Growing With Your Life Insurance Policy

Why in the world would you buy life insurance on a child? They don't yet earn an income. They don't have dependents who financially rely upon them. There is no financial harm to anyone if something happened. In other words, all of the traditional reasons for buying life insurance don't apply to a child. As you read this, you probably don't even like the idea of thinking about life insurance, yet as a responsible adult, you know it's something you need. Perhaps you may even have wished you purchased it earlier before the onset of the stress of work, lack of exercise and healthy habits, or the physical and medical ailments that seem to come with age. And certainly when the premiums would have been cheaper.

Most people don't understand life insurance and more important, the different types available today. That's why there is often a knee-jerk reaction that buying insurance on a child is a bad idea. You certainly would not buy term life insurance on a child for all of the reasons mentioned previously because it only offers a death benefit. However, cash value life insurance, particularly whole life insurance, is a different story. Whole life offers cash values that can be used during life[1] for things like college tuition, the first car, a down payment on a first home, seed money for a business venture, and more.

Purchasing whole life insurance on a child provides other benefits as well:

1. It guarantees the insurability of the child when the child is in excellent health and at the best rates offered by the insurance company. So no matter what happens later in life—and things happen—the child can always have this insurance.
2. The premium for the policy is guaranteed for life.
3. The death benefit is guaranteed for life, as long as premiums are paid.
4. The premium is extremely low, relative to the premium for an adult.
5. Most important, cash values will grow guaranteed and, in some cases, may exceed those guarantees because of potential dividends offered by the company.

Let’s look at a couple of hypothetical examples.

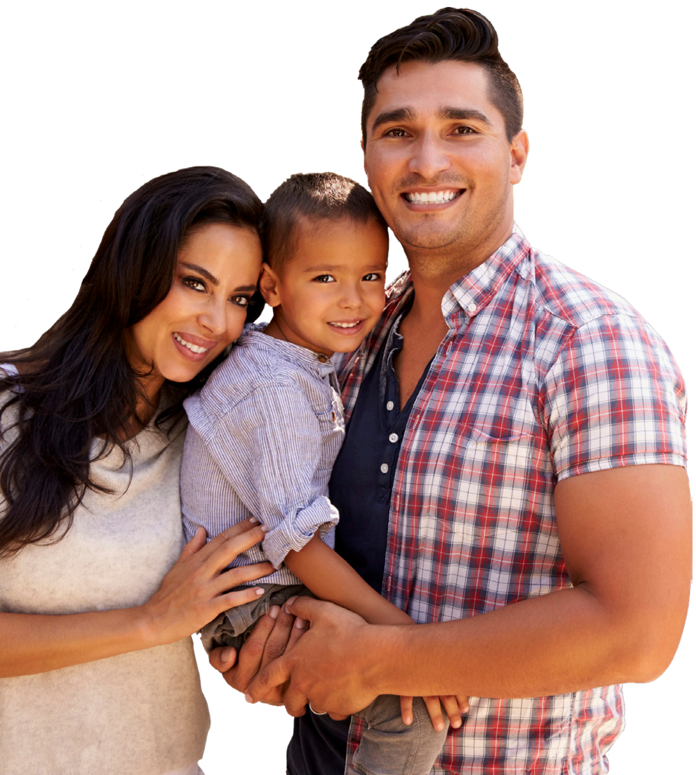
Fred and Ginger are a young couple in their early 30s and have a two-year old son, Myles. Both work and expect their salaries to increase as they gain more experience and move up the corporate ladder at their respective companies. Together they make a combined income of $95,000. They budget carefully and know that they will have at least $1,000 per year to save for Myles’ future. That number will surely increase as their careers progress.

ATTAINED AGE	YEAR	PREMIUM	CUMULATIVE PREMIUMS	SURRENDER VALUE	DEATH BENEFIT
3	1	$1,000	$1,000	$417	$125,016
7	5	$1,000	$5,000	$2,319	$155,031
12	10	$1,000	$10,000	$6,967	$188,281
18	16	$1,000	$16,000	$14,914	$224,999
30	28	$563[2]	$25,378	$35,538	$278,605
40	38	$563[2]	$31,008	$61,163	$314,951

George and Esther are Ginger’s parents. They live very comfortably because George was a long-time employee of a company that had a generous pension plan, and Esther was a very successful physician. They both retired a few years ago and now spend their time traveling the world and spoiling their grandchild.

ATTAINED AGE	YEAR	PREMIUM	CUMULATIVE PREMIUMS	SURRENDER VALUE	DEATH BENEFIT
3	1	$1,000	$1,000	$0	$128,210
7	5	$1,000	$5,000	$3,112	$129,405
12	10	$1,000	$10,000	$10,073	$135,675
18	16	$0	$10,000	$13,732	$147,916
30	28	$0	$10,000	$25,232	$175,872
40	38	$0	$10,000	$41,653	$203,235

Fred and Ginger talk to their Security Mutual life insurance advisor about some options. She proposes that they buy a whole life insurance policy on Myles. She shows two insurance product choices. The first has initial premiums of $1,000 per year for Myles’ lifetime.[2] The second choice requires premiums for only ten years. The charts above show what it might look like depending upon the product choice and design.



While this isn’t a pure investment because there is a cost to purchasing the insurance death benefit, the cash values quickly grow after the break-even point, all while ensuring Myles’ insurability. When Myles is of college age or reaches adulthood, there will be significant cash values to use for his benefit. Also, when Myles has a family of his own, there will be significant death benefits to help protect his family and his assets without the worry of any future complications affecting Myles’ ability to obtain additional life insurance.

The above illustrations are hypothetical and are not intended to serve as a projection of any specific life insurance policy. The material presented should not be interpreted as a recommendation. In addition, there are several underwriting requirements that must be met and factors to consider when purchasing insurance on minors, such as insurable interest; the amount of insurance on siblings; in-force insurance coverage on the parents (or grandparents if they are the purchasers); household income; sources of funding; and other requirements.

George and Esther hear what Fred and Ginger are thinking about doing. They always intended to start saving for Myles' future by giving him money and investing it. Instead, they think that perhaps they should give the money to Fred and Ginger to buy the whole life insurance on Myles. This way, Fred and Ginger can continue saving the $1,000 for themselves. They want to see what $2,500 per year can possibly accomplish.

The ability of George and Esther to increase the contribution for premiums greatly increases the cash value growth of both life insurance policies as well as the death benefit, all for Myles' future.[2]

ATTAINED AGE	YEAR	PREMIUM	CUMULATIVE PREMIUMS	SURRENDER VALUE	DEATH BENEFIT
3	1	$2,500	$2,500	$1,169	$311,374
7	5	$2,500	$12,500	$6,474	$395,175
12	10	$2,500	$25,000	$18,884	$487,786
18	16	$2,500	$40,000	$39,944	$589,419
30	28	$2,500	$69,158	$101,520	$784,289
40	38	$1,280	$82,918	$174,391	$891,983

ATTAINED AGE	YEAR	PREMIUM	CUMULATIVE PREMIUMS	SURRENDER VALUE	DEATH BENEFIT
3	1	$2,500	$2,500	$0	$320,514
7	5	$2,500	$12,500	$7,779	$323,501
12	10	$2,500	$25,000	$25,181	$339,176
18	16	$0	$25,000	$31,029	$359,280
30	28	$0	$25,000	$63,078	$439,673
40	38	$0	$25,000	$104,130	$508,079

As you can see, purchasing the right type of life insurance transforms the conversation from death to living—using policy cash values to help meet life needs, while also helping provide protection against the financial hardships that can result from premature death.

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For more information and to discuss the appropriate strategies for your unique circumstances, please contact your local Security Mutual Life Insurance Advisor.

[1] Cash values grow income tax free and may be accessed through policy loans and/or withdrawals to basis tax free. Policy loans and withdrawals reduce the policy's cash surrender value and death benefit.

[2] The premium is reduced in later years to ensure that the policy does not become a Modified Endowment Contract (MEC) which may have adverse income tax consequences and tax penalties when accessing the policy's cash values.

The hypothetical examples shown within are for illustrative purposes only and do not guarantee or predict the results of any particular product. In preparing the examples, we did not take into account the investment objectives, financial situation or particular needs of a specific person. The depicted strategies may not be suitable or appropriate to your individual circumstances. Accordingly, they do not constitute a personal recommendation to you.

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Tax-free distributions assume, among other things, that withdrawals do not exceed tax basis, the policy remains in force until death, and the policy is not at policy issue, and does not become post issue, a modified endowment contract (MEC). Distributions from a MEC may be subject to income tax and possible penalties.

As defined in IRC Section 7702A, a Modified Endowment Contract, or a MEC, is a type of life insurance policy with premiums exceeding what is referred to as the seven-pay premium limit. Any distributions from a MEC prior to the insured's death are taxable on a last-in, first-out basis subject to any gain in the policy (i.e., the policy gain becomes distributed first). In addition, any taxable distributions will be subject to an additional 10% penalty tax when the policyowner is under 59 1/2 years old, unless he/she is disabled. Death benefits from a MEC are generally received by the beneficiary on an income-tax-free basis. Clients should make any decisions regarding the tax implications of this material in consultation with their independent tax and legal advisors.

The payment of dividends is not guaranteed, and the amount credited, if any, may rise and fall depending on experience factors such as investment income, taxes, mortality and expenses.

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