

What are insurance policy dividends?

You are eligible to receive a dividend if you own a participating insurance policy from Massachusetts Mutual Life Insurance Company (MassMutual). Not all insurance policies are participating. While participating policies may be life insurance or other types of insurance, the information on this page relates specifically to whole life insurance policy dividends.

When developing insurance products, MassMutual sets its initial premiums using conservative assumptions to ensure the company will collect enough money to pay all benefits, even under very adverse future scenarios.

If the premium is more than adequate, as the owner of a MassMutual participating policy, you are eligible to receive an equitable portion of the company's earnings, known as "divisible surplus", in the form of a dividend.

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

It's important to understand that the payment of dividends is not guaranteed; dividends are a reflection of conditions affecting the company and the cost of insurance policies.

Where do dividends come from?

Dividends come primarily from three sources: mortality savings, investment results, and savings on expenses.

Mortality savings occurs when the amount a company pays out in actual death claims is lower than the amount the company expected to pay out when setting premiums.

Investment results reflect earnings on company investments that exceed the guaranteed interest rate required to build up policy reserves to meet contractual obligations (money earmarked to pay claims when due).

Savings on expenses occurs when a company's actual expenses are less than the expenses assumed when the premium was set.

How can my dividends be used?

You can choose to receive your dividends in cash, or depending on the type of policy you purchase, you may use your dividends to:

- Pay part or all of your policy's annual premium
- Buy additional, fully paid whole life insurance that increases your policy's benefits
- Accumulate and earn interest that is added to your policy's cash value
- Buy one-year term insurance that adds to your policy's death benefit
- Repay a policy loan and interest

As the policy owner, you may change your dividend option at any time.

If you have borrowed funds from your policy, depending on the type of policy and the loan interest rate provision you choose (fixed or adjustable loan interest rate), the size of your dividend may reflect the amount of the outstanding loan.

Are dividends taxable?

An insurance policy dividend, unlike a stock dividend, is generally considered a return of premium. As such, it is not taxable income unless the total amount of dividends received exceeds the total amount of premiums paid (the cost basis). If dividends are left to accumulate and earn interest, the interest credited each year is taxable income that MassMutual must report to the Internal Revenue Service.

There are circumstances when dividends are not considered a return of premium and, therefore, are taxable. One such circumstance involves policies where large amounts of additional premium have been added to the policy. These policies are classified with the IRS as Modified Endowment Contracts and are considered savings vehicles rather than life insurance. Under these policies, the dividends are taxable as income to the policyholder, to the extent there is gain in the policy. The only exceptions are for dividends applied to reduce the policy's annual premium or to buy additional insurance.

What is an illustration?

An illustration is a presentation that shows hypothetical policy performance over a number of years. Illustrations demonstrate how a life insurance product works. They show guaranteed policy features, such as guaranteed cash value growth and the guaranteed death benefit, and also show features such as dividends that are not guaranteed.

Any annual dividends shown on an illustration reflect the dividend scale in effect when the illustration was created. The dividend scale is reviewed annually and it is very likely dividends in future years will be higher or lower depending on MassMutual's actual experience.

Do illustrations project future results?

No. Illustrations should not be used to project future performance, or as a means to compare products or companies. Dividend performance may - and most likely will - change over time. As a result, future dividends and policy values that are not guaranteed almost certainly will be different from those illustrated. Illustrations are not intended to be and should not be used as estimates of future performance.

You may request an illustration that shows a dividend interest rate lower than the current rate to see how the policy would be affected by a drop in dividends. This is especially important when illustrating scenarios that are particularly sensitive to dividend scale changes such as dividends being used to pay premiums.

Which dividend option is the best?

There is no "best" dividend option. You'll need to consider your current needs and the reason you're buying the insurance. Your choice will also depend on the type of policy you purchase. Your MassMutual financial professional can advise you about your dividend privileges and options.

If you've owned your policy for many years, or if your circumstances have changed since you bought your policy, you'll want to contact your financial professional to re-evaluate your choices.

Other important facts about dividends:

- If you use your policy dividends to buy additional insurance, the additional insurance will also earn dividends.
- Dividend accumulations and the cash value of additional insurance purchased by dividends are included when calculating the amount available to you as a policy loan.
- You may withdraw any accumulated dividends and/or surrender the cash value of dividends used to purchase additional insurance in part or in total at any time, unless they are needed to secure a policy loan.
- When you use your annual dividend to pay your premium, if the dividend is not sufficient to pay the annual premium, the payment frequency will be changed to semi-annual or quarterly if the dividend is sufficient to pay the smaller premium.

For more information about your MassMutual policy dividends, or any policy features, please contact your MassMutual financial professional.

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¹ MassMutual's stock subsidiaries, C.M. Life Insurance Company and MML Bay State Life Insurance Company, do not issue participating contracts.

² The information provided is not written or intended as 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.