



You work hard for your money. Isn't it time your money worked for you?

You probably have life insurance. After all, it is a cornerstone of a good financial plan. But did you know that rather than just gathering dust in a filing cabinet, your life insurance policy can be out making money for you?

It's a relatively simple idea. First you need a life insurance policy on yourself that builds cash value, like a universal life policy. (The owner and insured person have to be the same unless a company owns the policy.) Once you have built up value in the policy, you use it as collateral for a loan – and voilà – your policy is working for you.

Okay, that's a bit oversimplified. Here's an explanation with more detail:

Under current tax law, the cash value in a life insurance policy accumulates tax-free, up to certain limits. As the owner of the policy, you can use the cash value in the future as collateral for a bank loan.

How do you get cash value in your policy? By depositing more money into the policy than is required to cover the insurance and other policy costs.

Once you have enough value in your policy, you can assign the policy to the bank as collateral for a loan or line of credit. This loan provides the cash you need ... and you receive the cash tax-free. As long as you keep the policy in effect, you don't repay the loan until death. The insurance policy's tax-free death benefit is used to repay the loan. And once the loan is repaid, any remaining death benefit is then paid to your named beneficiary, tax-free.





Jeff is the perfect example of how this strategy works. He's 40 years old, healthy, and a non-smoker. He wants to purchase \$1 million of life insurance and plans to put \$25,000 into the policy over the next 15 years. Jeff is on target to retire at age 65 and he wants to have an after-tax yearly income from non-registered sources of about \$40,000. Based on the assumptions in the chart, by using his life insurance policy as collateral for a loan, he can receive tax-free loans each year from age 65 to 84, for \$46,766.

As you can see in the chart, it's the same annual tax-free payout he might have received if he used some other kind of investment on which growth is taxed each year. But at the end of the day, by using life insurance he also has a life insurance death benefit and a net estate value over \$1 million.

SOUNDS GREAT! WHAT'S NEXT?

If you already own a universal life policy or other permanent policy that has cash value, contact your advisor for details on how your policy can work for you.

	Using insurance policy as loan	Taxable investment
Annual deposit for 15 years	\$25,000	\$25,000
Rate of return	5%	5%
Annual tax-free payout from age 65 to 84	\$46,766	\$46,766
Death benefit at age 85	\$3,735,237	\$0
Loan balance at age 85	\$2,051,399	\$0
Net estate value	\$1,683,838	\$0

These calculations assume that Jeff buys an insurance policy with level cost of insurance set at \$5,428 per year, 2% of each deposit is used to pay provincial premium taxes, and the policy has fees of \$12 per month. They also assume that, if current tax rules continue in effect, Jeff's personal tax rate is 47%, he gets a 5% rate of return on the money accumulated in each investment, he obtains a loan against the policy at 7% and he lives to age 85. Rate of return is for illustration purposes only. Results will vary depending on actual conditions.

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