Advisor Educational Series

Equimax® Participating Whole Life Insurance
Policy Loans

Designed in a Q&A format, this piece can help you understand policy loans available with Equimax Estate Builder® and Equimax Wealth Accumulator® participating whole life insurance products. It explains how policy loans work and provides some information on current administration rules.

The information contained in this document applies to sales of Equimax Estate Builder and Equimax Wealth Accumulator insurance policies issued under the new tax-exempt legislation (G3 tax status) effective January 1, 2017. If a client has a whole life insurance policy under the old tax-exempt legislation (G2 tax status) please contact Advisor Services for information on administration rules that will apply to their policy.

For more information on functionality and administration of these products, please refer to the Equimax Advisor Admin Guide on the Whole Life Resources tab on EquiNet®.

In this document "client" refers to the policy owner or intended policy owner.

If you have questions about this information or any of Equitable Life's individual life products, please contact your regional wholesaler.

Policy Loans – Fundamental Facts

A client can use the value in their Equimax Estate Builder® or Equimax Wealth Accumulator® insurance policy as collateral for a policy loan. Policy loans may be subject to taxation.

Interest is charged daily from the effective date of the policy loan. The interest rate is set by Equitable Life on the effective date and can be changed by Equitable Life. Any accrued interest will be added to the outstanding loan balance at the policy anniversary.

If the outstanding loan balance, including the accrued interest, exceeds the available cash value the policy will lapse, and the insurance coverage will terminate.

Questions

About policy loans

Q **#1: What is a policy loan?**

A A policy loan allows a client to use the cash value in their Equimax policy as collateral to borrow money from Equitable Life. If the loan is granted, there will be outstanding debt against the policy.

Q **#2: Are there any restrictions on the availability of a policy loan?**

A Yes.

- The policy must have cash value. A client can borrow against both the guaranteed cash value of the policy and the non-guaranteed cash value generated by dividends[1]. (See Question #5 for details)
- If the policy has an irrevocable or preferred beneficiary, their signature will be required on the Policy Loan Agreement form #680.
- If there is an assignment or bankruptcy noted on the policy, the other party to the assignment or the trustees in bankruptcy must authorise the loan by signing the Policy Loan Agreement form #680.
- If the policy is on premium offset, Equitable Life will not grant a policy loan. (See Question #30 for details)

Q **#3: Are there any limits to the amount of the policy loan?**

A Yes, there are both minimum and maximum limits. These limits are subject to the administrative rules and guidelines in effect at the time a client applies for the loan.

- The minimum loan amount that a client can apply for is currently $500. Equitable Life sets the minimum and it is subject to change.
- The maximum loan amount that a client can apply for is currently limited to 90% of the available cash value less any amounts already owing on the policy (outstanding indebtedness). Equitable Life sets the maximum, and it is subject to change, however, it will never be greater than 90% of the available cash value less any outstanding indebtedness.

If at any time the total indebtedness under the policy, including the accrued interest, exceeds the available cash value, the policy will lapse, and the insurance coverage will terminate.

Q #4: Are policy loans subject to taxation?

A

- Under the applicable rules of the Income Tax Act (Canada)*, policy loans received as cash against a tax-exempt policy are considered partial dispositions of the policy and may be subject to excess taxation. The amount by which the loan exceeds the adjusted cost base (ACB) is an estimate of the taxable income due to the loan. If a policy loan incurs tax:
  - Loan repayments up to the amount reported for tax can be applied against the taxable amount in the year the loan was made. The taxable amount to be included in income will be reported at yearend.
  - Loan repayments made in future years (up to the remaining previously taxed amount) can also be deducted from policyholder income in the year of repayment.
  - When loan interest is capitalised (added to the loan principal), tax is not affected.
- If the loan is immediately used to pay premiums on the same policy, taxable income is not created. However, any loan amount that exceeds the required premium may be subject to taxation.

* The Income Tax Act is subject to change and any changes may affect the taxation of policy loans on both new and existing life insurance policies.

Q #5: Does the dividend option a client chooses affect the availability of a policy loan?

A No, a policy loan is available with any dividend option. However, since a policy loan is only available once there is cash value in the policy, the dividend option that a client chooses, as well as the plan type, may affect when they can take a policy loan. For example, if a client chooses Equimax Estate Builder with dividends[1] paid in cash, non-guaranteed cash value is not generated in the policy. A loan would not be available until guaranteed cash value is available in the policy.

Q #6: Can a client apply for a policy loan if the policy also has an outstanding automatic premium loan?

A Yes, if a client has missed premium payments and the automatic premium loan (APL) has been activated to keep the policy in effect, they can apply for a policy loan. The amount available to support the policy loan will consider the amounts owing from the APL, including any accrued interest.

At any time, the maximum amount available to support a policy loan is limited to 90% of the available cash value less any amounts already owing on the policy (please refer to question #3 for information on policy loan amount limits). If at any time the total indebtedness under the policy, including any accrued interest, exceeds the available cash value, the policy will lapse, and the insurance coverage will terminate.

Q **#7: If a client has an outstanding policy loan, can they make an Excelerator Deposit Option payment?**

A Yes, if a client has an outstanding policy loan balance, they may be able to make an Excelerator Deposit Option (EDO) payment to the policy. However, if the client has an outstanding automatic premium loan (APL) due to missed premium payments and there is not enough policy value to pay the policy premium to the next policy anniversary, they would not be able to make an EDO payment. If there is not enough policy value to pay the premium to the next policy anniversary the client would first need to make the required premium payment before making an EDO payment.

Any EDO payment will be subject to our current administrative rules and guidelines in effect at the time of the payment. For more information on EDO and EDO payments please refer to the EDO Q&A on EquiNet.

Q **#8: Since policy loans are an asset in the participating account, does a client recapture interest they pay on a policy loan through a dividend payment they may receive?**

A Policy loan repayments, including interest, flow into the participating account and are factored into the dividend the policyholder may receive. Any dividend credited to a policy will include policy loan interest earnings along with other participating account earnings. However, all participating policies receive dividends that include loan interest earnings, not just policies that have a policy loan. If Client A and Client B have the same exact policy, and Client A takes a policy loan, both policies will receive the same amount of dividend that includes interest earnings from policy loans. This means that Client A will receive some of the interest they have paid on their loan through the dividend credited, but not all of it because some of that interest has been credited to Client B as part of their dividend payment.

Loan amount

Q **#9: Where on EquiNet Inquiry can I find the loan amount available to a client?**

A On EquiNet Inquiry the **Loan Available** indicates the cash value available for a policy loan.

In the example below the Loan Available amount would be calculated as follows:

- Loan Available =
  ((Cash Value of Paid-Up Additions + Guaranteed Cash Value) X .90) – Loan Balance

Dividend Option	Paid Up Additions
Cash Value of Paid Up Additions	$7,358.95
Dividends on Deposit	$0.00
Loan Balance	$12,389.87
Automatic Premium Loan Balance	$0.00
Total Cash Surrender Value	$5,804.43
Loan Available	$3,985.00
Additional Advisor Information	
Policy Values	
Guaranteed Cash Value	$10,835.35

Q #10: Why isn't the policy loan amount based on the Total Cash Surrender Value shown on EquiNet Inquiry?

A The Total Cash Surrender Value can include amounts that are paid to a client on surrender of the policy. These amounts would not be available as collateral for a loan. For example, when a client makes an annual premium payment, any premium that hasn't yet been applied to the policy (unearned premium) would be included in the Total Cash Surrender Value. This "unearned premium" decreases as the policy year progresses.

Unearned premium is:

- paid to a client if they surrender the policy and is therefore included under Total Cash Surrender Value
- not available to be loaned against because it is already designated to pay premiums throughout the policy year.

Q #11: If a client adds a term rider to their Equimax policy, will this increase the amount they can borrow?

A No, while adding a term rider to their Equimax policy is a great way to provide a client with temporary insurance coverage, or to lock in future insurability at an affordable cost, there is no additional cash value generated by adding a term rider. Term riders can be added to single life Equimax policies and provide coverage for the life insured by the Equimax coverage.

Q #12: Can I illustrate a planned policy loan?

A Yes, you can illustrate a policy loan in the Equitable Sales Illustrations® system and in the Web Illustrations Equimax tool on EquiNet.

ILLUSTRATION TIP:

The illustration system can determine the maximum loan amount supported by the illustrated cash value.

- The calculation is based on the maximum outstanding loan balance attaining 90% of the illustrated cash value at age 100 of the life insured (rated age 100 if a multiple substandard rating applies; joint age 100 on joint coverage).
- You will not see a loan amount of 90% of the cash value in the year a loan is taken; as it is the outstanding loan balance that cannot exceed 90% of the illustrated cash value.
- When illustrating a policy loan, the total cash values and total death benefit are net of the outstanding loan balance.

At this time, you cannot illustrate loan repayments or repayment of loan interest.

Policy loan application, rates and fees

Q #13: How does a client apply for a policy loan?

A To apply for a policy loan a client needs to complete the Policy Loan Agreement form #680 and submit it to Equitable Life's head office in Waterloo. Approval of the loan is subject to the administrative rules and guidelines in effect at the time of the loan application.

Q #14: If approved, when and how are loan proceeds paid to a client?

A Typically, Equitable Life will grant the loan within 30 days after receiving the completed loan agreement at its head office in Waterloo. However Equitable Life reserves the right to defer the loan for up to 6 months.

Payment of the loan proceeds can be made by:

- Electronic Funds Transfer (EFT) provided the client has provided their banking information (personal accounts only), or
- Cheque payable to the client, which is sent via regular mail to the client.

The EFT option is not only more cost effective and environmentally friendly, but also ensures the client receives their money sooner.

Q #15: What is the effective date of the policy loan?

A The effective date of the loan will be the date that the loan is processed, not the date the funds are available in the client's bank account. With EFT it can take up to 4 days for the funds to be available in the client's bank account. If proceeds are paid by cheque, the effective date of the loan will be the date the cheque is issued, not the date it is cashed and/or processed by the client's bank or financial institution.

Q #16: Is there a fee charged to process a policy loan?

A No, currently there is no fee charged to process a policy loan, however, Equitable Life reserves the right to charge a fee.

Q #17: Is there a limit to the number of policy loans that a client can take?

A No, currently there is no limit on the number of loans a client can take on a policy, subject to the maximum loan amount limit, however Equitable Life reserves the right to apply a limit on the number of loans permitted.

Q #18: Does interest apply on a policy loan?

A Yes, interest will accrue daily on the loan amount from the effective date of the loan. At each policy anniversary, any interest due on the policy loan is added to the outstanding loan balance (capitalised), and interest is charged on the entire amount owing. Interest is capitalised on full repayment.

Equitable Life sets the interest rate and reviews it from time to time. It is subject to change at any time.

Q #19: What is the interest rate currently charged on a policy loan?

A As of June 30, 2023, the annualized policy loan rate is 6.50%. This applies to all new and existing policy loans, including automatic premium loans on Equimax® policies that have a 9-digit policy number beginning with a "3" or an "8". The policy loan rates on some older series of policies are different because they are based on the prime interest rate.

Q #20: Is the interest rate locked in for the duration of the loan?

A No, Equitable Life has the right to change the interest rate at any time. Changes will affect both new and existing loans. The new interest rate will apply to any outstanding loan amount as of the effective date of the rate change.

Loan repayment

Q #21: How can a client make policy loan repayments?

A A client can make policy loan repayments* at any time while the policy is in effect. They can repay all or part of the amounts owed subject to a minimum amount as determined by Equitable Life.

Note*: We ask that written instructions accompany every repayment to ensure that the payment is applied correctly.

Payments can be made by pre-authorized debit (PAD)*, cheque or through on-line banking. Currently Equitable Life does not accept payments by credit card.

Note*: This option is only available to clients who are paying their premium via PAD. We cannot set up PAD exclusively for loan repayments.

- Pre-authorized debit (PAD)
    - Clients currently paying for their policy by PAD can arrange to have automatic monthly loan repayments taken at the same time from the same account.
- Cheque
    - Payments by cheque should be accompanied by written instructions (including the policy number) to apply the payment against the policy loan.
- On-line banking
    - For payments made through on-line banking, the client must specifically state that the payment is to be applied against the policy loan. They can submit this one time direction by e-mail to our Customer Service General Mailbox or by written notification submitted to Head Office. Again, the policy number must be included. The notification will be retained for future reference and processing of on-line loan repayments.

IMPORTANT - Payments received without instructions will be used to pay any unpaid premiums. If we do not receive a response to our request for instructions, additional funds will be applied to the loan (cash loan first, automatic premium loan (APL) second). Any excess amount will be held until it can be determined where the extra funds should be applied or if they should be returned to the client.

If at any time the total indebtedness under the policy, including the accrued interest, exceeds the available cash value, the policy will lapse and the insurance coverage will terminate.

Q #22: How are payments applied to the policy loan?

A When a loan payment is received, it is applied entirely to the principal. If the loan is not paid off in full in any given year, the interest will capitalise and become part of the loan principal at the policy anniversary. The interest due the following year will be based on this new principal amount.

Q #23: Can a client set-up a repayment schedule that includes both the required loan payment plus an additional Excelerator deposit option (EDO) payment?

A It depends on the EDO payment amounts a client has been making into their policy as well as the method used to make policy loan payments. All EDO payments are subject to the rules and guidelines in effect at the time the payment is received.

- EDO
  - If the client has already made the maximum EDO payment for the applicable policy year, then no further EDO payments are permitted.
  - If the client has paid less than the maximum that applies to their policy for the applicable policy year, then they can make an additional payment up to the maximum that applies.
  - If the extra payment cannot be put into the EDO, it will be returned or held in the Premium Deposit Fund Account to be used to pay premium at the next premium due date.
- Loan payment method
  - If the client is using pre-authorized debit (PAD) or on-line banking to repay their loan:
    - The full amount of the payment will always be applied to the outstanding loan balance.
    - If the client intends to make an additional EDO payment, they must submit a cheque along with the Application for Change form #374. Payment is subject to the rules and guidelines in effect at the time.
  - If the client is repaying their loan by cheque
    - They must submit a cheque, the Application for Change form #374 and instructions specifically stating what amount is for the loan repayment and what amount is an EDO payment.

Please refer to the **Excelerator Deposit Option Educational Series Q&A** to understand the limits and administration rules that apply to EDO payments for an Equimax Estate Builder or Equimax Wealth Accumulator policy.

Q **#24: Where can a client find information on their policy loan, including accrued interest and outstanding balance?**

A

- Annual statement - The policy values section of a client's annual statement shows the outstanding loan balance and any interest that has accrued during that policy year.
- Client Access - If a client has signed up for Client Access they can see up-to-date details of their policy at any time, including the outstanding policy loan balance.
- Customer Service (Individuals) - They can also speak to a Customer Service Representative by calling 1.800.668.4095. They will need to know their policy number, which can be found on their annual policy statement.

As an advisor, you can view details of a client's policy through EquiNet Inquiry. You will need a user id and password. Advisor Services can also assist you in answering questions about a client's policy. Please have the policy number on hand.

Impact of outstanding policy loans

Q	**#25: What happens if a client surrenders their policy and there is an outstanding policy loan balance?**
A	If a client surrenders their policy, the outstanding policy loan balance, including interest, will reduce the cash surrender value paid to them. Surrendering the policy may have tax implications for the client.
Q	**#26: What happens if a client dies and there is an outstanding policy loan balance?**
A	If the death of the client results in the death benefit becoming payable, the outstanding policy loan balance, including interest, will reduce any death benefit paid to the beneficiary(ies).
Q	**#27: Can a client elect the reduced paid-up (RPU) death benefit option on their policy if they have an outstanding policy loan balance?**
A	Yes, however the outstanding policy loan balance including interest will reduce the reduced paid-up insurance amount available. Electing RPU may make a policy lose its tax-exempt status and become subject to accrual taxation immediately or in the future.
Q	**#28: What happens if a client requests a decrease in the basic Equimax coverage and there is an outstanding policy loan balance?**
A	The outstanding policy loan balance including interest will reduce the surrender value paid to the client. In some cases, the entire surrender value may be required to repay the outstanding loan. Any amount not required to repay the loan will be paid to the client. In addition, the new coverage and accumulated values in the policy will result in a lower maximum loan amount limit. To keep the policy in effect the client must repay any outstanding policy loan balance in excess of that new limit. It is important to note that reductions in coverage can also have tax consequences for the client.

Q #29: Can a client take a cash withdrawal from their policy if there is an outstanding policy loan balance?

A Yes, however the outstanding policy loan balance including interest will reduce the amount of cash value available to support a cash withdrawal. In addition, withdrawing available cash value may result in the policy exceeding the maximum loan value sooner, especially if the client is not making loan interest repayments each year.

- Withdrawals from an exempt policy are partial dispositions of the policy and subject to taxation.
    - The value of the withdrawal comes from a partial surrender of the base coverage and/or PUAs or dividends[1] left on deposit and is subject to proportional taxation.
    - Based on policy values before the withdrawal, the excess of the policy's cash surrender value (CSV) over the adjusted cost base (ACB) provides an estimate of income subject to taxation on full surrender. If a fraction of the CSV is withdrawn, the same fraction of income is reported
    - If the client immediately uses the withdrawal to pay premiums and/or repay a policy loan previously used to pay a premium on the same policy, it is not taxable income. Any amount withdrawn that exceeds the premium or policy premium loan repayment may be subject to proportional taxation.
    - If the client uses the withdrawal to repay a previous policy loan taken in cash the withdrawal amount will be subject to proportional taxation.
- If the client has the enhanced protection dividend option, surrendering PUAs for a cash withdrawal will void the enhancement guarantee.

Q #30: Does a policy loan affect the growth of the cash value and death benefit of a client's policy?

A No, unlike a cash withdrawal a policy loan does not affect the values in the policy while the policy is in effect. However, if the loan, including any interest, is not repaid it will affect the amount paid to the client if they choose to surrender the policy (see Question #22) or the amount paid to the beneficiary on death of the life insured (see Question #23).

Waiver of premium and premium offset

Q #31: If the policy is on waiver of premium can a client apply for a policy loan?

A Yes, they can. The same rules and guidelines apply.

Q #32: Do waiver of premium benefits cover policy loan repayments?

A No, only the premiums that are payable for the policy are covered by the waiver of premium benefit. A client can make loan repayments while a waiver of premium claim is in effect.

- Pre-authorized debit (PAD)
  - Any automatic monthly policy loan repayments will cease while the claim is in effect. Therefore, any loan repayments would have to be made by cheque or on-line banking.
- Cheque and on-line banking
  - A client can make annual or ad hoc payments as discussed in Question#19.

Q #33: If a client's policy is on premium offset, can they take a policy loan?

A Equitable Life will not grant a policy loan while the policy is on premium offset.

- When a policy goes on premium offset, the future dividends[1] and non-guaranteed cash value must be sufficient to pay all future premiums. Since these values are required to pay premiums, they are not available as collateral for a policy loan.
- To take a policy loan, the policy must be taken off premium offset and the client must resume out-of-pocket premium payments.
- To requalify for premium offset, the client must repay any outstanding policy loan balance including interest.
- Premium offset is not guaranteed. Even if the client repays the loan the policy may not requalify for premium offset at the time it is requested.
- Since qualification for premium offset relies on future dividends[1], which are not guaranteed, once a policy has qualified for premium offset, it is not guaranteed that it will remain on premium offset.

Notes:

[1] Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes, and other experience of the participating block of policies.

While Equitable Life has made every effort to ensure the accuracy of the information presented here, the policy contract governs in all cases.