



GIFTING A WHOLE LIFE INSURANCE POLICY FOR CHILDREN

By Ed Gaelick CLU, ChFC

I am frequently asked whether purchasing a whole life policy for children is a good idea. That clearly depends on what someone is looking to accomplish and his or her financial objectives.

First, there are many "whole life" imitations out there. Provided you purchase a pure whole life policy, preferably from a Mutual Life Insurance Company, juvenile whole life policies are a great idea as there are multiple benefits.

Policies lock in premiums at a young age for life, share in the insurance company's profits in the form of dividends, build cash value that is not subject to market risk, have guarantees, have tax advantages, values are protected from some creditors, can supplement retirement benefits and provides a death benefit that will increase over time keeping pace with inflation, provided the policy is set up properly. Your child will have a policy in place when life insurance becomes important to him or her at some point in the future. The child will also then

own a financial product that has already accumulated cash value. How much you allocate towards a policy will determine the future values.

One of the best features of whole life is that current values are not market risk sensitive meaning a downturn in the stock market will not impact the values already in the policy. An option that I find very important is "waiver of premium." This rider will waive the premium deposits in the event of a total disability. The insurance company will make the deposits for you, protecting the benefits and cash accumulation. You don't owe that money back. It doesn't accrue. It is waived. There is no other financial product that does this.

Life events may be a perfect time to consider purchasing a juvenile policy. The most common reasons are the birth of a child, graduation from high school or college, and marriage.

If the insured child will own the policy, there may be gifting involved. Each parent (or grandparent) can gift up to \$14,000 annually (2015 limits) towards a policy without incurring any gift tax to each child (or \$28,000 annually to each child between both parents). Gifting removes that amount of money from an estate and that can lower the parent's estate tax liability.

Accumulated values can be used for any reason. Common reasons are to pay for college, purchasing a car, a down payment on a home, to purchase an investment property, to fund a business venture - there are no limitations with use.

There are several ways to use the values and many factors should go into

that decision. You could surrender some cash value, borrow against the values or a combination of both. You could take out current dividends. Many that own whole life simply let the values increase and accumulate. Whole Life premiums are really attractive at a young age and there are no premium increases making juvenile policies very smart. So by purchasing a policy for your children, you lock them in and start them off owning, in my opinion, the best financial product ever invented - pure whole life.

Does this policy give you what you want for the money applied? There are many ways to design a plan and several options to consider; each affecting the results desired. My best advice is to consult with an unbiased advisor that has vast experience in whole life to properly explain all the advantages of owning whole life and which carriers to consider, whether it be for you or your children.

In 1985, Ed Gaelick established PSI Consultants, LLC where he specializes in company sponsored employee benefits, business planning and personal insurance. Throughout his career, Ed has received many of the highest professional honors awarded in the insurance industry. His dedication, integrity and fortitude have earned him great respect from his clients, staff and peers.

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