

MONEY MYTHS SERIES

Life Insurance for Kids: Is Whole Life a Good College Fund? (2026)

Whole life on a child compared with a 529 plan, a custodial Roth IRA, and a UTMA account, including FAFSA treatment and California 529 rules.

By Eric Ridley, attorney, Ridley Law · Updated September 2026 · Read online with live links: ridleylawoffices.com/life-insurance-for-kids/

Part of our [money myths series](#), where we check what social media says about money against the actual rules.

The pitch: buy a whole life policy on your baby now, while it's cheap, and by 18 your kid has a tax-free "bank" for college, a car or a first home, plus coverage for life. Some versions add that cash value is invisible to financial aid.

The verdict: for most families it's a slow, expensive way to save. A small child policy can take 25 years to break even. A 529 plan or, once your child has a job, a custodial Roth IRA will almost always leave more money for school. The financial aid point is true but small. It only matters if your family will qualify for need-based aid.

~25 years

for a Gerber Grow-Up policy's guaranteed cash value to equal premiums paid (ValuePenguin, 2026)

2.8%

return implied by a Gerber College Plan sample rate, and the gain is taxable (Gerber brochure)

14.5 per 100,000

U.S. death rate, ages 5 to 14, in 2024 (CDC/NCHS)

\$0 vs. \$564

most \$10,000 adds to the Student Aid Index: cash value vs. a parent's 529 (FSA 2026-27)

\$35,000

lifetime 529-to-Roth IRA rollover allowed by federal law (26 U.S.C. 529)

What is the "whole life for your kids" pitch?

It's the idea that a permanent life insurance policy on a child is a savings plan that also happens to insure them.

In the videos, premiums on a baby are tiny. The policy builds cash value. By the time your child is grown, they can borrow against it for college, a down payment, or a business, and the loan isn't taxed. Some creators call it giving your kid their own bank, which is the [infinite banking](#) pitch scaled down to a toddler. Others sell indexed universal life on children with the same promises, which we cover on our [IUL retirement](#) page.

Parts of this are true. Child policies are cheap, and the cash value doesn't count on the FAFSA. The trouble is the size and speed of the savings, the cost of getting at the money, and what you give up by not using an account built for college.

Who gets paid when you buy it. The insurer earns its margin first. The National Association of Insurance Commissioners says that to build cash value "you must pay higher premiums in the earlier years," and Gerber's own page warns that cash value "may take years to accumulate." LIMRA, the insurance industry's research group, reports that juvenile policies have "higher lapse rates," and a policy dropped in its early years usually returns little or nothing. When the policy comes through an agent or a social media "financial educator," that person is paid a commission out of your premiums. Variable policies are registered with the SEC, and their prospectuses disclose commissions. A 2016 Minnesota Life prospectus for a variable universal life policy, for example, disclosed commissions of up to 62.1% of the premium paid in the first 24 months, up to a "target premium," and a few percent after that. Well over half of the early premium, up to that target, can go out as sales commission. None of that is hidden or illegal. It means the person telling you this is the best way to save for your child is paid only if you buy it.

Is whole life insurance a good way to save for a child's college?

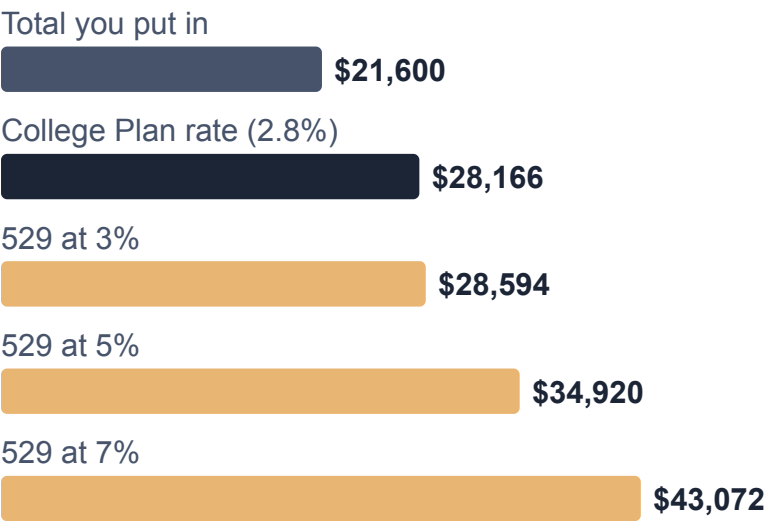
No, not for most families: the cash value grows slowly, the growth is modest, and taxable or costly to get out, while a 529 grows tax-free for school.

Gerber's Grow-Up Plan, the best-known child policy, sells \$5,000 to \$50,000 of coverage on children. Gerber says a \$10,000 policy on a healthy baby costs about \$6.35 a month and that the coverage doubles at age 18 with no extra premium. Gerber doesn't publish a cash value table on its site. ValuePenguin, a LendingTree comparison site, pulled a quote for a newborn boy: \$6.53 a month, with a guaranteed cash value after 25 years of \$1,959. That's what the premiums add up to over the same 25 years, so the guaranteed side of the policy gets you back to zero after a quarter century.

Gerber also sells a "College Plan." Read the fine print and it isn't a policy on the child at all. Gerber calls it "an individual endowment adult life insurance policy" on the parent or grandparent. It pays a fixed amount at the end of 10 to 20 years, and Gerber says the payout "does generate taxable income." Gerber doesn't post the rate of return. An older Gerber brochure (form GLCP_AM_0313, undated) lists \$35.42 a month for 18 years for a \$10,000 payout on a healthy 30-year-old woman. That's \$7,651 in premiums. Solve for the return and you get about 2.8% a year, before tax on the gain.

A worked example: \$100 a month for 18 years

Here’s a hypothetical. Say you can set aside \$100 a month from birth to 18. That’s \$21,600. At the 2.8% the College Plan sample rate implies, it grows to about \$28,166, and the gain is taxed. In a 529 plan earning 5% a year it grows to about \$34,920, and ScholarShare says withdrawals for qualified expenses are "100% tax-free." Even at a cautious 3%, the 529 comes out slightly ahead before taxes and further ahead after them. These returns are assumptions, and a 529 invested in stocks can lose money, which the SEC’s investor office says plainly. At 5% or 7%, the gap is thousands of dollars.



Hypothetical. Returns are assumptions, not predictions. 529 values are before plan fees (ScholarShare averages 0.21% a year).

Where \$100 a month goes for 18 years	Value at 18	Taxed when used for college?
Total paid in	\$21,600	n/a
Endowment growing at 2.8% (Gerber College Plan sample rate)	\$28,166	Yes, gain is taxable income
529 plan at 3% a year	\$28,594	No, if spent on qualified expenses
529 plan at 5% a year	\$34,920	No, if spent on qualified expenses
529 plan at 7% a year	\$43,072	No, if spent on qualified expenses

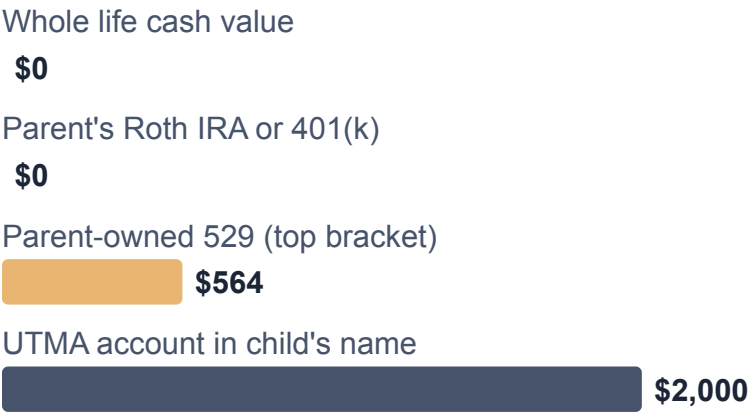
The insurance does buy something the 529 doesn’t: a death benefit. Most families can buy far more cheaply by insuring the parents, whose income the family depends on.

Does cash value life insurance hurt financial aid?

No, it doesn’t count at all: the 2026-27 federal Application and Verification Guide says the cash value of a whole life policy “isn’t reported as an asset” on the FAFSA.

Under the federal Student Aid Index formula for 2026-27, a parent’s reportable assets are multiplied by a 12% conversion rate, added to the parents’ available income, and that total is assessed at 22% to 47% (Formula A, lines 16 to 19, and Table A5). The parents’ asset protection allowance is \$0 at every age. A parent-owned 529 is a parent

asset. So \$10,000 in a parent's 529 raises the Student Aid Index by 12% times 22% to 47%, or between \$264 and \$564. A UTMA account in the child's name is the child's asset and is assessed at 20%, so the same \$10,000 adds \$2,000. Retirement accounts and life insurance cash value add nothing.



Computed from the 2026-27 Student Aid Index and Pell Grant Eligibility Guide, Formula A lines 16 to 19 and Table A5, and Formula A line 35. Parent asset protection allowance is \$0.

Where the \$10,000 sits	FAFSA treatment (2026-27)	Most it adds to the SAI
Cash value of whole life	Not reported	\$0
Retirement accounts (401(k), IRA)	Not reported as an asset	\$0
529 owned by a parent	Parent asset: 12% conversion, then assessed at 22% to 47%	\$264 to \$564
UTMA or UGMA in the child's name	Student asset: 20%	\$2,000

That advantage is smaller than it sounds. First, it only matters if your family is close enough to the line to get need-based grants. Families who won't qualify gain nothing from hiding money from the formula. Second, a few hundred dollars of aid eligibility doesn't make up for the growth you gave up in the example above. If shielding assets from the formula is the goal, a parent's Roth IRA or 401(k) gets the same \$0 treatment, with much better growth and no insurance charges.

Private colleges that use the College Board's CSS Profile can ask about more. The College Board's guidance says the standard method counts "cash, savings, checking, and non-retirement investments," and individual schools can set their own rules, so check with each school.

What does California do to a 529 plan?

California gives no state deduction for 529 contributions, and it taxes some withdrawals that federal law doesn't, but college withdrawals stay tax-free.

California's plan is ScholarShare 529. ScholarShare says there's no California deduction for contributions to it or to any other state's plan, and it charges no sales, startup, or maintenance fees, with average asset-based fees of 0.21% a year. A few California differences matter:

- ✓ **Nonqualified withdrawals.** Federal law adds a 10% tax on the earnings (26 U.S.C. 529(c)(6), borrowing 530(d)(4)). ScholarShare says California adds 2.5% on top of regular state income tax.
- ✓ **K-12 tuition.** Federal law now treats up to \$20,000 a year of K-12 expenses as qualified, after the 2025 budget act raised it from \$10,000. California doesn't conform (Rev. & Tax. Code, § 17140.3), so ScholarShare says California taxes the earnings on K-12 withdrawals plus the 2.5%.
- ✓ **529-to-Roth rollovers.** Federal law lets a 529 open at least 15 years roll up to \$35,000, over a lifetime, into the beneficiary's Roth IRA, within the annual IRA limit (26 U.S.C. 529(c)(3)(E)). California says that rule "shall not apply" (Rev. & Tax. Code, § 17140.3(f)), so the earnings are taxable for California.

Even with those wrinkles, a 529 used for college is tax-free in California. An endowment payout isn't.

Is a custodial Roth IRA better than life insurance for a kid?

Often, yes, once your child earns money: a Roth IRA grows tax-free and has no insurance charges, but your child needs taxable pay to put money in.

The IRS says there's no age limit on Roth IRA contributions, but you need taxable compensation, which includes wages, salaries, and tips (Publication 590-A). The contribution can't be more than the child's earnings or the annual limit, whichever is smaller (26 U.S.C. 219(b), 408A(c)(2)). The IRA limit for 2026 is \$7,500 (IRS, IR-2025-111). A teenager who earns \$3,000 bagging groceries can put up to \$3,000 in a Roth that year. Retirement accounts also don't count as assets on the FAFSA.

There's a newer option for younger children. "Trump accounts," created by the 2025 budget act, are a type of traditional IRA for a child. The IRS says no earned income is needed during the growth period, the annual limit for most contributions is \$5,000, contributions couldn't start before July 4, 2026, and children born from 2025 through 2028 can get a \$1,000 pilot contribution from the Treasury (Instructions for Form 4547). They're new, and the rules on withdrawals are restrictive, so read them before you choose one over a 529.

When does life insurance on a child make sense?

When you want a modest death benefit for funeral costs or a guarantee your child can buy coverage later, and you've already insured the parents and started college savings.

A child who develops a serious illness may have trouble buying insurance later, and a policy bought young locks in coverage. Gerber's doubling feature at 18 is built around that. A small policy can also pay for a funeral, and ValuePenguin concludes that the Grow-Up Plan's "primary value" is the death benefit. Even an insurer that sells

juvenile policies says the same thing about order of priorities: Globe Life tells parents to make sure "life insurance policies for the parents, and the juvenile's higher education fund" come first.

The CDC reports a 2024 death rate of 25.6 per 100,000 for children 1 to 4 and 14.5 per 100,000 for ages 5 to 14. A child's death is a tragedy, and it isn't usually a financial loss the family needs to replace. The parents' deaths usually are.

Comparison: child whole life vs. the alternatives

	Whole life on a child	529 plan (ScholarShare)	Custodial Roth IRA	UTMA account
Main purpose	Death benefit and guaranteed future coverage	Education savings	Retirement savings, flexible	Any gift to the child
Growth	Slow guaranteed cash value, plus any dividends	Market returns you choose	Market returns you choose	Market returns you choose
Tax on growth used for college	Loans untaxed while the policy stays in force, endowment payouts taxable	None for qualified expenses	Grows tax-free, with withdrawal rules	Earnings taxable as they're earned
FAFSA asset treatment	Not reported	Parent asset (up to 5.64%)	Not reported	Student asset (20%)
Who controls it	Policy owner (Gerber: parent until 21)	Account owner (usually parent)	Custodian until adulthood, then the child	Custodian until the age set under California's UTMA, then the child
Cost to exit early	Surrender charges, and little or no cash value early	Tax plus penalty on earnings if not for school	Tax and penalty on early earnings withdrawals	None, but the money belongs to the child

What should you do instead?

- 1

Insure the parents first

Term life insurance on each working parent replaces the income your children depend on. Our [guide to life insurance in an estate plan](#) covers how much and how to own it.
- 2

Open a 529 for college money

ScholarShare is direct-sold and low-cost. Name a successor owner on the account so it doesn't get stuck if you die. Our page on [college savings and estate plans](#) explains how 529s fit with a trust.
- 3

Start a custodial Roth when your child has a paycheck

Keep pay stubs or records of the work. The contribution can't exceed what the child earned that year.

4 Think twice before a UTMA

It counts heavily against aid and becomes the child's outright. Our page on [what happens to a UTMA account at 18](#) explains the California age rules.

5 Put the plan in writing

Name a guardian and set up a trust to hold money for minors, so insurance proceeds and accounts don't go to a court-supervised guardianship. See [naming a guardian for your children](#).

Questions people ask

Is whole life insurance for kids a scam?

No. It's a legal product that does what the contract says. The problem is how it's sold: as a college or wealth plan, which it does poorly compared with a 529 or a Roth IRA.

How much does life insurance on a child cost?

Gerber says about \$6.35 a month for \$10,000 on a healthy baby, and Globe Life lists \$4.28 a month for \$10,000 at age 0 in California.

Does a Gerber Grow-Up Plan build cash value?

Yes, slowly. Gerber says cash value "may take years to accumulate," and ValuePenguin's quote showed the guaranteed cash value only matching premiums after 25 years.

Can my child borrow from the policy for college?

Yes, once there's cash value, but it's a loan. Gerber says policy loans carry interest up to 8% and reduce the cash value and death benefit. And until the child takes ownership, the policy owner controls it. Gerber's FAQ says the parent owns the Grow-Up Plan until the child is 21.

Is a 529 or life insurance better for financial aid?

Life insurance cash value isn't counted, and a parent's 529 counts at no more than 5.64%. For most families, the 529's tax-free growth outweighs that difference.

Can I insure my child in California?

Yes. California requires an insurable interest, which includes the "love and affection" between close relatives (Ins. Code, § 10110.1), and a policy a minor under 16 buys needs a parent's or guardian's written consent (Ins. Code, § 10112).

What if my child doesn't go to college?

A 529's beneficiary can be changed to another member of the family without tax (26 U.S.C. 529(c)(3)(C)), and federal law allows a limited Roth rollover (California taxes it). Nonqualified withdrawals pay tax and a penalty only on the earnings, not on what you put in.

Related reading in our [money myths](#) series: [infinite banking](#), [IUL as a Roth alternative](#), and [premium-financed life insurance](#).

This page is general information about California and federal law. It isn't legal, tax, or investment advice for your situation. Talk with a professional who knows your facts before you buy or cancel a policy.

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Questions about your own plan?

Ridley Law helps California families with trusts, wills, trust administration and probate from Port Hueneme, serving Ventura, Santa Barbara and Los Angeles counties. The first call is free and runs 30 minutes.

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