Money Myths: Should you get life insurance for your child?

by Hanna Horvath July 30th, 2019

A series that debunks popular money misconceptions.

You may have seen the commercials for the Gerber Grow-Up Plan, a life insurance policy for children sold by a subsidiary of the baby product company. This is one of many child life insurance options out there. But does a baby need life insurance? Is it a good investment?

Here's why it may not be the best financial move for parents.

What is child life insurance?

Most child life insurance policies are permanent or whole life insurance. This type of life insurance lasts the entire lifetime of the holder, and is much more complex than term life insurance.

Child life insurance policies are inexpensive. Gerber advertises policies that cost $6.53 per month for $10,000 in coverage for a newborn boy in New York.

These policies earn interest at a guaranteed fixed rate and aren't taxed until you withdraw the money. This life insurance policy

ue. Parents buying child life insurance

get both protection for their child and interest-earning savings.

Kashif Ahmed, certified financial planner and president of American Private Wealth, said getting life insurance for your child guarantees they will have coverage in the future. He has taken out policies on all three of his children.

"The younger you are, the more likely you are to have no health issues. I've eliminated the possibility they won't get coverage in the future," he said. "It's an act of love. I'm protecting their legacy."

Is it a good investment?

Not really.

"It's not that good of a deal," said Dennis Nolte, certified financial planner and vice president of Seacoast Investment Services. "You are better off investing your money somewhere else."

Life insurance is coverage for the unexpected. When you buy life insurance for yourself, you're protecting your loved ones who depend on your income by guaranteeing them a payout if you die. Children have no income to protect and no dependents.

While parents may worry about the future of their child's health, and their ability to get life insurance, it's unlikely they will develop a severe medical condition, unless they have a family history, said Nolte. Also, most adults are able to buy affordable life insurance. (We can help you compare policies.)

A more affordable way to financially cover the cost of the unexpected death of a child is to add your child as a rider on your own life insurance. This will provide a small death benefit, typically to cover the cost of a funeral, if your child dies. Learn more about child riders on life insurance.

Other ways to financially invest in your child's future

There are better ways to invest on behalf of children, said Patrick Hanzel, advance planning specialist at Policygenius.

Because children have years to go before they become adults, parents can invest for the long term, making riskier investments that may earn higher returns than a fixed-interest life insurance policy.

The break-even point on most whole life insurance policies is 10 years, due to the upfront costs associated with them. This time frame may not be ideal for saving for college, said Hanzel.

Here are some alternatives:

- **Invest in a 529 plan.** It offers the same tax benefits and has a higher likelihood of better returns, said Hanzel.
- **Consider a mutual fund.** These portfolios are a mix of stocks and bonds and can boost your savings, especially if you're willing to take on a bit of risk. (You can learn more on investing here.)
- **Open a high-interest savings account**. While your child can't manage their own account, you can open a custodial account in their name. These accounts have typically higher interest rates than regular savings accounts, and may be a good way to safely grow a nest egg for your child.

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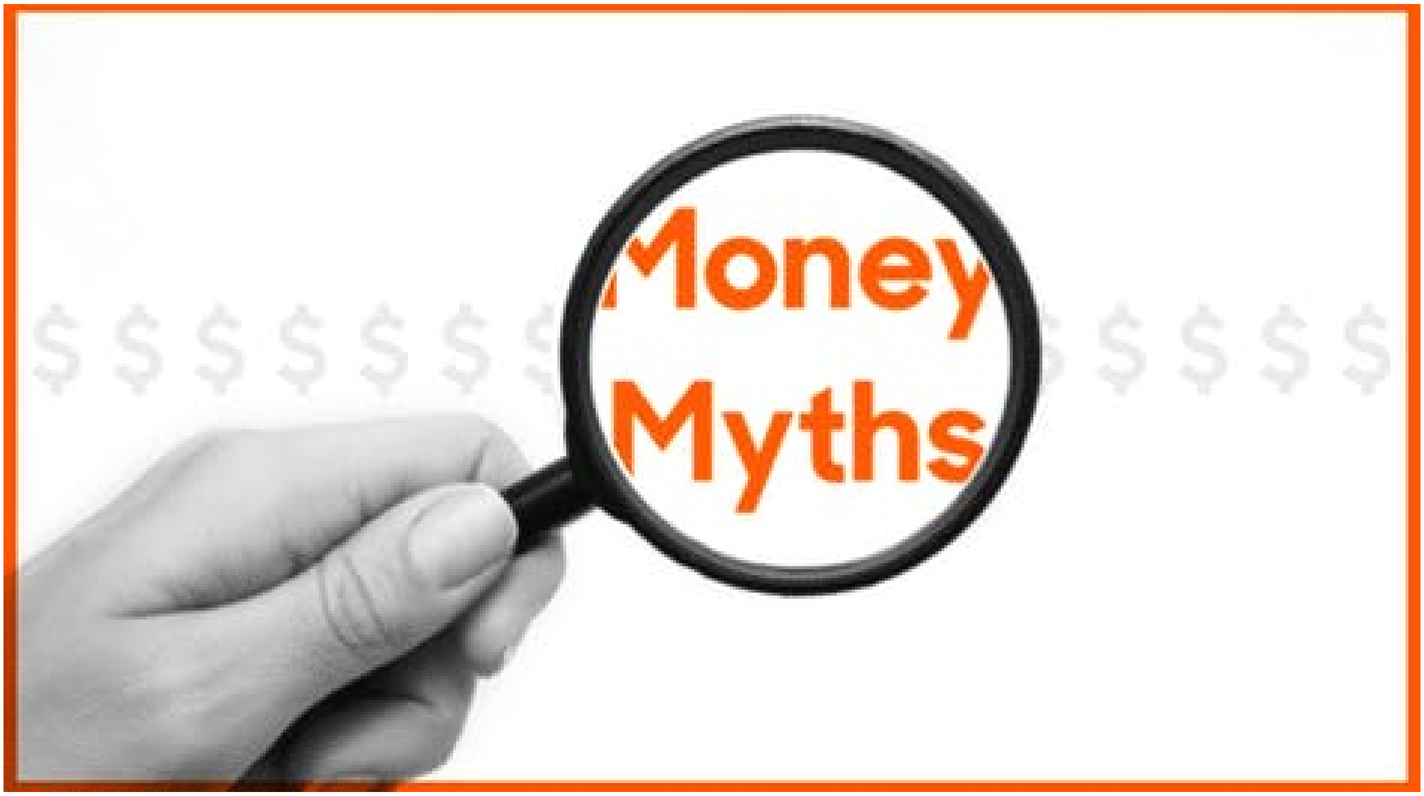

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