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Why Waste Life Insurance on Kids? or Hey, Where's My Caramel Macchiato?

By Michael Heidtbrink ChFC, FIC, LUTCF, Thrivent Financial for Lutherans, La Mesa, Calif.



"Oh, I don't believe in life insurance for children. It's a waste of money. Would you pass me my caramel macchiato? Thanks – keep the change."

"Waste of money!" says Robert Hunter of the Consumer Federation of America.

"No one depends on a child for income." (Money magazine, February 2008).

Whoever said the purpose of insuring kids is to provide income? That would be like saying you buy a refrigerator for the ice crusher. (Mine doesn't work, by the way, so that's why the analogy came to mind.) If you want to talk about real ways to waste money, here's my personal top 20:

1. Leaving lights on when no one is in a room. (Can you tell I have three teenagers?)
2. Leaving the computer and TV on when you leave the house (see #1)
3. Shopping for groceries when you're hungry, and not making a list when you go to the store, which invariably leads to impulse buying.
4. Forgetting to pay your credit card bill on time - \$39 for being even one day late.
5. Underestimating your income taxes.
6. Buying premium coffee at trendy shoppes (you have to spell it like that, by the way) for \$4.75 or more. The same coffee at 7-Eleven: \$1.09.
7. Beer. (That's just the tip of the iceberg.)
8. Yard service for your home (you can do yard work yourself and the exercise is good for you).
9. Xbox game systems for the kids. (They should be outside mowing the lawn).
10. Shoes. I mean, really, how many pairs of shoes do we need? I can't even close my closet door! Disregard #10 if you're a woman. (My wife made me say that.)
11. Late mortgage payments (Ouch! This one really hurts!)
12. Watering your driveway, sidewalks, the street, the gutters, etc. when the target is your lawn.
13. SUVs (OK – I admit, I love the way they ride! But I have to take out a loan every time I fill mine up.)
14. Beer. (I know, but it really is a waste of money.)
15. Golf. This one needs no explanation. And to make matters worse, it usually involves beer.
16. Cable/satellite TV. (This is probably one of the biggest offenders – and it's stealing our time as well. We should be bonding with our children, teaching them to do yard work, how to turn off the lights--stuff like that.)
17. Cell phones, if you have teenagers with them. (How can you possibly do 5,760 text messages in a week?)
18. Clothes. (I had to throw that in for the ladies, although #10 comes to mind again.)
19. Beer at sporting events. It's \$8.50/cup in San Diego!
20. Gas prices. Everyone is mad at the oil companies right now anyway.

There you go - 20 potential places to find the money needed to fund life insurance on children. That takes care of the “how,” but, for those of you who are on the fence, let me address the “why.”

Reason #1 – Future insurability.

Who knows what your children’s health is going to be even one month from now, let alone five years or 10 years from now? Ask any pediatrician – hundreds of children of all ages are diagnosed with serious illnesses every day. As much as we would like to think otherwise, our own children are not exempt. Most insurance companies offer riders that allow for as many as eight guaranteed increase options, at up to \$60,000 each time, for guaranteed insurability. Yes, most clients are insurable in the future. But not all. Why take the risk? To save around \$20 a month in premium – how shortsighted is that? Take any one of my money-wasters out of your life and the problem could be solved.

Reason #2 – Death of a child

My wife and I lost a child after an 18-month battle with a heart defect. This qualifies me to speak from experience on this subject. The death benefit proceeds from life insurance can provide income to help cover the many expenses involved: hospital deductibles and related costs not covered by medical insurance, time lost from work, travel to and from the hospital every day, counseling fees for family members, increased likelihood of divorce, lost productivity due to emotional distress and possible loss of employment - to name a few.

And then there are the funeral costs. According to the National Funeral Directors Association, the average funeral today costs \$6,500, even for moderate arrangements. Would you be willing to place additional financial burden on your family, your credit cards,

or your retirement accounts under circumstances that are already unthinkable?

Long-term illness is not the only concern. I saw an ad on TV the other day stating that, according to Allstate statistics, more than 6,000 teenagers will die this year in automobile accidents. Here again, the costs involved might include medical fees, attorney and court costs, restitution in the case of a lawsuit, and replacement of vehicles. Not pleasant to talk about, because no one wants to lose a child, but it happens to families every day.

The loss of a child is difficult enough without the additional financial strain, and life insurance death benefit proceeds can help ease or eliminate that strain.

Reason #3 – The positive reason: forced savings plan and a step up in life!

I am a firm believer in permanent life insurance. Most of us appreciate “lost money found” – like that \$20 bill you find in a pants pocket. Life insurance on kids is the pants pocket: a step up for cash later on. The accumulated cash value can allow for loans for college, a new house, new cars, and vacations. (Incidentally, you may want to own the kids’ policies, because otherwise they can do whatever they want with the cash value buildup!) They also can use the cash value of the policy to be flexible with the premium when, say, they get married and funds are limited.

In San Diego, the average price of a home was \$517,000 before the subprime meltdown in 2007. Let’s say you purchase a \$50,000 universal life policy with eight guaranteed increase options of \$60,000 each. Your children then have the potential for up to \$530,000 of coverage, guaranteed for life -- enough to cover a large chunk of the mortgage on their future home.

Keep in mind that loans and withdrawals will decrease your death benefit and the cash value available to pay insurance costs. Surrenders may generate an income tax liability and may be subject to a surrender charge. A significant taxable event can occur if a contract lapses with an outstanding loan. Loaned values may be credited at a lower rate than unloaned values.

“But,” counter many people, “if I put the \$20 per month into a no-load mutual fund--” (Ever wonder why they always say “no-load,” instead of “high-yield”? Who cares about the load as long as there’s a high yield? But I digress.) --“I would have a million dollars by the time my child wanted to purchase a house at age 25.” Yeah, and did you know pigs can fly? The fact of the matter is that if you invested \$20 a month and earned an 8% rate of return, it would take more than 25 years to make just over \$15,000 in a mutual fund. That’s a far cry from the potential \$530,000 of insurability you’d have with the death benefit guaranteed increase options in the life insurance.

And I haven’t even touched on the cash value of these types of policies. You could “guesstimate” the cash value to be about \$5,000 in 20 to 25 years. In that time, then, you could have made an extra \$9,000 in the mutual funds ... maybe. To me it makes a lot more sense to give my kids a step up in life, and protect their future. (Another point: what would happen to my grandchildren if my child, their parent, is uninsurable and dies?) For my children to have the extra \$9,000 in their mutual funds would be nice, but I think the \$530,000 of death benefit is a lot smarter in the long run.

Insure your kids – you won’t regret it!

(You’ll never miss the premium either, as long as you turn the lights off when no one is in a room. You might even be able to buy that caramel macchiato anyway.)

Michael Heidtbrink, ChFC, LUTCF, FIC, is a financial consultant with Thrivent Financial for Lutherans in suburban San Diego. He began his financial services career in August, 1990, with Aid Association for Lutherans. Mike is a past president of the California Fraternal Congress and a seven-time qualifying member of the Million Dollar Round Table.