The role of the dividend scale interest rate

There's a lot of focus by advisors on the dividend scale interest rate (DSIR) when explaining participating insurance and the value it brings to a client's financial security plan.

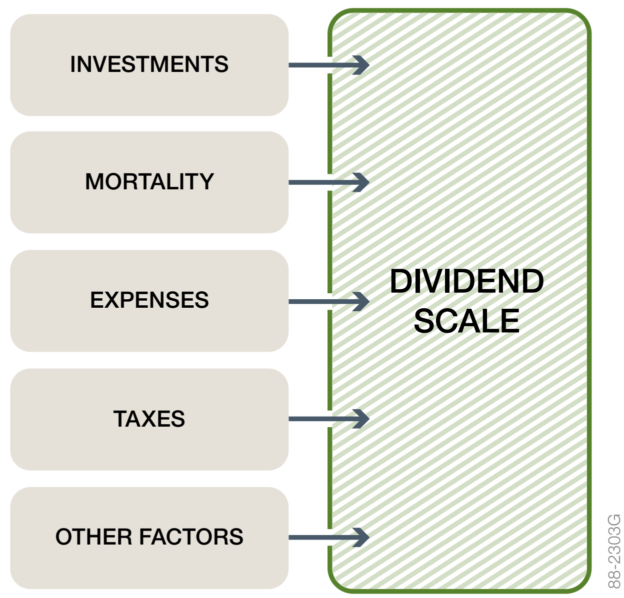
To be clear: The DSIR is used to determine the investment component of the dividend scale, however other factors (taxes, expenses, death claims, etc) also play a role in calculating the dividend scale.

The fixation

It's easy to fixate on what happens to the DSIR each year – and how that compares to major competitors.

More than current DSIRs should be considered when purchasing a participating life insurance policy for a few important reasons.

- **The investment component is only one part of the dividend scale. The DSIR is used to calculate the investment component.[1]**
  While a conversation about investments (and the DSIR) is an important part of any participating life insurance conversation, the investment component is only one component used to calculate dividends. The DSIR is used to calculate the investment component – but experience related to insurance claims (mortality), expenses, taxes and other factors may be used in calculating dividends.[2]
- **Dividends aren't guaranteed**
  At least annually, companies review the dividend scale, including the DSIR, and therefore it's subject to change.
- **Participating life insurance is a long-term product**
  Since, as we've noted, companies regularly review the dividend scale, it's expected the DSIR will change, upward and downward, over longer periods of time, such as the life of a policy.
- **Historical average DSIRs are similar across companies**
  The various participating accounts for Canadian companies operate in the same investment environment. It's to be 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.



- **The glamour of illustrations**
  When you prepare an illustration for your client, it assumes the current dividend scale continues for the life of the policy. As we noted above, the dividend scale is subject to change.

Product decisions for new clients based on today's DSIR might be short-sighted, if they haven't considered all of these factors.

[1] A simplified description of this is that the investment component is based on the difference between the DSIR and the pricing assumption.
[2] All coverages may not have all of these components in the calculation of the dividend.

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