

Comparing dividend scale interest rates



Why long-term performance is what really matters

Any client who buys a participating life insurance policy based solely on a company's dividend scale interest rate (DSIR) today could be setting themselves up for disappointment tomorrow.

The reasons for this are twofold:

- The DSIR may not have a significant effect on policy values in early policy durations.
- The DSIR isn't guaranteed and differences between companies may completely disappear over time, or even reverse. At any point in time, which company has a higher DSIR can change from year-to-year.

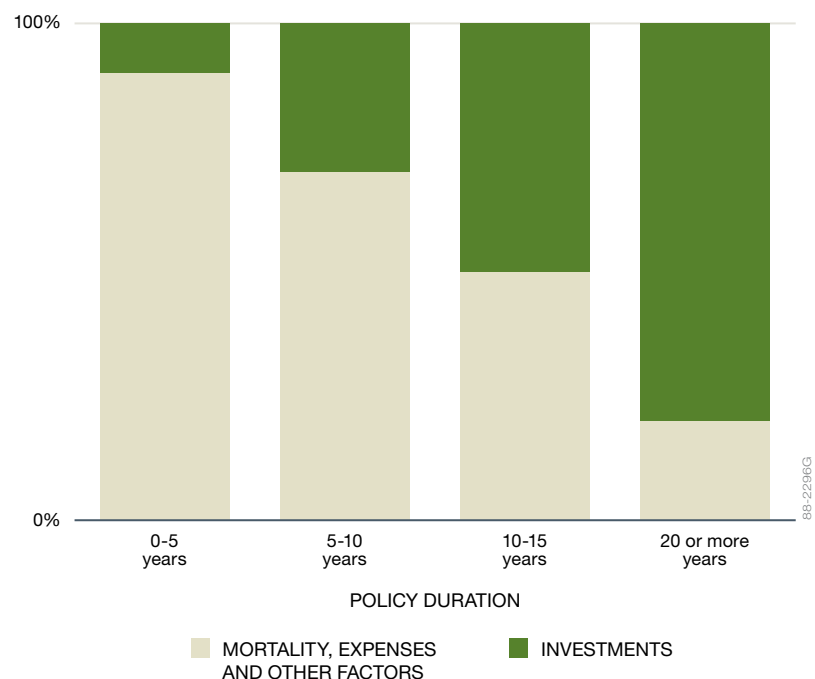
Let's find out why that's the case

How it works

The investment component¹ is only one factor that contributes to participating policyowner dividends. In a new policy, insurance claims (mortality) as well as expenses and other factors generally affect dividends more than the investment component.

As the policy matures, the investment component – and the dividend scale interest rate – starts to play a larger role.

Further, dividends aren't guaranteed. At least annually, companies review all of the factors that contribute to the dividend scale, which includes the DSIR. This means it's reasonable to assume the DSIR used to calculate dividends today won't be the same as the DSIR 20 or 30 years down the road.



This is a hypothetical example that shows how the composition of dividends change throughout the duration of a policy. Many other factors can also affect the composition of participating policyowner dividends for any given policy, such as product type, issue age, year issued and basic risk classifications. Individual results will vary.

¹ The DSIR is used in calculating the investment component of the dividend. A simplified description of this is that the investment component is based on taking the difference between the DSIR and the pricing assumption.

Dividend scale interest rates

Year	Great-West Life	Sun Life	Difference
1989	11.90%	11.00%	0.90%
1990	11.90%	11.40%	0.50%
1991	11.90%	10.90%	1.00%
1992	11.90%	10.40%	1.50%
1993	11.90%	9.40%	2.50%
1994	11.40%	8.65%	2.75%
1995	10.70%	8.40%	2.30%
1996	10.40%	8.15%	2.25%
1997	10.40%	8.40%	2.00%
1998	10.40%	8.40%	2.00%
1999	10.40%	8.40%	2.00%
2000	8.40%	8.40%	0.00%
2001	8.40%	8.40%	0.00%
2002	8.40%	7.90%	0.50%
2003	8.40%	7.90%	0.50%
2004	7.80%	7.15%	0.65%
2005	7.00%	7.15%	-0.15%
2006	7.00%	7.15%	-0.15%
2007	7.00%	7.90%	-0.90%
2008	7.30%	8.40%	-1.10%
2009	7.30%	8.40%	-1.10%
2010	6.90%	7.40%	-0.50%
2011	6.90%	7.40%	-0.50%
2012	6.50%	7.15%	-0.65%
2013	6.00%	7.15%	-1.15%
2014	6.00%	6.75%	-0.75%
2015	6.15%	6.75%	-0.60%
2016	5.90%	6.75%	-0.85%
2017	5.60%	6.25%	-0.65%
2018	5.60%	6.25%	-0.65%
25-year Average	7.85%	7.64%	0.21%
30-year Average	8.53%	8.14%	0.39%

The dividend scale interest rate is the interest rate used in determining the investment component of the dividend scale. It is only one factor that contributes to an individual policy's performance. Past results are not necessarily indicative of future performance.

What does the data say?

The various participating accounts for Canadian companies operate in the same investment environment. It's expected that long-term returns will be similar **for the same level of risk taken** and therefore, one shouldn't focus on short-term variations.

A company's investment strategy may change over time. For example, if a company historically placed most of its assets in fixed income investments, a lower historical average rate of return could be expected due to the lower risk taken.

Life insurance is for the long-term

Historical DSIR average (including 2018 DSIRs). All close historically.

	Canada Life	Great-West Life	London Life	Sun Life	Equitable
20 years	7.40%	7.15%	6.98%	7.45%	7.59%
30 years	8.49%	8.53%	7.90%	8.14%	8.45% (for 29 years)

Sources: Great-West Life, London Life and Canada Life Financial Facts, Sun Life Financial Facts and Figures. Equitable Life of Canada Understanding Participating Whole Life Insurance. Past performance is not necessarily indicative of future performance.

Lastly, while investment returns provided larger contributions to participating policyowner dividends, in the current low interest rate environment insurance claims, expenses (including taxes) and other factors currently play a larger role.

These are all things your clients should know before they buy a policy.

For more information, contact your insurance sales partner at the product solutions centre or visit Par essentials.