GOLDRING FINANCIAL LEADERSHIP INC.

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UNLOCKING HIDDEN VALUE: LEVERAGING YOUR LIFE INSURANCE POLICY FOR FINANCIAL FREEDOM

One of the significant advantages of life insurance is the ability to access the cash value by borrowing against it. This concept resembles securing a line of credit, but instead of using your home as collateral, you utilize the cash surrender value of your life insurance policy.

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For many Canadians, their life insurance policy offers the potential of an unexpected source of liquidity. Life insurance is a financial tool that most people know what it is and very few know what it can do. Un like term life insurance, permanent policies like Universal Life or Whole Life come with cash values that extend beyond mere risk coverage.

Permanent life insurance is designed to be held until the policyholder's passing and serves various purposes functioning as a tax-exempt asset class.

While one is alive, there is the ability to access the cash value by borrowing against it. This resembles securing a line of credit where the cash surrender value of your life insurance policy is assigned to the bank. What is unique is that it grants access to capital not tied to your home and is only repayable upon your death, utilizing the tax-free proceeds from your life insurance policy.

CORPORATE PLANNING: LEVERAGING LIFE INSURANCE FOR TAX EFFICIENCY

Some Canadians own professional or holding corporations, which offer tax advantages. However, in most instances, withdrawing corporate assets for personal use can result in tax liabilities as often the withdrawals are taxable dividends. Permanent life insurance can provide an efficient means to withdraw funds from a corporation, often as a generational transfer of funds.

A personal line of credit can be established using the collateral of the cash value in a corporate-owned life insurance policy. This creates an opportunity to utilize corporate funds for personal purposes while still benefiting from the tax-effective growth within the policy held within the corporation.

This corporate strategy is particularly relevant for business owners or highly compensated professionals with an investment or holding corporation. Such individuals often avoid withdrawing money from their corporation, as these funds would most likely be taxable as dividends.

In these cases, owning life insurance within the corporation can serve as a valuable tax and estate planning strategy on its own. Nevertheless, the collateral line of credit can further facilitate personal financial goals, such as acquiring a cottage or other real estate investments or assisting family members. If the borrowed funds are used to generate income, the interest cost may be tax-deductible on a personal level.

IMPORTANT CONSIDERATIONS WHEN BORROWING AGAINST PERMANENT LIFE INSURANCE

When contemplating borrowing against permanent life insurance, one should consider:

1. Loan Limits: With a collateral loan, depending on the amount of cash value in your policy, you can borrow as much as 100% against the cash surrender value of a whole life or universal life policy (sometimes less for universal life).

2. Overall Financial Planning: The insurance policy should make sense as part of your comprehensive financial and estate plan. While borrowing against the policy can offer real benefits, it's crucial to prioritize the insurance planning itself. Often the insurance is purchased to provide necessary liquidity to deal with the taxes due when one passes.

3. Specialized Lending Programs: To set up a collateral loan, you will need to work with a financial institution that offers specialized lending programs for this purpose.

4. Loan Limits Adjustment: Banks may periodically reevaluate loan limits as your cash values rise. This is valuable because most whole life plans significantly grow over time, potentially providing more funds that can be borrowed.

5. Interest Costs: Similar to a typical line of credit, there is an interest cost associated with collateral loans, often in the range of prime plus .50 or 1.00%

6. Policy Loans vs. Collateral Loans: There are two ways to borrow against a life insurance policy: policy loans and collateral loans. While policy loans may allow interest capitalization, they can have tax implications if the loan exceeds the adjusted cost basis of the policy. Collateral loans, on the other hand, are not taxable as they are not borrowed directly from the policy itself.

Borrowing against a permanent life insurance policy can provide access to significant cash while maintaining tax efficiency and a robust estate planning component.

In conclusion, the ability to unlock cash from your life insurance policy is an underutilized financial tool. Whether you're looking to make the most of your corporate assets, achieve personal financial goals, or enhance your estate planning, borrowing against your permanent life insurance policy is a versatile strategy well worth considering as part of your overall financial plan.

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