FINANCIAL POST

Put life insurance on your kid?

RESPs have replaced once common practice

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May is birthday month for both kids in our household -- a curse because of the costs and a blessing because we can be done with it all in one fell swoop.

Birthdays are also a good time to do annual financial checkups. It's not something most want to talk about, but parents need to have some type of life insurance policy to cover the income that is lost with the death of a spouse. It ranks near the top of financial considerations.

There are other policies to think about, like critical illness, which provides a lump-sum payment should you become seriously ill, and disability insurance, should you be unable to work.

Less clear, and much more controversial, is buying insurance against your child's death. Yech!

Mark Halpern, owner of illnessprotection.com,says it's a gruesome subject, but for parents with a family medical history, it can make sense. "Once we get people off the ledge [from the idea they might profit from their child's death], they realize the best time to get insurance is when you're young and healthy," Mr. Halpern says. "You could get their insurance needs taken care of in 10 years and then they won't have to deal with an insurance advisor in the future."

But he also says a policy for your child ranks down the list of financial priorities -- after contributions to a registered education savings plan, for example.

Steve Krupiez, assistant vice-president of special case markets for Manulife Financial Corp., says insurance policies for children were much more popular 20 or 30 years ago, as a way of saving for a child's education.

Before the RESP was introduced, parents would buy a policy in their child's name and eventually turn it over to them as they reached adulthood. At that point, the policy would have equity in it and the child could withdraw some of that equity for education purposes and face very little tax consequences.

But once the government began providing a 20% grant for every dollar put into an RESP in 1998, the insurance strategy faded.

However, whole life policies that build up equity and are paid off after a number of years, are becoming popular again. For $53 a month, your child would have a $100,000 policy paid up in 10 years with Manulife.

Rates go down in teen years because newborns are actually classified as potential smokers, but that is reversed at age 16 if you prove your child doesn't smoke.

"The story now if you're going to do this is that you're looking for cheap rates forever," says Mr. Krupiez, who agrees that a policy for your child ranks down the list of financial priorities.

Maybe the idea of buying insurance for your child isn't that gruesome, but it's probably not your top priority either.