



# Direct vs. Non-Direct Recognition



## DO LOANS AFFECT DIVIDENDS?

A direct recognition company will charge an interest rate on a loan and adjust the dividend credited to the policy. A non-direct recognition company will charge interest on a policy loan but does not adjust the dividend.

Therefore, dividends under a direct recognition contract will be different for policies with a loan than for policies that do not have a loan. On a non-direct recognition contract, the dividend credited to the policy will be the same whether there is a loan or not.

The Lafayette Life Insurance Company (Lafayette Life) dividend paying whole life policies are all non-direct recognition.

As long as the loan is repaid and the interest is paid, the cash value in the policy would be the same as if the client had not taken a loan.

## Lafayette Life vs. Core Competitors: Whole Life Products\*

Company	No (Non-Direct)	Yes (Direct)
<b>Lafayette Life</b>	✓	
Ameritas	✓	✓
Guardian Life Ins	✓	✓
Massachusetts Mutual Life	✓	✓
Mutual Trust	✓	
National Life Group		✓
New York Life	✓	
Northwestern Mutual Life		✓
Ohio National	✓	
One America	✓	
Penn Mutual Life		✓

\* Information current as of 12/17/2021. These ten insurance carriers represent a sampling of Lafayette Life's core competitors.

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## Dividends on Whole Life Insurance Policies

### WHAT IS A DIVIDEND?

A dividend is a return of premium. Premiums for a dividend-paying Whole Life policy are determined using conservative mortality, interest and company expense assumptions.

The Lafayette Life board of directors, when reviewing the company's operating results each year, may declare

a dividend when the operating results are better than these assumptions. Dividends are not and cannot be guaranteed.

The dividend scale determines how the dividends will be allocated to each policy. This allocation is determined annually by a number of factors.

### HOW IS THE DIVIDEND SCALE DETERMINED?



Lafayette Life's Dividend Scale is set annually based on:

**Interest Factor:** The company's investment earnings in excess of the guaranteed rate, calculated on the reserves backing the policy values.

**Mortality Factor:** The difference between the guaranteed mortality assumed in the policy premium and actual experience.

**Expense Factor:** The difference between expenses assumed in the policy premium and actual expenses.

### DIVIDENDS CANNOT BE GUARANTEED

It is important when discussing dividends to make certain the proposed insured understands that dividends are not and cannot be guaranteed. All proposals for life insurance are required by law to state this fact.

Loans, withdrawals and advances will reduce the death benefit and cash surrender value and may cause the policy to lapse. The lapse or surrender of a policy with an outstanding loan may result in taxable income.

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