2019 Dividend Award

Q. What is the total dividend award payout for 2019?
A. The 2019 dividend award payout is $87 million.

Q. Is the payout for 2019 higher than the 2018 payout?
A. Yes. The 2019 dividend award payout is higher than the 2018 dividend award of $70 million. Throughout its 171 year history, Penn Mutual has never failed to pay dividends to eligible policyholders. This track record demonstrates our commitment to policyholders and our enduring financial strength through good and challenging economic times.

Q. Is the increase in the dividend payout a byproduct of strong whole life sales?
A. Yes. The dividend payout increase is driven in part by continued, strong whole life sales. Penn Mutual’s whole life sales currently represent over a third of the company’s annual life insurance sales.

Q. Is the 2019 dividend scale changing from 2018?
A. Yes, the dividend scale will decrease for many Penn Mutual policyholders in 2019. Even with the decrease in the dividend scale in 2019, Penn Mutual’s dividend action history over the last 20 years will remain the industry’s strongest and most consistent.

Q. What components are impacting the change in the dividend scale?
A. The three components that have an impact on the change in the scale are: interest, mortality and expense.

Q. What is the impact to the interest component of the 2019 dividend scale?
A. The dividend interest rate used in the interest component of the scale will be reduced due to continued pressure on investment yields as a result of the current interest rate environment. For Penn Mutual’s whole life products sold since 2008, the dividend interest rate will be decreasing from 6.34% to 6.10%. Older blocks of whole life policies have a different dividend interest rate and those rates will also be reduced by 0.24% in 2019.

Q. Did Penn Mutual’s mortality experience impact the 2019 dividend scale?
A. There was an improvement in our mortality experience compared to 2018. The improvement in mortality helps offset the impact of the dividend interest rate reduction on the total dividend scale.

Q. Will there be a change to the expense component of the 2019 dividend scale?
A. The expense component of the dividend scale will not change from 2018.

Q. What will the interest rate credited to dividend accumulations be in 2019?
A. The credited interest rate will be decreasing from 4.0% to 3.5%.

Q. How will policyholders dividend amounts in 2019 compare to 2018?
A. Some policyholders who received dividend awards in 2018 will receive lower dividend awards in 2019. However, it is important to remember that the actual dividends paid to each policyholder vary depending on contractual provisions and policyholder behavior (such as policy loan utilization, choice of dividend option, etc.).
2019 Dividend Award (continued)

Q. When will clients receive their dividend payout and how will they be notified about their dividend amounts?
A. Dividends will be distributed to clients on their 2019 policy anniversary date. Clients can find their dividend amount for the current year in the “Activity Summary for Period” section of their annual statement. Additionally, the dividend option the client has elected will be indicated on the annual statement.

For additional information about the 2019 dividend award and dividend basics, register now to attend our Product Power Hour training session Monday, December 3, 2018 from 12:00 - 1:00 (ET).

Q. How can advisers find dividend information for their clients?
A. Advisers can view dividend amounts by accessing their clients’ most recent annual statements through the InSight application.

To see the impact of changes to the dividend scale on a client’s projected values in the future, we encourage you to run an inforce illustration. For information about running inforce illustrations, access this reference guide.

Q. Are there resources available for advisers or clients who want to learn more about dividends?
A. Yes, there are a variety of adviser and client approved resources that talk about dividends on the Dividend Tools & Resources Page on Producers Place. Updated resources will be available by early 2019.

Dividend Basics

Q. What is a dividend?
A. Insurance policy dividends are payments awarded to participating life insurance policies. Dividends are not guaranteed, but may be paid when the insurance company’s actual experience across several key measures is better than what was built into the price of the policies. Dividend awards are declared at the end of each calendar year for the following calendar year.

Q. How does Penn Mutual determine dividends?
A. At the end of each year the company evaluates the in-force ‘block’ (or group) of participating, dividend-paying life insurance policies for three key measures—claims experience, operating expense and interest earnings.

These measures are evaluated as part of a dividend calculation to help determine the amount of surplus that has been produced by these policies.

Once these measures have been evaluated, the company determines how much of the surplus from the participating policies has to be set aside to pay future claims and manage the company. The company’s Board of Trustees then approves a total amount (portion of the surplus) that is paid out to policyholders in the form of dividends.

Once the total award is determined, the company determines the amount each eligible policyholder will receive based on the original three measures and the type of participating, dividend-paying policy owned.
Dividend Basics (continued)

Q. What is a dividend scale?
A. A dividend scale refers to the three components used to determine the actual dividend payment awarded to each policyholder in a particular year: mortality, expenses and interest. If the company does not change the scale in a particular year, it means the mortality, expense and interest assumed in the previous year’s dividend has not significantly changed. If the scale has changed in a particular year, that means at least one of the components has either increased or decreased.

Q. Is the interest component of the dividend scale determined by a portfolio or new money interest rate?
A. The traditional investment portfolio rate determines the interest component of the dividend scale. This means the rate is based on the performance of long-term investments, typically 10 to 20 years in maturity. Because of this and the performance of other non-interest rate sensitive assets, changes in the dividend scale are cushioned by different interest rate cycles, and the dividend scale may not be immediately affected by the new money rate. The persistent low interest rate environment is the driver behind the reduced interest component for the 2019 scale.

Q. How do policy loans impact dividends awarded to policyholders?
A. Outstanding loans will reduce dividend payments because the loaned assets are not available for investing and the company cannot earn market returns on them. However, under the ‘direct recognition’ approach used by Penn Mutual, reductions to the interest portion of the dividend scale, caused by loan activity, are applied only to policies from which loans have been taken.

Q. Can Penn Mutual’s dividends be compared to those of a publicly held corporation?
A. No. Dividends for participating life insurance policies are based upon the actual experience for a block of like, in-force policies. Dividends of publicly held corporations are distributions of company profits to shareholders.