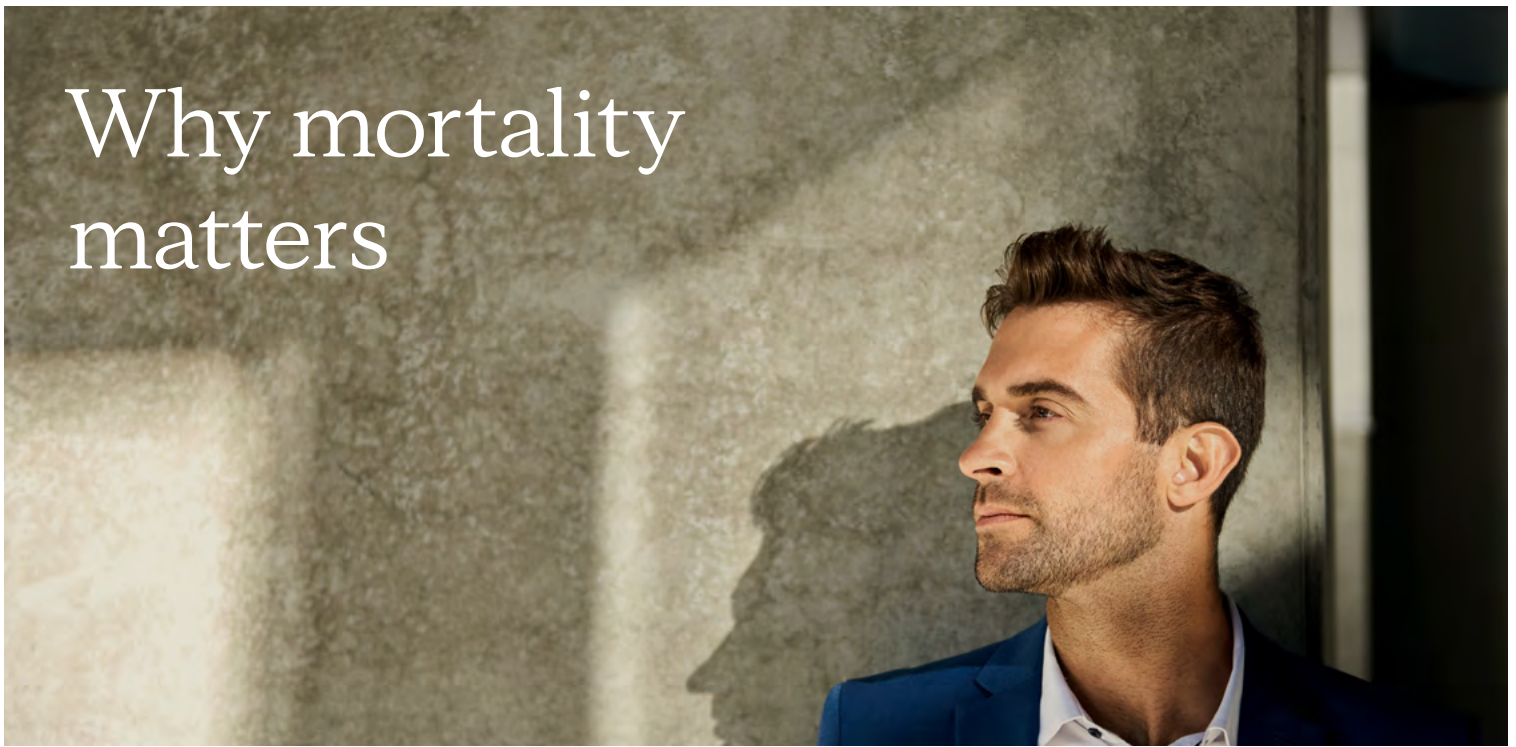


Why mortality matters



You may be wondering why mortality matters when it comes to a participating life insurance policy. Mortality experience (or “claims experience”) is one of the components of the dividend scale. Other key components include investment experience, expenses, lapses and taxes. We base policyholder dividends on the difference between actual experience of the Par insurance block and assumptions made for the risks we share with policyholders. The impacts of these key components on a dividend varies by different factors including:

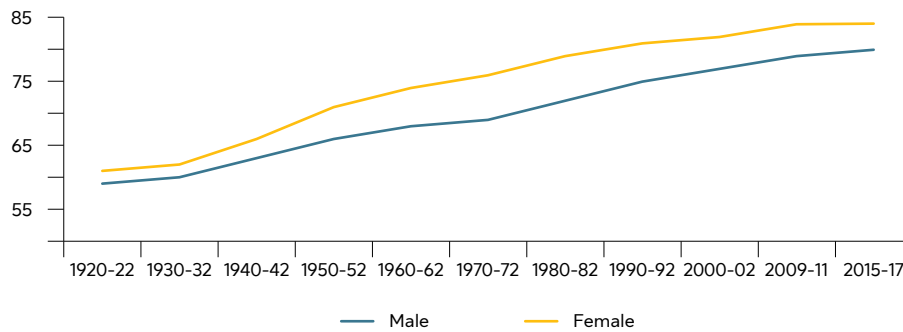
- › Product design
- › Issue age
- › Risk class
- › How long a policy has been in-force
- › How past dividends have been paid (for example, cash versus paid up additions)

The following chart shows the make-up of dividends over time for a male non-smoker age 50.



Currently, the three most significant components of a dividend are investment, mortality and expense experience. Although the investment component has the largest impact, it's not the only factor. Over time, mortality experience has a bigger and bigger impact. Expenses are a fixed amount, so the effect is less over time as dividends increase.

The following chart shows how life expectancy has improved over the past century.



Although mortality experience tends to have a smaller effect on dividends, it has been stable and has continued to improve in Canada over the past century. Life expectancies continue to rise, which over time will affect the timing of when we pay claims. When the actual claims experience is better than the assumptions made when we priced the product, it can positively affect dividends. When proper underwriting practices are used, mortality experience will often improve.

Sun Life's expert underwriting

Product decisions (like underwriting decisions) can affect the amount available to be distributed as dividends. At Sun Life, we help protect our policyholders with expert underwriting. Our prudent underwriting practices are one of the safeguards that we use to mitigate risk for Par policyholders. It helps ensure we aren't introducing poor experience risks into our Par block. Client fairness is of the highest importance and the basis for any decisions we make about Par.

In fact, Sun Life has passed back 4 mortality improvements to Par policyholders in the past 12 years!

We are fair to all Par policyholders and make sure Clients experience appropriate risk sharing. This includes increasing dividends to pass through positive mortality experience when appropriate.

Mortality is an important part of a policyholder dividend. Choosing a company that manages risks for the long term is important for policyholder value over time.



Life's brighter under the sun.