Accessing your policy's cash value

The primary reason for life insurance is to protect your family or business. With permanent life insurance, your policy can build up cash value[1]. This can grow tax-free while inside your policy, subject to legislative limits.

You can use your policy's cash value in a variety of ways throughout your life [2].

1 | Withdraw cash value.

2 | Borrow from your policy.

3 | Use it as collateral for a third-party loan (movable hypothec in Quebec).

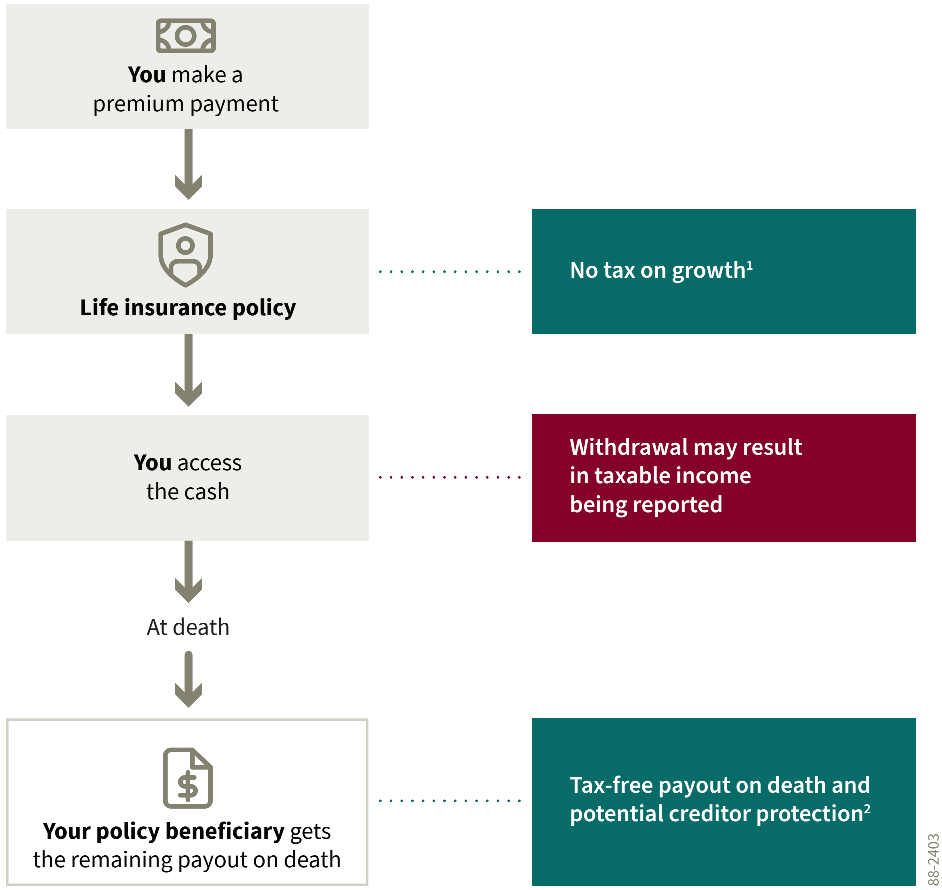
Let's take a closer look at how each option works and how it can affect your coverage and taxes.

[1] Cash value also refers to account values.

[2] Assuming you make the required premium payments and enough cash value has accumulated in the policy.

1 Withdraw your policy’s cash value

Your policy guarantees that you can withdraw some or all the cash value, adjusted for any outstanding policy loans or fees. Known as the cash value, withdrawals will reduce your coverage and may result in taxable income being reported to you. Your policy will end if you withdraw all of the cash value.

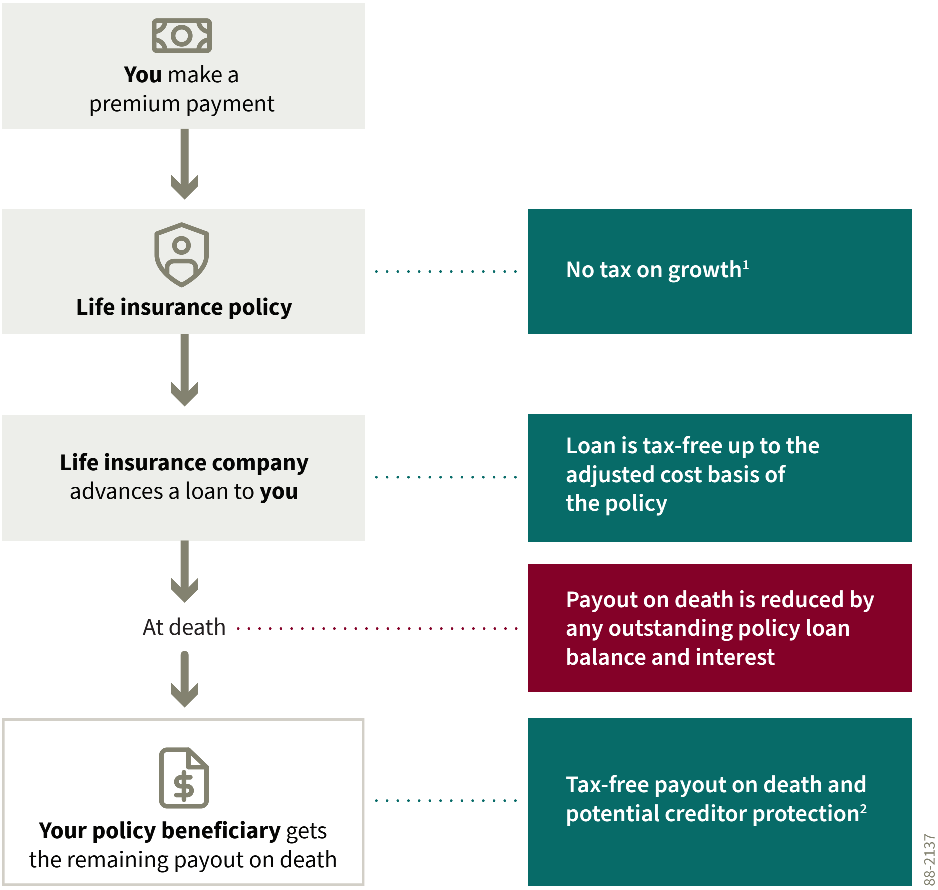


[1] The policy’s cash value grows tax-free while inside the policy, subject to legislative limits.

[2] Payable to your named beneficiaries. Protected against your creditors, in some cases.

2 Borrow from your policy

Your policy guarantees that you can borrow money from Canada Life against your policy's cash value with interest. You can take advantage of the policy loan feature if the cash value is large enough and available. The policy loan is tax-free, up to your policy's adjusted cost basis*. The policy loan doesn't reduce your insurance coverage, or affect the cash value growth, or any dividends the policy may receive. However, if the loan isn't repaid, any outstanding balance, including interest, will be deducted from the insurance payout on death or any cash value that is paid out.



[1] The policy's cash value grows tax-free while inside the policy, subject to legislative limits.

[2] Payable to your named beneficiaries. Protected against your creditors, in some cases.

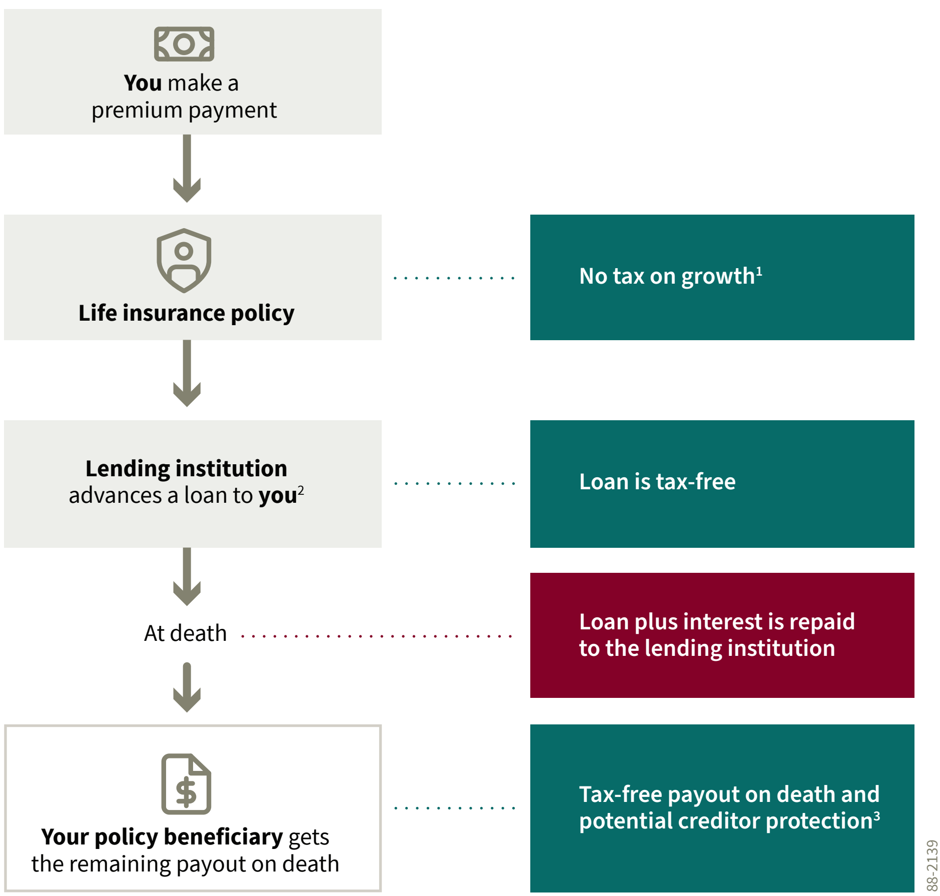
* Generally the adjusted cost basis is the premiums paid minus the Net cost of pure insurance, assuming no dispositions. The adjusted cost basis is defined in 148(9) of the Income Tax Act.

3

Use your policy as collateral for a loan or line of credit

Banks and other third-party lenders may lend against the policy's cash value. This is known as a collateral loan. The loan is tax free, but you pay interest to the lender. Like a policy loan, a collateral loan doesn't reduce your insurance coverage, or affect the cash value growth or any dividends the policy may receive. If the loan isn't repaid, the balance, including interest, is deducted from the amount paid out at death. Depending on the lender, a collateral loan might give you a lower interest rate.

You shouldn't buy life insurance just for the possibility of a collateral loan in the future. There's no guarantee a third-party lender will offer you a loan. You have to negotiate that with the lender, subject to their financial underwriting requirements. Because of the greater risks involved, you shouldn't consider a collateral loan unless you're a sophisticated investor with a high tolerance for risk. You also need enough income and capital to cover the interest and repay the loan, in addition to your life insurance payments.



[1] The policy's cash value grows tax-free while inside the policy, subject to legislative limits.

[2] Need to be underwritten by the lender to qualify. Policyowner may need to make immediate repayment if the lender calls for repayment of the loan.

[3] Payable to your named beneficiaries. Protected against your creditors, in some cases.

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