

LIFE INSURANCE



THE DIVIDEND DIFFERENCE

Adding Value to Your Whole Life Insurance Policy




INVEST

INSURE

RETIRE

You can't predict. You can prepare.®

- 
- NOT A BANK OR A CREDIT UNION DEPOSIT OR OBLIGATION
 - NOT FDIC OR NCUA-INSURED
 - NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
 - NOT GUARANTEED BY ANY BANK OR CREDIT UNION

THE DIVIDEND DIFFERENCE

When it comes to life insurance, whole life can offer numerous advantages over other types of products available on the market today.

Naturally, all life insurance policies will provide the beneficiary with a death benefit in the event of the insured's death while the policy is in force.¹ But whole life also offers many additional advantages, including:

- A guaranteed cash value; and
- The potential for dividend payments.

Whether you are considering purchasing a whole life insurance policy or you have already bought a policy, it's important for you to understand how life insurance products are priced and how they work.



One important component of eligible participating whole life products is what we refer to as the “dividend.” Dividends can play an important role in whole life insurance policies, although their payment is not guaranteed.

This guide will introduce you to dividends, explain how life insurance companies pay dividends, and discuss the various dividend options available to policyholders.

WHAT ARE DIVIDENDS?

Whole life policies with the potential to earn dividends are referred to as “participating” policies. Policyholders of participating policies are eligible to receive an equitable portion of the company’s earnings, known as “divisible surplus,” in the form of dividends. Dividends are paid annually, but are *not* guaranteed.

Divisible surplus is the amount of earnings paid out after the company sets aside funds needed to cover contractual obligations (reserves), operating expenses, contingencies for unexpected losses (such as worsening mortality or economic conditions) and general business purposes.

The payment of annual dividends is not guaranteed on any particular policy. Dividends are a reflection of conditions that affect the life insurance company and the cost of insurance.

MassMutual sets its initial premiums using conservative assumptions to ensure that the Company will collect enough to pay all benefits even under adverse future scenarios.

If the premiums are more than adequate, the eligible MassMutual participating policyholders will receive a policy dividend. It’s important to remember that, in order to pay dividends, divisible surplus must be achieved. Although MassMutual has paid policyholder dividends consistently since the late 1800s, the Company cannot guarantee its ongoing ability to pay dividends.



WHERE DO DIVIDENDS COME FROM?

A portion of a life insurance company's surplus is often distributed in the form of dividends. But where does that surplus come from? Primarily, it comes from three sources:

- mortality savings;
- favorable investment earnings; and
- savings on expenses.

MORTALITY SAVINGS

Insurance companies must anticipate the death claims they expect to pay out in the future and make sure their policies' premiums are priced appropriately. To do this, they must charge enough in premiums to meet these future claims. **Mortality savings** occurs when the amount a company pays out through death claims is lower than the level that company thought it would be when it set its premiums.

FAVORABLE INVESTMENT EARNINGS

Insurance companies must set aside reserves – money that is earmarked to pay claims when due. That money is invested in order to help meet the financial commitment for guaranteed cash value and death benefits. **Favorable investment earnings** occurs when a life insurance company’s investment returns exceed the guaranteed interest rate the company requires for reserves and to meet its contractual obligations.

SAVINGS ON EXPENSES

Insurance companies must factor their expenses into their life insurance policy pricing. **Expense savings** occurs when a company’s actual expenses are less than those assumed in determining the premium.

Because dividends are comprised of an investment component, a mortality component and an expense component, dividend interest rates should not be used exclusively for the purpose of comparing insurers or policy performance.

HOW MUCH DO POLICYHOLDERS RECEIVE WHEN DIVIDENDS ARE ISSUED?

Each year, MassMutual’s Board of Directors votes on the amount and allocation of divisible surplus (including the dividend interest rates). When a dividend is paid, the amount that each policyholder receives is determined by the “Contribution Principle” – which states that divisible surplus is returned to eligible participating policyholders in the same proportion as policyholders contributed to the divisible surplus. The Contribution Principle allows for equitable treatment of all eligible participating policyholders.

A WORD ABOUT DIVIDENDS ON POLICY ILLUSTRATIONS

It's important to understand that dividends shown on a life insurance policy illustration are neither estimates nor guarantees. Dividends paid in any given year can be lower or higher than illustrated, depending on MassMutual's actual experience.

DO ALL LIFE INSURANCE COMPANIES PAY DIVIDENDS?

Life insurance companies are incorporated one of two ways – as a mutual life insurance company or as a stock life insurance company. Generally speaking, both mutual life insurance companies and stock life insurance companies pay dividends on their participating policies. (Whole life is a type of participating policy.²) However, stock companies also pay a stockholder's dividend to their shareholders.

WHAT ARE SOME OF THE PRIMARY DIFFERENCES BETWEEN A MUTUAL LIFE INSURANCE COMPANY AND A STOCK LIFE INSURANCE COMPANY?

Mutual life insurance companies are owned by their members – or policy owners – rather than by stockholders.

Conversely, stock life insurance companies are owned by their stockholders. Each stock company's Board of Directors and senior executives must run the company with an eye to the needs and desires of the company's shareholders, who often judge the company's performance based on its quarterly or annual results. Satisfying stockholders helps to make the company an attractive commodity in the marketplace. This, consequently, helps to enhance a stock company's share price.

A mutual life insurance company, on the other hand, does not have stockholders. Because the ownership of the company rests with its members, this type of corporate structure enhances the mutual life insurance company's independence and agility. Mutual companies, as a result, are able to focus on long-term needs, rather than on short-term performance.

WITH RESPECT TO THE PAYMENT OF DIVIDENDS ON PARTICIPATING POLICIES, IS THERE ANY DIFFERENCE BETWEEN A MUTUAL LIFE INSURANCE COMPANY AND A STOCK COMPANY?

Yes. Ordinarily, there is. Because mutual life insurance companies are owned by their members, rather than by stockholders, more of a mutual insurance company's divisible surplus can be used to pay dividends. Stock life insurance companies, on the other hand, must pay out any stockholder dividends from their divisible surplus before any dividends can be allocated to their policyholders.

HOW CAN POLICYHOLDERS USE THEIR DIVIDENDS?

When you purchase a MassMutual whole life policy, you may elect to receive your dividends in cash – or, depending on the type of policy you purchased, you may use your dividends as you wish, under one of the following dividend options.

- Reduce Premiums
- Purchase Paid Up Insurance
- Accumulate at Interest
- Purchase One-year Term Insurance
- Make a Loan Repayment

If you purchase a participating policy and a dividend is payable for the policy's first year, MassMutual will pay that dividend once the premium payment for the second year has been received.



DIVIDEND OPTIONS

Reduce Premiums

Your annual dividend can be used to pay some or all of your annual premiums. If the dividend exceeds the billed premium, any excess can be sent to you in cash, used to purchase additional insurance, left to accumulate and earn interest, or used to repay any policy loan.

Purchase Paid Up Insurance

Your annual dividend can be used to purchase paid up additional insurance coverage, adding to your policy's death benefit and total cash value. If you choose this option, the additional insurance will also earn dividends. This additional coverage can be surrendered, or cancelled, at any time and the cash value from the paid up additional insurance can be used by the policy owner for any purpose.

Accumulate at Interest

Your annual dividend can be left in the policy to accumulate with interest. The interest credited each year is treated as taxable income, which MassMutual must report to the Internal Revenue Service. Policy owners who select this dividend option will receive a 1099 Form for the taxable interest after the end of each tax year.

Purchase One-year Term Insurance

Your annual dividend can be used to purchase one-year term insurance, supplementing your policy's death benefit for that one-year period. Any excess dividend not needed to purchase one-year term insurance may be used to reduce premiums, purchase paid up additional insurance, or repay a policy loan.

Make a Loan Repayment

Your annual dividend can be used to repay a policy loan and policy loan interest.

IF YOU DO NOT CHOOSE A DIVIDEND OPTION ...

If you do not choose a dividend option when your MassMutual whole life policy is issued, your dividends will be used to purchase paid up additional insurance.

Dividend options can be changed at any time. Policy owners may request that dividends left in the policy to purchase additional insurance or accumulate at interest be withdrawn (partially or totally), unless they are needed to secure a policy loan.

POLICY LOANS: THEIR EFFECT ON DIVIDEND PAYMENTS

If you have purchased a whole policy that is eligible to receive dividends and a dividend has been declared, any loan(s) that you have taken from your policy will not affect your right to receive your dividend payment. However, if your policy loan has a fixed loan interest rate, the dividends you receive on the loaned portion of your policy's cash value may be different from the dividends you'll earn on the non-loaned portion of your policy's cash value.

A WORD ABOUT DIVIDENDS AND TAXES

Internal Revenue Code Sec. 72 states that a life insurance policy dividend, when received, is usually considered a return of premium (investment) and as such, is not considered taxable income until the total amount of dividends received exceeds the policy's cost basis (the total of premiums paid).

There are, however, certain circumstances when the IRS views that dividends are not considered to be a return of policy earnings and, therefore, are taxable. For example, if a life insurance policy is a Modified Endowment Contract (MEC),³ any dividends distributed to the policy owner are taxable as income to the extent that there is a gain in the policy.

Dividends that remain in the policy to purchase policy benefits – either applied to reduce the policy premium or to purchase additional insurance – are not taxable to the policy owner.

DIVIDENDS: VALUE PLUS FLEXIBILITY

As you now know, if you purchase a participating life insurance policy, you have a lot of choice with respect to how you may use your dividends. With the help of your financial services professional, you can choose which dividend option may work best for you, based on your individual circumstances.

To briefly summarize, dividends can be used to boost your death benefit (either temporarily or permanently), reduce your premiums or repay loans you may have taken against your policy. Of course, they may also be taken in cash. And keep in mind that your dividend option may be changed at any time.

While no mutual life insurance company can guarantee the issuance of a dividend for any given policy year, our ongoing commitment to policy owners is clear: MassMutual has paid dividends to its policy owners consistently – for over 100 years.



- 1 Guarantees are based on the claims-paying ability of the issuing company.
- 2 Most participating policies are whole life policies, but other types of insurance policies may also be classified as “participating” policies.
- 3 Distributions under your policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (your cost basis). If the policy is a Modified Endowment Contract, policy loans and/or distributions are taxable to the extent of gain and are subject to a 10% tax penalty. Access to cash values through borrowing or partial surrenders can reduce the policy’s cash value and death benefit, increase the chance the policy will lapse, and may result in a tax liability if the policy terminates before the death of the insured.



This guide provides you with an introduction to dividends – and the important role they play as an integral component of a whole life insurance policy. To learn more, contact your financial services professional.

The information provided is not written or intended as specific tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. MassMutual, its employees and representatives are not authorized to give tax or legal advice. Individuals are encouraged to seek advice from their own tax or legal counsel.

MASSMUTUAL: A COMPANY YOU CAN COUNT ON.

Your life insurance policy should come from an organization you can count on – one that's strong and can stand behind its obligations over time. MassMutual offers you a history of 155 years of high-quality products and services, along with a reputation for financial strength that is unquestioned. Here's how top industry analytical rating agencies rate us:

- **A.M. Best Company** A++ (Superior)
- **Moody's Investors Service, Inc.** Aa1 (Excellent)
- **Standard & Poor's Corp.** AAA (Extremely Strong)
- **Fitch Ratings** AAA (Exceptionally Strong)

*Ratings are as of 12/1/06 and are subject to change.
Ratings are for Massachusetts Mutual Life Insurance Company, C.M. Life Insurance Company and MML Bay State Life Insurance Company.*

Product and product features may not be available in all states. State variations may apply.

Massachusetts Mutual Life Insurance Company and its affiliated insurance companies have received certification from IMSA, an industry organization dedicated to promoting ethical conduct in all customer contacts involving sales and service of individual life insurance and annuity and long term care products.

Whole life insurance policies are issued by Massachusetts Mutual Life Insurance Company, Springfield, MA 01111-0001.



Massachusetts Mutual Life Insurance Company
and affiliates, Springfield, MA 01111-0001

www.massmutual.com

© 2007 Massachusetts Mutual Life Insurance Company. All rights reserved.

MassMutual Financial Group is a marketing designation (or fleet name) for Massachusetts Mutual Life Insurance Company (MassMutual) and its affiliates.

L11011 1206
C:86641 12-08