MINNESOTA LIFE | SECURIAN®

Understanding policy loans

Life insurance can give beneficiaries an instant means of support after the death of a provider. It can help your clients keep their homes, pay off debt and maintain their aspirations for college. Another aspect of life insurance is that the **cash value accumulation provides living benefits,** such as partial surrenders or policy loans.

Understanding how distributions are made and their tax treatment is important to knowing how and when clients should take them.

'Partial surrenders' and 'policy loans' – what's the difference?

Clients can **withdraw** money from their policy's cash surrender value by requesting a partial surrender – up to the amount of premiums they've paid – tax free. This reduces the policy's accumulation value and the policy's death benefit. Because of the IRS's tax treatment of distributions from life insurance contracts – first in, first out – clients can withdraw the basis first before they take out the gain.

Once a client has withdrawn the basis from a life insurance contract, any further withdrawals would cause taxation at ordinary income tax rates. **In order to avoid taxation on the distributions above and beyond the cost basis, a client can borrow money from the life insurance company using the gain in the policy as collateral.** Since loans are not taxable, this loan does not cause taxation to the policy owner.

Minnesota Life offers two types of loans on our indexed universal life products. The loan interest rate charged on the loan, and how the cash value is allocated for collateral purposes, will depend on the type of loan chosen.

Fixed rate loans

Fixed rate loans are charged an interest rate that does not change over the life of the loan. On the Eclipse suite of products this rate is 4 percent.

- The same amount of cash value as the client borrows from Minnesota Life is allocated to a loan account as collateral for the loan.
- During the first 10 years in the contract, Minnesota Life credits the loan account at 3 percent.
- Starting in year 11, this loan account earns 3.9 percent.

Rate charged	Rate credited
4.0%	3.0% (years 1-10) 3.9% (years 11+)

Fixed rate loans are chosen for their low cost and because the charges do not vary from year to year.

Tax-deferred accumulation and tax-preferred distribution

The Eclipse Indexed Life product suite can provide tax-deferred growth in accumulation value, which may be used in case of emergencies, opportunities, or to supplement one's retirement. These dollars can be taken income-tax free.

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Variable rate loans

Variable rate loans can be significantly more complex:

- The loan interest charged is determined by movement in Moody's Corporate Bond index, with a minimum of 4 percent.
- The rate credited to the loan amount is the same as that credited to the policy, and:
  - Can be as high as the cap for an indexed life insurance policy.
  - May prove very beneficial to the client, as the interest credited can be much higher than the loan interest rate charged.
  - May not be ideal in economic environments where the amount credited to the policy could be less than the rate charged.

Under certain circumstances, variable rate policy loans can generate additional gain to the policy cash value. However, in some instances, they can be more costly than a fixed rate loan. Policyholders will choose a variable rate loan because they anticipate crediting to be higher than the interest rate on the loan. The policyholder accepts the risk that this may not always occur.

Rate charged	Rate credited
4.0% (minimum rate) or Bond rate, based on Moody's Corporate Bond Index	0% minimum up to Cap maximum

Loan flexibility

For some individuals, a variable rate loan is a good solution, but as situations change, they may favor a fixed rate loan. Minnesota Life allows clients to switch between a fixed and variable loan once a year without paying off the loan balance. This feature gives clients flexibility to change as their financial picture – or the interest rate environment – fluctuates.

The policy must remain in force

It is important to remember that permanent life insurance is maintained in part by the growth in cash value. Withdrawing too much from a life insurance policy could result in a policy lapse. Should this occur, the policyowner may experience a taxable event.

Learn more

Policy loans are one of the many great benefits of permanent life insurance. To learn more about these topics and other sales strategies that can benefit your clients, contact the Life Sales Support Team.

The Eclipse series of indexed life insurance products is designed to provide life insurance protection. While the interest crediting options available with the product are attractive for cash value accumulation, your fundamental objective in buying this product should be the peace of mind that the life insurance protection provides to you and your family or business. Life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender periods.

Depending upon actual policy experience, the Owner may need to increase premium payments to keep the policy in force.

Securian Financial Group, Inc.
www.securian.com

Insurance products offered by Minnesota Life Insurance Company
400 Robert Street North, St. Paul, MN 55101-2098 • 1-800-820-4205

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