Cash Value Life Insurance Could Be A Secret Weapon For College Savings

SEPTEMBER 24, 2019 • **JERILYN KLEIN BIER**

September is Life Insurance Awareness Month and a wealth advisor with a specialty in college planning wants more financial advisors and parents to understand how permanent life insurance policies (including whole life and indexed universal life) can help fund college expenses.

Beth Walker, a wealth advisor with Omaha-headquartered Carson Wealth Management and founder of the Center for College Solutions, a consulting firm in Colorado Springs, isn't suggesting parents abandon 529 college savings plans for permanent life insurance contracts (also referred to as cash value contracts) but thinks the strategy deserves a closer look.

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According to Walker, almost every permanent life insurance contract includes loan provisions that enable the policyholder to borrow on the cash value that has accumulated. A parent is typically the owner and the insured on policies used to fund college, she said.

The cash value of permanent life insurance contracts is unlikely to sabotage financial aid awards because it's excluded from the Free Application for Federal Student Aid formula and only a handful of colleges that require the CSS Profile application inquire about the cash value of policies, said Walker.

In addition, policyholders can generally borrow up to 90% of the cash value of their life insurance contracts "with just the stroke of a pen," she said, without having to qualify or have an appraisal. Both of those steps are required when collateralizing a home equity line of credit to pay for college, she added.

"The flexibility of an insurance line of credit is a phenomenal tool during the college years," said Walker.

She also pointed out that the collateral in cash value contracts continues to compound uninterrupted when loans are taken and policyholders are permitted to repay the loans whenever they wish. Some parents wait until they receive a bonus or until their children graduate college, she said, and others may opt not to repay the loan. Outstanding loan balances are deducted from the payout beneficiaries receive following the death of the insured.

That being said, "I would never advocate that you don't pay it back," said Walker, noting there can be surrender charges and parents might need the payout to fund their retirement.

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Borrowing from an existing cash balance policy might be a good strategy, but too often insurance agents push these policies on families that don't need them. Parents that receive an inheritance can usually pay off debt (their own student loan, car debt, credit card debt, and mortgage debt) instead of buying an insurance policy that puts a fat commission in an agent's pocket. It is the income of parents (assessed up to 47%) and not the assets (assessed at 5.64%) that typically knocks families out from qualifying for needs-based aid.

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