

An **Educational Guide**
for Individuals

The dividend difference

Adding value to your whole
life insurance policy



Insurance Strategies



We'll help you get there.®



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The dividend difference

Whether you are considering the purchase of a whole life insurance policy or you already own a policy, it's important for you to understand how participating whole life insurance works and the advantages that it offers over some other types of life insurance policies.

Participating whole life insurance offers a combination of features that include:

- Guaranteed premiums
- Guaranteed cash values
- Permanent life insurance coverage
- The potential for dividend payments

Policy dividends are unique to eligible participating insurance policies. Although dividend payments are not guaranteed, for life insurance policies, dividends can play an important role in reducing the out-of-pocket cost of coverage, increasing the cash value or providing additional life insurance coverage.

This guide explains how MassMutual determines and pays dividends to eligible participating whole life policyholders, and discusses the various ways that dividends can be used.

You can feel confident knowing that when you choose MassMutual to help protect your future, you've made a good decision.



What are policy dividends?

Although MassMutual cannot guarantee its ongoing ability to pay policyholder dividends in the future, the Company has paid annual policyholder dividends consistently since the 1860s.



MassMutual's participating whole life policyholders are eligible to receive an equitable portion of the company's divisible surplus as a dividend. Generally, dividends are declared and paid annually, but are not guaranteed.

Divisible surplus is the amount paid out after the company sets aside the funds required to meet contractual obligations, operating expenses, contingencies and for general business purposes.

It's important to understand that, in order to pay dividends, divisible surplus must be achieved. This is why the payment of dividends on any particular policy is not guaranteed.

Where do policy dividends come from?

Divisible surplus comes primarily from three sources.

These include:

- Death claims (mortality) savings;
- Investment results; and
- Expense savings

Death Claims (Mortality) Savings

Life insurance companies project the death claims that they expect to pay in the future, and use these projections in the process of determining policy premiums.

Mortality savings result when the amount a company pays out in actual death claims is less than what was expected when premiums were determined.

Investment Results

Favorable investment results occur when a company's actual investment returns exceed the guaranteed interest rate required to meet its contractual obligations to policyholders.

Expense Savings

Insurance companies factor expenses into their policy premiums. *Expense savings* occur when a company's actual expenses are less than those assumed in determining the premium.

How is divisible surplus allocated among policyholders?

MassMutual has a long history of standing behind its obligations to policyholders while also providing a good value. This is evidenced in historical dividend studies* published by the company.



Each year, MassMutual’s Board of Directors votes on the amount of divisible surplus and how it will be allocated to policyholders. When determining the dividend pay-out for an individual policy, MassMutual follows the “Contribution Principle” which allocates divisible surplus to eligible participating policyholders in the proportion they contributed to divisible surplus.

The effect of policy loans on dividend payments

If you have purchased a whole life 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 a dividend payment.

However, policy loans and the loan provision chosen (fixed or variable loan rate) are likely to impact the amount of the dividend.

* To receive a current copy of ***Historical dividend studies from Massachusetts Mutual Life Insurance Company*** ask your financial services representative.

How can policyholders use their dividends?

A MassMutual participating whole life policyholder may elect to use their policy dividends in a number of different ways that include the following:

Paid in cash

You can choose to have your annual dividend paid to you in cash.

Reduce premiums

Your annual dividend can be used to pay some or all of your annual, semi-annual or quarterly premiums.

Purchase paid-up additional 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. The additional insurance will also earn dividends.

This additional coverage can be surrendered at any time for its cash value, unless it is needed to secure a policy loan.

Accumulate at interest

Your annual dividend can be left with the Company to accumulate with interest. The interest credited each year is treated as taxable income, which MassMutual must report to the Internal Revenue Service. Policyholders who leave their dividends to accumulate with interest will receive a 1099 Form for the taxable interest after the end of each tax year.



How can policyholders use their dividends? (continued)

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.

Reduce policy loan or loan interest

Your annual dividend can be used to reduce an outstanding policy loan balance or pay policy loan interest due.

The taxation of policy dividends

A life insurance policy dividend is usually considered a return of premium. As such, dividends are not taxable income until the total amount of dividends received exceeds the total premiums paid, reduced by any other amounts received, such as partial surrenders.

There are certain circumstances, however, when the receipt of dividends will be treated first as a distribution of policy earnings and as a return of premium second. This occurs if a life insurance policy is a Modified Endowment Contract (MEC). With a MEC, any amount received by the policyholder (whether as dividends or as other distributions including policy loans¹) is taxable as income to the extent that there is gain in the policy.

Income taxation of policy dividends is based on the provisions of IRC Section 72.

¹ Distributions under the policy (including cash dividends and partial/full surrenders) are not subject to taxation up to the amount paid into the policy (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 will 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.

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's policy dividends will vary based on the company's actual experience and will be higher or lower than illustrated. But whether actual experience in the future is more or less favorable than what is assumed in our current dividend scale, our goal is to provide enduring value to our policyholders, while maintaining a commitment to financial strength and the principles of mutuality upon which our company was built.

MassMutual. We'll help you get there.®

There are many reasons to choose a life insurance company to help meet your financial needs: protection for your family or business, products to provide supplemental income and the confidence of knowing you will be prepared for the future.

At Massachusetts Mutual Life Insurance Company (MassMutual), we are owned by our members and participating policy owners. We stand strong in the fundamental belief that every secure future begins with a good decision. And when choosing a life insurance company, ownership, strength and stability matter.

Learn more at

www.massmutual.com/mutuality.





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