# UNDERSTANDING PARTICIPATING WHOLE LIFE INSURANCE

CLIENT GUIDE

equimax

Equitable Life of Canada®
Works for me.™

# ABOUT EQUITABLE LIFE OF CANADA®

Equitable Life® is one of Canada's largest mutual life insurance companies. For generations we've provided policyholders with sound financial protection, and we look forward to continuing to deliver long-term financial value. We're focused on the needs of our clients, and pride ourselves on the breadth and quality of our financial and insurance products and on our premier client service.

The mutual structure of our company ensures that our participating policyholders are owners with voting rights on company issues. With no shareholders imposing undue emphasis on short-term earnings, Equitable Life always operates in the best interest of our policyholders.

**Equitable Life is a focused, stable and strong company.**

Our mutual structure is a key element of our value proposition, along with our diversified product portfolio and superior service. As an organization we're progressive, competitive and firmly committed to serving the best interests of our policyholders, through longer-term strategies that foster ongoing stability, growth and profitability.

## ABOUT THIS GUIDE

This guide provides information to help you understand Equimax® participating whole life insurance, including some key financial facts about the management, performance and strength of Equitable Life's participating account, how dividends are calculated and how they impact your policy.

## WHAT IT MEANS TO OWN A PARTICIPATING WHOLE LIFE POLICY

Life insurance is a contract between a policy owner and an insurer.
When the life insured dies, a sum of money is paid to the named beneficiary.

When you purchase an Equimax participating whole life insurance policy, you benefit from a guaranteed death benefit, cash values and premiums.

You also have an opportunity to share in the earnings in the participating account.[1] The participating account works like this. Premiums paid for participating whole life policies are deposited into the account and invested. The participating account is mainly impacted by returns earned on investments, and by death benefits and expenses. Your share in the earnings in the account is annually credited to your policy as a dividend payment.[2]

We manage the participating account to make sure there is always enough money to meet the guarantees in the product, and pay claims and expenses, today and in the future. Each year the Company's Board of Directors determines the amount of the dividend payment to its participating policyholders based on the guidelines in Equitable Life's Dividend Policy.[3]

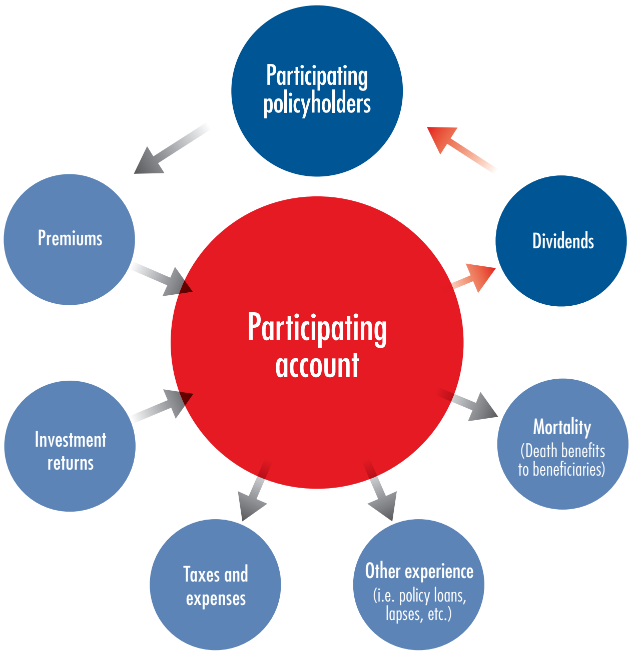
**We have credited dividends[2] every year since we first launched participating whole life in 1936.**

## HOW DIVIDENDS ARE CALCULATED

You pay premiums for your participating whole life policy. The amount of premiums not required to pay for current benefits and expenses flows into the participating account and are invested. The investments are managed by the Equitable Asset Management Group, to ensure there is enough money to meet the guarantees in the product and pay claims and expenses, today and in the future.

To calculate the dividend[2], we look at a number of factors that impact the participating account. The investment performance is just one factor. Other factors include death benefits, terminated policies, taxes and expenses. Your share in the earnings in the account is annually credited to your policy as a dividend payment.

Improvements in some of the factors can help to offset declines in other factors. For example, improvements in mortality (death claims paid) can help offset the impact of declining interest rates on investment performance.




| Investment performance | Mortality and lapse experience | Taxes and expenses |
|---|---|---|
| Investment performance is based on the actual rate of return Equitable Life earns on the participating account. The rate of return goes up and down based on the economy.<br><br>The dividend scale interest rate looks at the investment performance of the participating account and smooths out the ups and downs. When the "smoothed" rate of return is higher than expected, impact on dividends is positive. When the "smoothed" rate of return is lower than expected, impact on dividends is negative. | Death claims as well as lapsed policies can impact dividends either positively or negatively depending on the actual experience versus the estimates used for pricing.<br><br>Lapsed policies are those no longer in effect for any reason other than a death claim. | Dividend calculations also consider the difference between the estimated and actual taxes and expenses required to administer the participating block of policies. Change in the taxes and expenses can have a positive or negative impact on dividends.<br><br>Taxes and expenses experience are generally a smaller factor of the total dividend compared to the investment and mortality experience. |

## A CLOSER LOOK AT THE PARTICIPATING ACCOUNT

### Investment mandate of the participating account

The assets in the participating account are managed to:

1. Meet the guarantees of the product;
2. Provide long-term income and growth to support the dividend scale.

### Equitable Asset Management Group

The Equitable Life participating account is managed by the Equitable Asset Management Group.

### Management Approach and Strength

We follow a top-down approach to managing our funds. This begins with an intensive, continual review of economic trends and how financial markets will behave across different economic environments. The top-down approach involves looking at the "big picture" in the economic and political environment and determining the impact to financial markets in general, then moving more specifically to industry sectors and specific companies for potential investment.

### Investing 101

#### Asset Allocation

The process of determining which asset classes (bonds, private placements, mortgages, real estate, common and preferred equity) to invest in and in what proportions. Each asset class has a different level of risk and return and reacts differently to market conditions. Investing in different asset classes provides diversification. The asset allocation decision adds the most value in the investment process.

#### Diversification

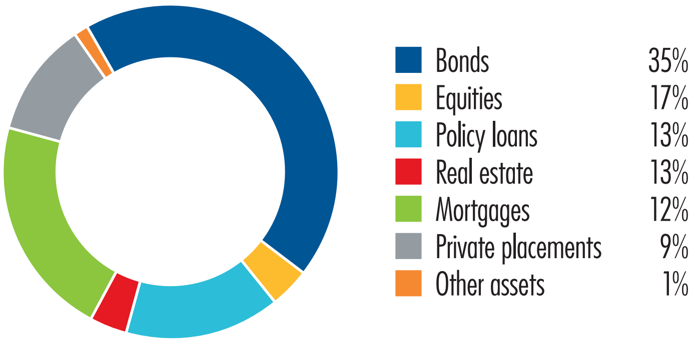
Often described as "not putting all your eggs in one basket". Diversification is a way of managing investment risks by using a broad range of investments within a portfolio. Diversification can be achieved on many levels including asset class, geographic exposure, industry sector, and individual company exposure.

## HOW PARTICIPATING PREMIUMS ARE INVESTED

The amount of premium that is not required to pay for current benefits and expenses is invested in the participating account to provide for future benefits.

### Participating account portfolio – asset classes

(As of December 31, 2013)




### Participating account portfolio – details

(As of December 31, 2013)

| | | $ Thousands | Percentage |
|---|---|---|---|
| **Short-term** | | | |
| Cash and equivalents | $ | 85 | <1% |
| *Total short-term* | $ | 85 | <1% |
| **Fixed income** | | | |
| Government bonds | $ | 55,512 | 18% |
| Corporate bonds | $ | 55,314 | 17% |
| Private placements | $ | 27,577 | 9% |
| Commercial mortgages | $ | 38,341 | 12% |
| *Total fixed income* | $ | 176,743 | 56% |
| **Non-fixed income** | | | |
| Real estate | $ | 40,094 | 13% |
| Common equity | $ | 39,540 | 13% |
| Preferred equity | $ | 16,242 | 4% |
| *Total non-fixed income* | $ | 95,876 | 30% |
| **Total invested assets** | $ | 272,705 | 86% |
| Policy loans | $ | 40,194 | 13% |
| Other assets | $ | 3,302 | 1% |
| **Total participating assets** | $ | 316,200 | 100% |

## Asset Classes

### Bonds

The bond portfolio is invested primarily in Canadian securities with a mix of government and corporate issuers. The bond portfolio is investment grade with a focus on ensuring sufficient assets to meet the guarantees.

### Private placements

Private placements consist of debt investments offered to sophisticated and qualified buyers. Private placements generally lack a secondary market and provide enhanced yields to compensate for this. Equitable Life's private placement portfolio is diversified by industry and is investment grade.

### Real estate and commercial mortgages

Real estate and commercial mortgage investments are exclusively Canadian and concentrated in major metropolitan areas.

### Equities

Common equity investment allocations are broad based North American exposures.

Preferred equity investments offer attractive yields relative to fixed income securities, but with more stable cash flows than common equities. Only Canadian issuers are considered for investment in the preferred portfolio.

# INVESTING FOR OPTIMUM PERFORMANCE OF THE PARTICIPATING ACCOUNT

## Asset quality and diversification are critical

Although asset allocation has historically added the largest proportion of value to fund management, selecting high quality securities remains critical.

Our experienced asset managers conduct a thorough analysis on all fixed income assets. Investment guidelines restrict purchases to investment grade securities.

Diversification is also achieved by:

- investing in a variety of maturities for the fixed income portfolio,
- limiting concentration to industry sectors and issuers,
- geographic distribution of the equity portfolio.

### Investment grade securities

Investment grade securities are assets with a rating of BBB or higher (A/AA/AAA). The rating communicates a probability of the investment defaulting, and is usually provided by a recognized rating company. Investment grade securities have a very low probability of default, an AAA security having the lowest risk.

### Fixed Income

Type of investment on which the borrower makes regular principal and interest payments, typically for a fixed amount on a fixed schedule.

**Investments by quality**

| Rating | Percentage |
|---|---|
| AAA (high credit quality) | 14% |
| AA (high credit quality) | 15% |
| A (medium credit quality) | 64% |
| BBB (medium credit quality) | 7% |
| BB or less (low credit quality) | 0% |
| Total | 100% |

As of December 31, 2013 for publicly rated fixed income securities.

**Investments by term**

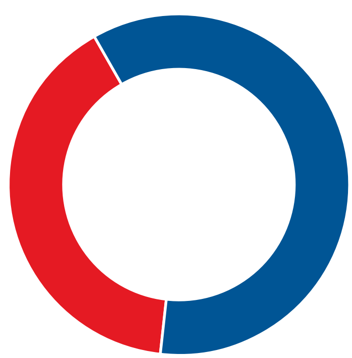
| Years to maturity | $ Thousands | Percentage |
|---|---|---|
| 0 to 5 years | $ 41,024 | 23% |
| 5 to 10 years | $ 34,230 | 19% |
| Over 10 years | $ 101,489 | 58% |
| Total | $ 176,743 | 100% |

As of December 31, 2013 for fixed income securities.

### Investments by sector


As of December 31, 2013 for corporate bonds.

### Geographic distribution



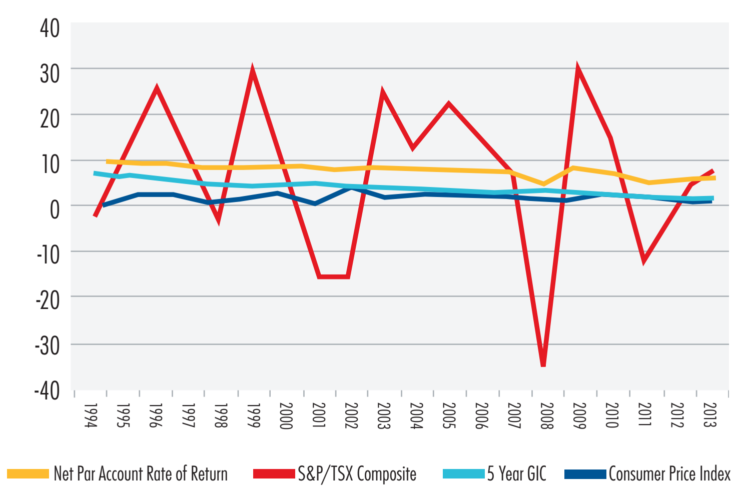

As of December 31, 2013 for common equity.

**Looking for quarterly updates and commentary on the participating account?**
Visit us at **www.equitable.ca**

## HOW THE PARTICIPATING ACCOUNT RESPONDS TO MARKET CONDITIONS

During periods of high interest rates, the rate of return of the participating account tends to increase. During periods of low interest rates, the rate of return tends to decrease. The participating account return is also affected by equity markets, real estate markets, and corporate defaults. There is frequently a timing difference which results in less overall fluctuation in the rate of return on the participating account compared to assets in these markets and changes in the interest rate environment.

The following shows the historical returns of Equitable Life's participating account, net of investment expenses, compared to other well-known economic indicators.[4]




| Year | Net Par Account Rate of Return | S&P/TSX Composite Index | 5 Year GIC | Consumer Price Index |
|---|---|---|---|---|
| 1994 | 9.6 | -2.5 | 7.4 | 0.2 |
| 1995 | 9.4 | 11.9 | 7.1 | 1.8 |
| 1996 | 9.1 | 25.7 | 5.6 | 2.2 |
| 1997 | 8.5 | 13.0 | 4.7 | 0.8 |
| 1998 | 8.3 | -3.2 | 4.4 | 1.0 |
| 1999 | 8.2 | 29.7 | 4.8 | 2.6 |
| 2000 | 8.2 | 6.2 | 5.3 | 3.2 |
| 2001 | 7.7 | -13.9 | 4.0 | 0.7 |
| 2002 | 8.0 | -14.0 | 3.9 | 3.8 |
| 2003 | 7.7 | 24.3 | 3.1 | 2.1 |
| 2004 | 7.6 | 12.5 | 2.9 | 2.1 |
| 2005 | 7.5 | 21.9 | 2.7 | 2.1 |
| 2006 | 7.6 | 14.5 | 3.2 | 1.7 |
| 2007 | 7.3 | 7.2 | 3.3 | 2.4 |
| 2008 | 4.9 | -35.0 | 3.0 | 1.2 |
| 2009 | 8.6 | 30.7 | 2.0 | 1.3 |
| 2010 | 7.8 | 14.4 | 2.0 | 2.4 |
| 2011 | 6.0 | -11.1 | 1.9 | 2.3 |
| 2012 | 7.3 | 4.0 | 1.7 | 0.8 |
| 2013 | 8.5 | 9.6 | 1.6 | 1.2 |
| **Average Annualized Returns** | | | | |
| 1 | 8.5 | 9.6 | 1.6 | 1.2 |
| 3 | 7.3 | 0.8 | 1.7 | 1.4 |
| 5 | 7.7 | 9.5 | 1.8 | 1.6 |
| 10 | 7.3 | 6.9 | 2.4 | 1.8 |
| 20 | 7.9 | 7.3 | 3.7 | 1.8 |
| Standard deviation since 1994 | 1.1 | 16.7 | 1.7 | 0.9 |

## DIVIDEND SCALE INTEREST RATE

The dividend scale interest rate is just one factor used to determine the dividends paid in a participating policy. It is not the same as the participating account rate of return. The rate of return of the participating account goes up and down based on the economy. The dividend scale interest rate smooths out the ups and downs experienced by the participating account.

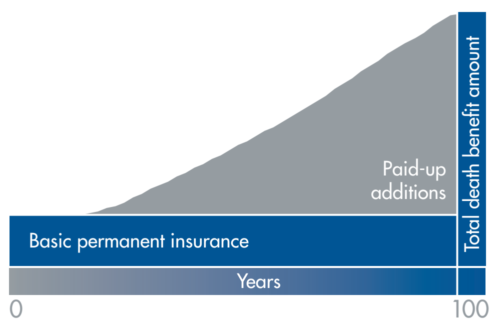
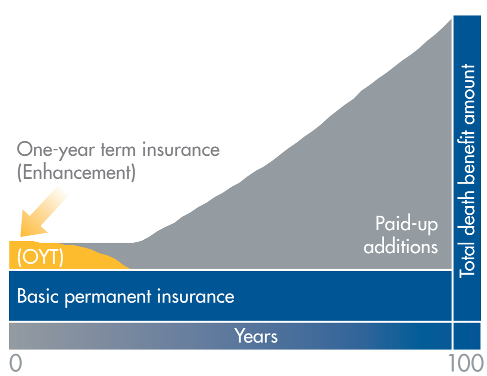
Here is a summary of our current and previous dividend scale interest rates:

| Year | Dividend scale interest rate |
|---|---|
| 1995 | 10.2% |
| 1996 | 9.6% |
| 1997 | 10.0% |
| 1998 | 9.1% |
| 1999 | 8.8% |
| 2000 | 8.8% |
| 2001 | 8.8% |
| 2002 | 8.8% |
| 2003 | 8.4% |
| 2004 | 8.2% |
| 2005 | 8.2% |
| 2006 | 7.9% |
| 2007 | 7.9% |
| 2008 | 7.9% |
| 2009 | 7.4% |
| 2010 | 7.1% |
| 2011 | 7.1% |
| 2012 | 6.8% |
| 2013 | 6.8% |
| 2014 | 6.8% |

The current dividend scale interest rate is effective for the period of July 1, 2014 to June 30, 2015.

## HOW DIVIDENDS IMPACT YOUR POLICY

Equimax participating whole life insurance is eligible to receive annual dividends through a variety of dividend options including paid-up additions (PUAs) and enhanced protection.

<table>
<tr><th>Dividend option</th><th>How it works…</th></tr>
<tr><td>Paid-up additions</td><td>Dividends[2] are used to purchase participating paid-up additional insurance (PUAs).<br></td></tr>
<tr><td>Enhanced protection</td><td>The policy begins with a combination of basic permanent insurance and yearly renewable one-year term insurance (called the Enhancement). Dividends[2] are used first to pay for the one-year term insurance with any excess used to purchase participating paid-up additional insurance (PUAs). Any new PUAs automatically replace part of the one-year term insurance. Once all of the original one-year term insurance has been replaced by PUAs, the dividend conversion point is reached. At that point, all future dividends are used to purchase additional PUAs.<br></td></tr>
</table>

More information about Equimax and the dividend options available can be found in **Your Guide to Equimax**.

## HOW A DIVIDEND SCALE CHANGE IMPACTS YOUR POLICY

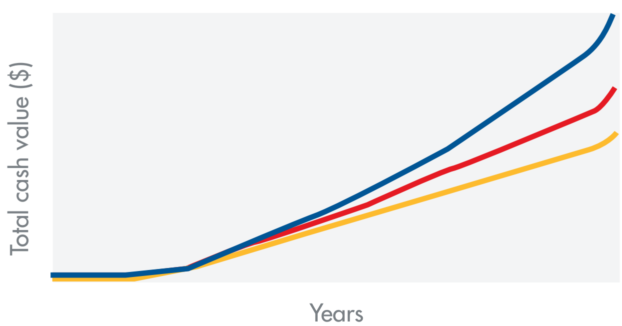
A change in the dividend scale can affect your policy, particularly if you selected the paid-up additions (PUAs) or enhanced protection dividend options in which you are relying on dividends to increase the cash value or the death benefit of the policy.

The sales illustration provided by your insurance advisor when you buy your policy projects the cash values and death benefit amounts into the future. Those projections assume continuation of the current dividend scale. Two additional projections are included in the sales illustration to show the impact a change in dividend scale interest rate can have on your policy. While fluctuations in dividends will not impact guaranteed cash values or guaranteed death benefit amounts, it will affect the non-guaranteed values of the Equimax policy. The sales illustration provided by your insurance advisor is for illustration purposes only.

The following graphs illustrate the impact of a decrease in the dividend scale interest rate.

### Equimax with paid-up additions dividend option

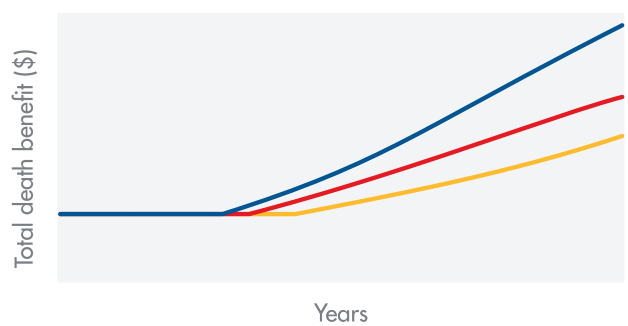
**Impact of a decrease in the dividend scale interest rate on projected total cash values[5]**




The paid-up additions coverage and cash value will be lower than projected.

### Equimax with enhanced protection dividend option

**Impact of a decrease in the dividend scale interest rate on the projected total death benefit[6]**




The death benefit will be lower than projected. The timing of the dividend conversion point (described on page 8) will also be delayed.

- Values based on current dividend scale interest rate
- Values based on a decrease in the dividend scale interest rate of 1%
- Values based on a decrease in the dividend scale interest rate of 2%

These graphs are for illustration purposes only. Actual results may vary.

## Updated illustrations

After you buy your policy, it is a good idea to get an updated policy values illustration from time to time. This will show you how your policy values will look in the future based on the dividend scale that is in effect on the date of the updated illustration. This is particularly important if there has been a change in the dividend scale since you bought your policy.  If dividends decrease then the future value of your policy will also decrease.

## How a dividend scale change impacts premium offset

If you select a dividend option that uses dividends to pay premiums, at some point in the future, you may be able to stop paying premiums for your policy. This is called the premium offset point. At this point, the projected future dividends plus the non-guaranteed cash value within the policy may be sufficient to pay future premiums.

The sales illustration provided by your insurance advisor when you bought your policy may have projected a date when the premium offset point is expected to occur. This was based on the current dividend scale at the time your bought your policy.

Since the premium offset point is dependent on dividends, it is not guaranteed. It is extremely sensitive to changes in the dividend scale. A decrease in the dividend scale may:

- Delay the premium offset point and require you to pay premiums for longer than previously projected,
- Require you to resume paying premiums for a period of time if your policy has been on premium offset.

To get an updated illustration for your policy, contact your advisor or Equitable Life's Individual Contact Centre. The contact information is located on your policy statement or by visiting www.equitable.ca

## THE MUTUAL DIFFERENCE

Many life insurance companies in Canada are stock companies. They are owned by shareholders who have voting rights and input into how the company conducts its business.

Only a few are mutually structured. Mutual companies have no shareholders. They are run for the benefit of participating policyholders, who are not only customers, but also have an ownership interest in the company.

**Equitable Life of Canada is one of Canada's largest mutual life insurance companies.**

### Benefits of dealing with a mutual company

- Participating whole life policyholders have the opportunity to share in the earnings in the participating account. Their share in the earnings in the account is annually credited to their policy as a dividend payment.[2] Dividends are undiluted by shareholder transfers.
- Participating policyholders elect our Board of Directors and have a right to vote on various other Company issues. We operate the Company in their interests and we answer only to them.
- As a mutual company, we are not driven by shareholder pressures for quarterly results. Our focus is on prudent long-term growth, continuity and stability. We are dedicated to meeting our commitments to customers – now and in the future.
- We believe our mutual status allows us to provide better levels of service than a publicly traded company.

## QUESTIONS?

If you would like more information about Equimax or participating whole life insurance, please contact your advisor.

NOTES:

[1] For more information on the participating account, refer to "A closer look at the participating account" section of this guide.

[2] Dividends are not guaranteed. They are subject to change, and will vary based on the actual investment returns in the participating account as well as mortality, expense, lapse, claims experience, taxes and other experience of the participating block of policies.

[3] A copy of Equitable Life's dividend policy and participating account management policy can be found on our website at www.equitable.ca.

[4] Sources: Statistics Canada, Bank of Canada, Equitable Life of Canada. Historical results are not indicative of future performance.

[5] The total cash value is made up of the guaranteed cash value and the cash value of any paid-up additions purchased by dividends.

[6] The projected total death benefit includes the guaranteed death benefit plus the death benefit of the one-year term insurance and any paid-up additions purchased by dividends.

equimax

# Works for me.™

Canadians have turned to Equitable Life since 1920 to protect what matters most. We work with your independent financial advisor to offer individual insurance and savings and retirement solutions that provide good value and meet your needs – now and in the future.

But we're not your typical financial services company. We have the knowledge, experience and ability to find solutions that work for you. We're friendly, caring and interested in helping. And we're owned by our participating policyholders, not shareholders. So we can focus on your interests and provide you with personalized service, security and wellbeing.

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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