



# Five Reasons to Purchase Life Insurance for Your Children

Financial situations can be confusing for young couples before they have children. Having children complicates things more. Where do you even start? What do you need? What are your financial goals? How do you teach your children good financial habits at a young age? What can you do to help with college savings? And so on.

Certainly, the first step is to make sure you have enough life insurance coverage on yourselves as parents. But there's another step few people take, although maybe more should consider it: buying a whole life insurance policy on their child's life. There are at least five reasons why a new parent might want to consider it. Here they are:



## **1. It will lock in your child's insurability.**

You never know when an adverse health development will take place. As children become adults, things like diabetes, cancer and heart disease could come up without warning. Even for some who are still able to get a policy as adults, the cost will likely be higher than for healthier adults of the same age.

Also, remember that when your child gets older—even if he or she is in perfect health—there are reasons why new life insurance may be more expensive or unaffordable. An example would be a risky hobby, such as skydiving, scuba diving or flying personal aircraft. This is one reason why getting a whole life insurance policy for a young child can be a smart strategy: as long as the policy is maintained without lapse, it protects their insurability regardless of any future health concerns.

**2. The coverage is permanent.** Whole life insurance on children is permanent insurance coverage.

Years down the road, when young adults get married and start having their own children, many will opt to purchase term insurance. But term insurance is designed to only last for a certain period of time. And when that period expires, the cost can increase significantly.

With a whole life policy, the premium does not go up. Also, as long as you pay your premiums on time, it will cover your child for the rest of his or her life. And through the use of non-guaranteed dividends, the death benefit may increase over time.

**3. It provides a cash value.** A whole life policy builds cash value over time as you pay your premiums. Most of the cash value can be accessed at any time and for any reason through a policy loan. And in the future, the cash value can be used as a pool of money when their emergency fund may be insufficient. It can also be used for things such as a wedding or a down payment on a home. Just note, policy loans reduce the death benefit and cash surrender value.

**4. It can help with college planning.** One popular choice for college savings is a Section 529 plan. When you put money into a 529 plan, assuming the money stays in the account, no income taxes will be due on the plan's earnings. When you take the money out for qualified education expenses, those withdrawals may be federal income tax-free.

But 529 plans have one key disadvantage: they may affect your child's eligibility for financial aid. A 529 plan can count as an asset when reported on the Free Application for Federal Student Aid, or FAFSA. Eligibility for student aid is based on the total assets as of the date the FAFSA is filed.<sup>1</sup>

A life insurance policy is treated differently. The cash value of a life insurance policy is generally not considered an asset under FAFSA.<sup>2</sup>

**5. It can be cost-effective.** The younger you are, the lower life insurance premiums tend to be. As with any other policy, the cost will depend on your child's health and age, as well as the amount of coverage you select.

How much does it cost? Here's an example. A child age 1, with what's called "juvenile preferred" underwriting, can get a policy with a \$250,000 death benefit for a premium of \$1,338 per year using Security Mutual Life's Security Designer WL4U3<sup>SM</sup> LP 100 whole life insurance. This type of policy would include a guaranteed death benefit and guaranteed cash values provided premiums are timely paid. The premium can even be reduced once the child reaches age 18, when they can apply for a rate re-consideration if they are still in good health at that age. Note that the amount of coverage available may be subject to state law.

Like so many other things in life, life insurance can be more complicated than it first appears. If you're intrigued by the idea of using life insurance for your children, your Security Mutual Life agent can help. Your Security Mutual Life agent will assemble your team and coordinate with your attorney and tax professional to review your situation and to determine the insurance plan that will best suit your needs and objectives.

**For More Information Contact:**

<sup>1</sup>Kantrowitz, Mark. "How Does A 529 Plan Affect Your Financial Aid And FAFSA?" *Thecollegeinvestor.com*.

<https://thecollegeinvestor.com/38170/529-plan-affect-fafsa-financial-aid/> (accessed Feb. 24, 2025).

<sup>2</sup>The College Solution. "Assets You Don't Need to Report on the FAFSA." *Thecollegesolution.com*.

<https://thecollegesolution.com/assets-you-dont-need-to-report-on-the-fafsa/> (accessed Feb. 25, 2025).

The information presented is designed to provide general information regarding the subject matter covered. It is not intended to serve as legal, tax or other financial advice related to individual situations, because each person's legal, tax and financial situation is different. Specific advice needs to be tailored to your particular situation. Therefore, please consult with your own attorney, tax professional and/or other advisors regarding your specific situation.

The applicability of any strategy discussed is dependent upon your individual facts and circumstances. Results will vary. Products and services discussed may not be appropriate for all clients. Your needs, objectives and financial circumstances may be different and must be reviewed and analyzed independently.

Tax laws are complex and subject to change. The information presented is based on current interpretation of the laws. Neither Security Mutual nor its agents are permitted to provide tax or legal advice.

We encourage readers to seek personalized advice from a qualified professional regarding their personal financial circumstances and objectives.

Insurance products are issued by Security Mutual Life Insurance Company of New York. Product availability and features may vary by state. Eligibility for life insurance is subject to the Company's underwriting rules and receipt of payment. Premium rates will vary based on any and all information gathered during the underwriting process, and medical exams may be required. Life insurance policies contain exclusions, limitations and terms for keeping them in force. Your agent can provide costs and details. Guarantees are based on the claims-paying ability of Security Mutual Life Insurance Company of New York.

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.

Copyright © 2025 Security Mutual Life Insurance Company of New York. All Rights Reserved.

Policy Form Nos. 2112-NY-17CSO; ICC14-2112; Series 2112.

