How Life Insurance Helps Plug the College Savings Disability Gap

For many years, families have been using cash value life insurance to help fund college costs for their children.

The practice has become less popular in recent years thanks to the rise of alternatives like Section 529 plans and Roth IRAs. But life insurance still may have an important role to play, depending on your circumstances.

Planning for disability, death or life

The most important advantage for using life insurance as a college savings vehicle is one that planners often overlook: Disability is far more likely than death for most parents of school-age children.

Relying on private savings, IRAs or 529 plans alone to provide for education costs does nothing to plug this critical planning gap.

However, a cash value life insurance policy, combined with an optional waiver-of-premium rider, can help fill the need - even if you become disabled. In the event of disability, the insurance company will pay your scheduled premium on your behalf - building up the cash value and taking over where you left off.

This is a valuable benefit. Assets in a whole life or universal life policy may not grow as fast as they might in a risky fund or 529 plan. But unlike mutual funds, personal savings or vehicles like 529s, using life insurance provides a path to completion under all of the following scenarios:

1. **If you (the insured) remain healthy:** Just continue to pay premiums as planned.
2. **If you die:** The policy will pay the death benefit.
3. **If you become disabled and cannot work:** The waiver-of-premium rider allows your plan to self-complete, even if you're disabled. The insurance company takes over your scheduled premiums.

Note: You must be in good health to qualify for the waiver-of-premium rider.

Properties of life insurance

Life insurance has a number of advantages over personal savings - and in some circumstances, over 529 funds and IRAs:

1. A permanent death benefit.

2. Generally not exposed to market risk.
3. Cash value can be accessed for any reason, penalty-free, even prior to age 59½.
4. Unlike IRAs, life insurance policies don't impose a $10,000 cap on withdrawals to pay for college.
5. Premiums are made with after-tax dollars, but assets grow tax-free.
6. Unlike with 529 plans, there are no problems or penalties if the child chooses not to attend college.
7. Assets in life insurance, retirement accounts or home equity don't count against the student for the purposes of qualifying for financial aid.
8. Anything you don't use can accrue and fund a larger death benefit, or be converted to a retirement income annuity.

If the child does not go to college

Life insurance has no penalty if the child doesn't go to college, and there's no need to transfer benefits. You can use it for a down payment on a home, to start a business or for a wedding gift. Or simply have it provide a permanent death benefit or supplement retirement income.

When to consider life insurance

Life insurance may be indicated if:

- You want or need a permanent death benefit for other reasons;
- You're in good health;
- You can comfortably afford the premiums;
- Disability would affect your ability to save;
- You don't need to be aggressive - you can meet your funding needs with conservative or risk-free investments.
- The $10,000 allowable annual distributions from IRAs will not be sufficient;
- You want to maximize your child's ability to qualify for need-based financial aid; or
- There's a chance the child won't go to college.

Many families combine life insurance with private savings, retirement accounts, 529 plans and/or Coverdells to maximize growth, flexibility and protection.