VIEWPOINT

Kids & Insurance

Children have neither an income nor dependants, so why insure them? **Chantal Marr** explains why an insurance head start is worth considering

PHOTO: MASTERFILE

Let's get my bias out of the way. I'm a big believer in life insurance for children. And with policies on each of my three children, I practise what I preach. Purchasing the insurance for my kids now allows them to have locked-in and affordable coverage, regardless of any change in their health.

Many advisors flat out dismiss insurance for kids because the parent, not the child, is the financial breadwinner and it's the parent's income that needs protecting. The financial hit a family will endure after the death of a parent is just far greater. In the case of a child, what financial expense is there to the parent beyond the funeral?

I'm not disagreeing. Ensuring parents are properly insured is my first priority. If clients can't really afford children's life insurance, it's a better idea for clients to save their money. After all, the cash values generated by the investment component of some whole life insurance policies are minimal.

But for those who can afford it, purchasing life insurance for a child can be a sound strategy. Of course, no one wants to think about the death of a child, but if it were it to happen, it could also affect the family in devastating ways. Parents would likely need to take significant time off work. Having insurance would give parents the time necessary to properly grieve their child's loss and be there for the surviving family members.

Buying children's life insurance also guarantees the future insurability of a child regardless of their health situation later in life. Some insurance companies will guarantee children up to $500,000 in future life insurance coverage. I once had a client who was able to partially insure his mortgage because of an insurance policy his parents opened for him when he was born. Good thing, because he had developed heart-related issues as a young boy making insurance difficult for him to get. While his guaranteed insurability did not fully cover the mortgage, having something was definitely better than nothing.

Cost is another decision factor. When you are young, you are healthy, so life insurance is the cheapest it will ever be in your lifetime. And the cost is guaranteed to never increase. This is also a huge advantage to clients with parents who have health issues. Most life insurance companies will insure someone in good health even if their parents have health issues. Family history has an impact on an insured's ability to get preferred rates but usually will not disqualify them for standard rates.

When clients come to our firm inquiring about kids' insurance, we explain that policies come in three forms. Like adult life insurance policies, children can have a permanent policy or a stand-alone term policy. Unlike adult policies, children can get rider coverage on a parent's own life insurance plan.

While permanent insurance is expensive, it's also the most comprehensive. It can be sub-divided into three more categories. Universal life policies can offer level cost of insurance with an optional savings component. Non-participating whole life insurance policies are fully guaranteed, have a guaranteed cash value, and can be paid up in 10, 15, or 20 years. Finally, participating whole life insurance policies are generally the most expensive, but in addition to guaranteed premiums, these plans offer the highest cash values and increasing death benefits.

Term insurance is cheaper than permanent insurance but has fewer features. It is for the term specified (e.g. 20 years) and then expires unless it's converted into a permanent plan. The cost of term policies remains consistent for the initial term selected. Term insurance with built-in critical illness coverage is another option. It allows for a lump sum payment if the policyholder is diagnosed with one of the covered critical illnesses listed.

A children's life insurance rider is the most common form of children's life insurance because the coverage amount is less than a stand-alone policy and the features are limited by comparison. The rider also does not allow guaranteed premiums for life. It will most likely end when the child is 21 years old, or 25 years old if still attending post-secondary education.

Sometimes, clients are intrigued with the concept of using funds from life insurance to supplement a child's post-secondary education. It works like this: the funds grow on a tax-sheltered basis and can be withdrawn down the road as loan, partial surrender or full surrender. We are not fans of this approach. RESPs are a much better strategy, especially with the 20 per cent Canada Education Savings Grant provided on your contributions up to $2,500 each year. Don't say no to free money.

Kids' insurance isn't a yes or no answer. Like any other policy we recommend, it's about going through a needs analysis process and evaluating what makes sense for each individual client.

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