

# Demystifying the Great-West Life participating account



## The role of the dividend scale interest rate

### The glamour of illustrations

When considering participating life insurance, illustrations help explain how a policy's values could grow. It's easy to focus on comparing numbers, particularly when it comes to the dividend scale interest rate. However, that rate is only one factor that can impact participating policyowner dividends.

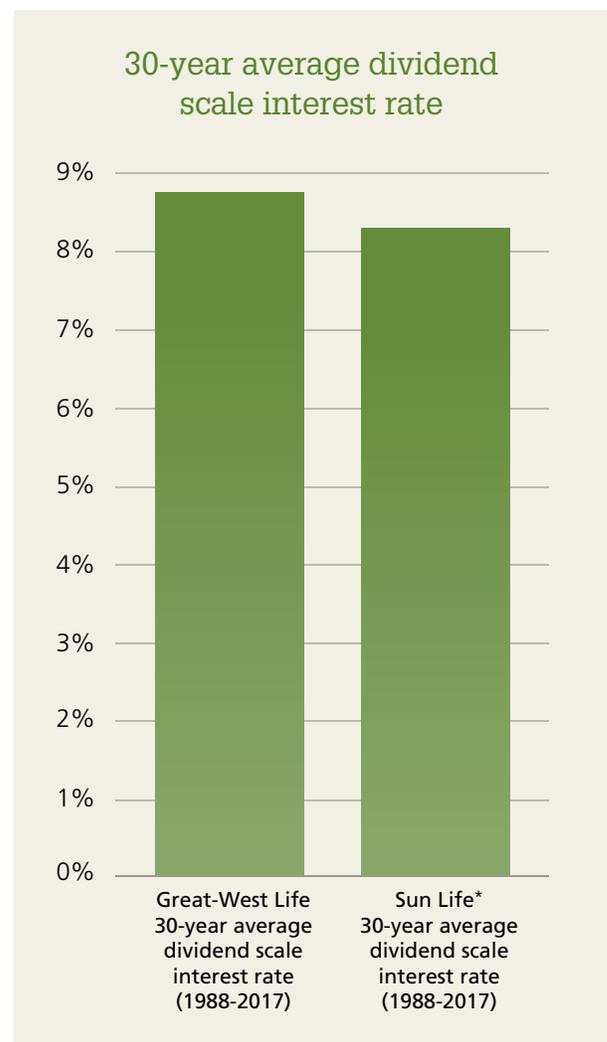
You might think that if you buy a policy from a company that offers a higher dividend scale interest rate today, your policy's values will grow faster in the future. However, rates go up and down over time. So the decision to buy a policy shouldn't be solely based on the current dividend scale interest rate, because it's not guaranteed.

#### Just as important

**Average** dividend scale interest rates can be just as important because of the long-term nature of a life insurance policy.

For example, Sun Life's 30-year average dividend scale interest rate from 1988 to 2017 is 8.3 per cent.\* Our average over that same time is 8.7 per cent which is 40 basis points higher.

When you look at dividend scale interest rates over the long term, differences between companies are small. All participating accounts operate within the same economic environment. Investment results vary at different points in time, depending on each company's investment strategy and investment risk. However, in the long term, it's reasonable to expect that, for the same level of investment risk, investment results will be similar. When comparing insurance illustrations with similar dividend scale interest rates, illustrated values often look alike.

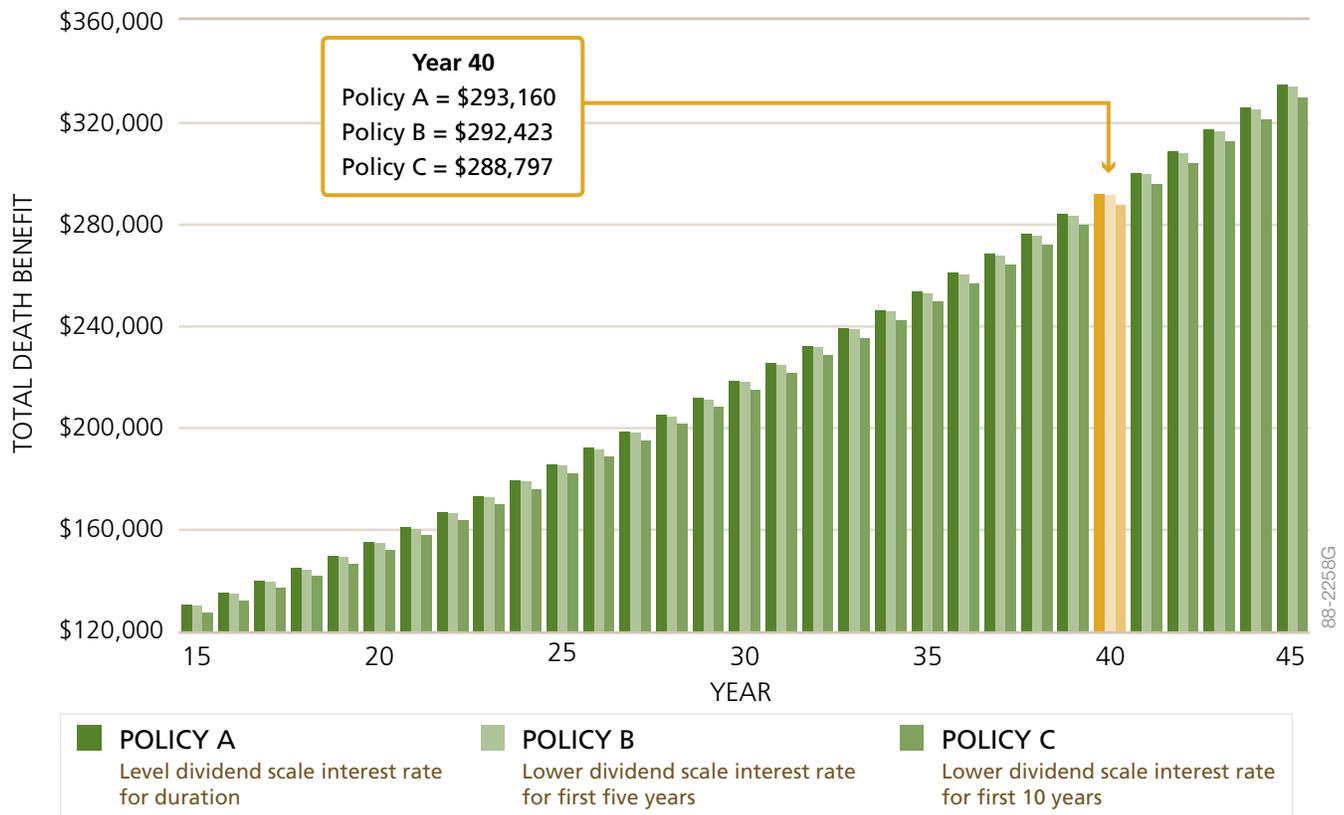


\*Average dividend scale interest rate calculated over the years 1988-2017 with data provided by Sun Life, *Sun Life Participating Account* (form 810-3599), published March 2017. Available at [sunlife.ca](http://sunlife.ca).

# The simple truth

Because gaps in long-term dividend scale interest rates have been small, differences in policy values can also be small. Dividend scales aren't guaranteed. They go up and down over time as a result of all the factors impacting the participating account. This means buying a policy with a higher dividend scale interest rate today won't guarantee you higher values in the future.

The following chart shows how small the effect of short-term differences in dividend scale interest rates can be over the long term. It illustrates potential death benefit values in policies with different dividend scale interest rates in early policy durations. It helps show how small the long term differences in death benefit values might be when two companies' longer-term rates are likely to be similar.



The above example is for illustrative purposes only. Situations will vary according to specific circumstances.

**The illustration for policy A** uses a level dividend scale interest rate for its entire duration.

**The illustration for policy B** starts with a dividend scale interest rate that's 100 basis points lower than policy A. **After the first five years** its rate rises to match that of policy A.

**The illustration for policy C** starts with a dividend scale interest rate that's 100 basis points lower than policy A. **After 10 years**, its rate rises to match that of policy A.

Over time, and compared to the growth in the policies, the differences in death benefits are relatively minor.

For example, at year 40, which is the approximate life expectancy in this case, there's only a 0.25 per cent difference between the death benefit values for policies A and B. There's only a 1.49 per cent difference between policies A and C.

**To find the best value, look beyond the current dividend scale interest rate to the other elements that play a role in long-term policy performance.**

#### NOTES

Values shown for policy A are based on Great-West Life's 2017 dividend scale. Values shown for policy B are based on Great-West Life's 2017 dividend scale with a 100 basis point reduction to the current dividend scale interest rate for the first five years. Values shown for policy C are based on Great-West Life's 2017 dividend scale with a 100 basis point reduction to the current dividend scale interest rate for the first 10 years.

Assumptions for policies A, B and C: Male insured, age 40, non-smoking, standard risk, Enhanced Legacy, Pay to 100, paid-up additions dividend option, annual premium \$2,406, initial death benefit \$100,000. The death benefit values include values dependent on participating policyowner dividends, which aren't guaranteed. The difference in values between policies A, B and C are similar between Enhanced Legacy and Enhanced Wealth products.

Illustrations are for comparison purposes only. Actual results will vary up or down from those illustrated, based on the actual dividend experience of a policy.



Investment income figures into policyowner dividends, but so do many other elements. It's impossible to know the dividends any one policy might actually receive just by examining the current dividend scale interest rate.

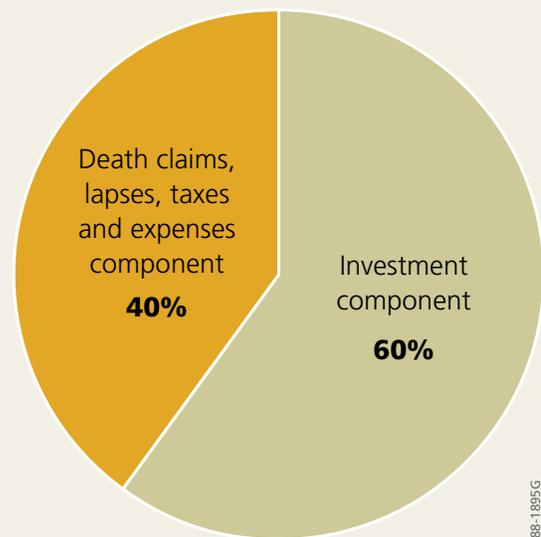
## The building blocks of policyowner dividends

The dividend scale interest rate is used to calculate the investment component of participating policyowner dividends. There are other important factors that affect dividends.

This chart shows you the main components of policyowner dividends.

- > Participating account earnings are generated when actual experience is more favourable than the assumptions used when pricing the products. Factors that influence earnings include, but aren't limited to, investments, death claims, lapses, taxes and expenses.
- > A portion of participating account earnings may be distributed yearly as participating policyowner dividends.

Great-West Life participating account dividend components



On average, based on the 2016 dividend scale. Applies to Enhanced Wealth and Enhanced Legacy participating life insurance products issued on or before Dec. 31, 2016.

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## Accounting for time

Another important point to consider is the weight each of these components carries in determining dividends, and how this weight can change over time.

In a new policy, experience from death claims, lapses, taxes and expenses may affect dividends more than investment experience. As the policy matures, investment experience – and the dividend scale interest rate – starts to play a larger role.

That's why we choose a conservative investment mix. Based on long-term trends in the markets, we believe a conservative mix is best suited to help ensure we can continue to meet our obligations to you and other participating policyowners.

# A reputation of excellence

At Great-West Life, we've proven our commitment to participating life insurance. Dividends are a core feature of our product. We've distributed participating policyowner dividends every year since 1899.<sup>1</sup>



Great-West Life building 1923

Many elements influence the growth in a participating life insurance policy. If you look beyond the dividend scale interest rate to all the elements that matter, you can see the advantage of buying a Great-West Life participating life insurance policy.

- > We manage all elements of the dividend scale carefully, including the investment portion, with the primary objectives of providing stable, long-term growth and earning a competitive rate of return.
- > We have a long-term investment strategy that balances risk and return objectives.
- > We invest a large part of our participating account in fixed-income assets. This is to support lasting, steady growth and to fulfill the core guarantees within our policies.
- > We have a long history of selling participating life insurance and a well-established participating account.

Great-West Life is a leader in the participating life insurance industry in Canada. Our disciplined management policies and conservative investment strategies prove the value of our company more than any illustration can.

For more information about how participating life insurance performs, see *Great-West Life participating life insurance financial facts* (form 41-4032).

<sup>1</sup> In some years, a policy may not receive a dividend. However our participating life insurance products provide value by offering historic stability, security and growth.

This information is general in nature and is intended for informational purposes only. For specific situations, clients should consult the appropriate legal, accounting or tax advisor.