

# IS YOUR CLIENT A SUITABLE CANDIDATE for a collateral loan using life insurance?

Many permanent life insurance policies accumulate cash value that your clients can access to supplement their retirement income. One way to do this is to use their life insurance policy as collateral for a tax-free bank loan. The terms of the lending arrangement can often be tailored to the policy owner's particular situation. Unlike traditional loans, the debt is assumed to be repaid at death using proceeds from the life insurance policy, although interest may be paid annually.

## PROFILE OF SUITABLE CANDIDATES

For many clients, this approach may offer significant benefits, but it is not for everyone. Suitable candidates for borrowing against the cash value of their insurance policies usually have the following profile:

INVESTOR PROFILE	FINANCIAL PROFILE
<ul style="list-style-type: none"><li>• Age range 35 – 55</li><li>• They have already purchased or can qualify for permanent life insurance.</li><li>• Experienced, knowledgeable investors with evidence of financial maturity.</li><li>• Not averse to taking on debt.</li><li>• Long-term investment horizon:<ul style="list-style-type: none"><li>• It may be 10 – 20 years before there is enough cash value to serve as collateral for a bank loan.</li><li>• The loan is assumed to be repaid at death which is often expected to be age 80 – 90.</li></ul></li><li>• Realistic perception of market volatility.</li><li>• Want to minimize the amount of taxes they pay.</li><li>• Interested in tax strategies and comprehensive financial, retirement and estate planning.</li></ul>	<ul style="list-style-type: none"><li>• Medium to high net worth.</li><li>• Household income of \$100,000+.</li><li>• Investable assets of \$50,000 to \$1 million+.</li><li>• Reliable discretionary cash flow.</li><li>• Little or no non-deductible debt.</li><li>• Have maximized their RRSPs/TFSA contributions.</li><li>• Satisfactory credit history.</li></ul>

**NOTE:** This strategy can be an integral part of a client's financial plan with the opportunity for tax efficiency and increased income and estate values. However, there are important risks to consider. Before implementing the strategy, clients should consult with their own tax and estate professional and review the [checklist](#) included in the Preferred Retirement Solution® sales illustration. The Preferred Retirement Solution is a concept. It is not a product or contract. It is based on current tax rules. [Find out more.](#)

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collateral loan program