Securian Financial

Individual Life Insurance
Funding college with cash value

Insurance products issued by:
Minnesota Life Insurance Company
Securian Life Insurance Company

Cash value life insurance

Another way to fund college

With college costs on the rise, your clients may face a difficult decision — either protect their family or pay for tuition.

With life insurance, they can do both. Use this guide to help clients consider incorporating cash value life insurance into their college funding strategy.

When they know they're protecting their families and preparing for their children's education, clients may be more likely keep their policies in force. Cash value life insurance can provide:

- An immediate, tax-free death benefit at the death of the insured
- Tax-advantaged cash value growth
- Tax-preferred access to cash value

Average college tuition and fees increase from 2003-2023[1]

134%
Private national universities

141%
Public out-of-state college costs

175%
Public in-state college costs

Last 20 years
Tuition has historically risen around 3% each year.[2]

Ask your clients some important questions

With numerous college funding vehicles, your clients may be confused about which path to choose. You can help them decide which strategy — or mix of strategies — is right for them.

By asking the right questions, you can help clients consider cash value life insurance as part of their college funding strategy, not replace existing vehicles they're invested in or considering.

Control

- Whom do you wish to have control of the account now and in the future — you or your child?
- Should the assets be available for other things?

Custodial accounts change hands at age of majority, leaving young adults to do what they wish with the money.[3]

Flexibility

- Do you want to be free to contribute as much as you want to the funding vehicle?[4]
- Do you know what college or university your child will attend in 20 years?
- What if your child decides not to attend college?

Coverdell education savings accounts (ESAs) and 529 plans have limits on funding and spending. There are also funding limits on UGMA/UTMA custodial accounts for most people, and IRS guidelines limit funding of life insurance and access to cash value. Traditional savings accounts are virtually limitless in contributions and spending.

Tax deferred

- Do you want to pay taxes as you fund the vehicle or when you make tuition payments?
- Do you want to minimize taxes, if possible?

Tax treatment on 529 and Coverdell plans are favorable. Life insurance can offer tax-free distribution through the use of policy loans and withdrawals.[4] Custodial accounts are taxable at varying rates.

Financial aid

- Do you want this asset to be considered in your financial aid profile?

Custodial accounts are considered assets of the child; traditional savings accounts are included in financial aid eligibility.

Investment options

- What kind of investment options do you envision in your child's college funding vehicle?
- Are they broad or limited?
- What types of investments do you prefer?

Investment options become more limited through 529s, Coverdell ESAs and variable life insurance.

Estate planning

- Should the asset be considered in your estate?
- Would you want your child to have enough money to pay for college, should something happen to you?

Some college funding vehicles will not reduce your taxable estate, even though you have given away the money. Others offer significant estate planning benefits.

Example: Parents protect their daughter's future

Mike and Michelle recently had a baby girl. Their financial professional calls to congratulate them on the birth – recognizing an opportunity to discuss how life insurance may meet their protection and college funding needs.

Well-versed in college savings vehicles, Mike and Michelle's financial professional asks a number of questions about flexibility, control, tax-deferral and budget. Based on their answers, he calculates how much college tuition will cost in 18 years. Then he organizes the paperwork for a 529 plan, which aligns with the couple's goals.

He also suggests they increase their life insurance policies by the future cost of college tuition, and pay a little more in premium. This would give them an amount they could earmark for their daughter's education, should something happen to one of them. And gives them an additional source of college funds if the growth in the 529 plan falls short of their objectives.

Mike and Michelle find comfort in knowing their daughter and her future education are protected.

This is a hypothetical example for illustrative purposes only.

Start the discussion with your clients by using these easy steps in your sales process:

1. Determine your clients' aspirations for their children's future education.
2. Use a college cost calculator of your choice to determine the future annual cost of education at that institution: **www.pardot.securian.com/college_calculator**
3. Add that amount to your clients' life insurance need. Be sure to help them understand the importance of having enough life insurance.

Learn more

Call your Life Sales Support team today to find out how cash value life insurance can be used as a college funding tool.

1-888-413-7860
(Independent Brokerage)

1-877-696-6654
(broker-dealer)

1. Kerr, Emma and Wood, Sarah. "A Look at College Tuition Growth Over 20 Years." https://www.usnews.com/education/best-colleges/paying-for-college/articles/see-20-years-of-tuition-growth-at-national-universities

2. Welding, Lyss. "College Tuition Inflation Statistics." https://www.bestcolleges.com/research/college-tuition-inflation-statistics/#:~:text=According%20to%20NCES%2C%20the%20annual,rates%20of%20the%20recent%20past.

3. Age of majority is usually 21 but varies by state.

4. If a policy is overfunded and becomes a modified endowment contract (MEC), the contract's earnings will be taxed as ordinary income at withdrawal, and may be subject to a 10% penalty if withdrawn before age 59½.

A 529 college savings plan is a tax-advantaged investment program designed to help pay for qualified higher education costs. Participation in a 529 plan does not guarantee that the contributions and investment returns will be adequate to cover higher education expenses. Contributors to the plan assume all investment risk, including the potential for loss of principal, and any penalties for non-educational withdrawals.

Clients state of residence may offer state tax advantages to residents who participate in the in-state plan, subject to meeting certain conditions or requirements. Clients may miss out on certain state tax advantages should they choose another state's 529 plan. Any state based benefits should be one of many appropriately weighted factors to be considered in making an investment decision. Clients may also wish to contact their home state's 529 plan Program Administrator to learn more about the benefits that might be available to them by investing in the in-state plan.

Life insurance products contain charges, such as Cost of Insurance Charge, Cash Extra Charge, and Additional Agreements Charge (which we refer to as mortality charges), and Premium Charge, Monthly Policy Charge, Policy Issue Charge, Transaction Charge, Index Segment Charge, and Surrender Charge (which we refer to as expense charges). These charges may increase over time, and the policies may contain restrictions, such as surrender periods. Variable life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender periods. There may also be underlying fund charges and expenses, and additional charges for riders that customize a policy to fit individual needs. Charges and expenses may increase over time. The variable investment options are subject to market risk, including loss of principal.

Policy loans and withdrawals may create an adverse tax result in the event of a lapse or policy surrender, and will reduce both the surrender value and death benefit. Withdrawals may be subject to taxation within the first fifteen years of the contract. Clients should consult their tax advisor when considering taking a policy loan or withdrawal.

Please keep in mind that the primary reason to purchase a life insurance product is the death benefit.

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