



# Understanding Participating Whole Life Insurance

## **Client Guide**

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## About Equitable Life of Canada

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### TOGETHER

Protecting Today – Preparing Tomorrow®

As one of Canada's oldest and largest mutual insurance companies, Equitable Life provides financial security differently by focusing exclusively on our clients. We work with you and independent advisors across Canada to find the best ways to meet your needs. Our life insurance, savings and retirement, and group benefits solutions help all of our clients protect what matters. Together, with you, our purpose is protecting today, preparing tomorrow.

At Equitable Life, we pay attention to all the details and deliver on our promises. Your trust in our knowledge, experience, and financial strength helps us keep our commitments to you. Our company is owned by people like you who count on us and use our services. This lets us focus on plans that help our company grow and stay strong now and in the future.

To learn more about Equitable Life and our financial strength, visit [www.equitable.ca/en/who-we-are](http://www.equitable.ca/en/who-we-are).

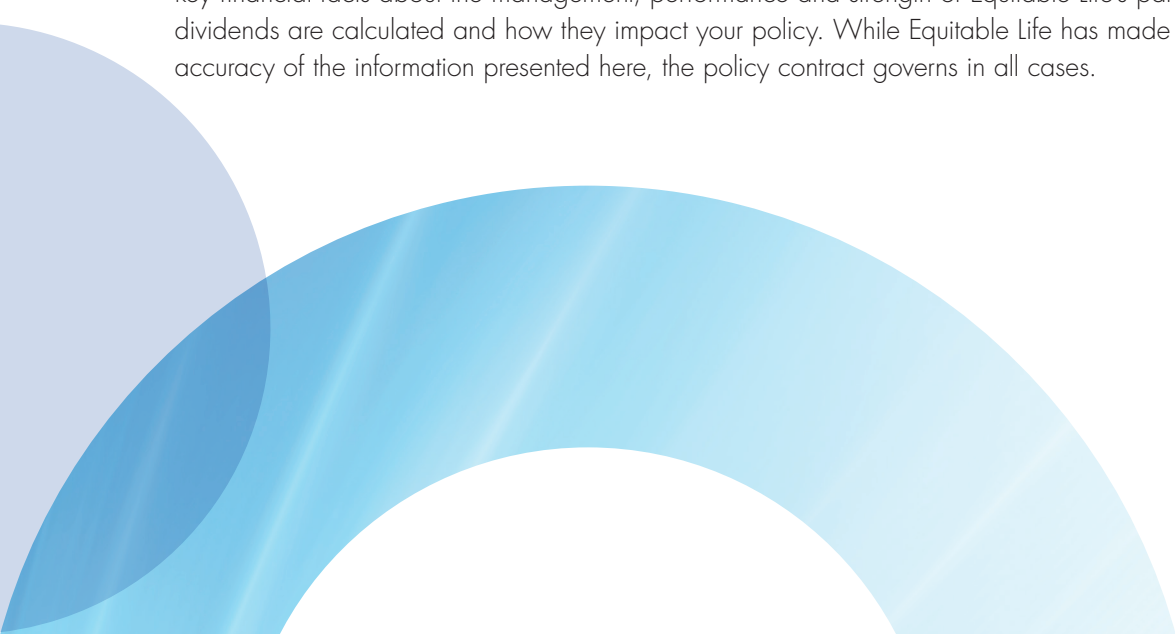
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## About this guide

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. While Equitable Life has made every effort to ensure the accuracy of the information presented here, the policy contract governs in all cases.





## 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. Those premiums cover benefits and expenses, as well as a contribution to the company's surplus. The remainder flows into the participating account and is invested. You are eligible to participate in the earnings of the participating account through dividend payments.<sup>1</sup> Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual experience in the participating account.

We manage the participating account to ensure there is enough money to meet product guarantees and pay claims and expenses, today and in the future. The Board of Directors determines the amount of the dividend payment to its participating policyholders based on the guidelines in Equitable Life's dividend policy. To learn more about our dividend policy and our participating account management policy please visit [www.equitable.ca/en/already-a-client/dividend-information/](http://www.equitable.ca/en/already-a-client/dividend-information/).

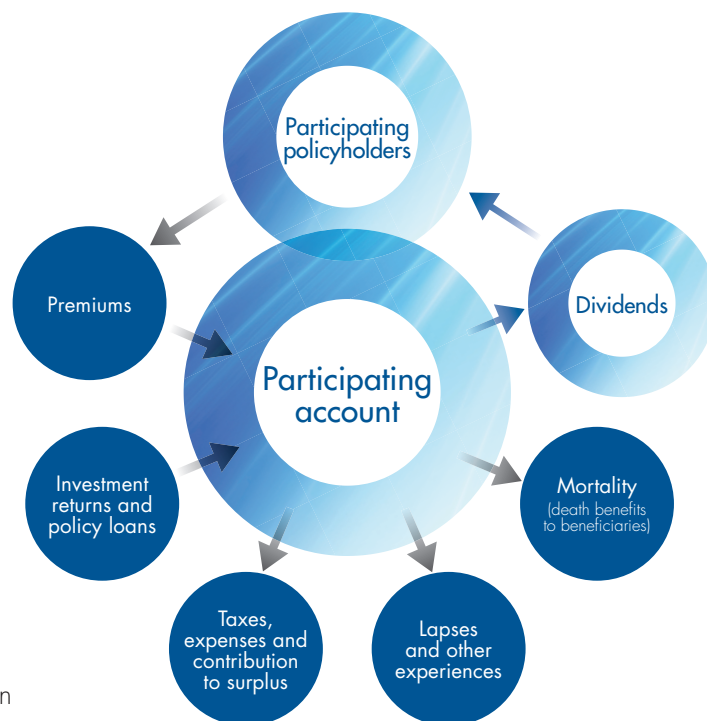
We have credited dividends<sup>1</sup> every year since we first launched participating whole life in 1936.

### NOTES:

<sup>1</sup> Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes and other experience of the participating block of policies.

## How dividends are calculated

To calculate the dividend,<sup>1</sup> we look at a number of factors. The participating account is mainly impacted by returns earned on investments and by death benefits, but also other factors such as policy loans, terminated policies, taxes and expenses. Improvements in some of the factors can help to offset declines in others. For example, improvements in mortality (death claims paid) can help offset the impact of declining interest rates on investment performance. Dividend calculations consider the difference between the assumed and actual experience of the participating account. That difference can have a positive or negative impact on the dividend paid.



### Investment performance

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.

Policy loans also contribute to the returns in the participating account and this impact depends on the loan interest rate. The policy loan rates vary by policy series. The current series has a loan rate of 6.50%.

The dividend scale interest rate looks at the returns from investments, excluding policy loans, and smooths out the ups and downs. This rate is blended with the policy loan rate to arrive at the dividend scale interest factor for that series. When this rate of return is higher than expected, impact on dividends is positive. When the rate is lower than expected, impact on dividends is negative.

### Mortality and lapse experience

Death claims as well as lapsed policies can impact dividends either positively or negatively depending on the actual experience versus the estimates used for product pricing.

Lapsed policies are those no longer in effect for any reason other than a death claim.

### Taxes and expenses

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.

Tax and expense experience are generally a small factor of the total dividend compared to the investment and mortality experience.

There is a contribution to surplus from the participating account. Income is reinvested to further growth and development. This approach ensures Equitable Life maintains a strong capital base, benefitting both the company and participating policyholders. Our current and projected capital and surplus position is considered in the dividend scale setting process.

To learn more about our dividend policy, please visit [www.equitable.ca/en/already-a-client/dividend-information/](http://www.equitable.ca/en/already-a-client/dividend-information/).



## 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; and
2. Provide long-term income and growth to support the dividend scale.

### Equitable Asset Management Group

Equitable Asset Management Group (EAMG) is the investment division of The Equitable Life Insurance Company of Canada. Equitable Life's investment assets have been managed internally by EAMG since the company was established in 1920.

An important aspect of how we manage client capital is to pursue an active approach to investment management, which is facilitated in part by our size and portfolio construction practices. We maintain flexibility through consideration of both short and long-term investment opportunities. The result is dynamic and adaptive public asset portfolios that can be adjusted to take advantage of market conditions, combined with the private asset portfolio which provides diversification.

In addition to a focus on prudent investment strategies and risk management, we are guided by the same values of integrity, accountability, knowledgeable staff and superior service that are synonymous with Equitable Life.

To learn more about our investment approach, please visit

[www.equitable.ca/en/our-products/investment-management/our-approach](http://www.equitable.ca/en/our-products/investment-management/our-approach).

### Management approach and strength

We follow a top-down approach to managing the participating account. 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 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

This is 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

In simple terms, this can be described as making sure that all your eggs are not in one basket. Diversification is a method of managing investment risks 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

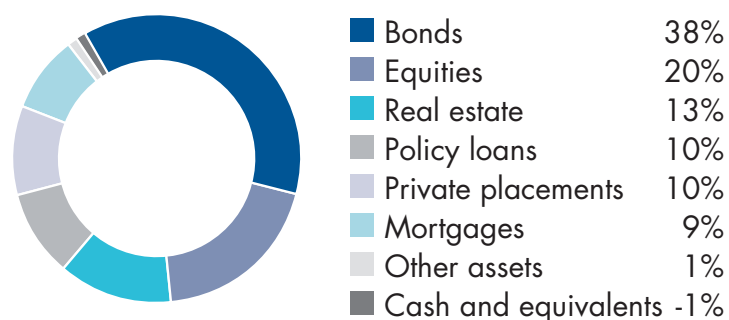
The amount of premium that is not required to pay for current benefits and expenses is invested in the participating account to provide for future benefits.

Looking for quarterly updates and commentary on the participating account?

[www.equitable.ca/en/already-a-client/dividend-information/](http://www.equitable.ca/en/already-a-client/dividend-information/)

### Participating account portfolio – asset classes

As of December 31, 2022.



### Participating account portfolio – details

As of December 31, 2022.

	Total Assets (in thousands)	Investment guidelines	Percentage
<b>Short-term</b>			
Cash and equivalents	\$ (9,509)		-1%
<i>Total short-term</i>	\$ (9,509)		-1%
<b>Fixed income</b>			
Government bonds	\$ 222,038	0 - 25%	15%
Corporate bonds	\$ 341,083	10% - 35%	23%
Private placements	\$ 150,662	5 - 15%	10%
Commercial mortgages	\$ 135,610	6% - 26%	9%
<i>Total fixed income</i>	\$ 849,394		57%
<b>Non-fixed income</b>			
Real estate	\$ 190,455	10% - 25%	13%
Common and Preferred Equity	\$ 295,372	15% - 35%	20%
<i>Total non-fixed income</i>	\$ 485,828		33%
<b>Total invested assets</b>	<b>\$ 1,325,713</b>		<b>88%</b>
Policy loans	\$ 146,521		10%
Other assets	\$ 25,167		1%
<b>Total participating assets</b>	<b>\$ 1,497,401</b>		<b>100%</b>

## 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. Securities purchased are primarily investment grade.

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.

Investments by quality	
Rating	Percentage
AAA (high credit quality)	14%
AA (high credit quality)	34%
A (medium credit quality)	35%
BBB (medium credit quality)	17%
BB or less (low credit quality)	0%
Total	100%

As of December 31, 2022 for publicly rated, fixed income securities.

### 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. Equitable Life's investment grade private placement portfolio is diversified by industry.

#### 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 equity portfolio.

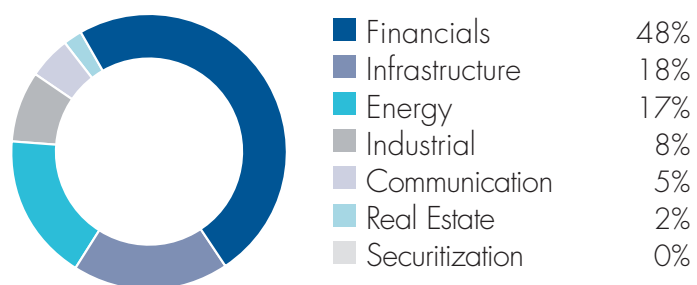
#### Investment grade securities

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.



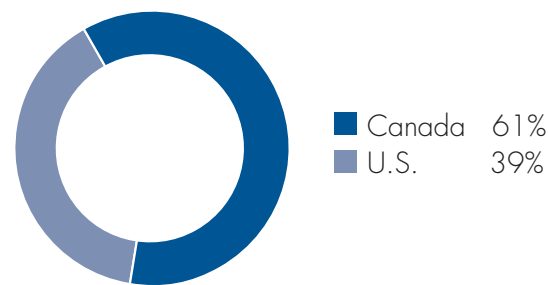
## Investments by sector

As of December 31, 2022 for corporate bonds.



## Geographic distribution of equities

As of December 31, 2022 for common equity.



Investments by term		
Years to maturity	\$ Thousands	Percentage
0 to 5 years	\$ 82,260	10%
5 to 10 years	\$ 37,265	4%
Over 10 years	\$ 729,869	86%
<b>Total</b>	<b>\$ 849,394</b>	<b>100%</b>

As of December 31, 2022 for fixed income securities.

## The participating account rate of return

The participating account rate of return is the return earned on the assets held in the account in a given calendar year. It's a short-term indicator of investment performance.

The rate of return goes up and down based on the economy. Common stock and real estate returns are valued on a marked-to-market basis and are not smoothed. Bonds are assumed to be held to maturity. Equity markets and corporate defaults also affect the participating account rate of return.

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. There is frequently a timing difference. This 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 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 dividend scale interest rate smooths out the ups and downs experienced by the participating account. The dividend scale interest rate does not include policy loans.

Because of smoothing increases and decreases in the dividend scale interest rate will lag what is happening in the interest rate environment and with the returns of the participating account. A decreasing or continued low interest rate environment will likely mean future decreases in the dividend scale interest rate. If the interest rate environment were to improve over time, the dividend scale interest rate may increase.

Dividends are paid at the sole discretion of the Board of Directors.

## Historical returns

The following table shows Equitable Life's participating account rate of return and dividend scale interest rate over 30 years compared to other well-known economic indicators. The participating account returns are the returns earned on assets held in the account for the given calendar year; the returns are net of investment expenses and include returns from policy loans. The dividend scale interest rate is smoothed and does not include policy loans.

Year	Equitable Life Par Account Return	Equitable Life Dividend Scale Interest Rate	S&P/TSX Total Return Index	Government of Canada 5 to 10 Year Bonds	5 Year GIC	Consumer Price Index
1993	9.55%	10.70%	32.55%	7.24%	6.40%	1.70%
1994	9.63%	10.20%	-0.18%	8.26%	7.40%	0.20%
1995	9.43%	10.20%	14.53%	7.93%	7.10%	1.80%
1996	9.14%	9.60%	28.35%	6.86%	5.60%	2.20%
1997	8.54%	10.00%	14.98%	5.87%	4.70%	0.80%
1998	8.32%	9.10%	-1.58%	5.26%	4.40%	1.00%
1999	8.23%	8.80%	31.71%	5.56%	4.80%	2.60%
2000	8.23%	8.80%	7.41%	5.96%	5.30%	3.20%
2001	7.74%	8.80%	-12.57%	5.32%	4.00%	0.70%
2002	8.02%	8.80%	-12.44%	5.08%	3.90%	3.80%
2003	7.70%	8.40%	26.72%	4.54%	3.10%	2.10%
2004	7.64%	8.20%	14.48%	4.34%	2.90%	2.10%
2005	7.48%	8.20%	24.13%	3.89%	2.70%	2.10%
2006	7.59%	7.90%	17.26%	4.18%	3.20%	1.70%
2007	7.30%	7.90%	9.83%	4.25%	3.30%	2.40%
2008	4.92%	7.90%	-33.00%	3.36%	3.01%	1.20%
2009	8.58%	7.40%	35.05%	2.84%	1.95%	1.30%
2010	7.80%	7.10%	17.61%	2.88%	2.00%	2.40%
2011	6.00%	7.10%	-8.71%	2.47%	1.87%	2.30%
2012	7.34%	6.80%	7.19%	1.63%	1.65%	0.80%
2013	8.54%	6.80%	12.99%	1.99%	1.63%	1.20%
2014	8.25%	6.80%	10.55%	1.86%	1.92%	1.50%
2015	4.03%	6.80%	-8.32%	1.19%	1.47%	1.60%
2016	7.23%	6.50%	21.08%	1.02%	1.41%	1.50%
2017	6.90%	6.50%	9.10%	1.61%	1.39%	1.90%
2018	3.70%	6.35%	-8.89%	2.22%	1.69%	2.00%
2019	7.49%	6.20%	22.90%	1.53%	2.08%	2.20%
2020	5.15%	6.20%	5.60%	0.65%	1.28%	0.70%
2021	11.07%	6.05%	25.09%	1.27%	0.99%	4.80%
2022	3.04%	6.05%	-5.84%	2.78%	2.87%	6.30%
Average returns						
5 Years	6.05%	6.17%	6.85%	1.69%	1.78%	3.18%
10 Years	6.51%	6.42%	7.74%	1.61%	1.67%	2.36%
20 Years	6.87%	7.05%	8.47%	2.52%	2.12%	2.10%
30 Years	7.47%	7.86%	8.67%	3.77%	3.19%	2.00%
Standard deviation over 30 years	1.81%	1.39%	16.14%	2.18%	1.80%	1.25%

3.04%

Participating account rate of return as of December 31, 2022.

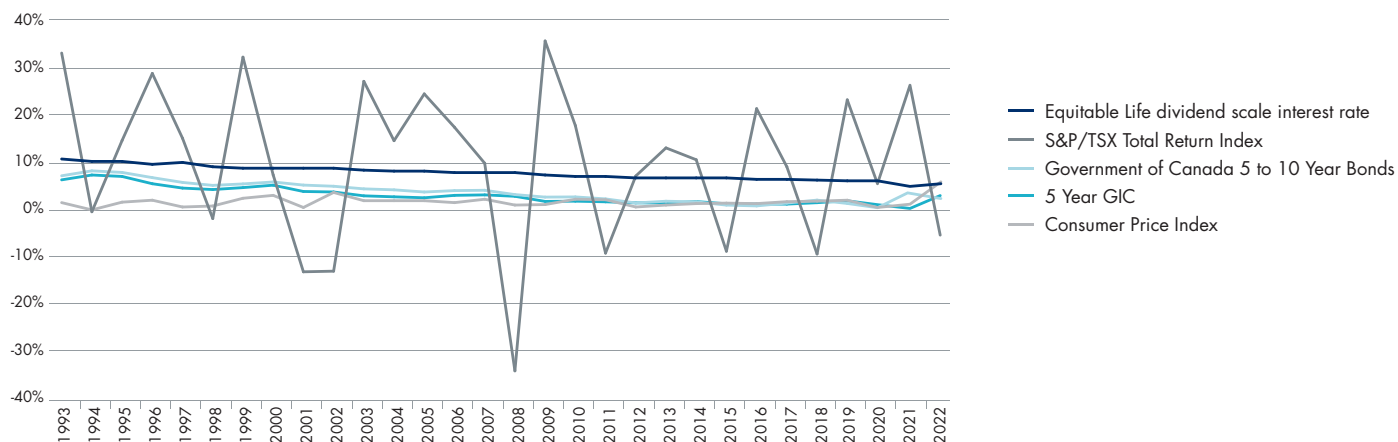
6.25%

Dividend scale interest rate effective for the period of July 1, 2023 to June 30, 2024.

Data as of December 31 of the applicable year, other than the dividend scale interest rate, which is as of July 1 of the applicable year. Average returns are calculated using a geometric mean. Historical results are not indicative of future performance. Source: Statistics Canada, Bank of Canada, Equitable Life of Canada.

## How the dividend scale responds to market conditions

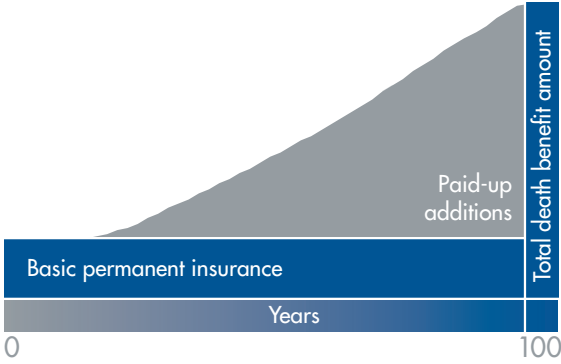
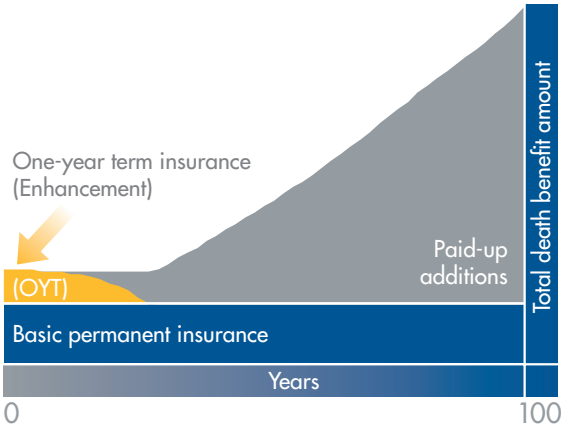
The following chart shows Equitable Life's historical dividend scale interest rates compared to other well-known economic indicators.



Source: Statistics Canada, Bank of Canada, Equitable Life of Canada. Historical results are not indicative of future performance.

## How dividends impact your policy

Equimax participating whole life insurance policies are eligible to participate in the earnings of the participating account through a variety of dividend options including paid-up additions and enhanced protection.

Dividend option	How it works
Paid-up additions	<p>Dividends<sup>1</sup> are used to purchase participating paid-up additional insurance.</p> 
Enhanced protection	<p>The policy begins with a combination of basic permanent insurance and yearly renewable one-year term insurance (called the enhancement). Dividends<sup>1</sup> are used first to pay for the one-year term insurance with any excess used to purchase participating paid-up additional insurance. Any new paid-up additional insurance automatically replaces part of the one-year term insurance. Once all the original one-year term insurance has been replaced by paid-up additional insurance, the dividend conversion point is reached. At that point, all future dividends are used to purchase additional paid-up additional insurance.</p> 

More information about Equimax and the dividend options available can be found in the [Equimax Client Guide \(1129\)](#).

<sup>1</sup> Dividends are not guaranteed and are paid at the sole discretion of the Board of Directors. Dividends may be subject to taxation. Dividends will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes and other experience of the participating block of policies.

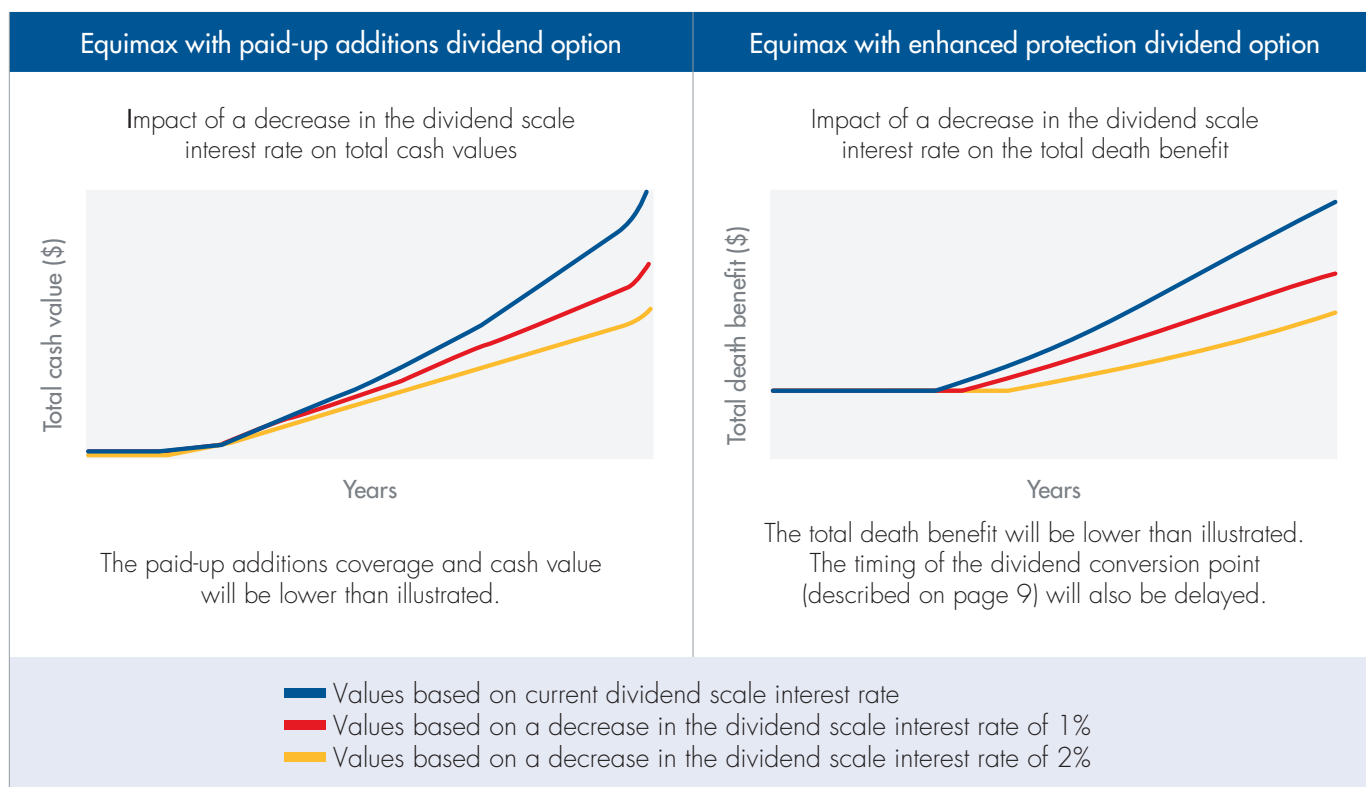
## How a dividend scale change impacts your policy

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

A change in the dividend scale affects the future non-guaranteed values of your policy. Non-guaranteed values are values that depend on future dividends that are credited to the policy if a dividend is declared. Previously credited dividends are fully vested, and along with the guaranteed cash values and the guaranteed death benefit, are not affected by a change in the dividend scale.

The sales illustration provided by your insurance advisor when you purchased your policy was based on the dividend scale in effect at that time and shows the cash values and death benefit amounts if the dividend scale illustrated remained unchanged for the life of your policy. Two alternate dividend scale scenarios are included in the sales illustration to highlight the potential impact a dividend scale interest rate change would have on the non-guaranteed values in your policy. The illustration is neither a prediction of future performance, nor a prediction of the maximum dividend scale decrease that could occur over the life of your policy.

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



These graphs are for illustration purposes only and not a prediction of the largest dividend scale change that could occur over the life of the policy. Actual results will vary.

### NOTES:

The total cash value is made up of the guaranteed cash value and the cash value of any paid-up additions purchased by dividends. The total death benefit indicated in your illustration includes the guaranteed death benefit plus the death benefit of the one-year term insurance and any paid-up additions purchased by dividends. All numbers in the illustration are based on the current dividend scale remaining unchanged for the life of the policy.

## Updated Illustrations

After you buy your policy, it is a good idea to get an updated 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 on deposit, paid-up additions or enhanced protection as your dividend option, your policy will accumulate non-guaranteed cash value. At some point in the future, you may be able to stop paying premiums for your policy. This is called the premium offset point. To qualify for premium offset, the future dividends plus the non-guaranteed cash value within the policy must be sufficient to pay all future premiums.

The sales illustration provided by your insurance advisor when you bought your policy may have shown a premium offset point based on the dividend scale in effect at that time remaining unchanged for the life of the 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 illustrated.
- 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 Life Insurance Client Service. The contact information is located on your policy statement or by visiting [www.equitable.ca/en/get-in-touch/](http://www.equitable.ca/en/get-in-touch/).



## 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 life insurance companies are mutually structured. As one of Canada's largest mutual life insurance companies, we ensure that service, value, and security are at the core of everything we do for our policyholders and distribution partners.

### Benefits of dealing with a mutual company

- Participating whole life policyholders are eligible to participate in the earnings in the participating account through dividend<sup>1</sup> payments.
- Participating policyholders elect our Board of Directors.
- As a mutual company, we are not driven by shareholder pressures for quarterly results. This allows us to focus on management strategies that foster prudent long-term growth, continuity and stability. We are dedicated to meeting our commitments to our clients – now and in the future.
- Being recognized for its service culture across all lines of business is a point of pride for a company that includes 'client focus' as one of its three corporate values.

### Questions?

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





## A Good Corporate Citizen

Equitable Life is a Canadian company that values its clients, its employees and the communities in which they live and work. In 2022, Equitable Life employees volunteered more than 1,700 hours to help more than 40 organizations in our communities.

### 2022 Charitable Donations

- The Registry Theatre
- Drayton Entertainment
- Kitchener-Waterloo Art Gallery
- Wilfrid Laurier University
- University of Waterloo
- Earth Rangers
- Conestoga College
- Lang School of Business, University of Guelph
- KidsAbility Foundation
- Autism Speaks
- Chamber Health Care Resources Council
- Cambridge Memorial Hospital Foundation
- Parkinson Canada (Southwestern Ontario Chapter)
- St. Mary's Hospital
- Heart and Stroke Foundation
- Social Services and Disaster Relief
- United Way
- Adopt-a-family Christmas Support
- Family and Children's Services Foundation
- Waterloo Region Community Foundation
- Canadian Red Cross
- Sexual Assault Support Centre
- Action Against Hunger
- Food4Kids

# 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.



® or ™ denotes a trademark of The Equitable Life Insurance Company of Canada.