Understanding Dividends

Your MetLife[1] Whole Life insurance policy provides you with several valuable benefits, including the opportunity to receive dividends. Dividends represent a return of premium for when policies perform better than expected. The policies that receive these dividends are commonly referred to as “participating.” Dividends are based on the performance of the participating policies, including investment returns, mortality, persistency, and expenses. Although dividends are not guaranteed, they give insurance companies the opportunity to share its success with you.

Dividends 101

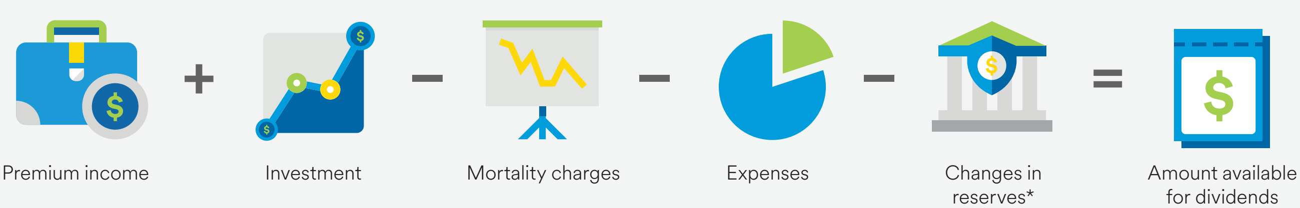
Q1. Why do insurance companies pay dividends?

A1. When a product is developed, an insurance company (or actuary) must make assumptions around how the policy will perform over a long period of time. They consider things like investments and financial markets, how mortality is emerging, the kinds of expenses that may be incurred by the introduction of a new product as well as a host of other considerations. These factors go into the development of a policy’s premiums. After a policy is sold, we can see whether the assumptions made were as expected, better or worse than what was expected. If they are better, some policies provide for the payment of dividends to reimburse some of a policyholder’s premium for the portion that exceeded expectations.

Q2. How does MetLife determine if a dividend should be paid?

A2. When MetLife sold a specific product, it was usually grouped together into larger blocks of similar products that were issued by the same issuing company. Combining similar products allows us more investment flexibility and to manage our risks better. MetLife reviews its financial performance throughout the year in order to understand how earnings are emerging for our various blocks of business.

Several variables like premium income, investment, mortality charges, etc. are used to determine the amount available for dividends. If a block of business is performing better than expected and has made a profit, we take those earnings and spread them across all the policies within the block of business that have contributed to that profit.



*For future claims and expenses.

Q3. What is a dividend scale?

A3. A dividend scale is a figure used by insurance companies to calculate the dividends to be paid for owners of participating policies. The dividend scale is created as a means to fairly distribute annual dividends. It is reviewed annually to determine the current financial standing of the insurance company’s different blocks of business. Factors affecting a dividend scale can include changes in interest rates, expenses, mortality experience, and even taxes.

1. “MetLife” consists of Metropolitan Life Insurance Company and Metropolitan Tower Life Insurance Company, all of which are wholly owned subsidiaries of MetLife, Inc.

Q4. Why would MetLife make changes to the dividend scale?

A4. The dividend scale is directly impacted by changes to interest rates, expenses, mortality, as well as other factors that can impact the policy financially.

Throughout the year MetLife reviews the experience of each block of business and compares it to the assumptions initially made about the product/policy. For example, our mortality experience has been better than expected over the years which gives us the opportunity to return a portion of the premium received. When portfolio returns and mortality fall outside of the assumptions, we update the scale so that it reflects the current environment.

A sustained low interest rate environment will have an adverse impact on the dividends. As rates increase, the portfolio will be able to reinvest in higher rates, but it will take time for the increasing rates to offset the years of lower rates. If mortality experience is favorable, it can partially offset the impact of lower portfolio returns. The ultimate impact is that although dividends were paid, they may be lower than what was initially illustrated when you purchased the policy.

Q5. Is a Dividend Scale Interest Rate the same as a credited rate on a Universal Life policy?

A5. No.

In a Universal Life type policy, the credited rate acts in a manner similar to how an interest rate works for a bank account.[2] Generally speaking, the rate is applied monthly to the policy's fund balance less any charges and then interest is credited to the fund.

For a policy with dividends, the investment component of a dividend is only one of several components. This means that this part of the dividend only contributes to some of the total dividend. Also, a dividend can be thought of as a return of premium for good experience in excess of what we thought might happen when we priced a product. For the interest rate component specifically, we typically look at the investment earnings in excess of any guarantees we provide for within the guaranteed cash value. This is very different from crediting interest to a fund balance.

Q6. What will happen to the dividend scale in future years?

A6. The dividend scale is determined by MetLife each year using factors that can vary over time. As a result, dividends can fluctuate from year to year and are never guaranteed.

Q7. Are dividends guaranteed?

A7. No.

Neither dividends in general nor the current dividend scale is guaranteed. The assumptions on which the current dividend scale is based are subject to change by MetLife. Actual results may be more or less favorable.

What impact can dividends have on my policy?

Q8. If I receive a dividend, how can I apply it to my policy?

A8. Dividends can be an important product design element in participating policies because they can enhance the overall value of the policy. Many life insurance contracts allow for a policyholder to use their dividend in a variety of ways. These could include any or all of the following dividend options:

- **Accelerated payment or premium payment reduction** — dividends are applied toward the payment of the premium and in some instances may cover the entire annual premium.
- **Additional paid-up insurance or term insurance** — dividends are used to purchase additional paid-up life insurance or term insurance under a rider, increasing the overall death benefit.
- **Paid in cash** — a check is sent to the customer for the full amount of the dividend.
- **Dividends to accumulate with interest** — dividends are left on deposit with MetLife. The total value of the dividends plus interest, is either added to the death benefit at death or to the cash value at surrender.
- **Repay policy loans** — dividends are used to repay loan principal or loan interest.

Tax treatment may vary depending on the option you choose. Consult a tax advisor for details.

2. Universal Life insurance policies are not bank accounts and are not FDIC insured.

Q9. If my policy experiences a dividend scale change, how will this impact my policy?

A9. Each dividend is typically set based on assumptions for mortality, interest and expenses for every combination of factors like product, age, sex, duration, face amount and smoker status. For this reason, each policy may react differently to any given scale change. This means there's no easy way to determine the impact on any given policy without looking at that policy in detail. However, there are some basic concepts that could be helpful.

The younger a policy is in its life cycle (e.g. the policy is 3 years old), the more important the mortality component can be within the dividend calculation. What this means is that if a mortality change is announced, it will likely have a bigger impact to the dividend for policies that are in their early durations.

The older a policy is in its life cycle (e.g. the policy is 25 years old), the more important the investment component can be within the dividend calculation. What this means is that if the investment component changes, it will likely have a bigger impact to the policy's dividend if the policy is older.

Q10. How do I know how much a dividend scale change may have impacted my policy?

A10. The best way for you to understand the impact of any dividend scale change is to request an illustration. To request an illustration we recommend you contact customer service using the phone number on your annual statement.

Q11. I use my dividend to pay some of my premiums, how will a change to the dividend scale impact my ability to do this?

A11. The dividend to reduce premium payment option uses a policyholder's dividend to reduce the amount of their premium payment. The policy is not paid up. If the dividend is reduced then the policyholder will need to pay more premium out of pocket. If the dividend is higher, then the policyholder will need to pay less premium out of pocket. Since dividends are not guaranteed, any drop in the dividend scale could result in an increased premium payment for the policyholder.

Q12. I'm eligible to receive dividends on my term policy but I haven't received any, why is that?

A12. Although some of our policies indicate that they are eligible for dividends, the policy itself may never actually develop any. Dividends can be thought of as a return of premium for good experience. For some products, the premium amounts are low, which means that after expenses and claims are paid there may not be any premium remaining to reimburse, even if other experience is positive.

Also, prior to April 2000, MetLife was a mutual company. It is now a stock company. Mutual company regulations at the time these policies were written required that our policy contracts included the words "This policy may be eligible for dividends" even if none were expected to develop for the policy. They also indicated that dividends are not guaranteed.

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Like most insurance policies, MetLife policies contain withdrawal charges, limitations, exclusions, holding periods, termination provisions and terms for keeping them in force.

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