Insuring an Infant, is it Worth the Expense?

The thought of placing life insurance on a young child can be a touchy subject for some families.

Most parents want to be planning ahead for their children's future not for their potential death.

Traditionally speaking the main purpose of life insurance was and still is, to provide financial security for a family should the breadwinner(s) suddenly pass away.

A child obviously does not meet that criteria so why then would a parent even consider placing a life policy on a child? Some of the reasons may surprise you.

Lock-in at the Lowest Rates

Insurance premiums are calculated based on the type of insurance offered and the level of risk an insurance company is willing to take on.

Age, sex, health, family history, lifestyle, hobbies, career choices, etc., all play a role in determining risk which affects the cost of insurance.

A healthy newborn child for example would pose the least amount of risk and could therefore obtain Permanent Life insurance at the lowest rates possible.

The insurance company then guarantees that those low rates would be locked-in for the lifetime of the policy.

After reaching a certain age and once the child is in a position to take on the responsibility of maintaining the premium payments alone, ownership of the policy could be transferred from the parent to the child.

Some insurers also offer the option to fully secure a permanent policy for a child while only having to pay into it for 20 years.

Guaranteed Future Insurability

If an insurance applicant is deemed to be high risk they may be required to pay a much higher premium (which could easily become out of reach financially) or even worse be denied insurance coverage altogether.

But if a life insurance policy had been established for a child while they were still young, then no matter what health issues manifested later in life they would still be covered 100%.

And if the policy had a a built in guaranteed insurability benefit, then as adults they could even purchase additional insurance regardless of their health.

In other words, you are guaranteeing your child’s right to buy more life insurance without requiring a medical examination and without having to answer a health questionnaire.

This may be something to consider especially for parents with a family history of heart disease, diabetes, cancer, or some other known hereditary predisposition.

Tax Sheltered Savings Component

A Participating Whole Life policy also allows a child to benefit from the some of the profits that are generated by the insurance company itself.

These earnings grow tax-free inside the policy creating an ever increasing cash value for the child well into adulthood. The child will be able to access that cash value for things such as:

- purchasing a car
- traveling expenses
- unforeseen emergencies
- down payment on a house
- post-secondary education
- collateral on a loan application

Assuming that both parents have already taken out full life insurance coverage for themselves, a Participating Whole Life policy when placed on a child can be a great accompaniment to an existing RESP savings plan.

Family Protection

No parent wants to think about the possibility of losing a young child, but the reality of life is that tragedies like that do occur.

Would there not be a least a small measure of comfort in knowing that the rest of the family need not suffer an added financial burden?

Not only would the cost of the funeral and final expenses be taken care of, but both parents could then afford to take time off work without having to worry about how the mortgage and other the bills would get paid.

This may be necessary especially if there are other children in the family that are in need of comforting or counseling in order to help them deal with the loss.
