

Issue Brief: Is Life Insurance Necessary for Children?

In most cases, life insurance is not necessary for children. But some parents may decide that they want to insure their children as a means to protect future the child's future insurability. Others still may additionally view the life insurance as a vehicle for investment accumulation.

While the face amount on a typical policy would likely not be large enough to provide full protection later in life, a permanent policy could at least provide a base level of protection in case your child is uninsurable when they are able to afford insurance of their own.

Additionally, some find that an appropriately structured permanent policy can provide a viable investment alternative, particularly if other tax-advantaged vehicles have been exhausted or if you want an efficient way to transfer wealth across generations.

For example, I have a client that owns a fairly large policy on his daughter, but it has nothing to do with a death benefit need. His parents make an annual gift to him, and that money funds the life insurance premiums. We purchased this policy from a premier company, and we designed the policy to be as accumulation-efficient as possible. Ownership of the policy will be transferred to the daughter after she is an adult, at which time she will own a very valuable and flexible asset.

Even with no additional premiums, she will have a base level of permanent insurance coverage in place. And if she does elect to continue funding the policy at some point, the death benefit will continue to grow as her needs increase. Finally, if this policy is held until the daughter's death and ownership is structured properly, it will provide an efficient accumulation and wealth transfer tool due to the tax-free nature of the death benefit – which again is appealing to my client because it is anticipated that his daughter will someday inherit a large estate and may appreciate the idea of leaving a legacy for future generations.