What You Need to Know About Child Life Insurance by James Garfinkel

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One of the hottest new trends in insurance is also one of the oldest â€“ child life insurance. Parents and grandparents are increasingly securing permanent insurance policies for a newborn or young children and taking advantage of the low cost of insurance, tax-deferred growth and lifelong savings to provide a lifetime of benefits that extend from this generation to the next.

Historically, child life insurance (often referred to as juvenile life insurance) was marketed as an affordable way for grieving parents to pay funeral and burial expenses. Over time, insurance companies recognized that a child life insurance policy has potential to provide for education, a future home or business and even retirement.

Whole Life Insurance

Whole life insurance has a built-in savings component that accumulates cash value through interest and dividends that grow tax-free. The funds can be used to pay for future premiums and are accessible at any time for any purpose. By purchasing a whole life insurance policy for a child, a parent is able to lock-in cheap premium rates since the risk of mortality is very low. More to the point, by the time the child has an insurance need of his or her own, he or she could have 30+ years of growth inside the policy â€“ and the cash value can continue to grow as he or she gets older.

Indexed Life Insurance

In indexed life insurance policies, cash value increases are linked to the performance of popular equity indexes and offer downside protection in case the market declines. Some policies provide for both equity participation and a guaranteed minimum rate of interest. Such products may be suitable for parents saving for college or certain defined planning goals who want to avoid the risk or volatility of stocks, bonds, mutual funds and exchange traded products.

Insurability

Another reason parents and grandparents choose child life insurance is insurability. A family history of diabetes, hypertension, or weight issues may impact future insurability. By securing insurance for a child when he or she is presumed to be in optimal health, parents can ensure their children and future grandchildren are protected regardless of future health.

Taxes

Letâ€™s face it. No one likes paying taxes. Luckily, life insurance is one of the most favored financial products in the world. The interest and dividend growth of the cash value of a whole life policy is tax-deferred. Only withdrawals that are greater than premiums paid are treated as income for tax purposes. If you borrow from the cash value of a life insurance policy, no taxes are due as long as the policy remains in force.

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