

EMPIRE LIFE INFORMATION CIRCULAR

DATE: December 2, 2013
CATEGORY: INSURANCE
TO: Managing General Agents, Associate General Agents, Advisors,
General Agents, Independent Financial Advisors and National Accounts
SUBJECT: **One-time "thank you" to early supporters of Hybrid Life Insurance**

Nº. 2013-30

Since the launch of Hybrid Solution 100, we have seen signs in the market that long term interest rates are set to rise in Canada. With all indicators pointing to a change in the Interest Rate Range for 2014, we have a unique opportunity to give special thanks to our clients who saw the value in owning this unique product from Empire Life.

As previously announced, starting December 2, 2013 we will be selling Hybrid Solution 100 at the 3.00% to 3.99% Interest Rate Range. This change will also apply to Hybrid Solution 100 policies issued prior to December 2, 2013. This change does not affect the contractual interest rate review for Hybrid Solution 100 that will occur in January 2014.

As a one-time thank you to early supporters of Hybrid Solution 100, Empire Life has decided to apply this change retroactively to the effective date of all Hybrid Solution 100 plans issued prior to December 2, 2013. Customers owning these plans will receive a credit equal to the difference in the premiums paid based on the 2% range and the premiums that would have been paid based on the 3% range as stated in their contract. The amount of this credit will be deducted from the premium payable on their next billing cycle. Premiums going forward will be based on the 3% Interest Rate Range subject to the interest rate review to occur each year as set out in the contract.

Attached is a FAQ that will help provide a better understanding of these changes and our process to implement them.

Reference **Cameron Walker**, Manager, Product Development, Retail Insurance

FAQ

When will the premium change for inforce policies?

For most inforce Hybrid Solution 100 policies, the new lower premium will be applied on the next premium billing cycle after a manual change is made to the policy premium. This change should occur sometime later in December 2013 or early January 2014. In order to provide timely notice of the change and the applicable credit, some policies that are billed monthly will have the premium adjusted in the January billing cycle. Policies that are billed annually will have the credit applied to the Premiums on Deposit fund and the credit plus interest will be applied to the premium on the next premium due date.

How are you handling policies that were issued prior to December 2, 2013 but not yet settled?

Policies issued but not settled prior to December 2, 2013 will have the premium adjusted at the time of settlement and a credit will be applied to the policy for premiums paid based on the 2% Interest Rate Range. The advisor will be paid commissions based on the premium amount associated with the 2% Interest Rate Range if the policy is settled prior to January 30, 2014.

What about policies issued on or after December 2, 2013?

Any policies issued on or after December 2, 2013 will have the premium adjusted to the new Interest Rate Range and commissions will be paid based on the lower premium.

How will the credit be applied?

The premium credit for Hybrid Solution 100 plans issued prior to December 2, 2013 will be applied on the next premium billing cycle after a yet to be determined date in late December 2013 or early January 2014. After that date, the credit will be applied to the premium payable on the next premium due date. For example, if the date we select is December 15; the following scenario would apply:

- Policy issued May 4, 2013 and premium deducted on the 1st of each month, the credit will be applied on January 1, 2014. If there is any remaining credit, it will be applied against the February 1, 2014 premium.
- If that same policy was paid annually, then the entire amount of the credit will be deducted from the premium payable on the May 4, 2014 billing statement. Remember, the premium payable on May 4, 2014 will be based on the interest rate review process that will still happen in January 2014.

Can the credit be refunded directly to the client?

No. To keep things simple and straight-forward, we will apply all credits on the next billing cycle for all our customers.

Can the coverage amount be automatically increased to match the old premium?

No. Any request to increase the initial face amount in order to maintain the old premium would have to go through underwriting and normal change request processes.

Does this retroactive change for inforce policies impact the first year commission paid at the higher 2% Interest Rate Range?

No. We will not claw back any commission as a result of this change. We believe the hard work and effort our Advisors made in promoting Hybrid Solution 100 should not be negatively affected by this one-time benefit to our customers. Renewal commission will continue to be based on the premium in effect at each policy anniversary.

What will happen to the non-guaranteed policy values now that the Interest Rate Range has changed?

No changes to current policy values are being made in conjunction with this premium change. While long-term interest rates do influence how we determine projected policy values, our overall long-term view has not changed at this time. Policy values are subject to the normal review process set out in the policy.

Does this change to the Interest Rate Range mean that there will be no change in 2014?

No. There will still be an annual interest rate review in 2014 as provided in the policy which could result in a change to the Interest Rate Range.

When will a communication be sent to clients informing them of this change?

The plan is to apply the changes first, then send out a letter outlining the following:

- Policy premium amount before the change
- Policy premium amount after the change
- Amount of the credit and how it is applied
- Amount of reduced premium payable on the next billing cycle

We will also include a note indicating that current projected values have not changed and the annual interest rate review provided in the contract will still occur in 2014.