Life Insurance When You Have Children

Life insurance has many applications. But its most important purpose is protecting children against the untimely death of a parent.

Here are seven life insurance principles for parents:

1. Buy enough

When you have young children, you probably need a lot of life insurance. The goal: Have enough life coverage to replace your own income (or that of a breadwinner spouse) until the children reach adulthood, plus college funding.

A basic rule of thumb for young parents is 15 to 30 times your income.

You may want more insurance if:

- Your children are young.
- You expect your income to increase.
- You want to provide money for college.
- You want a surviving parent to leave the workforce to provide full-time care.
- You have a child with special needs.

You may need less insurance if:

- You have substantial savings or assets already.
- Other resources are available.
- Your children are older and closer to adulthood.

2. Don't count on employer-paid life insurance

Most employer-paid life insurance policies cap the death benefit at $50,000. But that's only enough to replace a year of income, or a little more than a year depending on your salary.

Workplace life insurance is great, but most parents need much more than an employer-paid plan provides.

3. Something is better than nothing

If you're in reasonably good health, term life insurance is very affordable, even for people with modest incomes.

But if you're on a tight budget, don't delay. The right amount of life insurance to buy is the amount you can easily afford right now.

4. Designate beneficiaries

Always designate your desired beneficiaries by name. Include contingent beneficiaries. Be especially careful if you have stepchildren or children with another partner.

Otherwise, you may accidentally exclude those children from the life insurance death benefit. Discuss your full family situation and your wishes with us.

5. Don't leave money directly to minors

Don't name a minor child directly as a beneficiary. The life insurance company can't release funds to a minor.

For most families, the simplest thing to do is to name a responsible and trustworthy adult to handle the money until the child reaches adulthood, via an UTMA or UGMA designation.

For more complex situations, or where one or more children has special needs, speak to an attorney about establishing a formal trust and naming the trust as the insurance beneficiary.

6. Insure both parents

Don't underestimate the financial contributions of stay-at-home parents. It would cost the breadwinner a lot of money to hire someone to do all the things a non-working parent does every day.

Own life insurance on both parents, not just the breadwinner.

7. Cover parents first

Life insurance on children can have many benefits. But parents and guardians' first priority should be to own enough life coverage on themselves. Don't buy life insurance on your children until you have enough coverage on yourselves.

Don't delay

Many medical conditions onset in your 20s and 30s. And accidents happen every day.

Tomorrow may be too late. Call us today, and let's get protection in place.

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