

How Does Cash Value Life Insurance Work?



At its most basic level, life insurance is an uncomplicated product, much like the other forms of insurance that you may be more familiar with. You pay a premium in exchange for a monetary level of protection that will become accessible to your loved ones in the event of your death. The process of [buying life insurance](#), though, can be daunting because there are many different policy types and some of the terminology can be puzzling without an explanation. One component of life insurance that often gets questioned is cash value.

What is cash value?

Cash value is a feature of permanent life insurance policies (a type of life insurance that lasts until the death of the insured, regardless of the timing). Term life insurance policies (those that last for a set period of time) do not offer cash value.

If your life insurance policy has a cash value component, your premium payments are allocated in two ways. The first portion of each payment goes toward the cost of life insurance and maintaining the policy's death benefit. The second portion goes toward building the policy's cash value. As you continue making premium payments, your contributed cash value grows – and you accumulate interest or dividends on top of those regular contributions. The cash value of the policy increases over time.

A policy's cash value can be withdrawn or borrowed against while the insured is alive and its tax-deferred interest or dividends can be used by the policy owner in a variety of ways, like making premium payments, repaying policy loans, and enhancing the policy's features. Interest and dividends are also often available as cash distributions.

What are the benefits of cash value?

When you purchase a permanent life insurance policy, you accumulate cash value as you pay the premiums. This cash value provides a living benefit; depending on your policy, you may be able to take a



loan against the cash value or withdraw from it and use the funds in a manner that would benefit yourself or your family.

How you use the money received from cash value policy loans or withdrawals is personal. You could, for example, pay off your mortgage, cover medical expenses, or support a child through college. If you have a policy with cash value, know that it can be accessed while the insured is alive; accumulated cash value may increase the policy's death benefit.

Note that while most permanent insurance policies allow you to take a loan against the policy's cash value, not all permanent policies allow you to make withdrawals. If your policy does allow withdrawals, know that your withdrawal will be taxed as income *to the extent that* it exceeds the amount you have paid into the policy's cash value at the time of the withdrawal. Withdrawals will reduce the death benefit that is paid to beneficiaries upon the death of the insured.

Does Navy Mutual offer life insurance with a cash value feature?

At Navy Mutual, [Flagship Whole Life Insurance](#) is our only cash value life insurance offering. This plan's tax-deferred cash value generates non-guaranteed annual dividends that can be used in different ways according to the policy owner's changing needs over time. Dividends can be used to:

- Offset premium payments
- Repay policy loans and/or accrued interest
- Purchase Paid-Up Additions to increase the policy's total death benefit and cash value; these additions are eligible for dividends
- Purchase a one-year term life insurance death benefit supplement

Dividends can also be distributed as a cash payment.

We also offer policy owners the opportunity to borrow up to 75% of their policy's cash value at a variable loan interest rate. Any borrowed cash value and accumulating interest continues to be eligible for dividends. However, any outstanding loan amount and accrued interest are subtracted from the death benefit at settlement or from the policy's cash value upon its surrender.

Does cash value affect the policy's guaranteed death benefit?

When the insured passes away, your [beneficiaries](#) must file a claim to receive the policy's death benefit. The death benefit distributed will be the full amount of the death benefit minus any outstanding policy loans and their associated interest and/or cash value withdrawals. It is possible, then, that by taking policy loans and withdrawals while your policy is active, you could decrease the amount of the death benefit that is available to your beneficiaries upon the insured's passing.

Our representatives can answer any questions that you may have about permanent life insurance and help you determine how it may work for you. [Schedule a consultation](#), get a [quote](#) online, or call us at **800-628-6011** to get started.