



## Learn How to Get Cash From Your Life Insurance Policy

### Description

When you're desperate for cash during a crisis, your life insurance policy may not even cross your mind. You bought it to provide for your family after you're gone, but you're still here and need to pay your bills.



A permanent life insurance policy, such as whole life, may offer the necessary emergency funds in rare circumstances. Taking money from your insurance may increase your tax burden, and you run the danger of leaving your family in debt if you die. However, if you're in a tight financial situation, tapping the cash value of a whole life insurance policy may be a viable choice.

## Is there a financial value to your life insurance?

Not all life insurance policies have money stashed away within them. To receive cash from your life insurance, it must be a permanent policy, such as whole life, that has accrued cash value over time.

Term life insurance is ineligible. It is often the least expensive sort of life insurance, but the main drawbacks are that it is only available for a limited time and has no cash value. In addition, you cannot withdraw funds from this sort of coverage.

Permanent life insurance is normally much more expensive than term life insurance, but a portion of the premium goes into an investment account that you may be able to access. The most prevalent type of permanent coverage is whole life insurance, commonly known as conventional or straight life insurance. However, other variants, such as universal life, variable universal life, and indexed universal life, may also have a cash value.

If your insurance is new, it is unlikely to have much monetary worth. Building cash value is similar to growing a savings account over time with small deposits. Typically, you'll have to pay premiums for several years before there's enough financial value to be beneficial.

Also, keep in mind that the cash value of your policy may be far less than the total premiums you've paid or the quantity of insurance you purchased. If the cash value of your whole life policy grows unabated, it should ultimately reach the policy's death benefit, but this may not happen until you're 100 years old.

## There are four ways to get the cash value of a life insurance policy.

If your policy has cash value, you can use it for whatever purpose you see fit, but it is a serious decision to cash out your life insurance policy. Details vary from policy to policy, so read your contract or consult with your agent before taking action. Here are four alternatives to examine.

### Give up the policy.

You have the option of canceling your life insurance policy and receiving the surrender value, which is the cash value less any fees. If you pick this option, you will no longer be protected by the policy, and your family will not get a death benefit if you die. You may have to pay the penalty if you cash out your policy too soon, depending on how long you've had it. If your payout exceeds the premiums you paid, you may be required to pay income tax on the difference. Surrendering your policy may not be a wise choice unless you are confident that you no longer require life insurance to pay for your family after your death.

### Withdraw your funds.

In most cases, you can withdraw a portion of the cash value from a whole life policy without canceling the coverage. Instead, your heirs will receive a reduced death benefit when you die. Generally, you won't have to pay income tax on withdrawals up to the number of premiums paid into the insurance. Because you are sacrificing a portion of your coverage, this option is a partial cash surrender.

## Use the policy to your advantage.

You can borrow against the cash value of several plans. Borrowing against life insurance may be easier than securing a loan elsewhere because there is no credit check and flexible payback schedule. When you take out a life insurance loan, you are expected to repay it with interest at some point. If you die before repaying the entire amount, the amount you owe is deducted from the benefit granted to your heirs.

## Take care of your premium.

If you need money to pay bills, and one of those is the life insurance premium, your cash value could be useful. You may be able to avoid paying out-of-pocket premiums on your whole life insurance coverage. Instead, you can use the cash value to cover your premiums for some time, protecting your policy while you weather a financial storm.

### Category

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