Canada Life™

Accessing the cash values in your life insurance policy

The cash value of a permanent life insurance policy is an asset that generally increases in value over time. As with most other assets, it may be used as security against a line of credit.

The cash value in a life insurance policy

The primary reason for buying a life insurance policy is to have the funds available to pay final expenses and to help to ensure your family's financial future upon death.

However, many permanent life insurance policies have the additional benefit of accumulating cash value within the policy. Within prescribed limits, the cash value that builds in the policy is only subject to income tax when it's withdrawn.

Many permanent life insurance policies accumulate a cash value – the equity can build in a policy on a tax-advantaged basis.

For financial planning purposes, the cash value of these policies can provide liquid savings. These funds can be accessed in different ways, each method having advantages and disadvantages and each subject to a different set of tax consequences depending on the adjusted cost basis of the policy as determined under income tax legislation.

	Generally speaking, the adjusted cost basis is calculated as the total premiums (excluding those for additional benefits) paid to date,
LESS	the cumulative cost of pure insurance over the years,
LESS	policy dividends (if applicable) that weren't used to purchase additional life insurance or pay premiums for the policy,
LESS	any policy loans taken in the past.

Accessing a life insurance policy's cash value

A partial surrender and a policy loan are two common ways of gaining access to a life insurance policy's cash value.

Partial surrender of cash value

- Involves the permanent withdrawal of cash value from the policy
- Reduces cash value left within the policy, affects future growth of policy cash values and may reduce the death benefit payable under the policy
- Every dollar removed is taxable in the same proportion as the total cash surrender value would be taxed if the entire policy were surrendered

	Total policy surrendered	Partial surrender cash withdrawn
Cash value	$100,000	$30,000
Adjusted cost basis	$20,000	$6,000 **
Taxable amount	$80,000	$24,000
Percentage taxable	80%	80%

**The policy adjusted cost basis would be reduced by this $6,000 to $14,000

Policy loan

- The insurer advances a loan secured against the cash value of the life insurance policy instead of permanently removing cash from the policy
- The policy continues to grow uninterrupted
- Loan advances are considered to be first drawn against the tax-free adjusted cost basis of the policy
- Once the adjusted cost basis is reduced to zero, every dollar loaned thereafter is taxable
- Loans can be repaid to restore the value of the cash value, death benefit and adjusted cost basis
- A tax deduction is available to the policyowner for the amount repaid, up to the amount of the taxable income declared when the loan was taken

	Policy loan
Cash Value	$100,000
Policy loan	$30,000
Adjusted cost basis	$20,000
Taxable amount	$10,000
Percentage taxable	10%

Policy assignment as collateral

Using your policy as collateral for a line of credit may offer better access to your cash values (than a policy loan or withdrawal) and a larger net estate value; however, this method also involves greater risk and more administration.

- The life insurance policy is collaterally assigned to a third-party lending institution as security for a line of credit or term loan
- Assigning the policy to establish a line of credit does not result in any taxable income to you
- Interest is usually payable on the outstanding balance of the loan, although in some cases it may be capitalized
- If the life insured dies, the lender receives repayment of the loan and any outstanding interest from the policy benefit first, and the beneficiary of the policy receives any balance of the policy benefit

You're encouraged not to purchase life insurance solely based on a future opportunity to collaterally assign the policy to obtain loan advances. Assigning your policy should only be considered if you have obtained professional advice and sufficient capital to cover interest payments or the tax bill, if that becomes necessary should the lender require surrender of the policy to repay the loan. The potential for changes in tax and lending practices could limit the ability to receive tax-free loan advances in the future.

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Ask your advisor* for a copy of Canada Life's *CSV line of credit program using life insurance* brochure (form 46-4962). This brochure provides more detailed information about the options and methods for accessing the accumulated cash value in a permanent life insurance policy and the benefits and risks associated with each option.

The Canada Life Assurance Company, a subsidiary of The Great-West Life Assurance Company and a member of the Power Financial Corporation group of companies, provides insurance and wealth management products and services. Founded in 1847, Canada Life is the country's first domestic life insurance company. Canada Life has received very strong ratings on our claims paying ability and financial strength from the major rating agencies.** Banking products and services are provided by National Bank of Canada.

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* In Quebec, advisor refers to a financial security advisor for individual insurance and segregated fund policies and to an advisor in group insurance/annuity plans for group products.
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