Below are the 2017 dividend interest rates (DIR) for the more prominent life insurance carriers, most of which are mutual insurers, that sell or manage whole life policies. Many carriers have substantially reduced their DIR for 2017. Below is a comparison of the DIRs over the past 10 years:

CARRIER	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2016-17 CHANGE
NORTHWESTERN MUTUAL[1]	7.50	6.50	6.15	6.00	5.85	5.60	5.60	5.60	5.45	5.00	-0.45
MASSMUTUAL	7.90	7.45	6.85	6.80	7.00	7.00	7.10	7.10	7.10	6.70	-0.40
METLIFE	6.25	6.00	5.50	5.00	5.50	5.25	5.10	5.10	5.00	4.70	-0.30
OHIO NATIONAL	6.65	6.40	6.40	6.15	6.15	6.00	6.00	6.00	6.00	5.75	-0.25
GUARDIAN	7.25	7.30	7.00	6.85	6.95	6.65	6.25	6.05	6.05	5.85	-0.20
PENN MUTUAL	6.50	6.34	6.34	6.34	6.34	6.34	6.34	6.34	6.34	6.34	None
NEW YORK LIFE	6.79	6.14	6.11	6.11	5.80	5.90	6.00	6.20	6.20	6.20	None
NATIONAL LIFE OF VT	6.25	6.25	6.25	6.25	6.00	5.75	5.75	5.75	5.75	5.75	None

[1]Northwestern Mutual also reportedly increased the administrative expenses component of its 2017 dividend scale, further reducing its dividend.

The DIR generally and primarily represents the investment earnings component of the dividend calculation, which is explained further below. Investment earnings are highly correlated to the overall interest rate environment since carriers invest the majority of their assets in fixed income investments, such as corporate and government bonds, mortgages, etc. As interest rates have fallen, so have carrier investment earnings and, as a result, whole life dividends.

Impact of Dividend Changes on Whole Life Policy Performance

To offer premiums, cash values and death benefits that are guaranteed, whole Life policies are priced very conservatively at issue (i.e. "overpriced") relative to the carrier's actual experience for mortality, investment earnings and administrative expenses. Actual experience in these areas that is better than the original pricing assumptions results in surplus, a portion of which is paid to participating whole life policy owners in the form of an annual dividend. In other words, dividends allow policy owners to share in the surplus created by favorable experience based on each policy's proportional contribution to that surplus. Dividends are subject to change at the carrier's discretion.

Whole life policy owners can elect to receive dividends in cash or use them to reduce premiums, buy additional paid-up insurance, repay policy loans or pay loan interest. Dividends could also be accumulated in a taxable side account with interest. Since whole life policies are commonly illustrated based on current (non-guaranteed) dividends at the point of issue, dividends typically end up being a key motivation in the buying decision; creating cash value, death benefit and/or net payment expectations that are more attractive or cost-efficient than the expensive base guaranteed values.

Relative to what was originally projected and expected at issue, reduced dividends may have the effect of:

- Lower realized cash values;
- Lower realized death benefits; and/or
- Higher out of pocket cost.

Accordingly, just like any life insurance policy projected based on non-guaranteed assumptions, it's important to monitor performance over time and adjust as necessary to help ensure the policy owner's goals are met and avoid any potential adverse consequences associated with policy underperformance.

How Dividends are Calculated

As mentioned, the DIR generally represents the investment earnings of the overall dividend scale formula. The dividend amount for any given year can generically be thought of as the dividend interest rate, multiplied by the policy value, minus (or plus) an amount for mortality and administrative expense experience, minus the built-in guaranteed policy value growth.

The application of the dividend formula can vary widely from carrier to carrier. For example, some may or may not explicitly deduct expenses for mortality and admin, or may deduct them before or after the DIR is applied. Some carriers may build the mortality component into the DIR as opposed to distinguishing between the two. Some policies may have multiple guaranteed interest rates, one for policy cash surrender value and another for policy reserves. The actual method for determining the amount of "policy value" that is used as consideration for the dividend calculation may vary as well, such as policy reserve, policy cash surrender value, year-end policy value, mid-year value, etc.

Because of these inconsistencies, the reliability of the DIR for drawing comparative conclusions is limited and relying solely on it as a means by which to determine the competitiveness of one policy vs. another can be misleading. Some individuals also unknowingly assume that the DIR represents a total "cash on cash" credit to their policy which is a mistaken assumption since it is only one part of an overall formula, as described above.

Here is an example of a dividend calculation from Northwestern Mutual, specifically, from its website[2]:

Guaranteed Cash Value (beginning of year 26)	**$**	**66,528**
Gross Annual Premium	**+**	**1,579**
Mortality & Expense Charge (based on actual company experience)	**–**	**372**
Balance (policy value @ beginning of year)	**$**	**67,735**
Interest Credit (based on actual company experience, equal to the 2017 dividend scale)	**+**	**3,387**
Policy Value (end of year)	**$**	**71,122**
Guaranteed Cash Value (end of current year)	**–**	**69,357**
Dividend (for current policy year)	**$**	**1,765**

[2]*Note that dividend calculations vary by carrier and this example should not be construed as representative of all carriers.*

It's important to underscore that in addition to investment earnings, the actual amount of the dividend can be affected by positive or negative experience in mortality and administrative expenses. For example, for its 2017 dividend scale, Northwestern Mutual increased the administrative expenses component of the formula which reduces the actual cash dividend credited. Therefore, contrary to popular misunderstanding, whole life policy performance can actually be sensitive to non-guaranteed factors beyond investment earnings and that can be adjusted by the carrier at its discretion, as illustrated in the above example.

As mentioned, it is imperative to monitor whole life policies on a regular basis to ensure adequacy of performance relative to policy owner goals. If you have clients that own a whole life policy, now may be a good time to have it professionally reviewed.