



Using Life Insurance to Fund Your Child's Education

As you look at your newborn or young child, it's tough to imagine them going off to college one day. Though that time may be far away, you should start financially preparing for your child's future education as soon as possible.

There are many ways to save for your child's education, but choosing the right life insurance policy can be a great way to supplement your savings.

Life Insurance Can Be More Than a Fallback Plan

When you think of life insurance, you probably think of the death benefit that protects your family's financial security if you pass away.

You may also think of the optional disability riders that can waive future premium costs or even allow you to access your life insurance benefit early if you're unable to work.

Both benefits can help secure your family's future—including your child's college education—if something happens to you.

But a permanent life insurance policy offers more than just a fallback plan. For some, it can play a more active role in saving for your child's future education—even if you're still in good health.

Using Permanent Life Insurance for College Savings

A permanent life insurance policy is incredibly flexible compared to other policies.

The death benefit is designed to provide coverage for your entire life—rather than a typical term policy that only provides coverage for a set number of years. The policy also has a savings or investment account that builds cash value over time.

Every premium payment you make goes toward the death benefit and the policy's cash value account. You can then withdrawal from the account or take out a tax-free loan against the account when it's time for your child to attend college.

Permanent life insurance policies are an appealing option for college savings because they offer:

- ▶ **Flexibility:** If your child doesn't attend college, you won't face the same tax penalties as a 529 plan. The money can also be transferred to another beneficiary or, in some cases, withdrawn for other purposes.
- ▶ **Guaranteed payment:** Any cash value accumulated must be paid by the insurance company.
- ▶ **Tax advantages:** Cash value account growth is tax-deferred, loans taken from the account are tax-free, and you only pay taxes on withdrawals when they're above the amount you paid in premiums.
- ▶ **Financial aid advantages:** Cash value accounts are excluded from college financial aid calculations, giving your child an opportunity to receive additional aid.

Though this can be a useful tool for college savings, the primary reason for purchasing life insurance should be the death benefit. Insurance is subject to underwriting and you may be subject to premiums higher or lower than standard.

This Method Isn't Right for Everyone

There are disadvantages to using permanent life insurance in this way, including:

- ▶ **High premiums:** Premium costs are typically significantly higher than term life insurance policies.
- ▶ **Annual fees:** Most policies charge high yearly fees.
- ▶ **Long wait times:** The cash value account may need a decade or more to grow beyond the amount you've paid in premiums.
- ▶ **Higher tax impact:** If you withdraw more money than you've paid in premiums, the withdrawal is treated as income.
- ▶ **Death benefit reduction:** Cash withdrawals or unpaid loans reduce your death benefit if you pass away.

This college savings technique is best suited for high-income earners that would benefit from tax-deferred investment vehicles and can begin saving early.

If this doesn't sound like you, then you may be better served by investing in a term life insurance policy and utilizing a more traditional education savings vehicle, like a 529 plan.

Saving for College Is Complicated

Talk to a financial professional and learn what college savings methods are right for your family.

