

Participating whole life insurance



Frequently asked questions about participating whole life insurance from Foresters Financial™

You may have heard life insurance referred to as “participating” and wondered what that means. Essentially, “participating” life insurance are products that are eligible to receive potential dividends. The following are some questions you may have regarding Foresters participating whole life products¹.

What is a dividend?

When a premium is calculated, there is some built-in margin over the anticipated cost of insurance protection. This margin is designed to cover fluctuating factors such as mortality experience, expenses, and the return on investments. When these factors are better than anticipated, a portion of the Owner’s premium payment may be refunded back to the Owner. This “returned premium” is called a dividend.

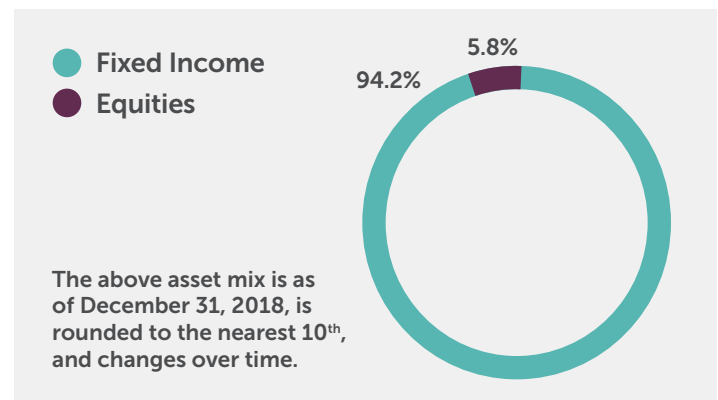
How do you calculate a dividend?

On an annual basis, Foresters reviews the performance of these products. We look at variables such as our claims experience, expenses, and the performance of the investment portfolio that supports these products. These variables are part of a much larger calculation which Foresters uses to ultimately calculate the annual certificate dividend.

What’s the investment portfolio?

Foresters maintains an investment portfolio to support these dividend paying participating products issued by Foresters. The largest portion of the portfolio is in bonds, cash and cash equivalents, which helps ensure the long-term stability of returns.

The following graph reflects the breakdown of the assets within this specific portfolio.



What is the dividend interest rate?

The dividend interest rate is representative of the portfolio’s earned rate but may reflect smoothing techniques to dampen volatility in the interest rate. It’s difficult to compare one company’s dividend interest rate to another as companies may define the interest rate differently. The dividend interest rate is also just one factor in how dividends are calculated.

How long has Foresters been paying dividends?

Foresters has a long history of paying dividends and has been consistently paying dividends for over 60 years.

What are the historical dividend interest rates?

The table below shows the historical performance of Foresters dividend interest rates over the past 15 years, relative to other popular indicators.

Year	Foresters Dividend Interest Rate	S&P 500 Index Total Return ²	10-year U.S. Treasury Annual Total Return ³	U.S. Consumer Price Index ⁴
2004	6.60%	10.88%	4.90%	3.30%
2005	6.75%	4.91%	2.07%	3.40%
2006	6.65%	15.78%	1.34%	2.50%
2007	6.70%	5.57%	9.72%	4.10%
2008	6.32%	-37.00%	20.06%	0.10%
2009	5.60%	26.45%	-9.76%	2.70%
2010	5.60%	15.06%	8.01%	1.50%
2011	5.98%	2.11%	17.18%	3.00%
2012	6.09%	15.99%	4.13%	1.70%
2013	6.45%	32.38%	-7.81%	1.50%
2014	6.42%	13.68%	10.74%	0.80%
2015	6.65%	1.38%	0.91%	0.70%
2016	6.83%	11.96%	0.88%	2.10%
2017	6.58%	21.60%	2.07%	2.10%
2018	6.23%	-5.22%	0.39%	2.50%

What's the difference between the dividend interest rate and the rate used in the illustration?

The dividend interest rate is the earned rate of the portfolio that supports the Foresters participating life products.

Every product makes different assumptions as to factors such as claims experience, expenses, and investment performance. The rate used in the illustration reflects those assumptions at the product level.

Why is the growth rate on the cash value less than the dividend interest rate?

Cash value growth in a participating whole life product is not simply premiums plus earned interest. Calculations for the guaranteed cash value take into account additional factors such as the gender, age and smoking status of the insured and use a contractual non-forfeiture interest rate.

What can I do with my dividends?

The Owner can determine what to do with their potential dividends by selecting a dividend option. At any time, the Owner may change the dividend option by making a written request to Foresters, that will apply to future declared dividends. The following are some options that may be available on Foresters participating products:

Purchase Paid-up Additions

Under this option, any annual dividend is applied as a single premium to purchase paid-up insurance at the Insured's attained age. Values for the Paid-up Additions on current participating products are based on the 2001 CSO mortality tables at 4% interest in all years. The values vary by male, female, and insurance class. Juvenile issue ages are split by male and female, but do not have different insurance classes. Montana has unisex rates. Paid-up Additions can be surrendered with the cash value payable to the Owner, which may be subject to taxation.

Dividends on Deposit (with interest)

An Owner may leave "dividends on deposit" with Foresters to accumulate with interest. Foresters determines the effective annual rate, but there is a guaranteed minimum interest rate. However, any interest that the Owner earns under this dividend option is taxable; a 1099INT will be issued each year for the earned interest. The accumulated dividend and interest amount will be paid to the Owner upon surrender of the Certificate, or paid to the beneficiary with the payable death benefit upon the death of the Insured.

Reduce Premium

The annual dividend will be applied to reduce the amount of the premium payable. Any excess dividend will be applied to a secondary dividend option. If the dividend is less than the premium, the Owner will be billed for the difference. For this dividend option, the payment mode must be annual.

Paid in Cash

Foresters mails a check each year for the amount of the annual dividend to the Owner. A 1099INT will not be issued to the Owner, as this dividend option is not considered a reportable event.

Are dividends taxable?⁵

Generally speaking, dividend cash value is not taxable, up to the certificate Owner's cost basis for dividends paid in cash or remaining on deposit. Dividends used to purchase Paid-up Additions are not considered a taxable distribution. If those Paid-up Additions are subsequently surrendered, it is considered a distribution and there may be a reportable tax gain.

Generally, dividends paid or credited before the maturity or surrender of a contract are tax-exempt as return of premium until an amount equal to the certificate Owner's basis has been recovered. In other words, when aggregate dividends plus all other amounts that have been received tax-free under the contract exceed aggregated gross premiums, the excess is taxable income. IRC Sec 72(e) (5); Treasury. Sec. 172-11(b)(1).

If a certificate is a Modified Endowment Contract (MEC) then the taxation is reportable from the first dividend withdrawal.

What happens to dividends when I take out a loan?

Dividends are non-direct recognition. This means that dividends are credited on the gross cash value; the dividend payable is not reduced due to a certificate loan or other outstanding debt.

What happens if I surrender Paid-up Additions?

If you surrender (or cash out) dividends that were used to purchase paid-up additions (PUAs), the death benefit being supported by the dividend cash value is reduced accordingly.

When are dividends payable?

Dividends, when declared, are payable on the certificate anniversary. However depending on the product type, coverage amount and premium payment schedule there may be no dividend credited on the first, and sometimes even the second, anniversary. The illustration will indicate whether or not a dividend is assumed to be credited on the first and second anniversaries.

Are dividends guaranteed?

Although dividends are expected, they are not guaranteed. In addition, the dividend scale is not guaranteed and will change a number of times during the lifetime of an inforce participating certificate. Foresters performs annual dividend reviews and may adjust the scale.

What can cause a change in the dividend?

Although we closely monitor dividend factors, such as mortality, expenses, and investment performance, these factors will change over time.

Projected dividends based on the original sales illustration also makes certain assumptions. Changes to the length of time premiums are paid, selecting a different dividend option, surrendering paid-up additions, or the timing of payments made under a Paid-up Additions Rider are all things that could impact the actual dividend paid.

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² S&P 500 composite total return Index includes the reinvestment of dividends. All figures are annual calendar year returns provided by Bloomberg Professional Services. S&P Data owned by Copyright © 2017 S&P Dow Jones Indices LLC, a part of McGraw Hill Financial. All rights reserved. S&P 500 is a registered trademark

³ 10-year US Treasury Annual Total Returns and Current 10-Year US Treasury Index are provided by Bloomberg Professional Services.

⁴ Consumer price index inflation rates are based on the change from December to December and are provided by Bloomberg Professional Services.

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