



00:00:06:14 - 00:00:10:00

Exempt life insurance policies  
have two main benefits.

00:00:10:06 - 00:00:12:09

The death benefit is tax free,

00:00:12:09 - 00:00:15:11

and the accumulation of cash  
values are tax sheltered.

00:00:16:06 - 00:00:18:12

But what about accessing the cash value?

00:00:18:12 - 00:00:22:11

The cash value of an exempt  
policy can be accessed in three ways.

00:00:23:03 - 00:00:25:07

Each has their own pros and cons.

00:00:25:15 - 00:00:27:12

Let's talk about the first one.

00:00:27:12 - 00:00:29:14

Policy Withdrawals.

00:00:29:14 - 00:00:32:02

This method is typically used by holders

00:00:32:02 - 00:00:36:01

that have no intention  
of repaying the amounts withdrawn.

00:00:36:01 - 00:00:39:09

Any amount up to the cash  
value of the policy can be withdrawn.

00:00:40:11 - 00:00:43:04

Keep in mind, though,  
that the policy may lapse

00:00:43:12 - 00:00:47:12

if the withdrawal leaves insufficient  
funds to cover the policy costs.

00:00:47:15 - 00:00:50:08

A withdrawal reduces  
the remaining cash value

00:00:50:13 - 00:00:53:06

and in some cases the death benefit.

00:00:54:00 - 00:00:56:14

To calculate the taxable gain  
for a partial surrender,

00:00:57:03 - 00:01:00:04

the proceeds of disposition  
is the amount withdrawn

00:01:00:04 - 00:01:04:00

and the adjusted cost  
basis of the policy pro-rated

00:01:04:00 - 00:01:08:05

based on the disposition proportion  
of the entire cash surrender value.

00:01:08:10 - 00:01:11:07

Let's talk about number two policy loans.

00:01:12:04 - 00:01:16:01

Policy loans are usually taken out  
by holders that have a temporary

00:01:16:01 - 00:01:21:01

need for cash and they do generally intend  
to repay the amounts withdrawn.

00:01:21:11 - 00:01:26:07

Typically, up to 90% of the policy's cash surrender value may be borrowed.

00:01:27:02 - 00:01:30:10

Any outstanding loans will reduce the proceeds payable at death.

00:01:31:02 - 00:01:35:04

A policy loan carries interest, and these may be higher than commercial loan rates.

00:01:35:14 - 00:01:40:00

No debt servicing is needed, but be mindful that the policy

00:01:40:00 - 00:01:43:13

may lapse due to an excess of debt versus the cash surrender value.

00:01:44:04 - 00:01:47:04

Policy loans are dispositions for tax purposes.

00:01:48:00 - 00:01:52:09

A T5 will be issued by the insurer for any amount of the policy loan

00:01:52:12 - 00:01:55:14

which exceeds the adjusted cost basis of the policy.

00:01:56:05 - 00:02:00:00

The adjusted cost basis is reduced by the amount of the loan.

00:02:00:06 - 00:02:02:07

Finally, let's talk number three.

00:02:02:07 - 00:02:04:04

Collateral loans.

00:02:04:04 - 00:02:07:12

This option often appeals to policy owners with significant

00:02:07:12 - 00:02:10:11

cash values

who have a long term need for cash

00:02:10:15 - 00:02:13:11

and no immediate intent  
to repay the amount borrowed.

00:02:14:07 - 00:02:18:08

The cash value of a policy  
can be used as collateral for the loan,

00:02:18:08 - 00:02:23:09

which can be 75 to 90% of the cash  
surrender value of the policy.

00:02:23:11 - 00:02:27:01

The lender could force  
a surrender of the policy to satisfy

00:02:27:01 - 00:02:29:12

any outstanding amounts  
in the event of a default.

00:02:30:10 - 00:02:33:05

This may also create a tax liability.

00:02:33:12 - 00:02:36:07

Collateral loans can be repaid  
at any time.

00:02:37:04 - 00:02:42:02

Loan interest may be tax deductible  
depending on the use of the borrowed funds

00:02:43:01 - 00:02:44:02

At death,

00:02:44:02 - 00:02:47:15

any outstanding loan balance  
would be repaid from the proceeds.

00:02:48:00 - 00:02:50:10

If the policy is owned by a corporation.

00:02:50:14 - 00:02:55:10

The outstanding loan balance has no impact  
on the capital dividend account credit

00:02:56:07 - 00:02:58:14

because the company effectively receives  
the money

00:02:58:14 - 00:03:02:02

to repay the debt  
as a beneficiary of the policy.

00:03:02:07 - 00:03:05:07

Clients will have different  
needs in accessing cash value.

00:03:06:05 - 00:03:08:06

Make sure to highlight the relevant pros,

00:03:08:07 - 00:03:11:12

cons and key differences  
between the available options.

00:03:12:07 - 00:03:15:14

The policy contract should always  
be reviewed for specific details.

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