

How to talk to your clients about premium offset

Many clients have questions about premium offset.¹ Some clients receive notices that their policies no longer support premium offset and don't understand what's happened. Others want to know why their premium offset can't start when they thought it could.

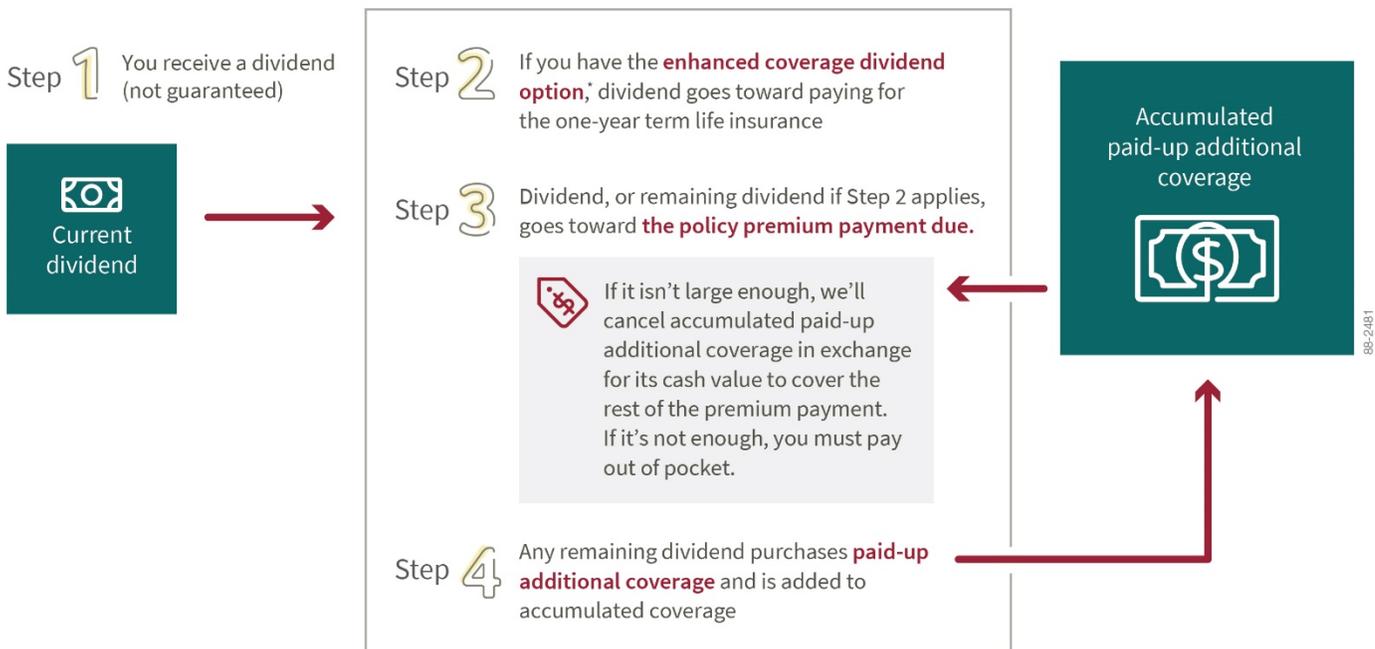
We've created resources to help your clients better understand premium offset and the options they have. This is an advance copy for you. We'll be posting similar content for clients [on our corporate website in May 2021](#). Starting July 1, we'll have wording on client statements, which will direct them to this site.

Client content available on our corporate website in May 2021

What is premium offset?

You agree to make basic premium payments for a specified amount of time (see your contract) when you buy your participating life insurance policy. One advantage of participating life insurance is that you can use dividends (if any) to pay all or part of your premium payments. This is called premium offset.¹

How premium offset works



*Enhanced coverage may also be known as the enhancement dividend option, Econolife dividend option, enhanced coverage option (ECO) or Economatic dividend option.

¹Premium offset is also known as Premium Vacation™ and the abbreviated premium payment option (APPO).

There are three types of premium offset. You select which type is best for you.

- Full premium offset: Your annual premium payment is paid from dividends. The *How premium offset works* graphic focuses on full premium offset.
- Variable premium offset: Apply a percentage (between 5% and 100%) of the current annual dividend toward the premium payment owing.
- Level premium offset: Select a specific dollar amount to pay out of pocket; the balance of premium payments is paid from dividends.

Before your policy can start premium offset

Your current illustrated dividends, and previously accumulated paid-up additional coverage, must be enough to cover the cost of your premium payments for all future years. We use the dividend scale in effect at that time to calculate future illustrated dividends. Dividends aren't guaranteed.

If you have the enhanced coverage² dividend option:

- Your dividend must also cover the cost of one-year term life insurance for the current and future years, using the current dividend scale.
- There may be other rules that affect premium offset start dates. For example, some policies may require that one-year term coverage is gone by age 90 when this coverage becomes very expensive.

These examples are general in nature and meant for illustrative purposes only.

- Example (paid-up additional coverage dividend option):
 - You are in year 10 of a 20-pay policy so you must make basic premium payments for another 10 years.
 - Your annual base premium payment is \$100.
 - If your dividend for any of the remaining 10 years is less than \$100 and accumulated paid-up additional coverage can't cover the difference, your policy can't support premium offset, so you can't start premium offset yet.
- Example (enhanced coverage dividend option):
 - You are in year 10 of a 20-pay policy so you must make premium payments for another 10 years.
 - Your annual base premium payment is \$100.
 - Your policy can't support premium offset if your dividend for any of the remaining 10 years is less than \$100, plus that year's one-year term coverage, and your accumulated paid-up additional coverage can't cover the premium payment difference.

Future dividend scale changes and changes you make to your policy may affect when your policy starts premium offset and how long it stays on premium offset.

² Enhanced coverage may also be known as the enhancement dividend option, Econolife dividend option, enhanced coverage option (ECO) or Economatic dividend option.

Frequently asked questions

Here are some of the most often-asked questions about the premium offset feature for participating life insurance. Please note: names of policy options and features have changed over the years.

- Premium offset is also known as Premium Vacation™ and the abbreviated premium payment option (APPO).
- Enhanced coverage is also known as enhancement dividend option, Econolife dividend option, enhanced coverage option (ECO) and Economatic dividend option.

If you have other questions or are looking for details on your policy, please contact your advisor. If you don't have an advisor, please contact our [Client Service Centre](#) and they'll put you in touch with someone who can help.

I was on premium offset but received a notification telling me I have to pay premiums again	4
• Why did I get this notification?.....	4
• What are my options?	4
• When can I restart premium offset?	4
• How are premium payments made using premium offset?	4
• My dividend is more than my policy's premium this year, so why doesn't my policy support premium offset anymore?.....	5
General questions about premium offset	5
• Is premium offset included with my policy?	5
• Why has my premium offset start date changed?	5
• What is the dividend scale?.....	5
• Why does the dividend scale affect my premium offset?	5
• When can I start premium offset?	6
• My dividend is more than my policy's premium this year, so why can't my policy start premium offset now?.....	6
• I have a policy loan. Can I go on premium offset?	6
• Can I take out a policy loan while on premium offset?	6
• Can I make additional deposits (using the additional deposit option) when I'm on premium offset?	6
• Does additional deposit option (ADO) increase my premium offset flexibility?	6
Whom can I talk to for help?	7
Examples of how premium offset works	8
• With paid-up additional coverage dividend option where premium offset is supported.....	8
• With paid-up additional coverage dividend option where premium offset is not supported.....	8

I was on premium offset but received a notification telling me I have to pay premiums again

Why did I get this notification?

How long your policy can stay on premium offset depends on your policy's values. We can't guarantee how long any policy will stay on (support) premium offset. If your policy no longer supports premium offset, you must pay premiums again. Possible reasons include:

- **Changes to the dividend scale** lowered your policy's dividends so they aren't enough to cover your premium payments.
- **Changes you've made to your policy** (withdrawing cash value or transferring ownership, for example) affected your policy's ability to support premium offset.

What are my options?

- You can pay your premium out-of-pocket now and restart premium offset when your policy's values support it again.
- If you don't pay your premium, we'll automatically take out a premium loan, with interest, against your policy to pay your premium. If this loan and its accumulated interest exceed the cash value of your policy at any time, your policy will end. Any values associated with your policy will be gone.
- Talk to your advisor about other options that may be available:
 - If you're on full premium offset, you may be able to change to variable or level premium offset and pay only a portion of your premium from dividends.
 - If you're on variable or level premium offset, you may be able to decrease the amount of premium to be covered by dividends.
 - If you have the enhanced coverage dividend option, you may be able to:
 - Reduce the amount of your term life insurance coverage, which reduces how much of your dividend goes to pay for term coverage.
 - Change to the paid-up additional coverage dividend option, which uses dividends you've received to buy additional life insurance coverage. This removes the term life insurance coverage costs your dividend pays for and will also lower your overall insurance payout.
 - You may be able to decrease your base coverage to lower your premium payments, but you may have to pay taxes.
 - You can request to change your policy to reduced paid-up. You won't make any more base premium payments but you lower your insurance payout (death benefit). If you do this too soon after buying your coverage, your policy could lose its tax-exempt status, which may mean you'll pay tax on the policy's growth every year after.

When can I restart premium offset?

This is specific to your policy and will depend on future dividends, which aren't guaranteed. For details, please contact your advisor. If you don't have an advisor, please contact our [Client Service Centre](#) and they'll put you in touch with someone who can help.

How are premium payments made using premium offset?

When you bought your policy, you signed a contract, which showed premium payments must be made for a specified amount of time. You still pay those premiums when you're on premium offset but use dividends

earned by your policy to cover those costs instead of paying them out-of-pocket. How long you must pay premiums out-of-pocket again depends on:

- The type of participating life insurance policy you have
- Any changes you make to your policy
- Dividend scale changes

My dividend is more than my policy's premium this year, so why doesn't my policy support premium offset anymore?

- If you have the enhanced coverage dividend option as well as premium offset, your dividend pays for one-year term insurance first, before paying your policy's premium, and there may not be enough left to pay your premium.
- If you have a former Prudential policy (with a policy number that starts with 09F) or a Great-West Life policy issued before 2012, your current policyowner dividend and illustrated future dividends must be high enough to cover current and future premiums. This is based on the current dividend scale which, for illustration purposes, is assumed unchanged into the future. [See page 8 for examples.](#)

General questions about premium offset

Is premium offset included with my policy?

Yes, but it doesn't start automatically. You can request it when there's enough value built up in your policy by contacting your advisor or our [Client Service Centre](#). **Important:** We don't guarantee when a policy will have enough value to start premium offset or how long a policy will support premium offset.

Why has my premium offset start date changed?

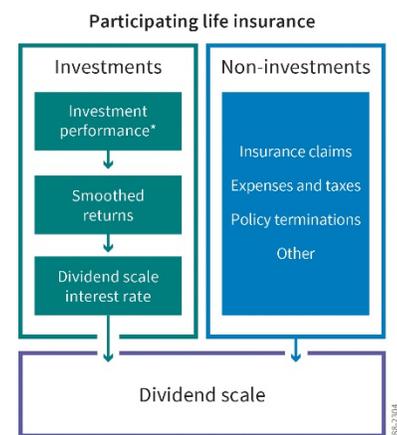
The illustrated premium offset start date is based on the then current dividend scale and your policy details at that time. The illustrated premium offset start date for your policy can change for many reasons, including changes you make to your policy and dividend scale adjustments. We review the dividend scale at least once a year and future dividends aren't guaranteed.

What is the dividend scale?

The dividend scale reflects earnings from the participating account. Investment performance, insurance claims (payouts), expenses and taxes, policy terminations, policyowner withdrawals and policyowner loans are key factors which determine earnings. When earnings exceed what we need to meet guarantees and commitments, policyowners may share (or participate) in these earnings. We may distribute some of these earnings as policyowner dividends, although this isn't guaranteed. We review the dividend scale at least once a year.

Why does the dividend scale affect my premium offset?

Dividends directly affect premium offset. If the dividend scale goes down, your dividends (if any) may not be enough to cover your premium, which means you must pay your premium out-of-pocket. If your dividends go up, you could start premium offset earlier or stay on premium offset longer.



* Performance of assets backing the liabilities of the participating account. Weighting for each of these factors varies over the life of a policy.

When can I start premium offset?

This is specific to your policy and will depend on future dividends, which aren't guaranteed. For details, please contact your advisor. If you don't have an advisor, please contact our [Client Service Centre](#) and they'll put you in touch with someone who can help.

You still pay premiums when you're on premium offset but use any dividends earned by your policy to cover those costs instead of paying them out-of-pocket. How long you're required to pay premiums depends on the type of participating life insurance policy you bought, changes you make to your policy and dividends.

My dividend is more than my policy's premium this year, so why can't my policy start premium offset now?

- Your current illustrated dividends, and previously accumulated paid-up additional coverage, must be enough to cover the cost of your premium payments for all future years. We use the dividend scale in effect at that time to calculate future illustrated dividends.
- If you have the enhanced coverage dividend option as well as premium offset, your dividend pays for one-year term insurance first, before paying your policy's premium and there may not be enough left to pay your premium.
- If you have a former Prudential policy (with a policy # that starts with 09F) or a Great-West Life policy issued before 2012, your current policyowner dividend and illustrated future dividends must be high enough to cover current and future premiums, based on the dividend scale at that time. [See page 8 for examples.](#)

Why are premium offset dates different between policies?

If we distribute participating policyowner dividends, we divide them among groups of policies with common attributes including: the year a policy was issued; the smoking status, sex and issue age of the insured person. This means some policies that seem similar may receive different dividends. Since dividends have a direct impact on premium offset, two policies that receive different dividends may have different premium offset dates.

I have a policy loan. Can I go on premium offset?

Yes, if you have a Canada Life, Great-West Life or former Prudential policy, or if you have a London Life policy and your policy was issued on or after Jan. 1, 2017. However, if you have a policy issued by London Life before Jan. 1, 2017, you need to repay your policy loan and any accumulated interest before you can go on premium offset.

Can I take out a policy loan while on premium offset?

Yes, if you have a Canada Life, Great-West Life or former Prudential policy, or if you have a London Life policy and your policy was issued on or after Jan. 1, 2017. However, if you have a policy issued by London Life before Jan. 1, 2017, you can't take out a policy loan while on premium offset.

Can I make additional deposits (using the additional deposit option) when I'm on premium offset?

No. To make additional deposits, you must stop premium offset.

Does additional deposit option (ADO) increase my premium offset flexibility?

ADO increases premium payment flexibility because additional deposit payments buy paid-up additional insurance coverage. If you don't receive enough policyowner dividends to cover your policy's premium

payment when your policy is on premium offset, we'll cancel some (or all) of your available accumulated paid-up additional coverage (which ADO helps build), in exchange for its cash value. We'll use this cash value to cover the rest of the premium payment.

ADO can increase your premium offset flexibility by potentially:

- Moving up the date when you can start premium offset
- Allowing you to stay on premium offset longer
- Make your policy's premium offset start date (or staying on premium offset) less sensitive to dividend scale changes

Whom can I talk to for help?

For details on your policy, contact your advisor. If you don't have an advisor, please contact our [Client Service Centre](#) and they'll put you in touch with someone who can help.

Examples of how premium offset works

In these fictitious scenarios, the client:

- Bought a 20-pay policy 15 years ago
- Has made 15 of their 20 annual premium payments
- Has five more annual premium payments to make
- Accumulated paid-up additional coverage cash value - \$60

The client's policy year 16 payment is due. Future year dividend values are illustrated for policy years 17 to 20.

Examples are for illustrative purposes only.

With paid-up additional coverage dividend option where premium offset is supported

Policy year	16	17	18	19	20
Premium owing	\$100	\$100	\$100	\$100	\$100
Dividend (using the current dividend scale)	\$90	\$100	\$110	\$115	\$130
Cash value needed from accumulated paid-up additional coverage	\$10	\$0	\$0	\$0	\$0
Leftover dividend to purchase paid-up additional coverage	\$0	\$0	\$10	\$15	\$30
Accumulated paid-up additional coverage cash value	\$50	\$50	\$60	\$75	\$105

With paid-up additional coverage dividend option where premium offset is not supported

Policy year	16	17	18	19	20
Premium owing	\$100	\$100	\$100	\$100	\$100
Dividend (using the current dividend scale)	\$70	\$75	\$80	\$85	\$100
Cash value needed from accumulated paid-up additional coverage	\$30	\$25	\$20*	-	-
Leftover dividend to purchase paid-up additional coverage	\$0	\$0	-	-	-
Accumulated paid-up additional coverage cash value	\$30	\$5	-	-	-

*Client will have \$5 in accumulated dividend left at the end of policy year 17 which isn't enough (with the dividend) to pay the \$100 premium due for policy year 18, so premium offset is no longer supportable.