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Life insurance for kids?

By Pat Curry • Bankrate.com

If you want to start an argument, ask a group of financial advisers what they think about buying life insurance for children.

To some, it's a great, low-cost way to set money aside for the future and to make sure he'll have insurance as an adult, in case an illness later in life makes him uninsurable. Others say it's an outdated product that has been replaced by more effective savings tools, such as 529 plans. Still others say that since the purpose of insurance is to replace a wage-earner's income, it's inherently wrong to sell insurance on someone who doesn't have a job.

According to research from the American Council of Life Insurers, life insurance for children isn't a popular purchase. They report that only about 15 percent of people under the age of 18 have life insurance, a percentage that has stayed steady for more than a decade. The average amount of coverage on children is small, usually in the range of $5,000. Many companies will tack on a small amount of insurance to a parent's policy, essentially to cover burial costs.

Still, it's a commonly asked question and many parents aren't sure what to do, if anything.

"Most folks are torn," says Victor Gainor, second vice president of individual insurance products for TIAA-CREF, a life insurance

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He bought modest whole-life insurance policies for both of his children, along with opening 529 plans and setting up mutual funds. He did it primarily, he says, as a way to make sure that they'll always have some insurance and to have some cash available if his family gets in a jam.

"I didn't buy it to make money; I bought it to give to them while I have my other bases covered," he says. "I can also access the cash values that are accruing and use it for tuition or whatever I need to do for my family."

There's even disagreement about the kind of insurance that should available for children. TIAA-CREF won't sell term insurance on children, saying it "flies in the face" of the mission of the organization because it doesn't provide the policyholder with a way to accrue cash value.

John Sestina, a fee-only certified financial planner in Columbus, Ohio, and the author of *Managing to be Wealthy*, says the only kind of insurance he would recommend buying for children is term insurance -- and if you're going to get it, get lots.

Sestina sees other investments, such as Roth

IRAs, as making more sense for building wealth for kids.

The future insurability issue

The only reason he can see for buying life insurance for children is if there's a family history of health problems, such as diabetes or heart disease, that might make it tough for them to get insurance when they're in their prime income-earning years.

"If your child has the potential for health problems, you'll have to buy a ton -- at least a million dollars," he says.

Since it's impossible to determine how much a child will make in the future, Sestina recommends using your own income as a guideline. The cheapest deal, he says, is on a 20-year policy. Try to get one that is renewable and has the option of converting to whole life insurance.

Since many insurance companies don't sell high-quality term insurance for children, Sestina recommends having an independent agent find a good policy for you.

Dave Christopher is vice president of risk product management for Thrivent Financial for Lutherans, a fraternal benefits society that uses life insurance and other investments to support the Lutheran denomination.

Many of his members buy cash-value policies for their children because of the insurability issue. A $10,000 policy bought for a child can be increased to $280,000 worth of coverage as an adult without medical testing.

Thrivent also markets the policies as a way to invest money on a tax-deferred basis. Since it's the gains on the investment that are taxed, the first withdrawals are from the premiums, which are tax-free.

"If you've accessed all the premium, you can take out loans against the gains on a tax-free basis as well," he says.

The catch is that you have to keep the policy until you die, or you do pay taxes on what you take out.

Bard Malovany, a certified financial planner in Annandale, Va., gets particularly steamed with agents who use guilt as a sales technique.

"I've heard people sell life insurance by saying, 'Don't you love your children?' The answer is 'Yes, but that's not relative (to the decision).'"

Malovany says he doesn't buy the argument of buying whole life insurance policies for children as an investment to save for the future. They're "not that great of an investment," he says, and there are better options available, such as 529 plans and Education IRAs, that don't include a life insurance premium.

"If it's not a great investment option and you don't need the risk protection," he says, "what's the point? Some people just feel better having it. They say, 'If my kid passes away, I'll be grieving. Having $100,000 wouldn't hurt.'"

Life insurance child abuse?

Bob MacDonald is chairman of the board of Minneapolis-based Allianz Life of North America, and has worked in the insurance industry for 40 years. He thinks selling life insurance for children is as contemptible as tobacco companies advertising cigarettes to children.

"I've always felt purchasing life insurance on children was an inappropriate waste," he says. "There's no reason for it, unless the child is going to star in 'Home Alone 5.' Beyond that, it's an abuse."

He feels there are better ways to save money for college, the cost of a funeral isn't that onerous and the chance of a child becoming uninsurable as an adult is extremely small.

"Most people are insurable until they're 80 nowadays," he says. "The number of people in their 20s who are uninsurable is infinitesimally small."

The worst sin, he says, is convincing parents to buy insurance on their children when they're underinsured themselves. On that topic, the financial experts are agreed. Parents have no business even thinking about life insurance for their kids until their own needs are completely covered.

MacDonald says that if parents want to do something for college, fine, but "it's much more appropriate to put it into vehicles that will benefit (the children) while they're living because the chances are very good that they will. If you take and put the same amount of money into a mutual fund or an annuity, you would have ended up with more money in cash than you would have had as a face amount of a policy. You are paying mortality charges and fees that are simply not necessary for a child."

So what's a parent to do? Take a page from what you tell your kids. Don't make a decision just because it's what everybody else is doing -- or isn't doing. Look at all the choices, and do what makes the most sense for your family.

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