

Outlook on Business

Should you or shouldn't you?



IT'S YOUR MONEY
Paul J. Rockel

A great deal is made today about the privileges you have in borrowing against the cash surrender values that may have built up in your whole life policies.

While we believe a person should buy Term Insurance rather than whole life (with cash value build-ups that are forfeited at death... in

most policies) there are many, many people who have been sold whole life policies, and if they question as to whether they should replace those expensive policies with newer Term policies, are often told they have a fantastic advantage with their old policies, namely that they can "borrow" against them at rates as low as six per cent per year.

We found an interesting response to that idea in a monthly advisory letter. It was answering an enquiry from a reader who was asking if it was wise to hold on to a whole life policy because of its economical borrowing power.

The answer... in part, reads:

"You questioned regarding keeping your insurance policy so you can borrow at inexpensive loan rates! It is true that if you have an old enough policy it probably qualifies you to borrow from that policy at a six per cent rate - fantastic?"

"NOT SO.

"The only person who should take advantage of that is a person who presently does NOT qualify, healthwise, to buy new insurance. For anyone else it is wise to purchase new insurance now, so that he can "borrow" the cash value from his old policy at zero interest by simply cashing the old policy.

"As an example, a \$25,000 Whole Life Policy purchased many years ago at a person's age 25, premium \$338 annually, would have probable cash value of \$6,225 at age 45,

combined with dividends in the range of \$3,325. (His death benefits is still \$25,000).

"If the insured wishes he may cash his dividends of \$3,325 at no interest charge. He may also borrow the approximate \$6,000 from the policy. If he borrows the \$6,000 he effectively REDUCED the death benefit to \$19,000 because his beneficiary would receive the \$25,000 LESS the \$6,000 loan.

"With reduced coverage of \$19,000 he must continue to pay the \$338 annual premium PLUS the six per cent interest on the \$6,000, equals \$360. So... for \$19,000 coverage, he now pays an annual cost of (\$338 premium plus \$360 interest) \$698.

"If this same person is a non-smoker he can, now at age 45, purchase a \$100,000 life-time coverage for only \$638 per year. That is four times the protection for less than his new cost for the old policy."

We might add that in changing the policy to the new protection,

the "cash value plus dividends" in the old policy (\$6,225 and \$3,325) of \$9,950 invested in a mutual fund withdrawal plan would more than pay his new insurance costs, never again having to "dig in his pocket" for another premium.

For more information on "Mutual Funds" and "Life Insurance Policies", contact Peter C. Masson, 10 Fagan Drive, Georgetown, Ont., or phone 877-7216.

Paul J. Rockel is the author of the best seller "Why I Invest in Mutual Funds" and President of Regal Capital Planners Ltd. and Regal Capital Insurance Agencies Ltd.

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On The **TAX SCENE**
AMENDED RETURNS
QUESTION: I paid \$750. for dental work last year but I forgot to deduct it on my income tax return. Is there some way I can change my return or am I out of luck?
ANSWER: You may amend last year's return, if necessary. All you would have to do is write a letter to Revenue Canada and ask them to adjust your last year's return. You would also have to enclose the receipt. However, there may be greater tax savings in claiming that receipt on this year's return if your net income is lower (because only medical expenses in excess of 3% of net income are claimable. You may pick the optimum 12 month period ending in the tax year (for example, May 10, 1987 to May 9, 1988) and claim the medical expenses paid during that period.

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