

EMPIRE LIFE INFORMATION CIRCULAR

DATE: June 25, 2012

CATEGORY: INSURANCE

TO: Managing General Agents, Associate General Agents, Brokers,
General Agents, Independent Financial Advisors and National Accounts

SUBJECT: **New Dividend Scale for Optimax Rate Series 1, 2 and 3**

Nº. 2012-16

Effective October 1, 2012 we will be decreasing the dividend scale on certain Series of Optimax policies. Please note these changes do not affect policies known as Optimax III or the current version of Optimax.

When we establish premium rates for a participating plan, we project the amount we expect to distribute to policyholders as future dividends. From time to time, we may need to adjust the dividend scale when certain factors change, such as mortality expectations or trends on investment returns of the participating account.

Lower interest rates have resulted in lower returns and we now find it necessary to decrease the dividend scale for the first three Series of Optimax policies. These dividend decreases will start with dividends declared on or after October 1st, 2012. Decreases tend to vary by issue age with larger reductions at the mid-to-lower issue ages. The decreases also vary by Rate Series.

The dividends on participating bonus additions, (also referred to as paid-up additions), available on the second and third Rate Series of Optimax, will also be decreased at this time. These dividends were particularly sensitive to the interest rate changes and will be reduced 25% from their current scale.

Average Decrease The following chart shows the average percentage the dividends will be decreased and range of decreases being applied.

Coverage	Issue Dates	Average Dividend Decrease (base coverage)	Range of Dividend Decreases (base coverage)	Bonus Addition Dividend Decrease
Rate Series 1	January 1988 - January 1990	2.4%	0% to 5.0%	Not applicable
Rate Series 2	January 1990 - July 1996	4.3%	0% to 9.1%	25%
Rate Series 3 (also known as Optimax II)	July 1996 - June 2003	10.8%	0% to 15.0%	25%

Customer notification We will stagger notification to customers over the course of the next 12 months. The first customer letters will go out starting September 1, 2012. Customers will receive the following for each affected coverage :

1. A letter sent one month before their coverage anniversary advising them their dividend will decrease with an accompanying information piece
2. Their dividend notice or statement on their coverage anniversary for the affected Optimax coverage

Note that policyowners with two or more affected coverages issued on different dates will receive more than one notice in the 12-month period.

Advisor notification Advisors who have customers affected by these dividend scale reductions will receive a letter and customer list with policy details. With this package will be copies of the customer letter and information piece, which will also be available on our advisor website for reference.

Impact on customers This reduction in the dividend scale will impact the future values of the policy. How this impacts the coverage amounts and policy values will depend on the dividend options the customer chose and the policy status. Here are some examples of how this will affect the policy:

- Policy values and death benefits directly linked to dividends, (e.g. dividends on deposit, dividends directed to investment options, Bonus Additions), will be reduced by the dividend decrease.
- Extender coverage will potentially be affected by the reductions as lower dividends affect the amount of Extender coverage which can be supported.
- Premium Offsets will potentially be affected as lower dividends may require additional premium requirements if the revised dividends are no longer sufficient to completely support the planned offset.

It is important to note that any guaranteed benefits provided for in the policy contract will not change.

It is also important to assure your customers that periodic adjustments of dividend scales, both increases and decreases, are a normal process in the life insurance industry and their policy remains a valuable part of their financial plan.

Illustration requests An extremely useful tool to see how the dividend change affects a specific policy is an inforce illustration. To request a projected value illustration, email optividends@empire.ca. If you have any questions, please contact our Customer Service Team at 1 800 561-1268. In Quebec, you can reach us at 1 800 371-9151. We also encourage you to share the brochure, "Looking at Long-Term Value" (E-0100) which highlights the value of dividends.

Reference **Steve MacCharles**, FSA, FCIA, Vice-President and Product Actuary, Product Actuarial