2023 participating policyowner dividend scale – questions and answers

This information is for use only by advisors. It provides more information about the dividend scale announcement. It's not intended for use with clients.

For further details on the management of the participating (par) account, see *Financial facts* (form 46-4758) and supporting materials.

Contents

Questions and answers

1. What were the main drivers behind the increases in the 2023 dividend scales for the Canada Life combined open par account and policies formerly belonging to the Canada Life closed account, issued before Nov. 5, 1999?

For the Canada Life™ combined open account and the Canada Life closed account, the main drivers of the increase in the dividend scales were related to investments:

- The primary source of upward support to the dividend scales was favorable Non-Fixed Income (NFI) returns in 2021 and additional past positive investment experience, which is being smoothed into the dividend scale. This helped offset negative 2022 public equity performance.
- Increases in interest rates also helped provide upward support to the dividend scales as a portion of fixed income assets gradually matured and were reinvested at higher rates in 2022.

Recall that 70% of the asset mix for the Canada Life combined open account and Canada Life closed account is fixed income which uses a 10-year ladder strategy. This means approximately 10% of fixed income assets (7% of total par account) mature each year and are reinvested at the new interest rates available at that time. This strategy is more responsive than longer duration strategies to movements in interest rates.

We also reviewed non-investment related experience (mortality, lapses, expenses and taxes). This resulted in updated mortality experience for policies formerly belonging to the Canada Life open par account, issued before Jan. 1, 2020, and for the Canada Life closed block.

The former Crown Life and New York Life par accounts are invested 100% in fixed income. There was no impact from the negative public equity performance. Increasing interest rates in 2022 had a limited impact.

2. How do changes in the dividend scale affect illustrated values, enhanced coverage maximums, additional deposit option (ADO) maximums and premium offset?

With increases in the dividend scale, illustrated non-guaranteed values may be higher.

The increase in the dividend scale generally means ADO maximums will remain the same or decrease, while enhanced coverage maximums will remain the same or increase. In addition, premium offset may be available sooner, or a policy may be able to remain on premium offset longer.

The effect of changes in the dividend scale varies by policy. To understand the effect for a particular policy, get an updated illustration.

For more information on premium offset, see How to talk to your clients about premium offset.

3. How does the dividend scale increase affect ADO payments for in-force policies?

For some in-force policies, we may not be able to accept all of client’s ADO payments, due to tax-exempt limits.

4. Have there been any changes to one-year term purchase rates for enhanced coverage dividend options?

Yes, there are changes to one-year-term rates for these dividend options, for some policies formerly belonging to the Canada Life open par account, issued before Jan. 1, 2020, and for policies belonging to the Canada Life closed account, issued before Nov. 5, 1999. The impact varies by policy. To see how it affects a specific policy, get an updated illustration.

5. Can we expect dividend scale interest rates (DSIRs) to remain the same for all policies in the combined open account – including policies that formerly belonged to the Great-West, London Life and Canada Life open accounts, issued before Jan. 1, 2020?

Not necessarily. Since amalgamation on Jan. 1, 2020, all policies in the combined open account and for policies belonging to the Canada Life closed account, issued before Nov. 5, 1999, share the same investment experience and pool of assets. However, there are factors that can cause the DSIRs to be different:

- **Investment experience before amalgamation** – This experience continues to be smoothed into the dividend scale for policies formerly belonging to our open accounts. Over the next several years, the influence of this experience will decrease.

Other investment-related factors could also cause future variations in DSIRs. For example:

- **Dividend accumulation option** – The usage level of the dividend accumulation option is different for policies that formerly belonged to each of the Great-West, London Life and Canada Life open accounts and the Canada Life closed account.
- **Policy loans** – Policy loan usage is different for policies belonging to the Canada Life combined open account and the Canada Life closed account.

Some variations specifically apply to the Canada Life closed account. For example:

- **Factors set at the time of demutualization** – Some factors, such as the investment expenses charged to the closed account, were set at the time of demutualization. These remain unchanged, while investment expenses charged to the Canada Life open account have generally decreased as the open account has grown. Another example is differences in taxation between the open and closed accounts.
- **Smoothing** – The impact of smoothing investment gains and losses in the closed account is different than in the combined open account, which is a growing account.

To ensure policyowners are treated fairly and equitably, the specific experience attributed to these groups of policies will continue to be factored into their DSIRs.

6. How and when does the change in the variable policy loan interest rate affect my clients' policies?

There are two types of policy loans: cash loans and automatic premium loans.

- For each type of loan, if a policy has an existing policy loan of that type on May 28, 2023 – The new interest rate applies on the next policy anniversary on or after May 28, 2023.
- For both types of loan, if a policy does not have an existing loan of that type on May 28, 2023 – The new interest rate applies to any loan of that type taken on or after May 28, 2023.
- However, if a policy has an existing loan of either type on May 28, 2023 – That loan, and any increase in that same type of loan, keeps its existing interest rate until the next policy anniversary on or after May 28, 2023.

7. **When will I see the 2023 dividend scale changes in my clients' in-force illustrations, using the updated web-based Canada Life Illustrations or Concourse Desktop illustration?**

If policy anniversary date is	Then
Before July 1, 2023	• The 2022 dividend scale, effective July 1, 2022, will apply to the first illustrated policy year . • The 2023 dividend scale, effective July 1, 2023, will apply to all later illustrated policy years.
On or after July 1, 2023	• The 2023 dividend scale, effective July 1, 2023, will apply to all illustrated policy years.