Some parents turn to insurance to protect the cost of their kids' education

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Key Points

- While all colleges have different refund policies, getting all of your money back typically is off the table after a month or six weeks after the semester starts.
- Most tuition insurance will only kick in if the student withdraws due to unexpected medical necessity.
- The exact amount you get through the policy depends on its specifics.

Certified Financial Planner Kashif Ahmed was delighted when his daughter recently was accepted into a prestigious prep school for the 2019-2020 year. The price tag? About $60,000.

While viewing it as an investment in his 15-year-old's future and a potential competitive edge when she eventually applies to college, he also knew that the school's no-refund policy meant it would be money lost if his daughter were forced to withdraw due to an unforeseen illness.

Then Ahmed's wife discovered tuition insurance. The policy would cost about $1,000.

Students on campus at the University of Notre Dame
Alfredo Sosa | The Christian Science Monitor | Getty Images

“Spending $1,000 to protect $60,000 was a no-brainer to me,” said Ahmed, founder and president of American Private Wealth in Bedford, Massachusetts.

“If my daughter says ‘I don’t feel like going anymore,’ it’s not covered,” he said. “But if, God forbid, she gets sick, or is hospitalized for a chunk of the year and can’t attend, the policy would cover it.”

A relatively small piece of the insurance world, policies that reimburse education costs for unexpected student withdrawal is an option for parents who want to protect the money they shell out for education. While Ahmed’s policy is for a private high school, options are also available at the college level.

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Yet, like all insurance, policies come with varying specifics on coverage, along with limitations on when it kicks in and how much you’d be reimbursed. For some parents, though, the peace of mind could be worth it.

“Whether you consider it depends on the severity of the financial hit you’d take by losing a semester’s worth of tuition or whatever a school refuses to refund, and the cost of insuring for that situation,” said CFP George Gagliardi, a financial advisor with Coromandel Wealth Management in Lexington, Massachusetts.

The cost of college has been pinching family budgets and causing student loan debt to skyrocket — both among students and their parents. The average one-year cost at an in-state public college is $21,370 for tuition, fees and room and board. For out-of-state public colleges, it’s $37,430. Private colleges’ average yearly cost is $48,510.

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While each school has a different refund policy, getting all of your money back if your child withdraws typically is off the table about four to six weeks after the semester starts. And, often, the closer it gets to that cut-off, the less that gets reimbursed.

For students and parents who foot the bill — or a big part of it — either with savings or with loans, the outlay can be one of the biggest life expenses they will face, second only to a home purchase. And although people insure their house — and their lenders require it — tuition generally goesuncovered.

“It’s a significant expense for families,” said Michael Giordano, vice president of product marketing at Liberty Mutual, which last year began offering tuition insurance for undergraduate and graduate costs.

"We found that 86% of parents who are financing their children's undergraduate education aren't aware tuition insurance existed," he said. "So there's a whole host of people who should consider it."

Liberty Mutual's option costs about 1% of the amount you insure. So for $30,000, the premium — paid in an upfront lump sum — would be about $300.

Regardless of the company offering a policy, it's important to read the fine print. Most tuition insurance will only kick in if the student withdraws due to unexpected medical necessity — i.e., illness, injury or death of the student. And the exact amount you get through the policy — after providing documentation proving the underlying cause of withdrawal — depends on the policy's specifics.

For students with pre-existing medical conditions, limitations are typical. For example, a policy might not provide coverage if the student had received care for the condition within, say, six months before purchasing the policy.

Ahmed said he plans to learn more about available policies so he can begin incorporating it into discussions with clients whose children are in college or heading off to it soon.

"There are some of my clients who might want to consider it," Ahmed said.

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