

**ADVISOR EDUCATIONAL SERIES**  
**EQUIMAX® PARTICIPATING WHOLE LIFE**  
**DIVIDENDS**

Designed in a Q&A format, this piece provides you with additional information and background about this year's dividend scale review. It includes fundamentals behind the dividend scale process for participating whole life policies to help you present Equimax Estate Builder® and Equimax Wealth Accumulator®.

It also provides details about the participating fund, includes competitive comparisons and discusses Equitable Life's 'mutual company' status.

For more information on the functionality and administration of these products, please refer to the [Equimax Admin Guide](#). Additional details about dividends, the Equitable Life® participating account and the impact of a change in the dividend scale are available in the Equitable Life brochure titled [Understanding Participating Whole Life Insurance](#).

If you have any questions about this information or any of Equitable Life's individual insurance products, please contact your Regional Sales Manager.

**PARTICIPATING LIFE INSURANCE DIVIDENDS – FUNDAMENTAL FACTS**

Dividends are the policyholder's share of the earnings of the participating account. The dividend is the dollar amount that is credited to the policy on the policy anniversary. Each year, it is allocated to the policy based on the dividend option selected. The dividend may contribute to cash value and death benefit growth within the policy, or simply be paid to the policyholder as cash.

Dividends are not guaranteed, but will never be negative. Once credited to the policy they are vested – only future dividends are affected by a dividend scale change.

## Questions

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**2020 / 2021 dividend scale**

**Q 1. What does the impact of COVID-19 on the economy mean to Equitable Life's financial strength and ability to pay out its obligations to policyholders?**

**A** The Company remains financially strong and able to meet all of its obligations to policyholders. As at March 31, 2020, the Company Total LICAT Ratio is robust at 152.5%, well above the OSFI target of 100%.

**Q 2. How does the investment environment impact the dividend scale?**

**A** The sustained low interest rate environment continues to put downward pressure on the experience in the participating account. If low interest rates continue, investment returns in the participating account will also be lower, and we may need to decrease the dividend scale in the future. At the time of writing, the COVID-19 related equity market correction is also expected to have a negative impact on the experience in the participating account, making a future reduction in the scale even more likely.

It's important to keep in mind that dividends are not guaranteed and future dividend scales cannot be predicted, so we recommend that policy illustrations show values at alternate dividend scale interest rates of -1% and -2%.

**Q 3. Is there a change to Equitable Life's participating whole life dividend scale effective July 1, 2020?**

**A** There is no change. The current dividend scale will remain in effect as of July 1, 2020. The dividend scale interest rate will remain unchanged at 6.2% and other experience factors that are used in calculating the dividend scale, such as mortality, will also remain unchanged.

**Q 4. Is there any change to the policy loan rate?**

**A** The policy loan rate will decrease to 6.2% (from 6.7%) effective July 1, 2020. This applies to all new and existing policy loans, including automatic premium loans on Equimax® policies that have a 9-digit policy number beginning with a "3" or an "8". The policy loan rates on some older blocks of policies may increase or decrease because they are tied to the prime interest rate.

**Q 5. Is there any change to the dividends on deposit rate?**

**A** There will be no change to the dividends on deposit rate, it will remain at 2.75%.

### About dividends

#### Q 6. How is the dividend scale calculated?

**A** The dividend scale is determined by actuaries who calculate several dividend components each year.

They review the various experience factors of the participating account, including investment returns, taxes, mortality, expenses, lapse results and other factors. The actual experience is compared to the assumptions that were used in pricing the guaranteed values.

When there is a change to the dividend scale it means that one or more of the experience factors has contributed positively or negatively to the participating account. That change is used in the calculation of the dividend components and subsequently determines the dollar amount credited to the policy at the policy anniversary. The experience of one factor can be offset by the experience of another. For example, positive expense factor experience in 2018 offset the decline in the interest rate factor. This actuarial review is done for each series of policies.

#### Q 7. How much has Equitable Life paid in dividends to participating policyholders in recent years?

**A** Equitable Life issued a record \$49.4 million in dividends to participating policyholders in 2019.

Year	Amount (millions)
2019	\$49.4
2018	\$36.7
2017	\$27.2
2016	\$20.6
2015	\$17.9
2014	\$15.6

Source: Equitable Life Annual Report

#### Q 8. Is it possible for Equitable Life to declare a zero dollar dividend?

**A** Yes, future dividends are not guaranteed and could be \$0. This would require sustained adverse investment and/or other negative experience in the participating fund. A dividend will never be negative, and once credited it cannot be taken away.

### Dividend scale interest rate

**Q 9. What is the dividend scale interest rate?**

**A** The dividend scale interest rate is used to calculate the investment component of the dividend. This is just one factor used to determine the dividends paid to participating policyholders.

The dividend scale interest rate considers the investment performance of the participating account and smooths out the ups and downs. When the “smoothed” rate of return is higher than expected, the impact on dividends is positive. When the “smoothed” rate of return is lower than expected, the impact on dividends is negative.

Equity markets can be quite volatile; the smoothing process used to determine the dividend scale interest rate helps to moderate this volatility in the dividend scale.

**Q 10. What factors influence a change to the dividend scale interest rate?**

**A** The dividend scale interest rate is mainly impacted by the asset returns of the participating account. As required by the Insurance Companies Act, the participating account is held separately from the assets supporting other policies and held separately from company surplus. The returns of the participating account reflect the investment earnings of the assets, as well as the expenses associated with managing those assets.

**Q 11. Is the dividend scale interest rate the same as the participating account rate of return?**

**A** No, the dividend scale interest rate is not the same as the participating account rate of return in any given calendar year. The dividend scale interest rate smooths out the actual returns of the participating account.

Equitable Life has investment policies that dictate the objectives and investment philosophy for the company’s assets. The Participating Account is managed within the guidelines and constraints established by these policies.

**Q 12. Is the dividend scale interest rate the rate of return on the policy?**

**A** No, the dividend scale interest rate is not the rate of return on the policy.

There is no specific rate of return on a whole life policy. Growth in cash value does not equate to a specific interest rate as it does with universal life. Growth in cash value in a whole life policy comes entirely from rates set by actuaries. This includes the guaranteed cash value; and the non-guaranteed dividend along with how the policyholder has elected to use that dividend.

The illustration software does include internal rate of return (IRR) calculations for the cash value and the death benefit for the current dividend scale as well as the alternate dividend scales. Essentially the IRR is a measure of the return on an investment in comparison to the amount that has been invested at a specific point in time. For each duration it looks at the premiums paid versus the cash value available if the policy were surrendered and versus the death benefit that would be paid if the life insured were to die.

**Q 13. How does Equitable Life's dividend scale interest rate compare with other companies?**

**A**

Year	Equitable Life	Canada Life	Sun Life	Manulife Par*	Empire Life
2009	7.4%	7.71%	8.4%	n/a	
2010	7.1%	7.36%	7.4%	n/a	
2011	7.1%	7.36%	7.4%	n/a	
2012	6.8%	6.96%	7.15%	n/a	
2013	6.8%	6.5%	7.15%	n/a	
2014	6.8%	6.5%	6.75%	n/a	
2015	6.8%	6.5%	6.75%	n/a	6.50%
2016	6.5%	6.0%	6.75%	n/a	6.50%
2017	6.5%	5.5%	6.25%	n/a	6.51%
2018	6.35%	5.5%	6.25%	6.25%	6.25%
2019	6.2%	5.25%	6.25%	6.25%	6.00%
2020	6.2%	5.10%	6.25%	6.00%	6.00%

\*Manulife re-entered the participating whole life market June 23, 2018. The dividend scale interest rate included above is for the new Manulife Par product only.

Sources: Equitable Life of Canada; Other companies' historical performance publications. Information based on material available July 2020.

### Size of the participating account

**Q 14. How many participating policyholders does Equitable Life have?**

**A** Equitable Life has more than 196,000 participating policyholders, which includes over 122,000 traditional participating whole life policies as of the end of December 2019.

**Q 15. Should I be concerned that Equitable Life is not as large as other competitors?**

**A** While some of our competitors are larger, we do not view size as a prerequisite for success. More important is our ability to seek out high quality assets with attractive yields without altering our risk profile. In this regard, our size advances our efforts as we are presented with a larger potential investment universe within which we can invest. This affords us greater flexibility and discernment of potential investment opportunities, which can benefit risk-adjusted returns.

**Q 16. What will happen to the participating account if Equitable Life has a large claim?**

**A** Part of Equitable Life's prudent management of the participating fund is to limit mortality exposure to any one life through the use of reinsurance. Mortality experience is reflected in the dividend scale over time. Our prudent risk management approach helps ensure that a large claim won't cause undue volatility.

**Q 17. What will happen to the participating account if there's a large market downturn?**

**A** A large market downturn may negatively impact the dividend scale through lower investment returns over the near-term. Prudent risk management and maintaining a diverse investment portfolio help limit Equitable Life's vulnerability in changing markets. Smoothing of the dividend scale interest rate also helps to moderate the volatility of the dividend scale.

**Q 18. How does Equitable Life's participating account rate of return compare with other companies?**

**A**

Duration	Equitable Life	Canada Life	Sun Life	Manulife	Empire Life
1 year (2019)	7.5%	6.0%	n/a	5.4%	6.8%
2 years (2018 – 19)	5.6%	3.6%	n/a	5.4%	5.8%
3 years (2017 – 19)	6.0%	3.7%	n/a	5.4%	6.0%
4 years (2016 – 19)	6.3%	4.2%	n/a	5.4%	6.0%
5 years (2015 – 19)	5.9%	3.9%	n/a	5.4%	5.8%
10 years (2010 - 19)	6.7%	5.0%	n/a	5.7%	6.0%

Equitable Life's rate of return is net of investment expenses and includes returns from policy loans. Average annual returns are geometric means.

Sources: Equitable Life of Canada; Other companies' historical performance publications. Information based on material available July 2020.

### Investments in the participating account

**Q 19. Can you provide an overview of your private placement portfolio?**

**A** The private placement portfolio is comprised of private fixed income assets that have been arranged to provide financing for a variety of purposes such as infrastructure projects, senior secured corporate loans, leasing facilities, and first mortgage bonds. Transactions typically have terms of 5 to 30 years and an average investment is generally \$5-10 million. Returns afforded are typically more attractive than those offered on public corporate bonds.

**Q 20. Can you provide an overview of your real estate portfolio?**

**A** Our real estate portfolio consists of high-quality buildings having good tenant history with long-term leases, generally in high traffic areas providing stable cash returns along with capital appreciation. The portfolio is well-diversified by property type, including office, retail and industrial, and by geography in major Canadian urban centres, GTA, GVA and GMA, as well as select secondary markets such as Waterloo Region and Hamilton. We also invest in real estate funds managed by experienced professional asset managers with investment objectives which align with our objectives for the real estate portfolio.

**Q 21. What do the equity market positions look like?**

**A** We invest in global index exchange traded funds (ETFs). We start by looking at economic fundamentals. The geographic mix is reflective of the ETFs that we use (Canada, US, and International), and our approach focuses on the major large cap indexes.

### Mutual company status

**Q 22. What is surplus?**

**A** Participating policyholder surplus is the company surplus owned by the participating policyholders. It is disclosed in our annual report.

**Q 23. Is there a benefit to buying a participating policy from a mutual company?**

**A** We believe our mutual status best serves the long-term interests of all our policyholders, participating and non-participating. We are not driven by shareholder pressures for quarterly results, allowing Equitable Life to focus on management strategies that foster stable, long-term growth.

Our mutual status has helped us thrive in difficult market conditions. This structure allows us to manage the company with a focus on the long term and providing a high level of service at all times. We are able to offer continuity and stability and are dedicated to meeting our commitments to customers – now and in the future.

**Notes:**

<sup>1</sup> Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation and will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims, taxes and other experience of the participating block of policies. While Equitable Life has made every effort to ensure the accuracy of the information presented here, the policy contract governs in all cases.

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