

Sun Life Assurance Company of Canada

2023 Dividend Scale Announcement

Sun Life Assurance Company of Canada, a member of the Sun Life Financial group of companies, announces its 2023 policyholder dividend scale. The 2023 dividend scale reflects updated economic conditions through increased interest rates and an increase in expenses. Mortality experience has been updated, the change is favorable for some policyholders and unfavorable for others. There is also a small increase in dividends due to policyholder retention (lapses). For most policies the combined changes will have a significant increase to annual dividends.

The Special Maturity Dividend Scale, which is shown in Appendix II, has increased. The expected terminal dividend payments for the 2023 dividend year are \$31.1 million.

U.S. policy owners are projected to receive \$32.2 million in annual dividends during the 2023 dividend year, April 1, 2023, to March 31, 2024.

Interest rates

Investment returns from the portfolio of Par assets have improved, resulting in an increase to the dividend interest rates.

The gross interest rate will be increased from 5.25% to 5.50% for all policies.

The net interest rate credited to dividends left on deposit will be increased from 2.75% to 3.00%.

The interest rate used for the prepaid premium deposits within the first 10 years will stay at 4.0%.

Special Distribution of Unusual Investment Earnings

There have been some past investment gains that are not expected to repeat. These gains increased the annual dividend interest rate slightly starting in 2014 and have led to a further increase starting in 2023. The expectation is this small increase in interest rate will continue in future years, but it is not guaranteed. This benefit comes at no cost to policyholders

Expenses

An increase in expenses has been made reflecting Consumer Price Index changes

Lapses

Lapse rates have decreased, which allows us to slightly increase the dividend scale. This was done by reducing the interest spreads on all products.

The 2023 dividend scale, in combination with existing products, services, and outstanding corporate financial strength, demonstrates Sun Life's commitment to in-force Par policyholders

In-force illustrations

In force illustrations will show the 2023 dividend scale.

Illustrations on those policies with anniversaries between now and March 31, 2023 will illustrate the next dividend payment on the 2023 scale versus the 2022 scale which is the scale that will actually be paid.

Note: Sun Life Financial advises you to wait until April 1, 2023 to request an in force illustration. At that time the new scale will apply to all future illustrated dividends for any anniversary date.

Policy annual reports

Annual reports have been provided on certain Par policies sold since January 1, 1997, as required by regulations of various states. These regulations call for a notice in the annual report if any aspect of the dividends has changed adversely since the last report. Since the expense factor has changed adversely, the following notice will appear on such annual reports sent between April 1, 2023, and March 31, 2024:

- Note that the dividend scale effective April 1, 2023 has been revised to reflect recent actual and anticipated experience. For all policies the annual dividend interest factor has increased. On all policies, including Reduced Paid-Up policies, the expense factors have increased. The mortality profit factors have been revised, on some policies this factor has increased and on other policies this factor has decreased. For policies eligible to receive terminal dividends, the terminal dividend scale has been increased.

Policyholder letters

To better serve our policyholders, premium-paying participating policyholders will receive a letter informing them of the increase in dividend interest rates and updated mortality experience. The letter also tells them that, if their policy is eligible for terminal dividends (also called special maturity dividends), they will see an increase of those as well.

Policyholders have the right to request a free policy illustration. An illustration is included with the policyholder letter if the policyholder has an Enhanced Life Rider or if the policyholder is using dividends to pay the premium.

Additional information

This package contains the following additional information in appendix format:

- Appendix I Summary of 2023 Dividend Scale and Interest Rates
- Appendix II Special Maturity Dividends (SMDs)
- Appendix III Prepaid Premium Interest Rates
- Appendix IV Dividend Policy After Demutualization
- Appendix V Comparing Dividends

APPENDIX I – SUMMARY OF 2023 DIVIDEND SCALE AND INTERST RATES		
Annual Dividend Scale Interest Rates*	2022	2023
All Products	5.25%	5.50%
Policy Loan Interest Spreads		
Pre-1996 Policy series	1.80%	1.65%
1996 Policy Series Sun Permanent Life Advantage, Spectrum Gold Advantage, and Sun Modified Life Plus	0.95%	0.80%
1998 Policy Series Sun Survivorship Whole Life, and Sun Permanent Life Plus	0.45%	0.30%
Net Interest Rate for Dividends Left on Deposit	2.75%	3.00%
Prepaid Premium Interest Rates		
Years 1–10	4.00%	4.00%
Years 11+	3.00%	3.00%

**For policies with outstanding policy loans, a portion of the dividend will be based on the applicable policy-loan interest rate or variable-loan interest rate declared by the Company.*

Appendix II—Special Maturity Dividends (SMDs)

Sun Life Assurance Company of Canada (“the Company”) introduced Special Maturity Dividends (SMDs) in 1985, thereby distributing that portion of the available surplus (1) attributable to the policy and (2) not previously distributed by way of annual dividends. SMDs, together with annual dividends credited to a policy, were intended to recognize the contribution that a policy was considered to have made to the surplus of the Company. When it was introduced in 1985, the SMD scale was applied to all new and existing participating policies.

In 1996, in response to changing market demands, the Company began offering its new participating products without SMDs, but with generally higher annual dividends. This change was in response to customer requests for lower out-of-pocket costs and higher annual dividends and cash values.

Even though more recent policies were sold without SMDs, the Company remains committed to SMDs for the pre-1996 policy series therefore, the enhanced values provided by the SMDs will continue to be an integral part of these policies. Every pre-1996 participating policy remains eligible to receive this benefit at death, maturity, or surrender.

The 2023 SMD scale has been increased slightly over the 2022 scale.

Schedule of SMDs—2023 Dividend Scale

As opposed to annual or regular dividends, SMDs are payable only when the insurance coverage is terminated—either on a surrender of the policy after 20 years or on a death claim or maturity after 10 years. Upon any such occurrence, the amount paid out under the base policy and any accumulated Paid-Up Additions is increased by a percentage that varies by policy duration as follows:

Completed Policy Years	On Death or Maturity ^{1, 3}		On Surrender ^{2, 3}	
	2022 Scale	2023 Scale	2022 Scale	2023 Scale
10	2.70%	2.80%	0.00%	0.00%
20	8.10%	8.40%	2.70%	2.80%
25	10.80%	11.20%	5.40%	5.60%
30	13.50%	14.00%	8.10%	8.40%
35	16.20%	16.80%	10.80%	11.20%
40	18.90%	19.60%	13.50%	14.00%
45	21.60%	22.40%	16.20%	16.80%
50	24.30%	25.20%	18.90%	19.60%
55	27.00%	28.00%	21.60%	22.40%
56	27.54%	28.56%	22.14%	22.96%
57	28.08%	29.12%	22.68%	23.52%
58	28.62%	29.68%	23.22%	24.08%
59	29.16%	30.24%	23.76%	24.64%
60	29.70%	30.80%	24.30%	25.20%
61	30.24%	31.36%	24.84%	25.76%
62	30.78%	31.92%	25.38%	26.32%
63	31.32%	32.48%	25.92%	26.88%
64	31.86%	33.04%	26.46%	27.44%
65+	33.00%	34.00%	33.00%	34.00%

1. Payable as a percentage of the base face amount and the face amount of any Paid-Up Additions.
2. Payable as a percentage of the guaranteed cash value and the cash value of any Paid-Up Additions.
3. Scale for Paid-Up Additions under Spectrum Gold policies is one-half of the factors shown.

APPENDIX III – PREPAID PREMIUM INTEREST RATES		
Prepaid Premium Interest Rates	2022	2023
Years 1–10 Prepaid Premium	4.00%	4.00%
Years 11+ Prepaid Premium	3.00%	3.00%

The following table translates these interest rates into factors that determine how much payment is necessary for prepayments of 1 to 20 years (factors for additional years are available from the actuarial department).

These factors should be multiplied by the total annual premium for the policy because they include the premium currently due, for example, if the policyholder wants to pay 12 premiums on his policy anniversary, they would now need to pay their annual premium multiplied by 9.767.

Annual Premiums	Factors	Annual Premiums	Factors
1	1.000	11	9.111
2	1.962	12	9.767
3	2.887	13	10.404
4	3.776	14	11.022
5	4.630	15	11.623
6	5.452	16	12.205
7	6.243	17	12.771
8	7.003	18	13.320
9	7.733	19	13.854
10	8.436	20	14.371

Appendix IV—Dividend Policy After Demutualization

Under the Company's Dividend Policy, participating individual life insurance policies sold before demutualization are eligible to receive policy dividends paid from funds set aside and maintained for the benefit of these policies. Participating policies with an application dated March 21, 2000, or earlier are included in this group.

The basis for determining policy dividends on these policies is substantially the same as the basis before demutualization. Policy dividends generally reflect the experience of these policies over time, including the investment returns, taxes, lapse rates, and administrative expenses attributed to these policies, as well as the cost of mortality of persons insured under the policies. The administrative expenses attributed to these policies in future years were fixed at the time of demutualization, but expenses attributed on a per-policy basis are adjusted for inflation based on the U.S. Consumer Price Index.

As a condition of the 2019 merger of the small U.S. Open Block with the much larger Closed Block, in 2019 additional funds were moved into the Closed Block. These additional funds allow all par policyholders to have the same rights and guarantees, including guarantees on expense factors that can be charged to policyholder dividends. There is no longer a separate account for policies sold after demutualization.

The investment returns for par policies are based on a dedicated portfolio of assets that support only the par block of business. This dedicated par portfolio has been required since demutualization in 2000.

Although the gross dividend rate is the same for all policies, the net dividend rate does vary from policy series to policy series (see Appendix V).

Appendix V—Comparing Dividends

Policyholder dividends allocated to participating policies manifest the Company's experience with investment earnings, mortality, lapses and expenses.

Looking for an indicator to compare different companies' policy performance, many consumers and producers mistakenly choose the dividend interest rate.

An interest rate for savings vehicles, such as a certificate of deposit, may be similar from one institution to another. However, using the dividend interest rate for a whole life insurance policy without understanding the related components is not a sound basis for such a comparison. In fact, such a comparison can be quite misleading.

The dividend interest rate is only one of several dividend components. Changes in mortality and expense components of the dividend can broadly offset changes in the dividend interest rate. In addition, usage of policy loans impacts dividends and policy benefits that might otherwise be available.

Even looking solely at the interest component of dividends is not an accurate way to compare insurers. Most companies, including Sun Life Assurance Company of Canada, use what is known as a gross dividend interest rate. This rate reflects an average gross investment yield earned on assets backing the policy, before deducting any expenses, taxes, and a contribution to surplus or profit. The provisions for these factors may differ from company to company or from policy series to policy series within the same company.

Some companies use a *net* dividend interest rate instead of a gross rate. A net dividend interest rate is the gross rate minus the aforementioned provisions for expenses, taxes, and a contribution to surplus or profit, which can differ substantially (as noted previously).

In summary, it is quite difficult to meaningfully and reliably compare dividend interest rates for different companies. Dividend interest rates viewed in isolation can be misleading. Total policy performance, reflecting premiums, guaranteed benefits, and nonguaranteed dividends, over the long run should carry the most weight in comparing policies.