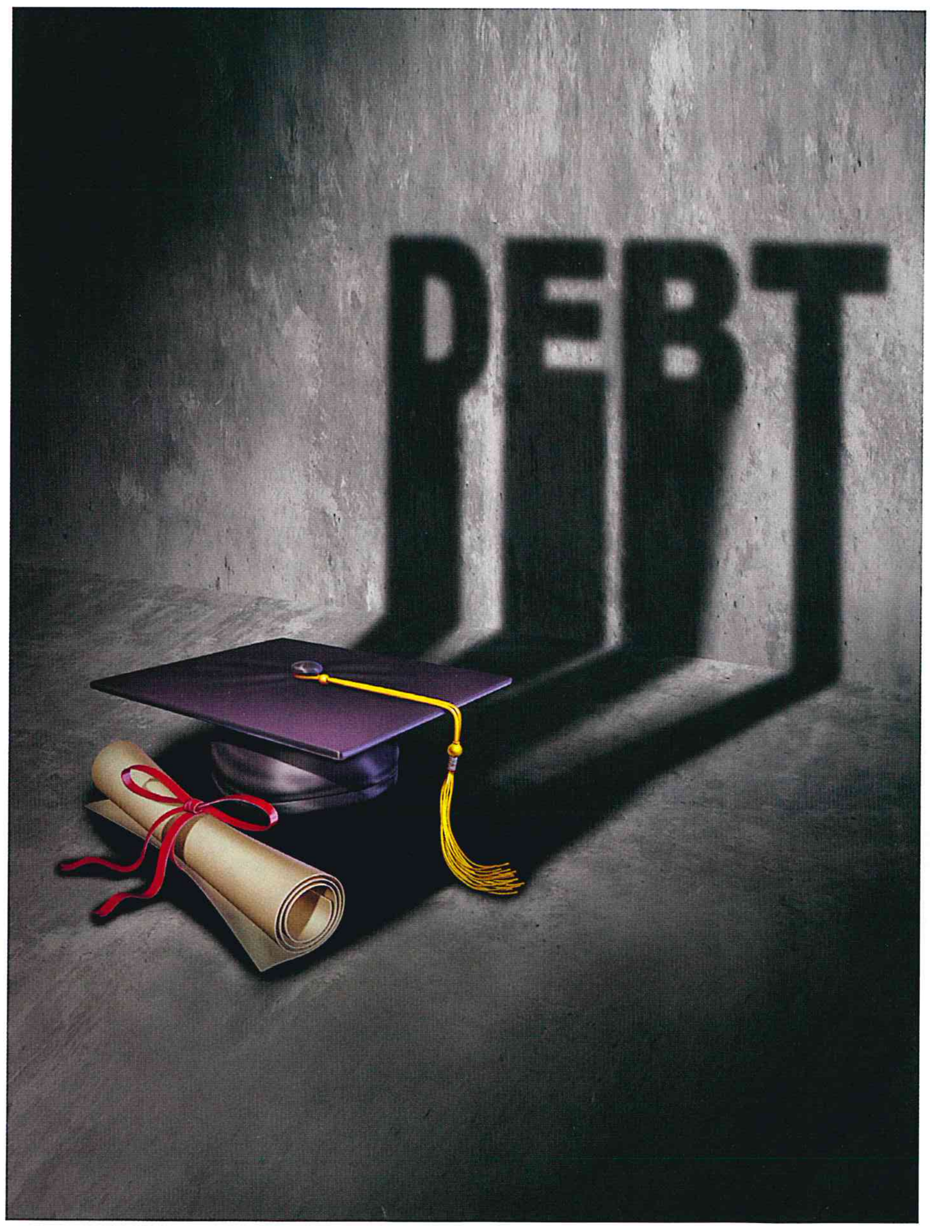
Protecting Your Family From Student Loan Debt with Life Insurance

by BRENDAN FARRELLY

There's nothing quite as exciting as getting accepted to college, but funding that education with a student loan is a much less enjoyable experience. Taking out a student loan is a huge decision and comes with potentially devastating consequences if the proper precautions are not taken before signing on the dotted line. Have you ever thought about who might be responsible for your debt should the unspeakable occur?

Take the story of the Mason family, who were thrust into the news in 2014. Five years earlier, Steve and Darnelle Mason's 27-year-old daughter Lisa died suddenly of liver failure, according to a CNN Money report. Steve and Darnelle immediately took Lisa's three children into their home, but quickly realized that the financial burden stemming from Lisa's passing would be difficult. Lisa had left behind roughly $100,000 in private student loan debt, which Steve and Darnelle were now responsible for repaying. Saddled with extra expenses of taking care of Lisa's kids, the couple immediately fell behind on their payments, and the balance on the loans doubled to more than $200,000 after accounting for late penalties and interest.

With the help of hundreds of micro donors through a GoFundMe page, the Mason family was able to reach their funding goal and has gotten their financial lives on track. But the years of financial heartache could have been avoided had Lisa taken out a life insurance policy.



Life insurance is usually the last thing on your mind when sending a loved one to college. But if you are co-signing on their student loan, life insurance could bail you out of financial devastation should you unexpectedly take responsibility for a mountain of debt. "I absolutely wish we had [a life insurance] policy," Steve Mason told CNN Money. "We would not have struggled financially for the past four years with these private student loans, and our credit would not have been ruined."

THE EVER GROWING MOUNTAIN OF STUDENT DEBT

The Masons were not the first, and surely will not be the last family to be financially burdened with the student debt left behind by a loved one. The national student loan debt today is at a frightening level of about $1.3 trillion. College tuition is rising, and total student loan debt is growing at a rate of $2,726 every second, according to MarketWatch. In the second quarter of 2015, the average monthly student loan payment was $351 for those between 20 and 30 years of age, according to the Federal Reserve Bank of New York's Consumer Credit Panel data. Would you be able to seamlessly cover such a monthly payment if the unspeakable happened tomorrow?

The good news is that student loans from government programs, which represent a majority of total outstanding student debt in the U.S., are forgivable in the event of an unexpected death. But for loans from a bank or other private lender, the outstanding balance must be repaid in full by the loan's co-signers under the agreed upon terms.

LIFE INSURANCE TO THE RESCUE

This is where a life insurance policy can come to the rescue. With the co-signer of a student loan as the beneficiary of the child's life insurance policy, the payout can be used to repay the debt in the event of an unexpected death. After the sudden passing of a loved one, relieving yourself of the financial burden they leave behind can be an enormous help. It may mean you won't have to deal with pesky debt collectors, your credit will not be ruined, and your retirement funds will remain intact. Not only can you potentially rely on the policy to provide coverage for payments, but also, life insurance is very affordable.

There are financial advisors that specialize in setting up appropriate life insurance policies for college graduates who are saddled with student debt. Advisors typically look at the outstanding balance on the loan, the student's assets, and projected future income to determine the adequate amount of necessary coverage. If you are interested in finding out for yourself, there are countless life insurance calculators to help figure out what policy is best for you. If all goes according to plan, and the student is able to repay their student loan, they'll also be left with a nice cash value supplemental whole life insurance plan, which is a great asset to have.

COVER ALL THE BASES WITH DISABILITY INSURANCE

Another overlooked scenario – and one that is usually more common than a young adult dying – is a debilitating injury that forces you to step away from the workforce. A life insurance benefit will not kick in unless a policyholder has died, so what do you do when you are injured or too sick to work and thus repay your student loans? Disability insurance is a viable option to protect your assets and credit against such an unfortunate situation. Depending on your profession, financial advisors can help find discounts or guaranteed standard issue programs to help mitigate the costs when purchasing a disability insurance policy.

A TOUGH CONVERSATION

At such an exciting time in your child's life, discussing a topic as grim as life or disability insurance is probably the last thing on your mind. But the unexpected happens every day. It is better to be prepared for a rainy day. If you are a student headed to college or graduate school, think about who might take on your financial burden should something happen to you. If you are a parent sending you child away for the first time, protect yourself from potential financial ruin should the unspeakable happen to your loved one. ★

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