YOUR GUIDE TO

London Life participating life insurance

Value, strength and choice

London Life

What you'll learn from this guide

This guide, combined with professional advice from your financial security advisor, helps you understand how participating life insurance works, some of its risks and advantages, and how to take full advantage of this important financial asset to meet your goals.

We suggest you keep this guide with your London Life illustration and policy contract, which contain important definitions of some terms used in this guide.

Participating life insurance at a glance

London Life participating life insurance gives you a foundation of guaranteed values and tax-advantaged growth. It also gives you the opportunity to receive policyowner dividends, based on your participation in a pool of more than 1.5 million other participating policies. It gives you stability and flexibility in a permanent life insurance solution.

Foundation of guaranteed values

- Guaranteed premiums
- Guaranteed death benefit
- Guaranteed cash value

Tax-advantaged growth

- Cash value grows on a tax-advantaged basis.
- The death benefit is not subject to income tax.

Strength of London Life's participating account

- Largest participating account in Canada
- Long track record of stable investment returns
- Strong history of dividend payments

Choices to match your needs

- Fund your policy in 20 years or pay premiums to age 65 or age 100.
- Use your policyowner dividends to buy more insurance, reduce premiums or take a Premium Vacation™.
- Access your cash value through policy loans.
- Select from a wide range of riders and benefits.

Value, strength and choice

Each section of this guide deals with an aspect of participating life insurance that clients have identified as important. Here's an overview of each section.

>> Value of participating life insurance

In this section you learn about the key components that contribute to the performance of your policy, the long-term benefits and the cost of your coverage. You also learn how you and over one million other participating London Life policyowners share in the results.

>> Strength of London Life

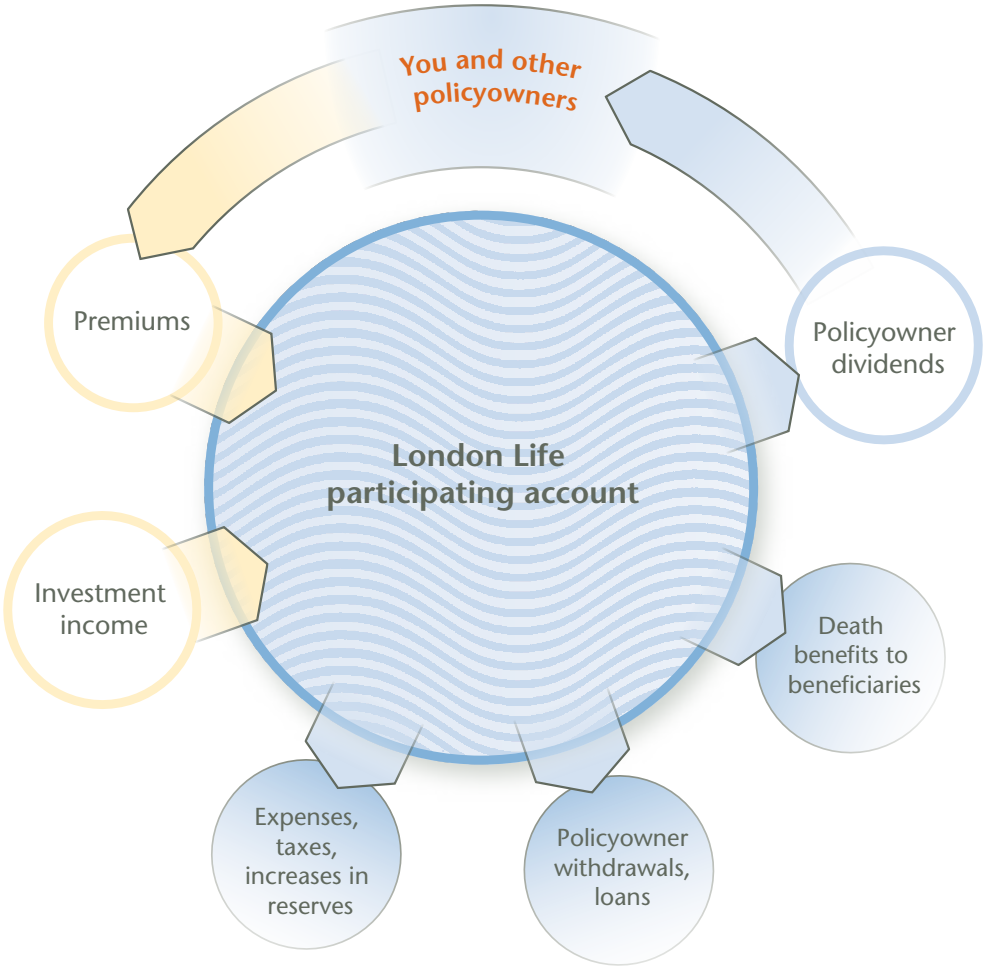
In this section you learn about the company that stands behind your participating life insurance coverage. It's important to select a strong company and a strong participating account. Here you learn about London Life's strength and stability over the long term.

>> Choice and flexibility

In this section you learn about the different features and options that are available to tailor your coverage to your specific needs. Participating life insurance is not one-size-fits-all. You can choose how you want to balance affordability with future growth and flexibility. You can combine permanent and term life insurance to meet long- and short-term needs. Your financial security advisor can help you make the best choices to meet your goals.

How participating life insurance works

- When you purchase participating insurance, the premiums you pay go into an account called the participating account, together with funds from other London Life participating policies.
- To determine your guaranteed premiums, guaranteed cash values and guaranteed death benefits, London Life uses long-term assumptions for factors such as investment returns, mortality, expenses, lapses and taxes.
- If the actual results in the participating account are collectively more favourable than the assumptions supporting the guaranteed values, earnings are generated that become part of the participating account surplus (retained earnings).
- Each year, London Life may distribute a portion of the earnings as participating policyowner dividends, as approved by the board of directors.
- Surplus is held in the participating account to maintain the strength and stability of the participating account into the future.



The philosophy behind participating life insurance is to provide insurance at a cost that reflects the actual performance of the participating account.

Each year, the board of directors declares the distribution of a portion of the participating account's earnings. Currently 97.5 per cent of the distribution goes to policyowners in the form of dividends, and 2.5 per cent goes to the shareholder account under Section 461 of the Insurance Companies Act.

Value of participating life insurance

Here is more information on the key components that determine the value of your participating life insurance policy.

Policy cash values

The cash value of your policy is composed of guaranteed cash values, as stated in your policy, plus non-guaranteed cash values generated by dividends credited to your policy. If you surrender your policy, you receive the total cash value, less any indebtedness.

Investment performance for the long term

Participating life insurance is, first and foremost, life insurance. However, the investment performance of the participating account is an important component in the long-term value of your policy.

A team of professional investment managers invests the assets in the participating account. These assets include publicly traded government and corporate bonds, residential and commercial mortgages, corporate lending, real estate, equity-related investments, short-term investments and policy loans.

Historically, even during times of rapid economic change, the participating account's rate of return has been relatively stable.

If you're looking for life insurance built on a foundation of relatively stable investment returns, then participating life insurance may be right for you.

The high quality of investments, the long-term investment strategy and the size of the participating account have contributed to stable investment returns.

London Life participating life insurance policies have an excellent track record of investment performance.

As with any financial vehicle, a small change in investment returns can have a significant long-term impact on the dividends, values and features in your policy. To better understand this sensitivity for your specific policy, refer to the policy illustration your financial security advisor gave you and compare the reduced example to the primary example.

For more information on the investment returns of the participating account, ask your financial security advisor for a copy of *London Life participating life insurance financial facts*.

Increasing life expectancy

This is a unique feature of participating life insurance. As people live longer, positive mortality experience is passed to policyowners through dividends. In general, every decade of the last 50 years has shown mortality improvement, based on data from Statistics Canada. Each year London Life reviews its mortality experience and takes it into account in determining dividends.

Expense management

London Life has the largest Canadian participating account. This provides economies of scale for expenses and investments. Expense management focuses on controlling expenses for the benefit of participating policyowners and shareholders.

Dividends

One of the unique benefits of participating life insurance is the opportunity to earn policyowner dividends. As a participating policyowner, you benefit from the success of the pool of participating policies, through the receipt of policyowner dividends.

Dividends are not guaranteed and vary up or down from those illustrated, depending on future dividend scales. The dividend scale is affected by investment returns, mortality experience, expenses, taxes and other factors associated with the participating account.

The dividends credited to your policy have a cash value. Once credited, this cash value is vested and cannot be reduced or used in any way without your authorization, other than to pay premiums. Before the first dividend is credited, the premium due on the first policy anniversary must be paid.

A policy loan, including a premium loan, doesn't reduce your dividend. Your policy continues to receive dividends as if the loan didn't exist. Any outstanding loan, including interest, is repaid from the cash value if you surrender the policy, or from the death benefit when the insured person dies.

When determining the net cost of your policy, you should consider both the premiums charged and the dividends returned over time. *London Life participating life insurance* has consistently been among the lowest net-cost participating policies available.

Strength of London Life

Life insurance is a promise that may not be put to the test for 30, 40, 50 years or more. This means the long-term financial strength and claims-paying ability of your insurance company are vitally important to you.

London Life – a vital Canadian business since 1874

London Life Insurance Company has helped Canadians meet their financial security needs since 1874 and has almost two million clients. In 2009 London Life paid or credited $2.8 billion in benefits and policyowner dividends to clients and beneficiaries across Canada. That's an average of $7.7 million per day.

London Life is a subsidiary of The Great-West Life Assurance Company. Together, Great-West and its subsidiaries — London Life and Canada Life — serve the financial security needs of more than 12 million people across Canada. London Life, Great-West and Canada Life are members of the Power Financial Corporation group of companies.

London Life has paid dividends to participating policyowners every year since 1886.

Financial strength and claims-paying ability

In 2009 London Life distributed $700.6 million in participating policyowner dividends.

In 2009 London Life paid out $286.5 million in death claims to participating policyowners.

London Life has received strong ratings from the major rating agencies.* For current information on London Life's ratings and financial strength, see the Corporate Information section on www.londonlife.com.

London Life Insurance Company is a member of Assuris (formerly CompCorp). Assuris is the not for profit organization that protects Canadian policyholders in the event that their life insurance company should fail. Assuris' role is to protect policyholders by minimizing loss of benefits and ensuring a transfer of their policies to a solvent company where their protected benefits will continue to be honoured. Assuris is funded by the life insurance industry and endorsed by government. There is no cost to policyholders for Assuris' protection. Details about the extent of Assuris' protection are available at www.assuris.ca or in its brochure, which can be obtained from your financial security advisor, life insurance company or Assuris at info@assuris.ca or by calling 1-866-878-1225.

London Life's activities are regulated federally by the Office of the Superintendent of Financial Institutions (Canada) and within each province by the relevant provincial insurance regulatory authorities.

* As rated by A.M. Best Company, DBRS Limited, Fitch Ratings, Moody's Investors Service and Standard & Poor's Rating Services at time of publication. Ratings are subject to change without notice.

- London Life has the largest Canadian participating account, measured by assets, with $17.6 billion in assets, including surplus, at Dec. 31, 2009.
- The company has approximately 1.6 million participating life insurance policies in force at Dec. 31, 2009.

Choice and flexibility

This section describes the main options available to you with *London Life participating life insurance*.

>> Choice of basic policy

>> Choice of death benefit

>> Choice of dividend options

>> Choice of additional benefits

These choices let you meet your specific needs today while giving you flexibility to meet your changing needs tomorrow.

Choice of basic policy

All three of these basic policies give you permanent life insurance protection. The policy doesn't terminate at a certain age, as long as you pay premiums as described in the policy.

20-Pay Life

This policy gives you lifetime protection with premiums payable for 20 years. After that, your basic coverage is fully paid up and no further premiums are due. 20-Pay Life gives you the highest early cash surrender values, compared to the other two products. It also gives you excellent long-term cash value and growth of the death benefit.

Life Premiums to 65

This policy gives you lifetime protection with premiums payable to age 65. After that, your basic coverage is fully paid up and no further premiums are due. Life Premiums to 65 is available for issue ages up to and including age 45.

Jubilee Whole Life

This policy gives you lifetime protection with premiums payable to age 100. This popular policy gives you the lowest annual premium of the three basic policies.

Choice of death benefit

The death benefit is the money a beneficiary is eligible to receive on the death of the insured person. Jubilee Whole Life and 20-Pay Life are available as single- or joint-life protection. Life Premiums to 65 is available only as single-life protection.

Single life

The policy insures the life of one individual. The death benefit is payable when the insured person dies.

Joint first-to-die

The policy insures the lives of two individuals. The death benefit is payable when the first insured person dies. Depending on risk class and age, the policy may include other features, such as:

- **Exchange option** – You can exchange the original policy for two single-life policies, each up to 60 per cent of the original death benefit, for any reason during the first five years. There are some limitations after five years.
- **Interim insurance benefit** – If both insured people die within 60 days of each other, there's an additional death benefit payable.
- **Survivorship option** – The surviving insured person can purchase insurance, within 60 days of the death of the first insured person, without evidence of insurability.

A joint first-to-die policy lets you cost-effectively:

- Replace income
- Insure a mortgage
- Fund a buy-sell agreement for a business

Joint last-to-die

The policy insures the lives of two individuals. The total death benefit is payable only when the second insured person dies. This means you shouldn't buy a joint last-to-die policy if you need the funds on the first death. A joint last-to-die policy usually costs considerably less than two single-life policies.

There are two types of joint last-to-die policies:

- Pay premiums to the first death
- Pay premiums to the last death

You can use a joint last-to-die policy to:

- Pay taxes on the last death
- Preserve your estate for your heirs
- Give a gift to your favourite cause or charity

Choice of dividend options

Your dividend options give you considerable flexibility now and in the future. You can use your dividends to:

- Buy additional insurance, on a tax-advantaged basis, without evidence of insurability
- Lower your out-of-pocket premiums

This means you can choose how to balance affordability today and growth tomorrow.

Historically, dividend scales increase and decrease over the life of a policy. Keep this in mind as you consider these dividend options. The reduced example in the life insurance illustration shows you the effect of a decrease in the dividend scale on the non-guaranteed values.

Paid-up additions

With this dividend option, you use your dividends to buy additional, fully paid-up life insurance. Here are some advantages of paid-up additions:

- Your coverage increases annually, with no need to prove insurability. This gives you a way to offset inflation, so your coverage doesn't erode over time.
- You buy the additional coverage on a pre-tax basis. Dividends used immediately to pay premiums in the same policy don't incur income tax.
- Paid-up additions generate further dividends, similar to your base policy.
- The cash value of your paid-up additions, once credited to your policy, is vested and cannot be reduced or used in any way without your authorization, other than to pay premiums. Most contracts allow dividends, including those already applied, to be used to help keep the policy from lapsing if a premium is unpaid, for example by the use of an automatic premium loan.

The accompanying graph shows how paid-up additions can grow to supplement your basic insurance.

Econolife

With the Econolife dividend option, you use your dividends to buy a combination of permanent life insurance and term life insurance. This gives you access to the coverage you need today, at a very affordable price. Econolife coverage offers these advantages:

- You buy the Econolife term life insurance with pre-tax dollars. Dividends used immediately to pay premiums in the same policy don't incur income tax.
- In years when your dividend is larger than the cost of the Econolife term life insurance, some of the dividend buys permanent paid-up life insurance. Over time, this permanent life insurance can completely replace the temporary life insurance. After that, your death benefit begins to increase. You can use Econolife to strike a balance between affordability today and growth in cash value and death benefit tomorrow.
- You can convert the temporary Econolife term life insurance component to a separate permanent policy any time before reaching age 65.

The accompanying graph shows how Econolife term life insurance increases the initial death benefit.

Econolife guarantee

- With the Econolife guarantee (lifetime or 10-year), if your current dividends can't pay for the Econolife term life insurance, London Life won't ask for extra out-of-pocket premiums or surrender existing dividends to cover any shortfall while the guarantee is in effect.
- If the guarantee expires or is forfeited, you may need to make additional premium payments to pay for any shortfall, or reduce your Econolife coverage.
- Some options will end or forfeit the Econolife guarantee. If you use dividends for a Premium Vacation or withdraw them from the policy, the Econolife guarantee ends. Policy loans don't affect the Econolife guarantee.
- If the dividend scale increases, permanent paid-up insurance can replace the Econolife term life insurance even faster.

Accumulation

With this dividend option, your dividends accumulate with interest. The accumulated amount increases the death benefit. The interest rate is adjusted from time to time and interest is credited on each policy anniversary. Interest on the accumulated dividends is taxable. Some or all of the dividends may be taxable.

Cash payment

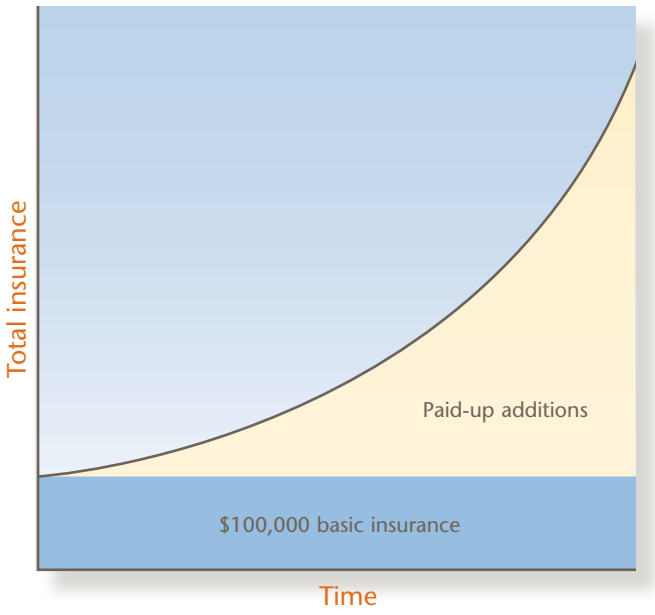
With this dividend option, you take your dividends in cash. Some or all of these dividends may be taxable.

Loan reduction

With this option, you apply your dividends to any outstanding policy loan.

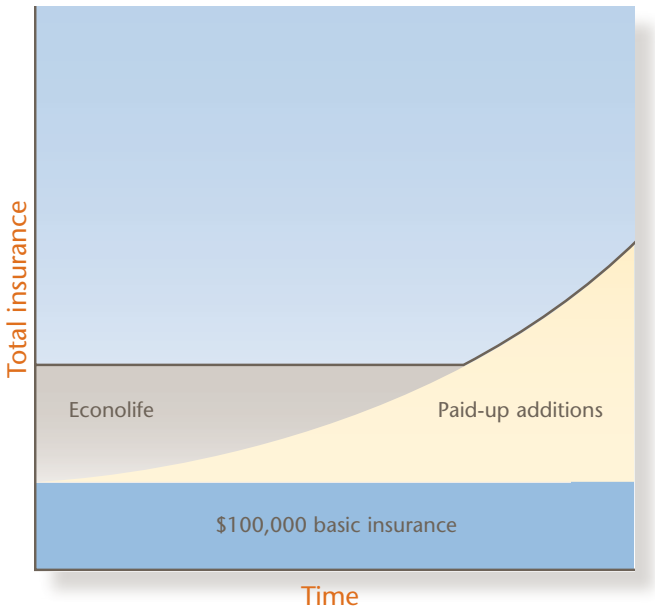
Paid-up additions

For the same premium, paid-up additions provide a higher early cash value, lower initial death benefit and higher ultimate death benefit, compared with the Econolife option in the other graph.



Econolife

For the same premium, Econolife can provide higher initial coverage, compared with the paid-up additions in the other graph.



These graphs are for illustrative purposes only. Actual proportions for paid-up additions and Econolife vary by such factors as age, risk class, amount of life insurance, out-of-pocket premium payments and declared dividends.

Other uses for dividends

Premium Vacation

With the Premium Vacation option, you use current and accumulated dividends to pay some or all of your premiums, rather than paying them out of pocket.

This flexibility is useful if you have a short-term need for cash, like a career change, tuition or new mortgage, or a long-term need like retirement. It's a convenient way to balance your cash flow with your need for continuing coverage.

Premium Vacation relies on the dividends earned and retained in your policy. Over the life of the policy, increases and decreases in dividends affect how much is available to pay premiums, how much of each premium you can pay with dividends and how long you can take a Premium Vacation.

Cash payout

With this dividend option, you withdraw dividends to take advantage of an opportunity or meet cash flow needs. This reduces the policy's death benefit and cash value. Policy illustrations demonstrate how this works.

Policy illustrations

Your financial security advisor can provide an illustration to show how your policy works. It shows which values and benefits are guaranteed and how dividends affect the growth of non-guaranteed values and benefits, depending on your dividend option. The illustrated growth of non-guaranteed values and benefits assumes the dividend scale continues unchanged over the life of the policy.

While policy illustrations are useful, the illustrated dividends aren't guaranteed and aren't an estimate or prediction of future performance. To better understand the sensitivity of the policy values to changes in dividends, compare the illustration's primary example to its reduced example. For more information on policy illustrations, ask your financial security advisor for a copy of *Your guide to life insurance illustrations*.

Choice of additional benefits

You can customize your participating life insurance policy by adding a variety of optional benefits. Consult your policy for full details of your benefits. These descriptions cover the main points.

Supplementary term life insurance

You can add term life insurance to the total coverage, without paying the annual policy fee for a separate policy. This is useful if you need additional coverage and affordability is an issue or the need is temporary. This term life insurance is renewable, and the renewal premium rates are guaranteed. You can convert this temporary life insurance to permanent life insurance from London Life. This conversion option expires on the date shown in your policy.

Total disability waiver of insurance

London Life pays the premium in the event of the insured person's total disability as defined in your policy.

Premium waiver insurance

In the event of death or disability, as defined in your policy, of the person with premium waiver insurance (usually the premium payor), London Life waives all future premiums, to the end of the specified period. An alternative option simply covers the death, but not disability, of the person with premium waiver insurance.

Accidental death insurance

If the insured person dies as a result of an accident, as defined in your policy, this benefit provides additional insurance. The accident must occur before the policy anniversary when the insured person turns 70.

Guaranteed insurability

This benefit gives you the right to buy additional life insurance at certain future dates, without evidence of insurability. You can exercise this option up to two years before or after each option date. The new policy can be for permanent or term life insurance from London Life, subject to administrative rules then in effect.

Where to get more information

- You can find out more about *London Life participating life insurance* by calling your financial security advisor. You can also ask your financial security advisor for an updated policy illustration.
- Each year on the anniversary of your policy, you receive a statement that updates you on the status of your policy.
- If you have a question about your policy or would like a copy of the most recent *London Life participating life insurance financial facts*, call the client service centre at 1-877-566-5433.
- Visit us on the Internet at www.londonlife.com.

The tax information in this guide is based on Canadian legislation at the time of printing and is subject to change. This information is of a general nature only. For further information, discuss the tax implications of your policy with your accountant or tax advisor.

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