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Do You Need Life Insurance on Your Children?

Ask whether you should carry life insurance on your children and you'll receive a variety of answers. Here's a look at the arguments for and against.

* Financial security. Traditionally, you take out life insurance to provide for the financial security of dependents. The policy should provide funds to replace the insured's income and to pay off debts. Neither of these reasons applies to young children. They don't generally have any significant income, and they don't usually have any debts. Some parents might want to carry a modest amount of insurance to cover funeral costs for their children in case the unthinkable happens.

* Insurability. Another argument is that by taking out a policy at a young age, you help to guarantee insurability as the child grows older. This could be important if the child develops a major illness later in life. The problem is that if the child does develop a serious illness, insurance could then become very expensive or limited in amount.

* Insurance as an investment. Some advisors suggest that parents should take out a whole life policy on their children. These policies include a savings component to build up cash value in the policy. You could then use that value for education expenses or other needs. But others say that there are cheaper and more efficient ways to save than by using life insurance. For example, putting money into a tax-advantaged Section 529 plan might be a better way to save for college tuition costs.

* The bottom line. Although a majority of financial advisors might argue against life insurance for children, there may be some situations when it makes sense. One thing is clear. You shouldn't take out a policy just because it is offered to you or because others are doing it. Insure your kids only if you've done your homework and know exactly why you need the insurance.

Please contact our office if you'd like help reviewing the advantages and disadvantages as they apply to your particular situation.