Penn Mutual

Whole life policy loans and their impact on dividends.

When you take out a loan as a whole life policyholder, the loan itself comes from the insurance company — who uses your whole life policy as collateral. The cash value in your whole life policy is used as collateral for the loan, and continues earning dividends. So, how exactly is the dividend amount determined if a loan is taken out?

There are two approaches to determining how policy loans affect the payment of dividends on whole life policies: direct recognition and non-direct recognition.

Direct Recognition

With direct recognition, loaned values and non-loaned values are treated differently. This is important to note because policy loans can have an impact on dividend payouts. As a result of using this approach, loaned values are isolated and only those values receive dividend adjustments. This means if you don't take loans, your dividend payout won't be adjusted. And if you do take loans, adjustments to your dividend payout will only be based on your loaned policy values.

Non-Direct Recognition

With non-direct recognition, loaned values and non-loaned values are treated the same. This means loan activity affects all whole life policyholders — whether or not a policyholder has taken out a loan. As a result of using this approach, all values — loaned and non-loaned — receive dividend adjustments. This means your dividend payout is adjusted based on the company's outstanding whole life policy loan values — even if you haven't taken any loans.

Why does Penn Mutual use a direct recognition approach?

- Direct recognition gives policyholders the opportunity to have greater control over the performance of their policy, with performance adjustments being based on their own borrowing and not someone else's.
- Policyholders who don't have an outstanding loan won't have their dividend payout adjusted due to other policyholders' loan activity.
- Policyholders with an outstanding loan will have their dividend payout adjusted on their loaned values only. The dividend payout on their non-loaned values won't be affected.

And, Penn Mutual offers a preferred loan provision starting in policy year 11, which means the dividend interest rate matches the loan interest rate.

Here's a look at our current dividend interest and loan rates for our Guaranteed Whole Life II product.

Dividend scale for Guaranteed Whole Life II[1]				
Year	**Non-Loaned Value Dividend Interest Rate**	**Adjustable Loan Rate**	**Difference Between Loan Rate and Dividend Interest Rate**	**Loaned Value Dividend Interest Rate**
2022	5.75%	4.00%	0.65% (Years 1-10) 0.00% (Years 11+)	3.35% (Years 1-10) 4.00% (Years 11+)
2023		5.70%		5.05% (Years 1-10) 5.70% (Years 11+)
2024		6.20%		5.55% (Years 1-10) 6.20% (Years 11+)

For questions or more information, reach out to your financial professional.

[1]The interest rate portion of the calculation does not represent the dividend payout percentage or the increase in policy cash value. Mortality and expense experience also factor into the total dividend payout.

All guarantees are based on the claims-paying ability of the issuer. Dividends are not guaranteed. Accessing cash value will reduce your policy death benefit and values, may result in certain fees and charges and may require additional premium payments to maintain coverage.

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