

Finseca Product Intelligence

What is cash value?

www.Finseca.org

The ability to generate and maintain equity – or cash value – within a life insurance policy is one of the most compelling features of permanent life insurance. But what is cash value, where does it come from, how does it work and, most importantly, how can it help you meet your goals for financial security?

What you need to know

How does cash value develop?

Cash value is the equity that grows inside a permanent life insurance policy.



What does each variable in this formula mean?

- **Premium Payment:** The amount you pay for your insurance policy. The amount and schedule of payment is laid out in your contract at the time of purchase.
- **Premium Loads:** The expenses related to state and federal premium taxes.
- **Policy Expenses:** What the insurer must spend to make the product financially viable for the company and successful for the policyholder.
- **Mortality Expenses:** An expense to help offset the risk of the insurance company having to pay the death benefit before the anticipated life expectancy.
- **Interest Credits:** The interest earned according to the rate and frequency stipulated in the contract.

What is the power of cash value?

Although the primary purpose of cash value is to allow you to pay a level premium for life, cash value can play a much broader role in your financial security plan.



Cash value can be accessed in smaller portions by using withdrawals, which are tax-free up to the total amount of premium paid. These may be used to help a business owner weather an economic hardship or create additional income in retirement.



Cash value can be further accessed through policy loans, which collateralize the cash value in order to generate a cash payment to the policyholder. Loans are charged interest but also continue to earn interest credits. They are repaid from the death benefit on a tax-free basis as long as the policy remains in-force.

The bottom line

Cash value provides the means to maintain life insurance coverage for life, guaranteeing you the ability to permanently provide for your family. Beyond that, cash value represents a safe and stable asset that can provide immediate funds in the event of an unexpected need or, if the policy has been designed appropriately, planned policy distributions to help with future income needs. Speak with your financial security professional today to learn how permanent life insurance with cash value can help you meet your financial security goals.

Finseca does not provide tax, legal, or accounting advice or product guarantees. This material has been prepared for informational purposes only. Consult your financial security professional for specific product details and your tax, legal, or accounting professional before making any decisions