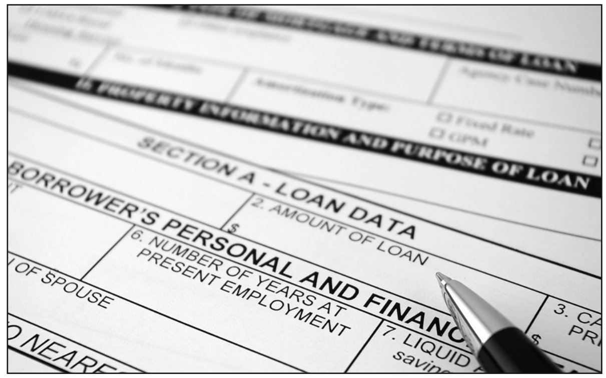
BORROWING AGAINST INSURANCE POLICY CASH VALUES

One benefit of buying permanent life insurance is the ability to obtain a loan from the insurance company using the life insurance as collateral. The loan terms are favorable, the payment is issued promptly, and the interest can be deferred as long as the policy stays in force. Repayment of the principal can be delayed until the policyowner's death. The tradeoff is that, after the end of each policy year, unpaid interest is considered an additional loan and generates additional interest costs. Loans always reduce both the available cash value and the death benefit.



As a general rule, the interest charged for the loan is slightly greater than the interest earned on the cash value. Some policies offer "zero-spread loans," which credit a fixed interest rate equal to the loan rate charged. Each policy has different criteria for zero-spread loans, but, generally, such loans are available after the tenth policy anniversary.

If the policy is purchased to provide supplemental retirement income, the loan spread can have a significant impact on cash values and on future tax-free income. Even a spread as low as 1 percent can result in 9 percent less income over 30 years.

When planning for retirement, look at the terms behind partial withdrawals and loans to determine if a policy is suitable. In addition, look for management tools, including automatic income options, guaranteed minimum withdrawal options, and over-loan protections.

Please note: Loans from Modified Endowment Contracts are taxed as ordinary income in the year of the loan if there is gain in the policy. A 10-percent penalty may also be applicable if the loan is taken before you reach age 59½.

Guarantees are based on the claims-paying ability of the issuer.

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