IE INVESTMENT EXECUTIVE

Participating whole life: What it can and can't accomplish

Advisors should "show a less rosy picture" than the DSIR

By: Greg Meckbach, April 28, 2023

Participating life insurance has investment features and other benefits, but advisors are warning clients that dividends, as well as dividend scale interest rates (DSIRs) published by insurers, are not guarantees.

"All of a sudden, in the last couple years, [par life] has exploded in popularity," said Laurent Munier, partner with Safe Pacific Financial Inc. in Vancouver. Munier has observed growing interest from prospective clients in par life product features, such as the guaranteed cash value and the ability to use a par policy as collateral for a loan, as market volatility has plagued both stocks and bonds.

Current par life DSIRs for Canada Life and Sun Life are 5.25% and 6.25%, respectively, while iA Financial Group and RBC Insurance both offer DSIRs of 6%.

Canada Life announced its DSIR for all open block policies will increase to 5.5%, effective July 1, at a virtual event on Thursday. Andrea Frossard, senior vice-president of par insurance solutions, said the increase was partly because some of the fixed-income assets in the par account matured and were reinvested at higher rates in 2022.

The DSIR — the rate used to calculate the part of the dividend attributable to investment returns — is not the same as the actual dividend. The dividend paid annually could be higher or lower than the investment returns in the participating accounts, because the dividend scale is based on factors other than investment returns, said Jean Salvadore, senior director of life and living benefits with RBC Insurance. These factors could include mortality claims and expenses.

"We treat the dividend scale as kind of a comparison tool between different companies," said David Benamron, executive vice-president of insurance with Botica Financial Group in Montreal. "When they say the dividend scale is 6%, that's not what they're paying [in dividends]," Benamron added. "It's a black box that's proprietary to each insurance company and their actuaries."

While none of these DSIRs are guarantees, Canadian life insurers have a long record of paying dividends on participating life; not paying a dividend would probably cause a life insurer to lose a lot of future business, Munier said.

Nonetheless, "if you're a good advisor, you should show a less rosy picture of the future," Munier said, adding that an advisor should model returns for clients that use a percentage point or two lower than the DSIR.

“There’s a lot of due diligence that needs to be done, but it is still a very good product in terms of what it can accomplish,” Benamron said.

For example, “participating whole life insurance has other guarantees, like the death benefit and the guaranteed cash value and the fact that it’s going to pay out some time in the future when you die,” said Don Plettell, owner of Lethbridge, Alta.-based Plettell Financial & Estate Planning Ltd.

It also provides an opportunity to earn tax-deferred investment growth, Salvadore said.

“Using policy dividends to purchase paid-up additions increases the death benefit amount without resulting in a taxable income,” Salvadore added.

The Office of the Superintendent of Financial Institutions (OSFI) released an updated par life disclosure guideline earlier this year after consultations in 2022, in part because insurers had different ways of interpreting the original guideline released in 2011, an OSFI release said.

For example, while the regulation stipulates that the insurer must describe the par account investment policy, the new 2023 guidance goes on to say OSFI expects the insurer to disclose the different asset classes, credit quality and liquidity quality in a par investment account. OSFI also expects disclosure of the factors that drive the investment policy and the insurer’s approach to derivatives.

Such information can assist an advisor when comparing policies for clients.

Source: https://www.investmentexecutive.com/news/industry-news/participating-whole-life-what-it-can-and-cant-accomplish/