

UNDERSTANDING PARTICIPATING WHOLE LIFE INSURANCE

CLIENT GUIDE



equimax

ABOUT EQUITABLE LIFE OF CANADA



To learn more
about Equitable Life
and our financial
strength, visit
[www.equitable.ca/
en/who-we-are](http://www.equitable.ca/en/who-we-are)

Equitable Life® is one of Canada's largest mutual life insurance companies. For generations we've provided policyholders with sound financial protection, and we look forward to continuing to deliver long-term financial value. We're focused on the needs of our clients and pride ourselves on the breadth and quality of our financial and insurance products and on our premier client service.

The mutual structure of our company means that our participating policyholders are owners with voting rights on company issues. With no shareholders imposing undue emphasis on short-term earnings, Equitable Life always operates in the best interest of our policyholders.

Equitable Life is a focused, stable and strong company. We have sufficient earnings and capital to meet our future growth targets, and we continue to grow steadily. Our growth in sales has been driven by our ability to implement our strategic plan, placing a priority on products, service and execution. Our financial success reflects our continued commitment to profitable growth and our ability to navigate a changing regulatory and economic environment.

Our mutual structure is a key element of our value proposition, along with our diversified product portfolio and superior service. As an organization we're progressive, competitive and firmly committed to serving the best interests of our policyholders, through longer-term strategies that foster ongoing stability, growth and profitability.



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ABOUT THIS GUIDE

This guide provides information to help you understand Equimax® participating whole life insurance, including some key financial facts about the management, performance and strength of Equitable Life's participating account, how dividends are calculated and how they impact your policy. While Equitable Life has made every effort to ensure the accuracy of the information presented here, the policy contract governs in all cases.



WHAT IT MEANS TO OWN A PARTICIPATING WHOLE LIFE POLICY

Life insurance is a contract between a policy owner and an insurer. When the life insured dies, a sum of money is paid to the named beneficiary.

When you purchase an Equimax participating whole life insurance policy, you benefit from a guaranteed death benefit, cash values and premiums. Those premiums cover benefits and expenses, as well as a contribution to the company's surplus. The remainder flows into the participating account and is invested. Your share of the earnings in the account is annually credited to your policy as a dividend payment.¹

We manage the participating account to ensure there is enough money to meet product guarantees and pay claims and expenses, today and in the future. Each year the company's Board of Directors determines the amount of the dividend payment to its participating policyholders based on the guidelines in Equitable Life's dividend policy.²

We have credited dividends¹ every year since we first launched participating whole life in 1936.

HOW DIVIDENDS ARE CALCULATED

To calculate the dividend,¹ we look at a number of factors. The participating account is mainly impacted by returns earned on investments and by death benefits, but also other factors such as policy loans, terminated policies, taxes and expenses. Improvements in some of the factors can help to offset declines in others. For example, improvements in mortality (death claims paid) can help offset the impact of declining interest rates on investment performance.

Investment performance

Investment performance is based on the actual rate of return Equitable Life earns on the participating account. The rate of return goes up and down based on the economy.

Policy loans also contribute to the returns in the participating account and this impact depends on the loan interest rate. The policy loan rates vary by policy series. The current series has a loan rate of 6.85%.

The dividend scale interest rate looks at the returns from investments, excluding policy loans, and smooths out the ups and downs. This rate is blended with the policy loan rate to arrive at the dividend scale interest factor for that series. When this rate of return is higher than expected, impact on dividends is positive. When the rate is lower than expected, impact on dividends is negative.

Mortality and lapse experience

Death claims as well as lapsed policies can impact dividends either positively or negatively depending on the actual experience versus the estimates used for product pricing.

Lapsed policies are those no longer in effect for any reason other than a death claim.

Taxes and expenses

Dividend calculations also consider the difference between the estimated and actual taxes and expenses required to administer the participating block of policies. Change in the taxes and expenses can have a positive or negative impact on dividends.

Tax and expense experience are generally a small factor of the total dividend compared to the investment and mortality experience.

There is a contribution to surplus from the participating account. Income is reinvested to further growth and development. This approach ensures Equitable Life maintains a strong capital base, benefitting both the company and participating policyholders. Our current and projected capital and surplus position is considered in the dividend scale setting process. To learn more about our dividend policy, please visit www.equitable.ca/go/dividend_policy



A CLOSER LOOK AT THE PARTICIPATING ACCOUNT

Investment mandate of the participating account

The assets in the participating account are managed to:

1. Meet the guarantees of the product; and
2. Provide long-term income and growth to support the dividend scale.

Equitable Asset Management Group

Equitable Asset Management Group (EAMG) is the investment division of The Equitable Life Insurance Company of Canada. Equitable Life's investment assets have been managed internally by EAMG since the company was established in 1920. Our asset management expertise has contributed to our continued financial strength for nearly 100 years.

An important aspect of how we manage client capital is to pursue an active approach to investment management, which is facilitated in part by our size and portfolio construct. We maintain flexibility through consideration of both short- and long-term investment opportunities. The result is dynamic and adaptive public asset portfolios that can be adjusted to take advantage of market conditions, combined with the private asset portfolio which provides diversification.

In addition to a focus on prudent investment strategies and risk management, we are guided by the same values of integrity, accountability, knowledgeable staff and superior service that are synonymous with Equitable Life.

To learn more about our investment approach, please visit www.equitable.ca/en/our-products/investment-management/our-approach.

Management approach and strength

We follow a top-down approach to managing the participating account. This begins with an intensive, continual review of economic trends and how financial markets will behave across different economic environments. The top-down approach involves looking at the economic and political environment and determining the impact to financial markets in general, then moving more specifically to industry sectors and specific companies for potential investment.

Investing 101

Asset allocation

This is the process of determining which asset classes (bonds, private placements, mortgages, real estate, common and preferred equity) to invest in and in what proportions. Each asset class has a different level of risk and return, and reacts differently to market conditions. Investing in different asset classes provides diversification. The asset allocation decision adds the most value in the investment process.

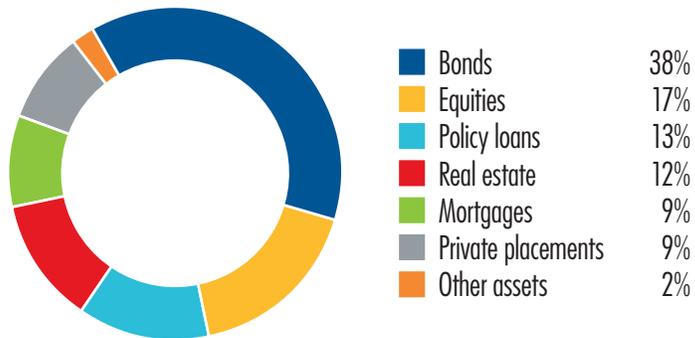
Diversification

In simple terms, this can be described as making sure that all of your eggs are not in one basket. Diversification is a method of managing investment risks using a broad range of investments within a portfolio. Diversification can be achieved on many levels including asset class, geographic exposure, industry sector, and individual company exposure.

HOW PARTICIPATING PREMIUMS ARE INVESTED

The amount of premium that is not required to pay for current benefits and expenses is invested in the participating account to provide for future benefits.

Participating account portfolio – asset classes
(As of December 31, 2017)



Looking for quarterly updates and commentary on the participating account? Visit www.equitable.ca

Participating account portfolio – details
(As of December 31, 2017)

	Total Assets (in thousands)	Investment guidelines	Percentage
Short-term			
Cash and equivalents	\$ –		0%
<i>Total short-term</i>	\$ –		0%
Fixed income			
Government bonds	\$ 71,136	0 - 25%	15%
Corporate bonds	\$ 109,987	5% - 35%	23%
Private placements	\$ 43,208	0 - 20%	9%
Commercial mortgages	\$ 41,997	6% - 26%	9%
<i>Total fixed income</i>	\$ 266,328		56%
Non-fixed income			
Real estate	\$ 57,748	8% - 25%	12%
Common equity	\$ 54,041	5% - 18%	12%
Preferred equity	\$ 22,601	0 - 10%	5%
<i>Total non-fixed income</i>	\$ 134,390		29%
Total invested assets	\$ 400,718		85%
Policy loans	\$ 62,016		13%
Other assets	\$ 9,406		2%
Total participating assets	\$ 472,140		100%

INVESTING FOR OPTIMUM PERFORMANCE OF THE PARTICIPATING ACCOUNT

Asset quality and diversification are critical

Although asset allocation has historically added the largest proportion of value to fund management, selecting high quality securities remains critical.

Our experienced asset managers conduct a thorough analysis on all fixed income assets. Securities purchased are primarily investment grade.

Diversification is also achieved by:

- investing in a variety of maturities for the fixed income portfolio,
- limiting concentration to industry sectors and issuers,
- geographic distribution of the equity portfolio.

Investments by quality	
Rating	Percentage
AAA (high credit quality)	15%
AA (high credit quality)	26%
A (medium credit quality)	47%
BBB (medium credit quality)	12%
BB or less (low credit quality)	0%
Total	100%

As of December 31, 2017 for publicly rated, fixed income securities.

Asset classes

Bonds

The bond portfolio is invested primarily in Canadian securities with a mix of government and corporate issuers. The bond portfolio is investment grade with a focus on ensuring sufficient assets to meet the guarantees.

Private placements

Private placements consist of debt investments offered to sophisticated and qualified buyers. Private placements generally lack a secondary market and provide enhanced yields to compensate. Equitable Life's investment grade private placement portfolio is diversified by industry.

Real estate and commercial mortgages

Real estate and commercial mortgage investments are exclusively Canadian and concentrated in major metropolitan areas.

Equities

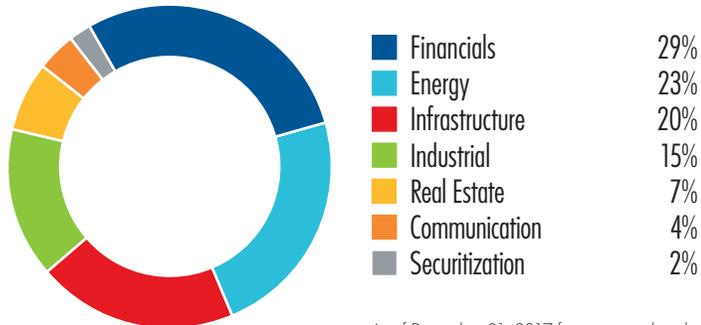
Common equity investment allocations are broad based North American exposures.

Preferred equity investments offer attractive yields relative to fixed income securities, but with more stable cash flows than common equities. Only Canadian issuers are considered for investment in the preferred equity portfolio.

Investment grade securities

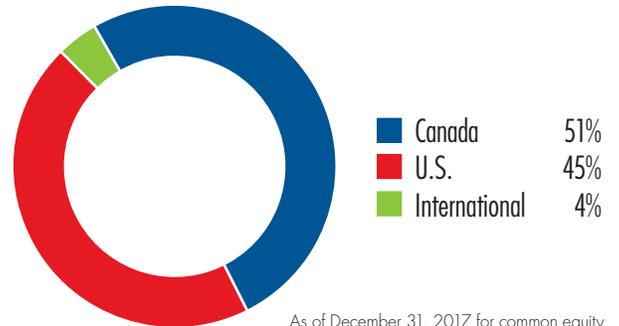
Investment grade securities are assets with a rating of BBB or higher (A/AA/AAA). The rating communicates a probability of the investment defaulting, and is usually provided by a recognized rating company. Investment grade securities have a very low probability of default, an AAA security having the lowest risk.

Investments by sector



As of December 31, 2017 for corporate bonds.

Geographic distribution of equities



As of December 31, 2017 for common equity.

Investments by term		
Years to maturity	\$ Thousands	Percentage
0 to 5 years	\$ 80,328	30%
5 to 10 years	\$ 66,986	25%
Over 10 years	\$ 119,014	45%
Total	\$ 266,328	100%

As of December 31, 2017 for fixed income securities.

THE PARTICIPATING ACCOUNT RATE OF RETURN

The participating account rate of return is the return earned on the assets held in the account in a given calendar year. It's a short-term indicator of investment performance.

The rate of return goes up and down based on the economy. Common stock and real estate returns are valued on a marked-to-market basis and are not smoothed. Bonds are assumed to be held to maturity. Equity markets and corporate defaults also affect the participating account rate of return.

During periods of high interest rates, the rate of return of the participating account tends to increase. During periods of low interest rates, the rate of return tends to decrease. There is frequently a timing difference. This results in less overall fluctuation in the rate of return on the participating account compared to assets in these markets and changes in the interest rate environment.

The following table shows the participating account rate of return over the past few years. The returns are net of investment expenses and include returns from policy loans.

Participating account rate of return									
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
4.9%	8.6%	7.8%	6.0%	7.3%	8.5%	8.3%	4.0%	7.2%	6.9%

Rates of return as of December 31 each year.

THE DIVIDEND SCALE INTEREST RATE

The dividend scale interest rate is just one factor used to determine the dividends paid in a participating policy.

It is not the same as the participating account rate of return.

The dividend scale interest rate smooths out the ups and downs experienced by the participating account. The dividend scale interest rate does not include policy loans.

Current dividend scale interest rate: 6.35%

**Effective for the period of
July 1, 2018 to June 30, 2019.**

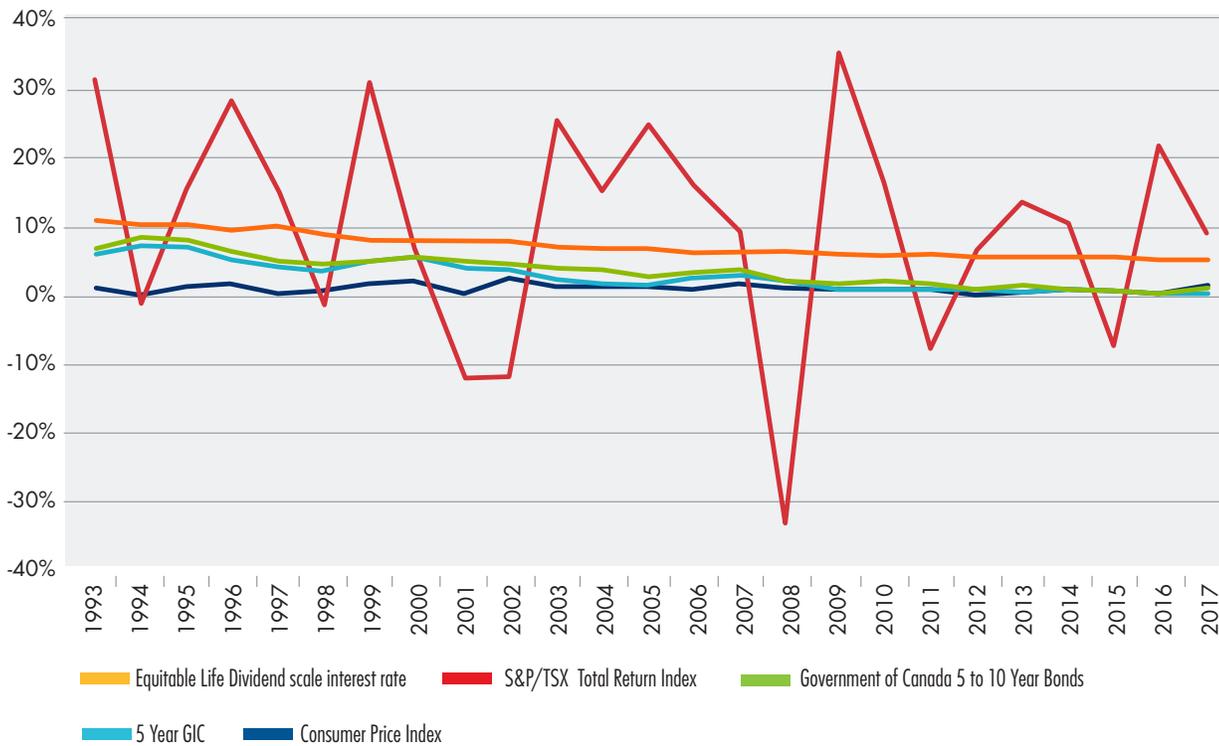
The following table shows Equitable Life's historical dividend scale interest rates compared to other well-known economic indicators.³

Year	Equitable Life dividend scale interest rate	S&P/TSX Total return Index	Government of Canada 5 to 10 Year Bonds	5 Year GIC	Consumer Price Index
1993	10.7 %	32.5 %	7.2 %	6.4 %	1.7 %
1994	10.2 %	-0.2 %	8.3 %	7.4 %	0.2 %
1995	10.2 %	14.5 %	7.9 %	7.1 %	1.8 %
1996	9.6 %	28.3 %	6.9 %	5.6 %	2.2 %
1997	10.0 %	15.0 %	5.9 %	4.7 %	0.8 %
1998	9.1 %	-1.6 %	5.3 %	4.4 %	1.0 %
1999	8.8 %	31.7 %	5.6 %	4.8 %	2.6 %
2000	8.8 %	7.4 %	6.0 %	5.3 %	3.2 %
2001	8.8 %	-12.6 %	5.3 %	4.0 %	0.7 %
2002	8.8 %	-12.4 %	5.1 %	3.9 %	3.8 %
2003	8.4 %	26.7 %	4.5 %	3.1 %	2.1 %
2004	8.2 %	14.5 %	4.3 %	2.9 %	2.1 %
2005	8.2 %	24.1 %	3.9 %	2.7 %	2.1 %
2006	7.9 %	17.3 %	4.2 %	3.2 %	1.7 %
2007	7.9 %	9.8 %	4.3 %	3.3 %	2.4 %
2008	7.9 %	-33.0 %	3.4 %	3.0 %	1.2 %
2009	7.4 %	35.1 %	2.8 %	2.0 %	1.3 %
2010	7.1 %	17.6 %	2.9 %	2.0 %	2.4 %
2011	7.1 %	-8.7 %	2.5 %	1.9 %	2.3 %
2012	6.8 %	7.2 %	1.6 %	1.7 %	0.8 %
2013	6.8 %	13.0 %	2.0 %	1.6 %	1.2 %
2014	6.8 %	10.6 %	1.9 %	1.9 %	1.5 %
2015	6.8 %	-8.3 %	1.2 %	1.5 %	1.6 %
2016	6.5 %	21.1 %	1.0 %	1.4 %	1.5 %
2017	6.5 %	9.1 %	1.6 %	1.4 %	1.9 %
Average annualized returns					
1 year	6.5 %	9.1 %	1.6 %	1.4 %	1.9 %
3 years	6.6 %	6.6 %	1.3 %	1.4 %	1.7 %
5 years	6.7 %	8.6 %	1.5 %	1.6 %	1.5 %
10 years	7.0 %	4.6 %	2.1 %	1.8 %	1.6 %
20 years	7.7 %	7.0 %	3.4 %	2.8 %	1.9 %
25 years	8.2 %	9.0 %	4.2 %	3.5 %	1.8 %
Standard deviation since 1993	1.3 %	16.5 %	2.1 %	1.8 %	0.8 %

The average returns are calculated using the geometric mean. Data as of December 31 each year except for dividend scale interest rate which is as of July 1 each year.

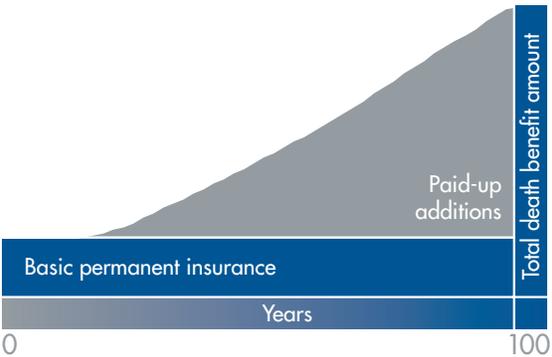
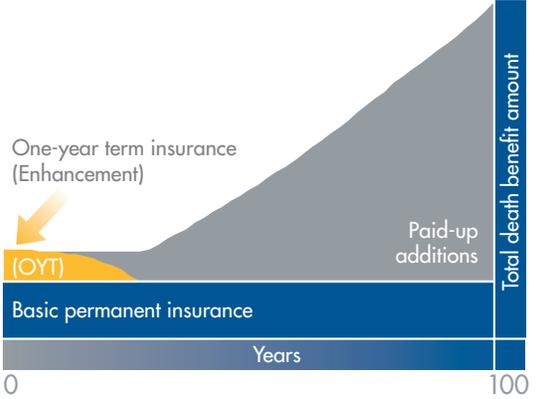
HOW THE DIVIDEND SCALE RESPONDS TO MARKET CONDITIONS

The following chart shows Equitable Life’s historical dividend scale interest rates compared to other well-known economic indicators.³



HOW DIVIDENDS IMPACT YOUR POLICY

Equimax participating whole life insurance policies are eligible to receive annual dividends through a variety of dividend options including paid-up additions and enhanced protection.

Dividend option	How it works...
Paid-up additions	<p>Dividends¹ are used to purchase participating paid-up additional insurance.</p> 
Enhanced protection	<p>The policy begins with a combination of basic permanent insurance and yearly renewable one-year term insurance (called the enhancement). Dividends¹ are used first to pay for the one-year term insurance with any excess used to purchase participating paid-up additional insurance. Any new paid-up additional insurance automatically replaces part of the one-year term insurance. Once all of the original one-year term insurance has been replaced by paid-up additional insurance, the dividend conversion point is reached. At that point, all future dividends are used to purchase additional paid-up additional insurance.</p> 

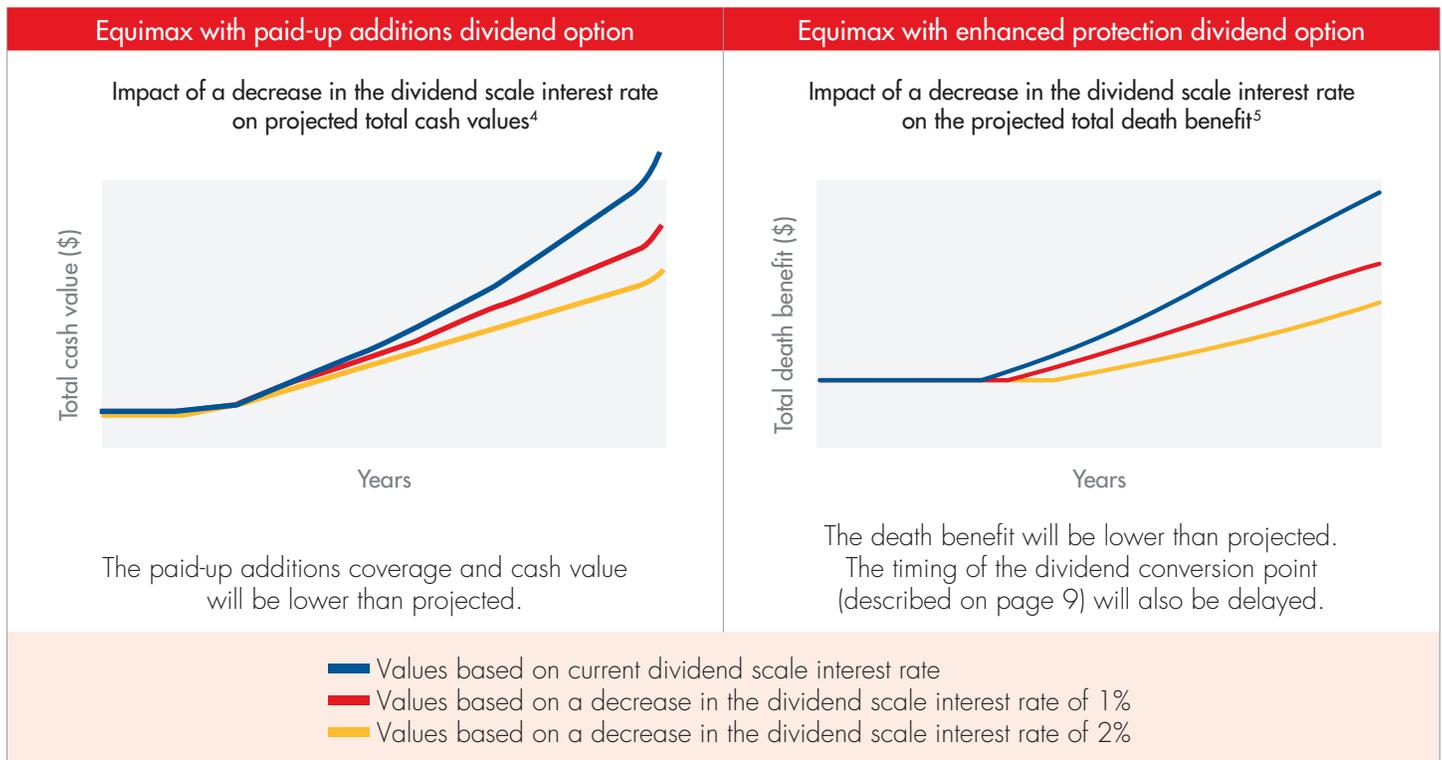
More information about Equimax and the dividend options available can be found in the [Equimax Client Guide \(1129\)](#).

HOW A DIVIDEND SCALE CHANGE IMPACTS YOUR POLICY

A change in the dividend scale can affect your policy, particularly if you selected the paid-up additions or enhanced protection dividend options in which you are relying on dividends to increase the cash value or the death benefit of the policy.

The sales illustration provided by your insurance advisor when you buy your policy projects the cash values and death benefit amounts into the future. Those projections assume continuation of the current dividend scale. Two additional projections are included in the sales illustration to show the impact a change in dividend scale interest rate can have on your policy. While fluctuations in dividends will not impact guaranteed cash values or guaranteed death benefit amounts, they will affect the non-guaranteed values of the Equimax policy. The sales projection provided by your insurance advisor is for illustration purposes only.

The following graphs illustrate the impact of a decrease in the dividend scale interest rate.



These graphs are for illustration purposes only. Actual results may vary.

Updated illustrations

After you buy your policy, it is a good idea to get an updated illustration from time to time. This will show you how your policy values will look in the future based on the dividend scale that is in effect on the date of the updated illustration. This is particularly important if there has been a change in the dividend scale since you bought your policy. If dividends decrease then the future value of your policy will also decrease.

How a dividend scale change impacts premium offset

If you select a dividend option that uses dividends to pay premiums, at some point in the future, you may be able to stop paying premiums for your policy. This is called the premium offset point. At this point, the projected future dividends plus the non-guaranteed cash value within the policy may be sufficient to pay future premiums.

The sales illustration provided by your insurance advisor when you bought your policy may have projected a date when the premium offset point is expected to occur. This was based on the current dividend scale at the time you bought your policy.

Since the premium offset point is dependent on dividends, it is not guaranteed. It is extremely sensitive to changes in the dividend scale. A decrease in the dividend scale may:

- Delay the premium offset point and require you to pay premiums for longer than previously projected.
- Require you to resume paying premiums for a period of time if your policy has been on premium offset.

To get an updated illustration for your policy, contact your advisor or Equitable Life's Life Insurance and Critical Illness Customer Service. The contact information is located on your policy statement or by visiting www.equitable.ca

THE MUTUAL DIFFERENCE

Many life insurance companies in Canada are stock companies. They are owned by shareholders who have voting rights and input into how the company conducts its business.

Only a few life insurance companies are mutually structured. Equitable Life is one of Canada's largest mutual life insurance companies. Mutual companies have no shareholders. They are run for the benefit of participating policyholders, who are not only customers, but also have an ownership interest in the company.

BENEFITS OF DEALING WITH A MUTUAL COMPANY

- Participating whole life policyholders have the opportunity to share in the earnings in the participating account. Their share in the earnings in the account is annually credited to their policy as a dividend¹ payment.
- Participating policyholders elect our Board of Directors and have a right to vote on various other company issues. We operate in their interests and we answer only to them.
- As a mutual company, we are not driven by shareholder pressures for quarterly results. Our focus is on prudent long-term growth, continuity and stability. We are dedicated to meeting our commitments to customers – now and in the future.
- We believe our mutual status allows us to provide better levels of service than a publicly traded company. Advisors ranked Equitable Life #1 for overall new business service and overall inforce administration service.*

*LifeOps Consulting Group Distribution Service Satisfaction Survey 2017 (non-exclusive advisors).

QUESTIONS?

If you would like more information about Equimax or participating whole life insurance, please contact your advisor.

NOTES:

¹ Dividends are not guaranteed and may be subject to taxation. They are subject to change, and will vary based on the actual investment returns in the participating account as well as mortality, expenses, lapse, claims experience, taxes and other experience of the participating block of policies.

² A copy of Equitable Life's dividend policy and participating account management policy can be found on our website at www.equitable.ca/go/dividend_policy.

³ Sources: Statistics Canada, Bank of Canada, Equitable Life of Canada. Historical results are not indicative of future performance.

⁴ The total cash value is made up of the guaranteed cash value and the cash value of any paid-up additions purchased by dividends.

⁵ The projected total death benefit includes the guaranteed death benefit plus the death benefit of the one-year term insurance and any paid-up additions purchased by dividends.



Works for me.®

Canadians have turned to Equitable Life since 1920 to protect what matters most. We work with your independent financial advisor to offer individual insurance and savings and retirement solutions that provide good value and meet your needs – now and in the future.

But we're not your typical financial services company. We have the knowledge, experience and ability to find solutions that work for you. We're friendly, caring and interested in helping. And we're owned by our participating policyholders, not shareholders. So we can focus on your interests and provide you with personalized service, security and wellbeing.



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