

Whole Life

Participating Insurance Guide

Comprehensive coverage that lasts a lifetime



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This guide helps clients understand how Participating Whole Life policies operate, as well as their advantages and features and unique relationship with the company's Participating Account. For more information, talk to a Co-operators financial representative or ask for an illustration.

Policyholders benefit from strong and stable dividends provided by the Co-operators Life Participating Account. The Co-operators Life total Participating Account size is \$2.8 billion, including surplus, as of December 31, 2024.

It can be a challenge for clients to know how a life insurance company determines the dividends on Participating Whole Life policies. This simplified guide breaks down the information and will help your clients better understand the process.

Participating Whole Life Insurance

Permanent life insurance

Co-operators Participating Whole Life policies are the type of life insurance that offers guaranteed lifetime coverage, which is called "permanent". This means that when the policyholder dies, the beneficiary (family, business or a charity) will receive the death benefit.

Insurance for a lifetime

Coverage will stay in force at the same amount, or more, for the policyholder's lifetime provided premiums are paid. Premium rates are guaranteed not to increase as they age.

Policy growth

Provided premiums are paid on time, the cash value grows tax deferred.

A key benefit of Whole Life policies is the guaranteed cash values. These values, which start low but increase annually, can provide options to access the values in the policy before the death of the insured. This can range from:

- Partial or total surrender
- Access to policyholder loans
- Option to change the policy to a reduced face amount paid-up form
- Possibly assigning the policy through a collateral loan at a financial institution, which may result in loan proceeds not being taxable

Participation in the participating account's growth

Whole Life insurance also allows the policyholder to participate in the Participating Account's profits by earning policy dividends. Premiums for Whole Life are based on more conservative assumptions for mortality, investment, persistency, and expense performance. Dividends on a Whole Life policy are a refund of part of the premium to reflect the difference between what was assumed and the combined actual mortality, expense and investment experience.

Dividends are not guaranteed as they vary with this experience, mainly on Participating Account investment earnings; however, Co-operators Life has a strong history of paying policy dividends.

Using dividends

Policyholders can choose how to apply dividends earned by their Participating Whole Life policies. Dividends can be:

- Taken in cash
- Used to reduce premiums or policy loans
- Used to increase the amount of the policy's death benefit and cash value

Protecting what matters most

Co-operators Participating Whole Life products are designed to cover all permanent insurance needs. They can protect families by providing funds for:

- Retiring debt
- A future stream of income
- Education
- Bequests and gifts to charity
- Funeral costs
- Taxes and estate settlement costs
- Final expenses
- Other financial needs

For business, it can provide funding to:

- Buy out a partner or shareholder
- Offset the loss of a key person
- Help reduce a company's taxation by contributing some of the business's taxable assets to a participating life policy. The cash value grows on a tax-deferred basis within limits and the death benefit is paid tax-free. For company-owned policies, it may be possible to have the shareholders receive the proceeds as tax-free dividends from the Capital Dividend Account.

Provide for loved ones

The death benefit can go directly to the people and organizations named by the policyholder, as opposed to going through a long, public probate process. Subject to provincial rules, privacy can be ensured and delays and estate fees can be avoided.

Provide an instant legacy

Life insurance can form the bedrock of the financial security of a family or business. Once a policy is issued, the death benefit is available from the first day and the face amount is guaranteed immediately; if it's increased with dividends, that amount is guaranteed once purchased.

The Process Starts with the Board of Directors

Every year the Board of Directors determines how much will be distributed in policy dividends. This process is based on many factors, including the earnings of the year and the reasonable expectations of policyholders. It's not required that the amount distributed is exactly linked to amounts earned in that year, but over time the two are related.

How Dividends are Calculated

Once the amount to be distributed is determined, the individual dividends for each policy are determined. Co-operators Life Insurance Company uses the contribution principle to calculate policy dividends – the dividends reflect the contribution the policy made to the experience of the Participating Account. Under this principle, participating policies are grouped based on factors, such as product type and issue date to reflect their proportion of the contribution to earnings.

1. Dividends are paid based on policyholder groups. Each group has its own dividend scale interest rate; not all policies receive dividends each year.
2. Dividends paid to an individual participating policyholder are generally based on two things:
 - a. Premiums – because dividends are a return of premium to reflect experience, the greater the premium, the greater the participation.
 - b. Policy duration – in general, the longer a participating policy is owned, the greater the dividends because the cash value on which the investment portion of the dividend is based grows over time.

Create an Asset with Advantageous Features

Taxes

Life insurance is not taxed like typical investments. Within limits, cash value growth is not taxed annually – unlike most investments. Surrender prior to death may result in a portion of the proceeds being taxable, the death benefit is payable free of tax.

Liquidity and income

Life insurance is an asset with built-in flexibility. If a need or opportunity arises, the cash values can provide access to funds. It can also help with planning for retirement or estate needs and provide an emergency fund for unexpected events.

If a policy's cash value is accessed, it will reduce the death benefit and may result in taxable income.

Less exposure to market fluctuations

Participating life insurance is a low-risk option to provide stable growth. Cash values are guaranteed to grow provided they're not accessed for other purposes. Dividends can be affected by market factors, but they also have guaranteed cash values once they're declared and used to increase the policyholder's coverage.

Protection for loved ones

Subject to rules on insurable interest, the policyholder can be insured as well as loved ones, partners and key employees.

Security with Co-operators Life Insurance Company

Co-operators Life Insurance Company is a strong Canadian company committed to co-operative principles and dedicated to meeting the needs of our clients. The strength of Addenda Capital, our investment manager, contributes to the security of consistent performance by the policy.

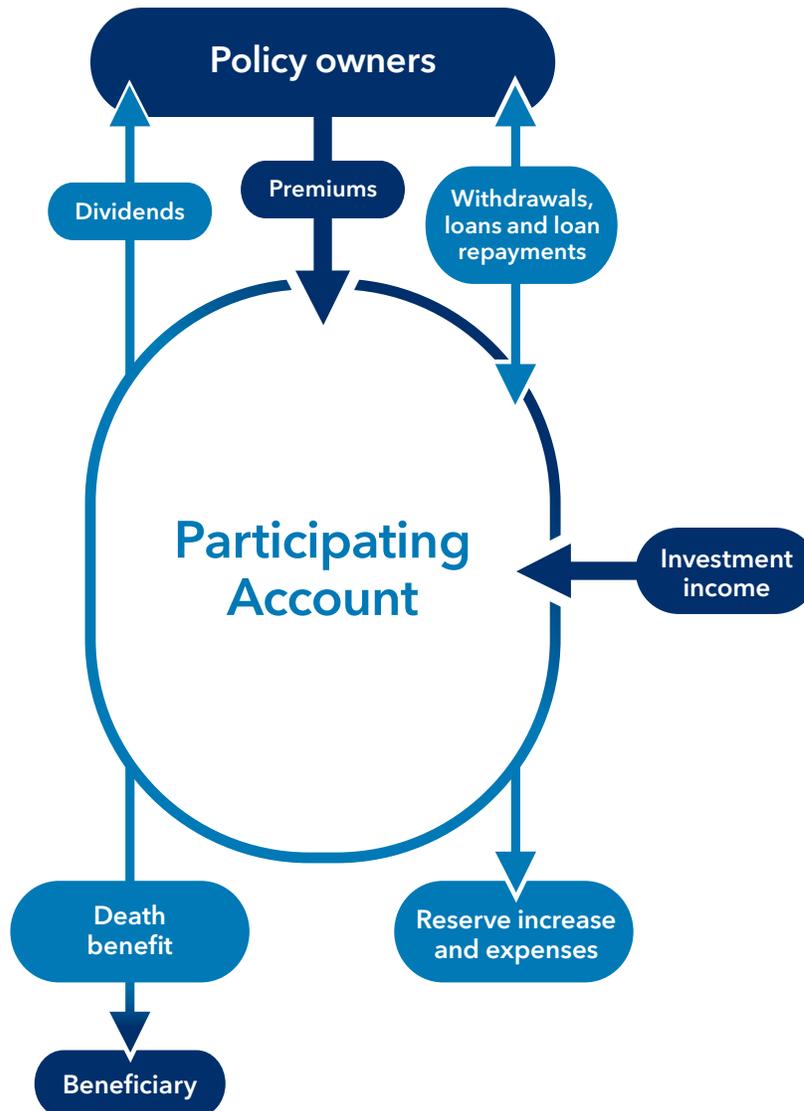
For more information on product features of the Participating Whole Life products we offer, please refer to our Guides to Understanding or request copies from a Co-operators financial representative.

[Whole Life Ascend Guide to Understanding](#)

[Whole Life Protector Guide to Understanding](#)

How the Participating Account Works

Co-operators Life Insurance Company has been issuing participating life insurance since the company was established in 1945, and we continue to issue participating policies to many of our policyholders today.



Participating policy premiums are paid into the company's Participating Account, which entitles policyholders to participate in earnings through policyholder dividends.

Dividends are derived from the experience in the factors that affect the account, such as investment performance, mortality, expenses, and policyholder behaviour. The Board of Directors annually exercises its discretion to determine the amount of policyholder dividends to be distributed fairly. Dividends are not guaranteed.

Who can be Insured

Our Participating Whole Life product has two options:

- **Single life coverage:** Insure a single person between age 0 and 80.
- **Joint Last to Die:** Insure two people between ages 18 and 80, with premiums payable until the second death at which time the death benefit is paid.

Coverage for children

Parents or relatives, for example grandparents, can purchase a policy on children aged 0 to 17 years. The Head Start™ policy has a lower minimum face amount than adult policies and ensures a loved one is insured for life.

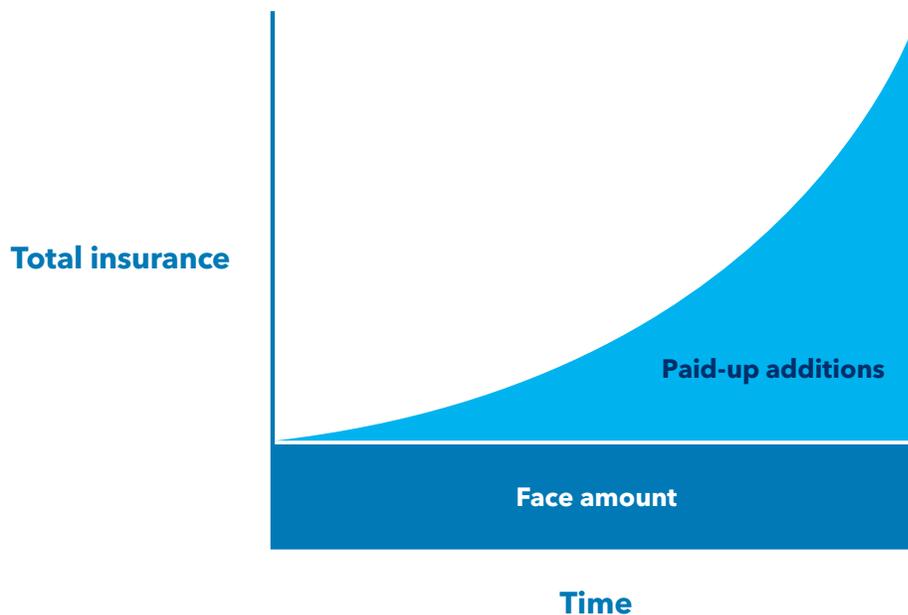
Applying Dividends to Enhance Coverage

Policy dividends can be used to increase coverage and enhance the cash value growth. This can happen in two ways:

1. Paid-up additions

Paid-up additions apply the dividends credited in a year to purchase additional insurance without the need for underwriting. Once purchased they:

- Are paid up and no further premiums are required
- Have a guaranteed cash value which increases each year
- Provide coverage for life if they aren't surrendered
- Will contribute to dividend growth, including buying more paid-up additions



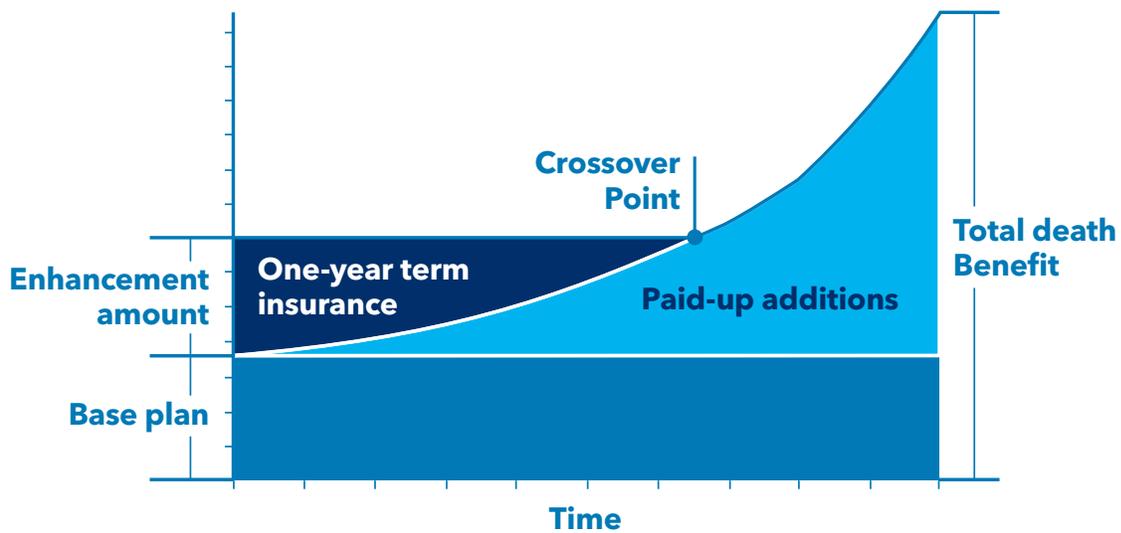
This graph is for illustrative purposes only. Dividends are not guaranteed and may vary annually.

2. Higher coverage earlier with the enhanced insurance option

Rather than choosing a larger base coverage on certain versions of our Whole Life product, coverage can be increased earlier with the Enhanced Dividend Option, while still contributing to the coverage purchased over the long term.

The Enhanced Dividend Option uses a combination of one-year Term insurance (which provides coverage for one year) and paid-up additions (which provide permanent protection) to increase the initial face amount. This is called the Enhancement Amount and doesn't increase the premium. Over time, the one-year Term insurance is progressively replaced by paid-up additions, and eventually a crossover point is reached. At this point, the paid-up additions, which have already been purchased, equal or exceed the Enhancement Amount - only paid-up additions are purchased after this, which serves to increase coverage even more.

The Enhanced Amount is guaranteed for the first 10 years of the policy. After the 10-year guarantee period, if dividends declared are not enough to maintain the Enhancement Amount, the policyholder will have the option to pay an additional premium to top-up the Enhancement Amount. If they choose not to pay the additional top-up premium, their Enhancement Amount will decrease.

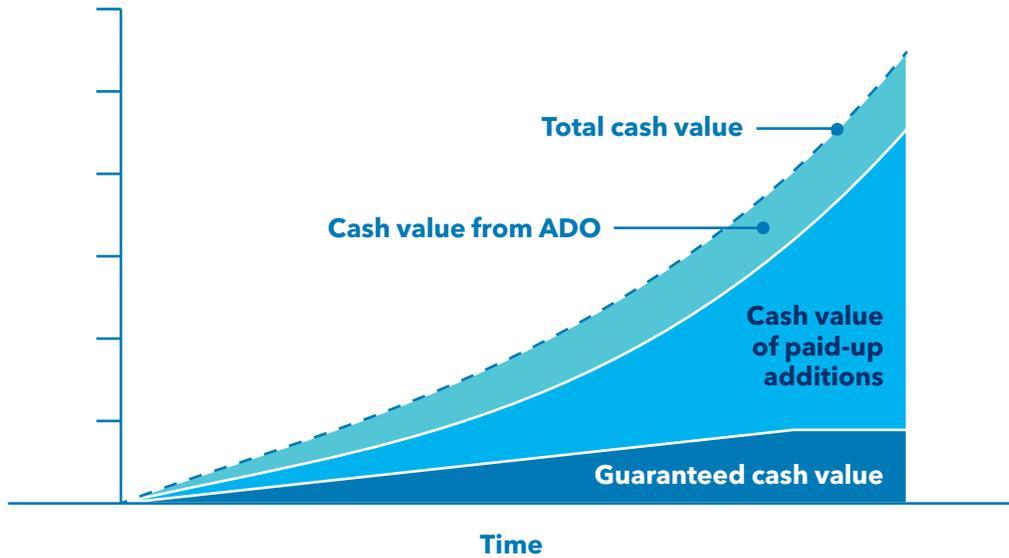


This graph is for illustrative purposes only. Dividends are not guaranteed and may vary annually.

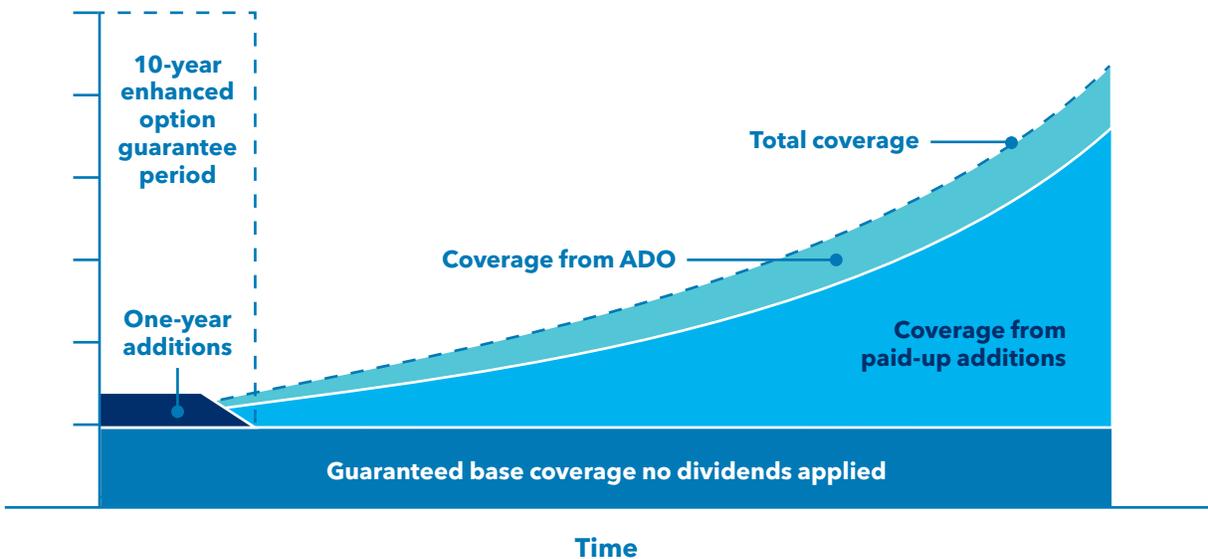
Additional Deposit Option (ADO)

This option is available only on certain versions of our Whole Life product.

Within limits, this option allows the contribution of additional amounts of premium to buy more coverage and increase cash values and the death benefit. Increasing the policy assets can reduce taxes by transferring taxable assets into tax-deferred growth in the policy.



Under the Enhanced Dividend Option, the ADO increases the paid-up additions purchased and reduces the amount of one-year Term needed. This allows the policy to reach the crossover point quicker and leads to enhanced policy growth.



How Life Insurance Fits Into a Portfolio

While there's room in most portfolios for some speculative assets with larger potential risks, Participating Whole Life insurance doesn't fall into this category.

Upon death, participating life insurance protects loved ones or chosen organizations. The policy's guaranteed cash value is also an important feature, which can be used before death.

It can be a long time before most people access the benefits of life insurance; however, it's important to know those benefits are available when they're most needed, such as using the policy's cash value for the unexpected. That's why life insurance should grow consistently with less volatility than investments, such as equities.

Here are some features that can support policy stability and growth.

1. Guaranteed payout, premium payments and cash value

The stability of the policies is inherent in their built-in guarantees:

Guaranteed payout on death

The policy's base coverage is guaranteed for as long as the policyholder lives, provided premiums are paid when due.

Guaranteed premium payments

The premium payments for the policyholder's base coverage will not go up, no matter their age. The number of payments is fixed for limited pay options (10-pay and 20-pay).

Guaranteed cash value

The policyholder can access the policy's cash value during their lifetime either directly through full or partial surrender or through a policy loan. The cash value, once purchased, is guaranteed to grow over time unless some value is withdrawn. If dividends are used to purchase paid-up additions, they are also guaranteed for life and increase in value over time.

These guarantees assume premium payments are made. If some or all coverage is withdrawn, the payout and cash value will be reduced and taxable income may have to be reported.

2. Asset loss protection

Asset loss protection offsets the chance of an unexpected decline in the value of an asset. Participating life insurance limits this risk due to:

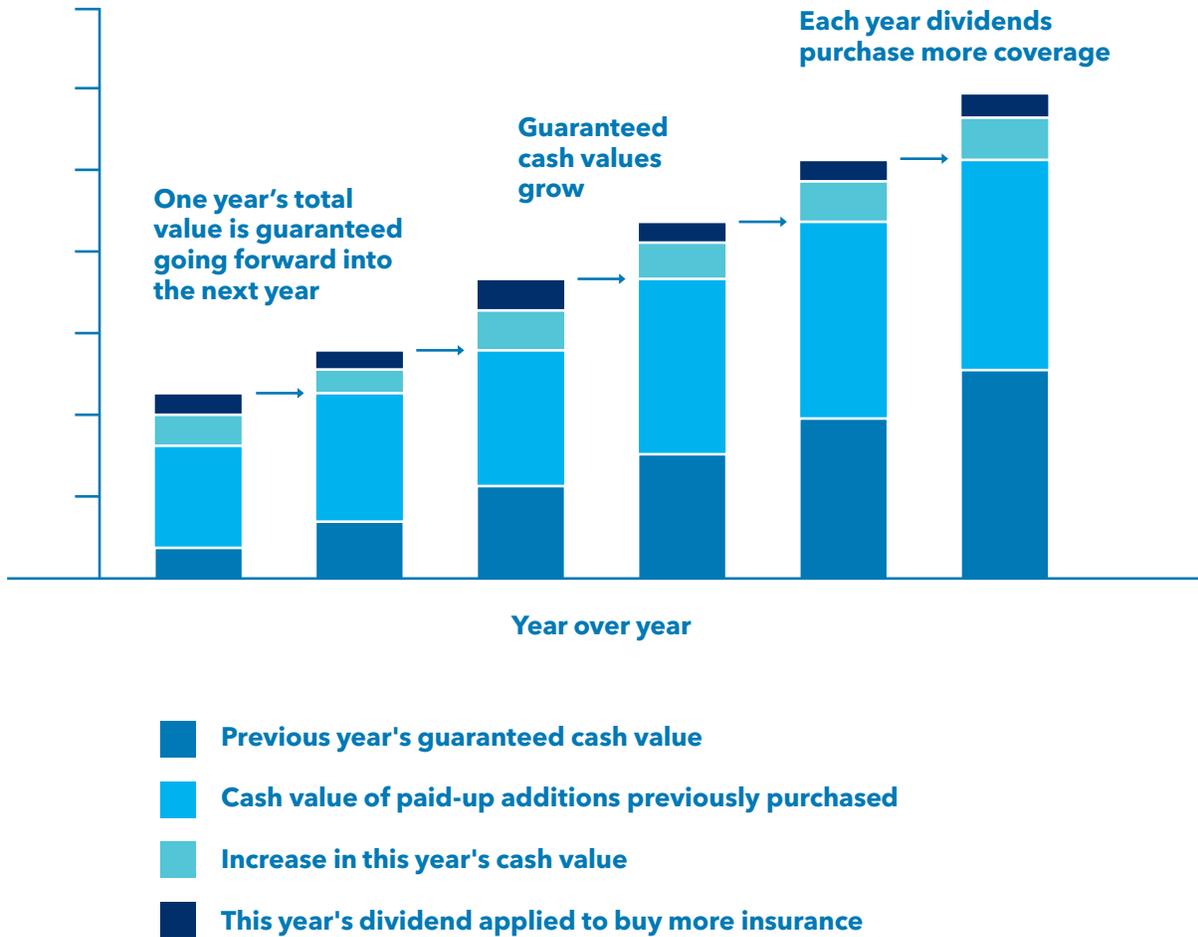
- The guaranteed payout and guaranteed cash value
- Participating policyholders receive dividends starting at a policy's first anniversary; these dividends can be used to purchase paid-up additions, which also have a cash value
- This cash value, once credited to the policy, can't be reduced or used for any purpose, other than as authorized by the policy holder, to pay premiums or to preserve the policy's tax-exempt status. If markets fall, it's protected.

The power of guaranteed values:

Participating Whole Life policies have strong guarantees that underpin the asset loss protection concept. Cash values steadily increase and won't decrease with market affects. Once a dividend has been declared and applied to increase coverage, its value will never decrease. In fact, paid-up additions also have a guaranteed cash value that increases over time plus they themselves earn dividends, which can contribute even further growth.

The following chart breaks down this growth to show how this effect can build a strong floor of guarantees.

Growth of Guaranteed Values



3. Careful and deliberate asset mix

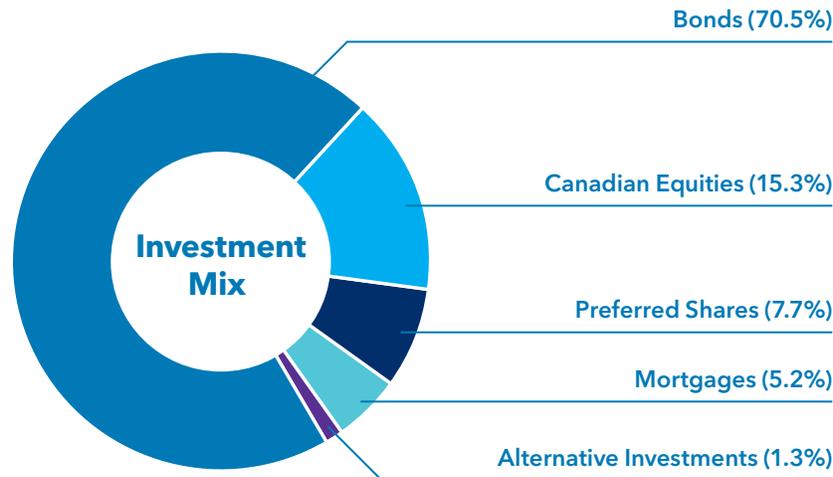
The assets in the Participating Account are invested and managed to provide long-term growth. The majority of the portfolio is made up of fixed income assets to ensure stable returns to meet the guarantees and ensure dividend stability.

Because we aim for consistent, long-term growth, we generally manage the Participating Account as a broadly diversified fixed-income account. The investment guidelines established for the Participating Account will cause the exact asset allocation to vary from time to time. Currently, our main investment segments are bonds and mortgages.

We approach our asset mix very carefully and deliberately. We focus on high quality bonds, incorporating insured mortgages, asset diversification, and active management by Addenda Capital's professional investment team.

Our objective is to provide consistently strong, steady, low-risk growth for a policy over the long term. More equities in the asset mix could mean higher growth in some years. But it could also mean more short-term volatility and risk, factors our mix aims to minimize.

Here's an overview of the composition of assets in the Participating Account portfolio as of December 31, 2024, with the majority of the investments in fixed income investments, while still incorporating a significant equity component.



4. Smoothing of returns

Smoothing is the process by which investment gains and losses are brought into the dividend scale interest rate over a period of time.

Dividend scale interest rate

The dividend scale interest rate determines the amount of participating policyholder dividends that come from Participating Account investments. Because it's only one of the factors contributing to an individual policy's performance, it can't be directly tied to the cash value growth in a particular policy. Growth of the cash value of a policy depends on factors, such as:

- Type of product
- Product features
- Premium-paying period
- Issue age
- Dividend option and
- Dividend scale

Smoothing

We use the smoothing process to gradually bring investment gains and losses into the dividend scale interest rate. This avoids immediately including the highs and lows and helps give more stability to the dividend scale. The method of smoothing may change from time to time, as circumstances dictate.

The year-over-year volatility of the investment components is smoothed out, and together with our long-term investment strategy, the impact of short-term fluctuations on policyholder dividends is reduced.

Historical Dividend Scale Response to Market Conditions

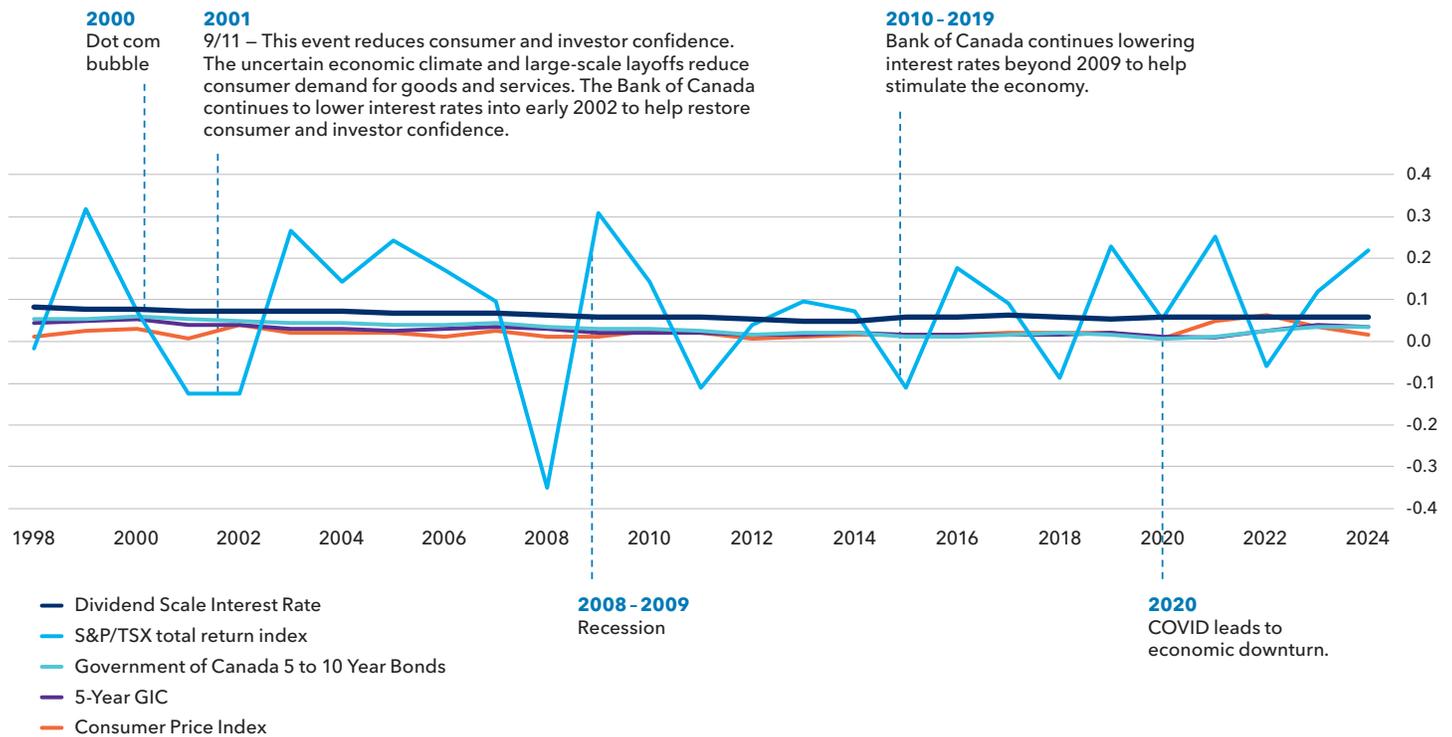
Co-operators Life Insurance Company has a strong history of paying dividends. We know stability is important when meeting insurance needs and we offer long-term financial strength to our policyholders. Our Participating Account dividend scales have been relatively stable compared with many financial instruments and indices.

Historical average annualized returns

	Dividend Scale Interest Rate	S&P/TSX Total Return Index	Government of Canada 5- to 10-Year bonds	5-Year GIC	Consumer Price Index	Total Participating Account Return (Net of Investment Expense)
1 Year	6.00%	21.65%	3.33%	3.70%	1.80%	4.75%
3 Years	5.97%	8.58%	3.16%	3.42%	3.82%	5.00%
5 Years	5.96%	11.08%	2.28%	2.50%	3.39%	5.23%
10 Years	5.90%	7.99%	1.89%	2.05%	2.61%	5.64%
20 Years	5.90%	6.68%	2.41%	2.18%	2.13%	6.17%
20-Year Standard Deviation	0.50%	15.88%	1.09%	0.84%	1.34%	0.81%

As of December 31, 2024. Standard deviation is a statistical measure of the variability in a series of values. A lower standard deviation indicates lower volatility.

This graph shows the stability effects on Co-operators dividend scale interest rates compared to well-known economic indicators.



Participating account returns

The Participating Account return is the return on the total Participating Account assets backing liabilities after investment expenses are deducted. Our Participating Account annual return is measured at June 30th each year since July 1st of the previous year. This short-term indicator of the investment performance is used together with smoothing factors to determine the dividend scale interest rate.

The following table shows the historical Participating Account average rate of returns. The returns are net of investment expenses.

	1 Year	3 Years	5 Years	10 Years	20 Years	20-Year Standard Deviation
Total Participating Account Average Return (Net of Investment Expense)	4.75%	5.00%	5.23%	5.64%	6.17%	0.81%

These are not the same as the dividend scale interest rate, which is the smoothed investment earnings rate on the Participating Account assets.

This information is intended to be general in nature. It is not intended as legal or tax advice. For specific situations, you should consult the appropriate legal, accounting or tax advisor.

Information provided is based on the current Canadian tax legislation and its interpretation for Canadian residents. As well, future changes to tax legislation and its interpretation may affect the information presented.

Although we make all reasonable efforts to ensure accuracy, some errors or omissions may occur. Otherwise:

- Statements about guaranteed values assume all premiums are paid when due.
- If you access the cash-surrender value, take a policy loan or surrender a portion of your dividend balance, you may incur taxable income that you need to report.
- Taking a policy loan will reduce the amount of the payout at death.
- If proceeds are paid to your estate probate at your death, fees will be payable.

Please refer to your policy for applicable coverage limitations and exclusions.

Whole Life



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