control how it's invested. 529 plans allow your dollars to grow tax-free; in some cases, you can deduct it on your state income tax return, and you won't pay federal or state taxes when you make a withdrawal if the funds are used for quali ed educational expenses. (3) You can also choose the investments in a 529 plan from a selection provided by the administrator like mutual or index funds. Other options include UTMA or UGMA custodial accounts, which children are unable to access until they are adults. Depending on the type of account you select, there are a wide array of investment options, and a UGMA allows you to even hold real assets.

future, then of course life insurance is an option. If your child is added to your policy on a rider, they can oftentimes be converted to their own policy when they reach adulthood.

(1) https://www.investopedia.com/terms/s/surrendercharge.as

(2) https://www.policygenius.com/life-insurance/how-do-child-riders-on-life-insurance-work/

(3) https://money.usnews.com/529s