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FINANCIAL CONCEPTS INC
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WHOLE LIFE DIVIDEND INTEREST RATES AT MUTUAL LIFE INSURERS

Historically, dividend interest rates (DIR) for participating whole life insurance policies have correlated with M Financial's long-term corporate bond yield benchmark.1 Our benchmark for DIRs has fallen by 0.87% from 2016 to 2021. At the same time, the average DIR declined by 0.59%.

1 The benchmark is a seven-year rolling average of the Moody's Long-Term Corporate Bond Yield Average, weighted 67% Aaa-rated and 33% Baa-rated.

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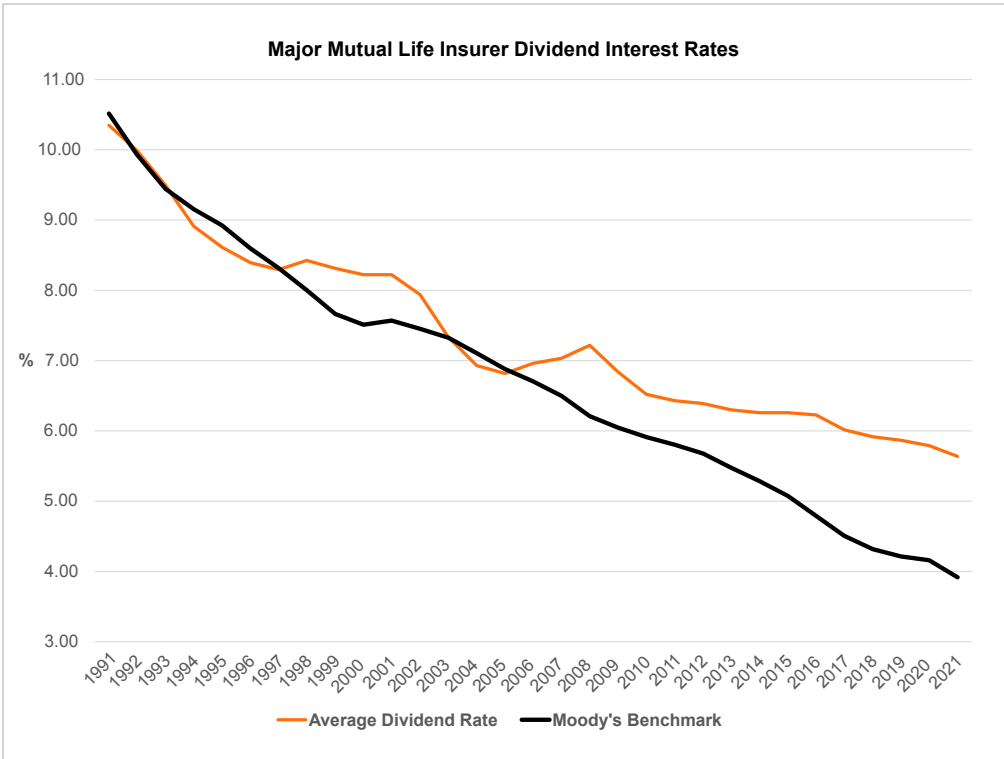
All mutual life insurers are subjected to the same forces when it comes to the prolonged low interest rate environment. Buyers evaluating whole life insurance policies based on current DIRs would be well-advised to consider these products under reduced DIR projections.

Going forward, even a gradual increase in interest rates will not reverse the downward trend in portfolio yields for life insurers for at least several years, which will continue to put pressure on their ability to maintain their dividend interest rates. In concert with an experienced life insurance advisor, policyholders should evaluate the impact of reduced DIRs on their policies and new buyers should consider the supportability of current DIRs as part of the product selection process.

What are dividend interest rates?

Dividend interest rates (DIRs) are declared by life insurers as a variable used in the calculation of policy dividends. They are not an earnings rate applied to policy values. Insurers have different methodologies when it comes to DIRs, which makes it difficult to compare one company's DIR to another's. Comparing the changes to DIRs over time is useful because the factors impacting DIRs (long-term bond rates) are similar for each insurer.

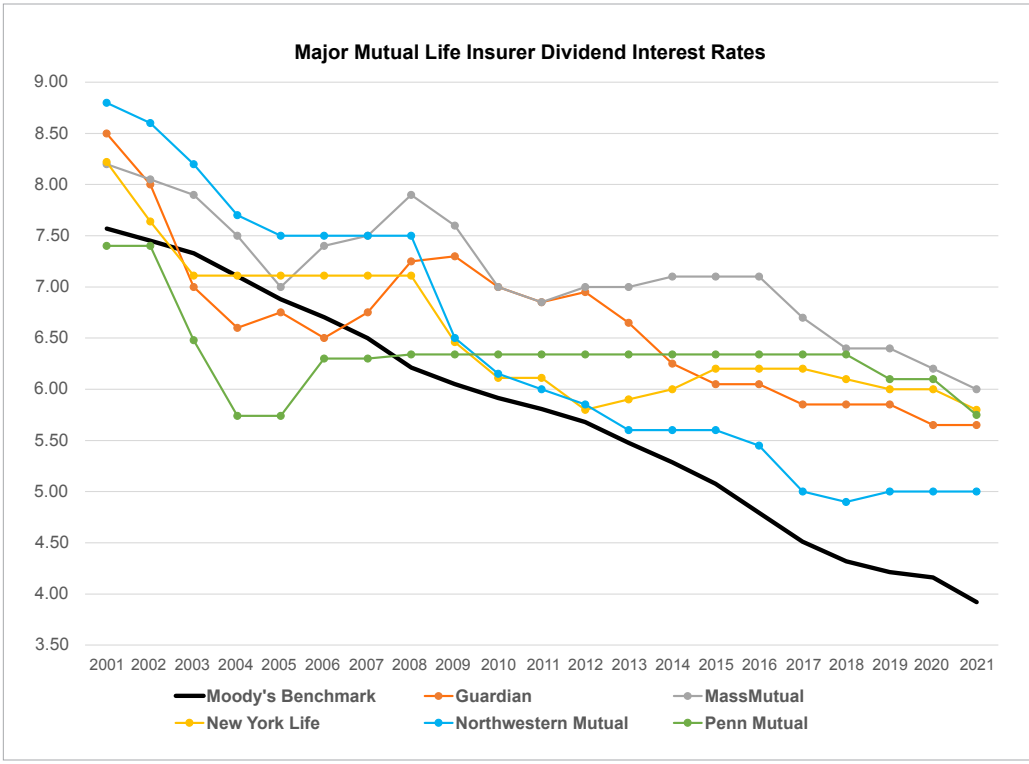


Based on the rates reported by five major mutual life insurers: Guardian Life Insurance Company of America, Massachusetts Mutual Insurance Company, New York Life Insurance Company, Northwestern Mutual Life Insurance Company, and Penn Mutual Life Insurance Company.

What is a dividend?

In a whole life insurance policy, a dividend is a pro rata distribution of a portion of the insurance company's profits returned to policyholders.

A chart of each company's DIR shows a correlation to the Moody's benchmark, but also shows significant variance between each company on a year-to-year basis. It also shows a tendency for the relative positions to shift over time meaning that it is very unusual for one company to maintain an advantage over a long period of time.



Dividend Interest Rates (%)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Guardian	8.50	8.00	7.00	6.60	6.75	6.50	6.75	7.25	7.30	7.00	6.85	6.95	6.65	6.25	6.05	6.05	5.85	5.85	5.85	5.65	5.65
MassMutual	8.20	8.05	7.90	7.50	7.00	7.40	7.50	7.90	7.60	7.00	6.85	7.00	7.00	7.10	7.10	7.10	6.70	6.40	6.40	6.20	6.00
New York Life	8.22	7.64	7.11	7.11	7.11	7.11	7.11	7.11	6.46	6.11	6.11	5.80	5.90	6.00	6.20	6.20	6.20	6.10	6.00	6.00	5.80
Northwestern Mutual	8.80	8.60	8.20	7.70	7.50	7.50	7.50	7.50	6.50	6.15	6.00	5.85	5.60	5.60	5.60	5.45	5.00	4.90	5.00	5.00	5.00
Penn Mutual	7.40	7.40	6.48	5.74	5.74	6.30	6.30	6.34	6.34	6.34	6.34	6.34	6.34	6.34	6.34	6.34	6.34	6.34	6.10	6.10	5.75
Moody's Benchmark*	7.57	7.45	7.33	7.11	6.88	6.70	6.50	6.21	6.05	5.91	5.81	5.68	5.48	5.29	5.08	4.79	4.51	4.32	4.21	4.16	3.92

* As of the end of the prior year; seven-year rolling average of monthly Moody's Aaa (67%) and Baa (33%) Long-Term Corporate Bond Yield Averages

Difference to Benchmark, 2001 to 2021 (%)

	HIGHEST	LOWEST	CURRENT
Guardian	1.73	-0.51	1.73
MassMutual	2.31	0.12	2.08
New York Life	1.88	-0.22	1.88
Northwestern Mutual	1.29	0.12	1.08
Penn Mutual	2.02	-1.37	1.83

Mutual life insurance companies tend to have asset allocations that are very stable and well-matched to the long-term nature of their liabilities. Typically, these companies allocate approximately three-fourths of their invested assets to bonds and mortgages. As a result of this allocation, the investment returns of mutual life insurers are very connected to changes in long-term interest rates.

How the major mutual life insurer's allocate assets:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Bonds	66.6%	67.5%	67.4%	67.7%	67.6%	67.2%	67.4%	67.9%	68.0%	67.9%	66.4%
Stocks	5.0%	5.5%	5.5%	5.5%	5.2%	5.5%	4.9%	5.7%	5.7%	5.2%	5.5%
Mortgages	9.9%	9.3%	9.2%	9.2%	9.1%	9.4%	9.9%	9.5%	9.6%	9.8%	10.0%
Real Estate	0.8%	0.7%	0.7%	0.6%	0.5%	0.5%	0.8%	0.8%	0.7%	0.6%	0.7%
Contract Loans	8.2%	8.2%	7.9%	7.7%	7.4%	7.1%	7.0%	6.7%	6.6%	6.4%	6.3%
Cash & Short-Term	2.0%	1.2%	1.5%	1.5%	1.7%	1.4%	2.0%	1.9%	1.7%	1.7%	1.6%
Other Invested Assets	7.6%	7.6%	7.7%	7.8%	8.5%	9.0%	7.9%	7.6%	7.7%	8.3%	9.5%

Percentages represent the combined average percentage allocated for each company.

The combined bond quality of the major mutual life insurance companies:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
NAIC Class 1	65.2%	65.3%	64.8%	63.1%	61.7%	61.3%	60.2%	60.3%	61.5%	61.5%	59.7%
NAIC Class 2	27.2%	27.5%	28.4%	30.6%	31.8%	31.5%	32.6%	32.4%	31.7%	32.5%	33.3%
NAIC Classes 3-6*	7.6%	7.2%	6.7%	6.4%	6.5%	7.2%	7.2%	7.3%	6.7%	5.9%	7.0%

*Below investment-grade

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