

# Participating Policies Frequently Asked Questions (FAQ)



NASSAU

The following FAQ is designed to provide answers to general questions about Nassau Life Insurance Company (formerly Phoenix Life Insurance Company) participating policies and more specific questions about the 2021 policy dividend scales. Most participating policies are in the “closed block,” which was created in conjunction with the company’s demutualization in June 2001. The “open block” contains a small number of participating policies that were purchased after the demutualization. Participating policies in the closed block and open block are managed separately and have their own policy dividend scales.

## 1 What is happening to the policy dividend scales in 2021?

- Nassau Life Insurance Company is changing the policy dividend scale for 2021 for all “closed block” participating policies purchased before our June 2001 demutualization. We are also changing the dividend scale for the small number of participating policies in the “open block” (purchased after demutualization).
- The 2021 scale will incorporate a dividend interest rate reduction of 0.20% across all products, which we are making in response to the current low interest rate environment.
- As a result, most policyholders will see a decrease to the dividend paid in 2021 compared to the dividend paid in 2020. In some cases, growth in the value of their policy may offset the decrease.
- As always, the amount of dividend paid is based on a number of factors including product type, age at issue, length of time the policy has been in force, gender, and health when the policy was issued.
- Some policyholders with direct recognition loan methods will also see a change as their dividends are further adjusted based on their loan balance and the spread between their loan rate and their specific dividend interest rate.
- In addition, a policy’s 2021 dividend will be at least equal to 75% of the 2020 dividend, prior to loan adjustments (known as “pegging”).
- The average dividend interest rate will be 4.60% in 2021, with a policyholder’s actual dividend interest rate subject to specific policy terms.
- Overall, Nassau Life Insurance Company projects it will pay its participating policyholders approximately \$95-105 million in dividends in 2021.

## 2 What is the average dividend interest rate for 2021, and how is it set?

- The average dividend interest rate for 2021 is 4.60%.
  - The policyholder’s actual rate will vary depending on the product type, product series and loan rate basis.

- A portion of the dividend is based on the difference between the dividend interest rate and the guaranteed interest rate, both of which can vary by product and, in some instances, duration.
- It is important to remember that the dividend interest rate is only one factor in the calculation of the dividend paid on any particular policy.

## 3 Can you explain the relationship between the dividend interest rate and the guaranteed interest rate and how this is used in the calculation of the dividend?

- Whole life policies guarantee an increase in cash value that varies by type of policy. The guaranteed interest rate for the policy is a component of the dividend interest rate. Example:

Dividend interest rate	4.60%
Guaranteed interest rate	4.00%
Dividend payment	.60% of the guaranteed cash value adjusted for mortality and other factors

- Note that the 4.60% dividend interest rate and 4.00% guaranteed interest rate are examples and not for specific policy illustration purposes. Actual values vary based on the product type, product series and loan rate basis.
- It is also important to note that dividends are not guaranteed.

## 4 How do Nassau Life Insurance Company’s dividend interest rates compare to other companies?

- We provide the average dividend interest rate as a reference point. It is not a perfect metric to use for comparing companies since companies can have different underlying assumptions. However, it is the only one that is publicly available and can be useful in gauging general industry trends. Each company’s dividend scale calculation is proprietary.

**5 Will all policyholders see a decrease in dividend payments in 2021?**

- Because the 2021 scale will incorporate a dividend interest rate reduction of 0.20% applied across the board, most policyholders will see a decrease to the dividend paid in 2021 compared to the dividend paid in 2020. In some cases, growth in the value of their policy may offset the decrease.
- In addition, a policy's 2021 dividend will be at least equal to 75% of the 2020 dividend, prior to loan adjustments (known as "pegging").
- As always, the amount of dividend paid is based on a number of factors including product type, age at issue, length of time the policy has been in force, gender, and health when the policy was issued.

**6 My 2021 dividend is lower than my 2020 dividend. Will the change happen all at once or be phased in?**

- For some policies, there will be adjustments in 2021 to allow larger decreases to be phased in over multiple years. The base policy unit dividends in 2021 will be at least 75% of their 2020 level, prior to any adjustments for loans. For policies that have dividend changes that result in dividends below this floor, the full impact of the 2021 dividend scale will be applied in future years.
- *(if asked)* To determine whether a specific policy is affected by this adjustment, we will need to run an illustration and conduct an analysis. This is a manual process, so it will take a few weeks to get the information to you.
- *(if asked)* Calculating the 2021 base policy unit dividends based on a 75% floor is a change from prior years, when the floor was 60%. The 75% floor is currently expected to continue to be applied in future years.

**7 Are there any other changes being made in 2021 that will affect policyholders?**

- Yes. The termination dividends will be decreased by 10%.
- The termination dividend is an additional dividend traditionally added to the death benefit payout or when a policy is surrendered or matures. It is not guaranteed under any policies' terms.

**8 Are there any changes to OptionTerm?**

- OptionTerm rates remain unchanged. They have not changed since 2011.

**9 How have the investments inside the closed block been performing?**

- The investment strategy for the closed block reflects the long-term nature of the closed block, so it is focused primarily on intermediate and long-term investment grade bonds including corporate and structured bonds. The prolonged low interest rate environment has reduced yields as we reinvested a portion of the fixed income portfolio each year. The closed block also has a small percentage invested in equity related assets that have performed well in the last several years.

Please contact us at 800-628-1936 with any questions about your clients' policies. You may also find helpful information in the "News" section of our producer website,

[www.salesnet.nsre.com](http://www.salesnet.nsre.com).

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