

Loan Rescue to the Rescue

Did you purchase a permanent life insurance policy years ago? If so, it likely has accumulated significant cash values, **but** along the way, you may have taken loans to pay for ongoing premium payments, for paying unexpected expenses, or perhaps to invest in an opportunity, or buy out a business partner. Cash accumulation in a life insurance policy is valuable and tax advantaged. Loans on those cash values are actually a great way of utilizing the funds.

Unfortunately, not many people manage those loans properly. Often the agent that sold you the policy is no longer in the business and there is no real service person monitoring your coverage – this is where danger may lurk. Higher mortality costs, combined with high loan rates in older policies may have the unintended consequence of your policy lapsing and causing large tax consequences. You really only have three options if you find yourself in this position.

Understanding your options:

1. **Do Nothing:** The policy will lapse and you will pay income taxes on the gains, which could be substantial.
2. **Make Changes to the Existing Policy:** Pay down the loan using policy values or from out of pocket. This could lead to increased annual outlay, a reduction in death benefit, or both.
3. **Complete a Loan Rescue:** Do a tax free 1035 Exchange to a new policy and mirror the loan. This may provide higher death benefits and lower interest charges. In year two or later, you can withdraw policy values to pay down the loan.

Many of today's new types of life insurance policies that were not available, even a few years ago, may offer more flexibility or be more suitable for your current needs. That is why it is important to regularly review your policies every few years. *Warning:* You could fall victim to some traps involved in a Loan Rescue if you or someone representing you does not fully understand the process. The biggest one is triggering Boot Tax, which will cause all gains in a policy to be taxed even though you did not take the money. At Rockland Trust Investment Management Group (IMG), we work with top rated carriers like Prudential, Pacific Life, and John Hancock who have specific specialists that deal with Loan Rescue exchanges and can help avoid these costly missteps.

If you or a client have a life insurance policy with loans, it is critical to review those contracts with an insurance specialist and develop a loan management game plan to avoid your policy inadvertently lapsing and causing a significant tax event. If you have any questions or concerns about your coverage, contact your local IMG expert for more information and support.

Contributing insights from Rockland Trust Investment Management Group's Vice President & Advanced Insurance Specialist, Jack Gates.

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