Accessing the Cash Values in Your RBC Insurance® Universal Life Plan

Learn the advantages and disadvantages of the three ways you can access your money

RBC Insurance

Contents:

Purpose of this Guide

You may be considering the purchase of a universal life insurance plan, or you may already have purchased one. In either case, once you've accumulated Cash Values in your universal life insurance plan, it is important to know what methods are available for accessing the funds and what the tax consequences will be for each method. This guide explains how current taxation laws affect each of the methods available for accessing your Cash Value, so that you can make a smart decision should you decide to withdraw money out of your investment accounts.

It is also important to remember that income tax laws change. If you decide to access the Cash Values in your universal life insurance policy, we recommend that you discuss your need with your RBC Insurance representative and your financial advisors. Your RBC Insurance representative will be happy to help you understand the different methods available for accessing your cash value.

Using your Cash Values for income purposes

Universal life insurance lets you save money inside your policy and protect your earnings on that savings from taxation. The money in your accounts grows without being reduced by income tax or capital gains tax as long as your life insurance policy remains in force and you keep your earnings inside your policy.

But what happens if you want to access your funds before you die, for an emergency, to use for retirement, or to spend on a lifelong dream? Taking the money out of your accounts can trigger a tax liability. It is important for you to know what methods are available to access the Cash Values in universal life insurance policies and what method of accessing the funds would result in the least amount of tax being paid on the money you take out.

The money in your universal life insurance plan is yours, and it should be easy to access when you want it. But as with all universal life insurance plans, access to your Cash Values could be subject to taxation. The following pages explain the three methods you can use to access your funds, as well as the basic tax liabilities associated with each.

IMPORTANT NOTE
In order to withdraw Cash Values or obtain a policy loan using your universal life policy, you must first obtain written permission from any irrevocable beneficiaries or assignees. Collateral loans may not be available if you have an irrevocable beneficiary. As well, if you decide to access the Cash Values in your universal life insurance policy, we recommend that you discuss your need with your RBC Insurance representative and tax and financial advisors to determine the most tax-efficient way to proceed.

Three ways to access your Cash Values

There are three ways to use the Cash Value in your universal life insurance plan. Each has its advantages and disadvantages, according to current tax laws.

The first two options will incur taxation. The third one may not.

1. ***Withdrawal (or partial surrender) of Cash Value***
2. ***Policy Loan - Borrow directly from the Cash Value***
3. ***Collateral Loan - Use your universal life insurance policy as collateral for a loan***

INSURANCE VOCABULARY

Total Investment Value –	means the sum of individual accounts, including any adjustment (positive or negative) in the value of any accounts.
Adjusted Cost Basis –	This is the total of the premiums you have paid, less the cumulative cost of insurance. It is the fund value on which any taxable policy gains are measured.
Cash Value –	This is the total investment value of your policy minus the sum of any applicable surrender charges, market value adjustment (interest penalties), unpaid loans, and unpaid monthly insurance charges.
Insurance Charges –	These are the amounts you pay for all your insurance coverages and administrative fees.
Investment Accounts –	These are the investments available through your universal life insurance plan: from fixed interest accounts with guaranteed returns to interest index-linked accounts with variable returns.
Surrender Charges –	The fee you may pay for early withdrawals during the initial policy years.

1. Withdrawal

You may withdraw money directly from your universal life policy, but these withdrawals, often called partial surrenders, can be taxed.

The tax on withdrawals is based on the percentage of your funds that are in excess of the Adjusted Cost Basis.

The Adjusted Cost Basis (ACB) is the fund amount on which interest gains or losses are measured and applied. The Adjusted Cost Basis continues to change as your fund grows or diminishes. It is calculated on an on-going basis and includes premium deposits paid into your accounts, plus investment earnings, and can be reduced by amounts such as insurance charges and previous withdrawals.

The portion of your withdrawal that is taxable is based on the ratio of your total investment value to the Adjusted Cost Basis of your policy, as shown in the example below.

With all withdrawals, the percentage of your withdrawal that will not be taxed is based on the Adjusted Cost Basis and what percentage of the Cash Value it represents.

Sample Tax Formula

Cash Value	$100,000
Adjusted Cost Basis	$60,000
Taxable Cash Value	$40,000
Percentage of Withdrawal that is not taxable:	60%
Percentage of Withdrawal that is taxable:	40%
Withdrawal	$10,000
Taxable amount	$4,000
Marginal tax rate	30%
Tax	$1,200

This example is based on a single withdrawal. Future withdrawals may have different tax implications.

Advantages of a withdrawal:

- Simplicity. Withdrawals involve only you* and the insurance company, and require that you sign one simple form.
- Very little is taxable if the withdrawal is taken in the early years of the policy.
- You pay your taxes upfront at the time of the withdrawal and are less exposed to a large policy gain and subsequent taxation at a future date.
- Depending on the timing and amount of the withdrawal, it may not be subject to surrender charges.

Disadvantages of a withdrawal:

- Withdrawals may be subject to tax.
- Your death benefit may be reduced by the amount of any withdrawals.
- You can withdraw up to 100% of your cash value, but withdrawal of your entire cash value means you have made a full surrender of your policy and its life insurance benefit.
- All withdrawals taken during the early policy years may be subject to surrender charges.
- If you withdraw too much money, your policy may be in danger of lapsing. If the policy does lapse, the insurance protection, which may have been the initial purpose of the policy, will be lost.
- Withdrawals will negatively impact the current and expected growth of the policy Cash Values.

*If any irrevocable beneficiaries or assignees exist, their written permission is also required.

2. Policy Loan

You may also borrow from your Cash Value. You pay interest and other charges for the use of this money, but your policy Cash Values continue to earn tax-free interest. Taxation on borrowed money is applied differently from taxation on money that is "withdrawn." With a policy loan, the money you borrow reduces your Adjusted Cost Basis (ACB) and will be free of taxation. Once the Adjusted Cost Basis reaches zero, every dollar borrowed will be taxable.

Sample Tax Formula

Cash Value	$100,000
Adjusted Cost Basis	$60,000
Taxable Cash Value	$40,000
Policy Loan – Deducted directly from the untaxable Adjusted Cost Basis	$10,000
Tax	$0

This example is based on borrowing a single lump sum. Future loans may have different tax implications.

Advantages of borrowing directly from your Cash Value:

- Because of the high Adjusted Cost Basis in early years, borrowing may be more tax efficient than withdrawals during this time.
- Your Cash Value continues to earn tax-free interest. The interest you are charged for the loan may be tax-deductible, if the borrowed money is used for certain investment purposes.
- You may replace the money you borrowed at any time.
- You will pay no surrender charges.
- If you repay the loan and the loan had incurred income tax, you receive a tax deduction for the taxable income you declared when you received the loan.
- You can borrow up to a maximum of 90% of the cash value in your account.
- If the interest rate on your policy loan is less than the return you receive on your outside investments, borrowing from your policy may make sound financial sense.

Disadvantages of borrowing directly from your Cash Value:

- You will pay interest and other charges on the loan. This may be a fixed or variable interest rate, depending on the lender's program.
- The death benefit will be reduced by the outstanding loan and any accrued interest.
- Removing funds may negatively impact the current and expected growth of the policy Cash Values.
- If the amount of the loan plus the accumulated interest exceeds the current Cash Value, the policy may lapse.
- If you are unable to make a loan repayment and there aren't sufficient funds in the Cash Value to cover the repayment, you may be forced to surrender the policy.

3. Collateral Loan

The Cash Value in your universal life insurance plan is an asset that usually increases in value over time. Like many other assets you have – home, investments, businesses – your universal life insurance plan may be used as collateral for a loan from a lending institution such as a bank or credit union. The beneficiary of the policy remains the same, but you assign the policy to the lending institution as collateral to secure your loan.

You can generally borrow a sum of money equal to as much as 90% of the Cash Value of your policy. You can choose to pay the interest on the loan or you may be allowed to borrow an additional sum to pay the interest on the loan balance. The policy (and any additional security) is your guarantee to the lending institution that the loan will be repaid, generally at the time of your death or at the time of the full surrender of your policy. Any remaining funds will be paid to your beneficiary.

The borrowed money according to current tax laws is tax-exempt. That means no personal income tax is payable on the loan advances. You can arrange to take your borrowed money as annual income or you can invest it and collect an income from your investments. You can receive varying amounts each month or year.

Advantages of using your universal life plan as collateral for a loan:

- You pay no income tax on the loan.
- In some circumstances, the interest paid may be tax-deductible.
- Your Cash Value continues to earn untaxed interest as though the borrowed money was not removed.
- If the interest rate on your loan is less than the return you receive on your outside investments, borrowing against your policy may make sound financial sense.
- There is no reduction in the actual size of the insurance policy or the tax-exempt growth within the policy.
- Loan repayments are not subject to premium tax.
- Unlike the rules for taxable income, there is no reduction in government benefits or tax credits as a result of these non-taxable proceeds.

Disadvantages of using your universal life plan as collateral for a loan:

- You must keep the policy in force until the loan is repaid as it is the collateral for the loan.
- The loan is subject to approval of the policyholder's credit rating. Income, assets and other personal information must be reviewed.
- The lending institution may demand repayment of the loan, requiring the policy to be surrendered and generating a significant tax liability.
- Legislation and/or bank policy and lending limits may change, and loans may not be available when you wish to borrow.
- Repayment of the loan at death will significantly reduce the amount of proceeds payable to beneficiaries.
- There may be a minimum and a maximum to the loan amount offered.
- The loan interest rate may vary at a different rate from your policy return making planning difficult.

Please consult with your RBC Insurance representative before arranging to use your universal life insurance plan as collateral for a loan. You should also seek the advice of your professional advisors regarding the tax and legal implications of borrowing against your insurance policy.

Comparison of the three ways to access your Cash Values

The following examples show the tax implications associated with each method for accessing your Cash Values: **Withdrawals, Policy Loans, and Collateral Loans.**

EXAMPLE ONE

If a Male, Non-Smoker, age 40 (at time of purchase) paid a $10,000 annual premium until age 65 and decided at retirement to start taking an income from his universal life plan, the following describes the basics of how income taxation would affect his retirement income.

Premiums Paid over 25 years	Cash Value at age 65, growing 7% annually	Annual income needed	Years income needed	Starts accessing funds
$250,000	$654,893	$50,000	5	Age 65

* Adjusted Cost Basis as a percentage will change with each transaction because of on-going insurance charges and the effect of any withdrawals. Adjusted Cost Basis may also be subject to earnings rates that could be higher or lower than expected, dividends, withdrawals, loan interest rates paid from the Cash Value, and any additional increases in insurance charges.

** This is the beginning ACB prior to any withdrawals or premium payments. Interest and loan balances could vary widely depending on actual interest charges.

\+ Policy issue date is Jan.1 with anniversaries on Jan. 1. Loan interest is included with loan advances and not repaid. Unpaid interest constitutes a new policy loan so that the unpaid loan interest does not change the ACB. Loan interest rate is 9%.

	WITHDRAWALS	POLICY LOANS	COLLATERAL LOANS
Cash Value at end of 24th year	$593,583	$593,583	$593,583
**Beginning Adjusted Cost Basis	$192,481	$192,481	$192,481
Cash Value Available @90% on loans	NA	$534,225	$534,225
Death Benefit	$1,113,241	$1,113,241	$1,113,241
Income advance	$50,000	$50,000	$50,000
Adjusted Cost Basis of advance	$17,275 of $50,000 Withdrawal	NA	NA
ACB - % of advance*	35% ($17,275/$50,000)	NA	NA
Taxable amount	$32,725	$0	NA
Tax rate	30%	NA	NA
Tax payable	$9,818	$0	$0
Remainder of ACB	$179,443	$136,156	NA
2nd income advance	$50,000	$50,000	$50,000
Adjusted Cost Basis of advance	$16,051	NA	NA
ACB - % of advance*	32% ($16,051/$50,000)	NA	NA
Taxable amount	$33,949	$0	NA
Tax rate	30%	NA	NA
Tax payable	$10,185	$0	$0
Remainder of ACB	$157,065	$79,268	NA
3rd income advance	$50,000	$50,000	$50,000
Adjusted Cost Basis of advance	$14,267	NA	NA
ACB - % of advance*	29% ($14,267/$50,000)	NA	NA
Taxable amount	$35,733	$0	NA
Tax rate	30%	NA	NA
Tax payable	$10,720	$0	$0
Remainder of ACB	$135,910	$21,821	NA
4th income advance	$50,000	$50,000	$50,000
Adjusted Cost Basis of advance	$12,016	NA	NA
ACB - % of advance*	24% ($12,016/$50,000)	NA	NA
Taxable amount	$37,447	$28,179	NA
Tax rate	30%	30%	NA
Tax payable	$11,234	$8,454	$0
Remainder of ACB	$115,910	$0	NA
5th income advance	$50,000	$50,000	$50,000
Adjusted Cost Basis of advance	$10,388	$0	NA
ACB - % of advance*	21% ($10,388/$50,000)	NA	NA
Taxable amount	$39,097	$50,000	NA
Tax rate	30%	30%	NA
Tax payable	$11,729	$15,000	$0
Total amount received over 5 years	$250,000	$250,000	$250,000
Total tax payable on $250,000 over 5 consecutive yrs.	**$53,686**	**$23,454+**	NA
Remainder of ACB	NA	NA	NA
Total tax payable	NA	NA	$0
Average annual accumulated interest rate on loan			9%
Accumulated interest due on loan over 5 consecutive loan advances			$58,975
Policy investment earnings on $250,000 @7% over 5 years			$49,963
Net cost of loan using policy as collateral			**$9,012**

EXAMPLE TWO

If a Male, Non-Smoker, age 40 (at time of purchase) paid a $10,000 annual premium and decided to take $50,000 from his universal life plan after 10 years to pay for a child's education.

Premiums Paid over 10 years	Cash Value at age 50, growing 7% annually	Income needed	Accesses funds
$100,000	**$112,587**	**$50,000**	**Age 50**

	WITHDRAWALS	POLICY LOANS	COLLATERAL LOANS
Cash Value at the end of 10 years	$112,587	$112,587	$112,587
**Beginning Adjusted Cost Basis	$93,145	$93,145	$93,145
Cash Value Available @ 90% on loans	NA	$101,328	$101,328
Death Benefit	$610,820	$610,820	$610,820
Income advance	$50,000	$50,000	$50,000
Adjusted Cost Basis* of advance	$42,025/$50,000	NA	NA
ACB - % of advance*	84%	NA	NA
Taxable amount	$7,975	$0	NA
Tax rate	30%	30%	NA
Tax payable	$2,392	$0	$0
Remainder of ACB	$59,850	$43,145+	NA
Average accumulated interest on loan			9%
Accumulated interest due on loan			$4,500
Policy investment on $50,000 @ 7%			$3,500
Net cost of loan using policy as collateral			**$1,000**

* Adjusted Cost Basis as a percentage will change with each transaction because of on-going insurance charges and the effect of any withdrawals. Adjusted Cost Basis may also be subject to earnings rates that could be higher or lower than expected, dividends, withdrawals, loan interest rates paid from the Cash Value, and any additional increases in insurance charges.

** This is the beginning ACB prior to any withdrawals or premium payments. Interest and loan balances could vary widely depending on actual interest charges.

\+ Policy issue date is Jan.1 with anniversaries on Jan. 1. Loan interest is included with loan advances and not repaid. Unpaid interest constitutes a new policy loan so that the unpaid loan interest does not change the ACB. Loan interest rate is 9%.

RBC Insurance:

As the insurance specialists of RBC Financial Group™, RBC Life Insurance Company has become one of the fastest growing insurance providers in Canada.

At RBC Insurance, we're growing to meet the needs of our customers around the world. Since 1997, total premiums and deposits have risen from $476 million to more than $1.8 billion, making RBC Insurance one of Canada's fastest growing insurance organizations.

In Canada, we are a leader in the creditor insurance business, the number one provider of travel insurance, and among the top ten issuers of new life insurance policies. We also have a rapidly growing home and auto insurance business and a leading international reinsurance operation. Our continued success is the result of a dedicated focus on expanding our operations by developing new products for niche markets, enhancing our multiple distribution channels, and acquiring new businesses.

RBC Life Insurance Company, one of the key entities comprising our life insurance operations, received an initial A (Excellent) financial strength rating from A.M. Best Co., reflecting the company's strong capitalization, diversified distribution channels and profitable operations.

RBC Life Insurance Company is a member of the Canadian Life and Health Insurance Compensation Corporation (CompCorp). CompCorp administers the Consumer Protection Plan, which was instituted to provide protection to policyholders of member companies. Policyholders and prospective policyholders should read the CompCorp brochure for details and limitations of coverage.

Royal Bank of Canada

Our parent, Royal Bank of Canada (TSE, NYSE: RY), operating under the master brand name of RBC Financial Group, is Canada's largest financial institution as measured by market value and assets, and is one of North America's leading diversified financial services companies.

Royal Bank of Canada and its subsidiaries:

- Hold strong positions in most Canadian financial services markets in which they operate.
- Deliver a full range of insurance plans and financial services to more than 12 million personal, business and public sector clients through offices in North America and some 30 countries around the world.
- Employ more than 60,000 people worldwide.

Royal Bank of Canada and its subsidiaries:

- Net income as of October 2003: C$3.04 billion.
- Assets as of October 2003: nearly C$413 billion.
- Market Capitalization as of October 2003: C$41.6 billion – among the top 10 North American banks.
- Senior Debt Rating of Aa2 from Moody's Investor Services and AA- from Standard and Poor's.

About RBC Insurance

RBC Insurance, through its operating entities, including RBC Life Insurance Company, provides a wide range of creditor, life, health, travel, home, auto and reinsurance products to more than five million North American clients. As one of the top 10 life insurance producers and the leading provider of individual living benefits in Canada, RBC Life Insurance Company offers a comprehensive portfolio of individual and group life and health insurance solutions. These products are distributed through more than 17,000 independent brokers affiliated with producer groups, financial planning firms and stock brokerage firms, as well as through direct sales and a network of career sales representatives.

For more information, please visit www.rbcinsurance.com/canada

Underwritten by RBC Life Insurance Company.

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