INSURANCE STRATEGIES

Leveraging Life Insurance

Permanent life insurance with accumulated cash value offers flexible options for accessing that value while the insured is still living. There are three common strategies:

1. Direct Account Withdrawal: The policyholder withdraws funds directly. Costs may include transaction fees and/or surrender charges. The taxable amount is proportional to the Adjusted Cost Basis relative to the Cash Surrender Value.

2. Policy Loan from Insurer: The policyholder borrows from the insurance company using cash value as security. No tax on loans up to the policy's Adjusted Cost Basis (ACB). Amounts above the ACB are taxable.

3. Loan Leveraging (Collateral Loan): The policyholder pledges the policy as collateral to a lending institution. Under current CRA practice this is not a policy disposition so no tax is triggered at the time of the loan. Annual interest may be tax-deductible if funds are used for income-earning purposes.

Risk Considerations:

- Tax law or regulations may change | Availability of a lender is not guaranteed
- If investment growth does not exceed loan costs, the arrangement may be at risk
- Appropriate only for clients with higher risk tolerance