Prepared for:

How Can Policy Dividends Be Used?

If a life insurance policy pays dividends (known as a participating or "par" policy), those dividends are considered a tax-free return of premiums.

The policyowner can generally elect to receive dividends in one of these ways:

Cash
Reduce Premiums
Accumulate at Interest
Provide Paid-Up Additional Insurance
Provide Yearly Renewable One-Year Term Insurance
NOTE:

Dividends are paid directly to the policyowner.

Dividends are automatically used to reduce the policyowner's out-of-pocket premium payments.

Much like a savings account, dividends are held by the insurance company and earn interest. While the dividends themselves are not currently taxable, the interest paid on dividend accumulations is taxable as income in the year credited.

Each year, the annual dividend is used to purchase an additional amount of paid-up insurance at the insured's attained age, resulting in an increasing death benefit. This additional paid-up insurance usually earns dividends of its own and has a cash value, which is added to the policy's guaranteed cash value.

Each year, the annual dividend is used to purchase a specified amount of renewable one-year term insurance at the insured's attained age. Any remaining dividend is then applied to one of the other four dividend options, as the policyowner elects.

It is important to understand that policy dividends are not guaranteed. They are declared each year for eligible policies at the discretion of the insurance company and can be more or less than illustrated at the time of policy purchase.

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