canada life™

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. This can grow tax-free while inside your policy, subject to government limits.

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

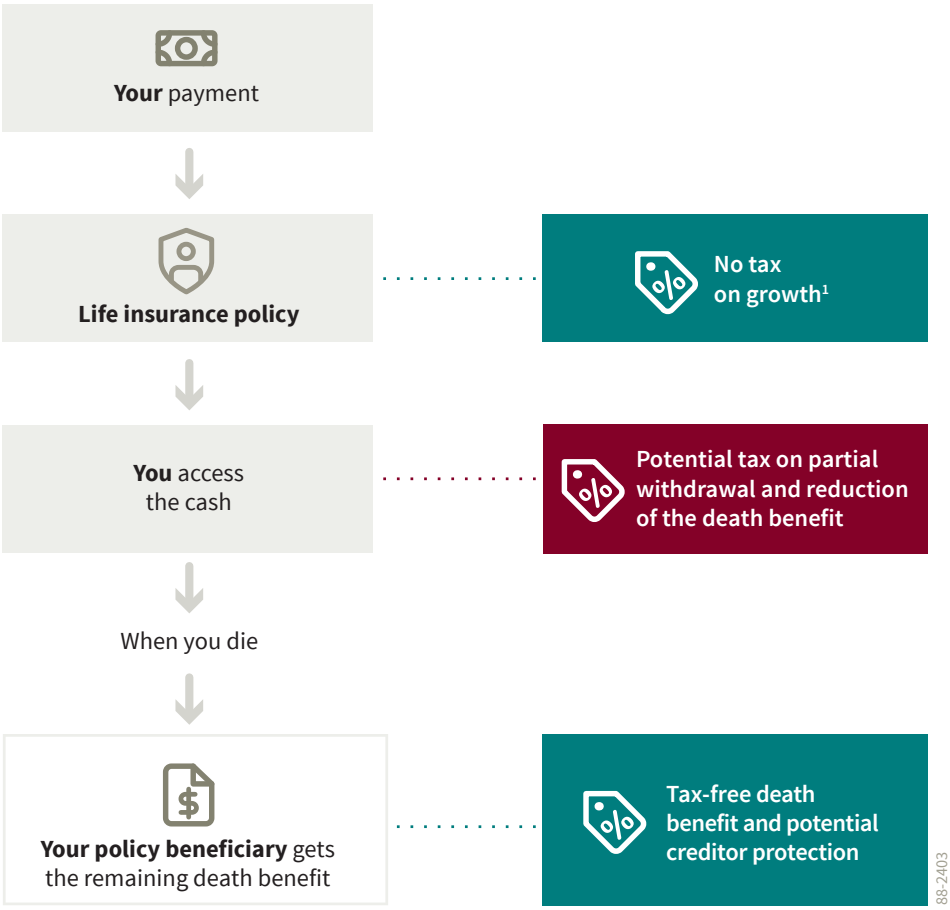
1. Withdraw cash value.
2. Borrow from your policy.
3. Use it as collateral for a third-party loan (movable hypothec in Quebec).

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

With all three options, when you access your policy's cash value, that amount may not be protected from creditors. This contrasts with the payout at death, which in some cases is protected from creditors.

1 Withdraw your policy's cash value

Your policy guarantees that you can withdraw some or all of your cash value, adjusted for any loans or fees. Withdrawals reduce your coverage and may be taxable. Your policy will end if you withdraw all of the cash value.



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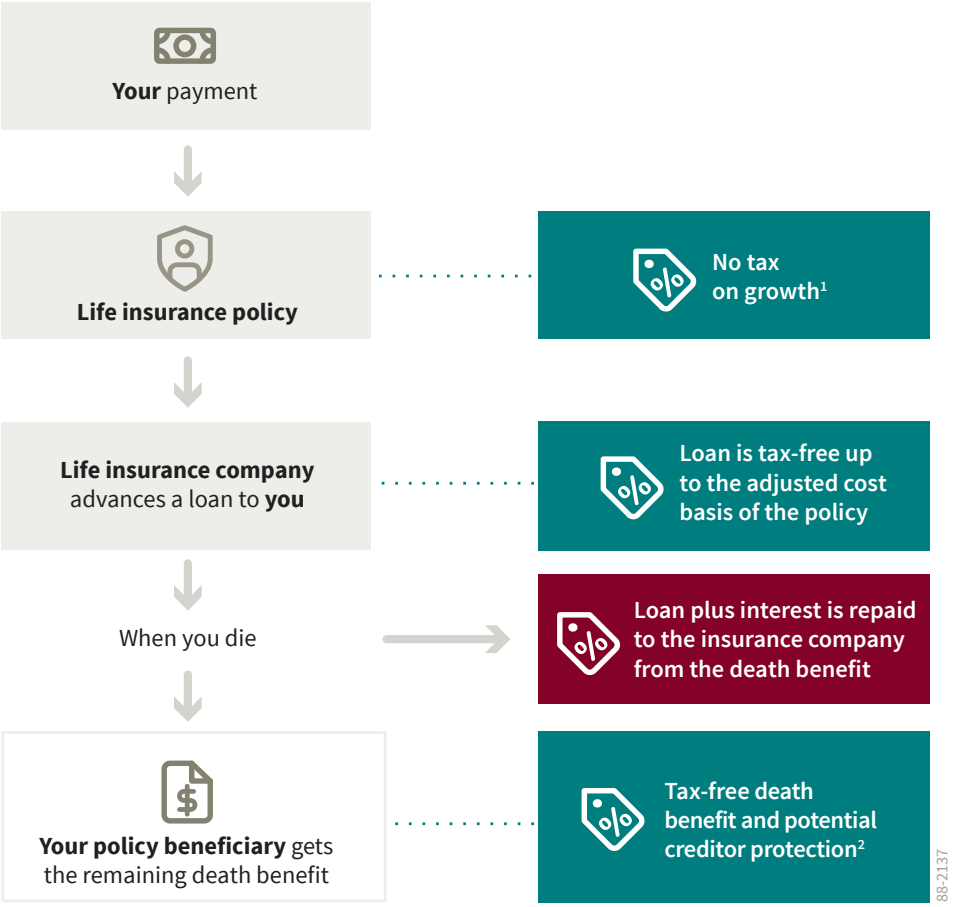
[1]No tax on growth within legislative limits while it remains in the policy.
Statements regarding tax are based on current Canadian tax law, for Canadian residents, and both the law and its interpretation are subject to change.

2

Borrow from your policy

Your policy guarantees that you can borrow from its cash value and pay it back over time with interest. You can take advantage of your policy loan if the cash value is large enough and is not securing another loan. The loan's tax-free, up to your policy's adjusted cost basis (the amount you've paid into the policy that has not been used yet to pay for coverage). The loan doesn't reduce your coverage. However, if the loan isn't repaid, then its balance, including interest, is deducted from the amount paid out at death.



[1]No tax on growth within legislative limits while it remains in the policy. [2]Creditor protected in some cases.
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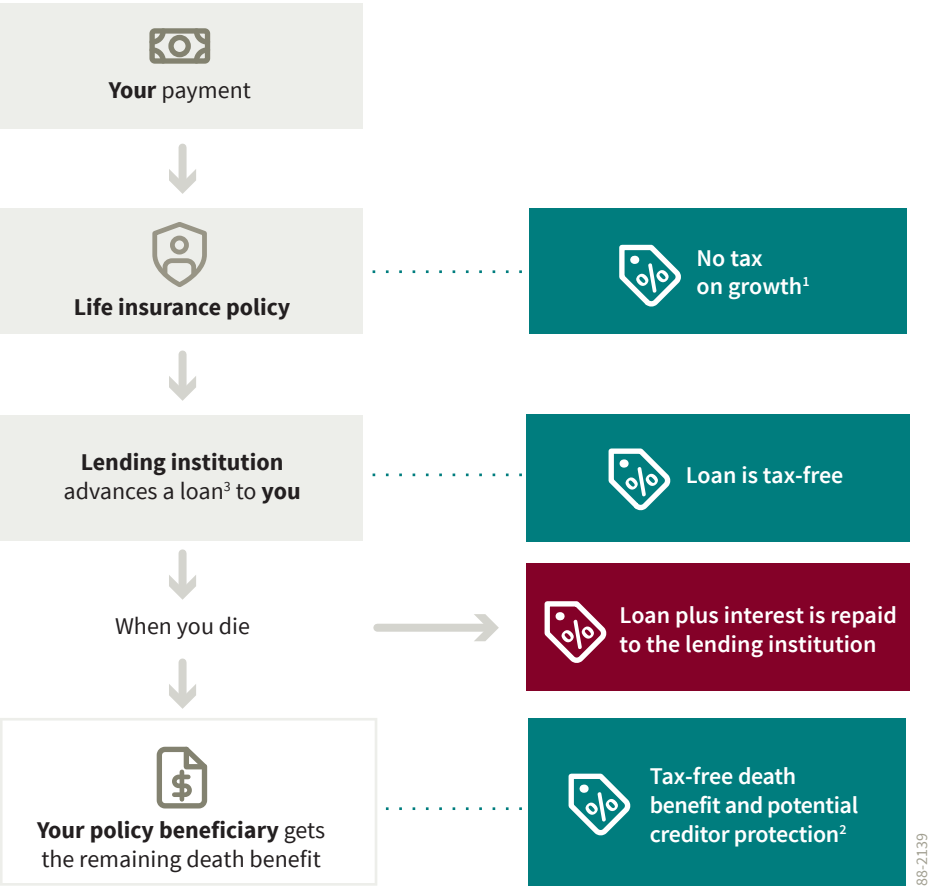
3

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 coverage, and if it's not 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 and 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.



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[1]No tax on growth within legislative limits while it remains in the policy. [2]Creditor protected in some cases. [3]Policyowner may need to make immediate repayment if lender calls in repayment of the loan. | Statements regarding tax are based on current Canadian tax law, for Canadian residents, and both the law and its interpretation are subject to change.

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The information provided is based on current tax legislation and interpretations for Canadian residents and is accurate to the best of our knowledge as of February 2020. Future changes to tax legislation and interpretations may affect this information. This information is general in nature and is not intended to be legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax advisor.

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