PAN AMERICAN Life

Direct vs. Non-Direct RECOGNITION

What You Need to Know!



One important advantage of whole life insurance is the ability to take out policy loans. Another is the opportunity to earn dividends—i.e., to share in the carrier's annual profits. But how do policy loans affect potential dividends, and vice versa?

At Pan-American Life, policyowners with outstanding policy loans do continue to receive dividends, but they are adjusted for opportunity cost, since carriers can't earn interest on loaned funds.

In the whole life insurance industry, there are two methods of calculating this adjustment—direct and non-direct recognition.

Direct vs. Non-Direct Recognition

Under the **direct recognition method**, those policyowners carrying policy loans will see their dividends individually adjusted with regards to their specific loans. Policyowners without loans aren't affected.

Under the **non-direct recognition method**, dividends are not adjusted individually for policyowners carrying loans. Rather, all policies are adjusted to reflect the investment impact of total company loans. Policyowners without loans partially subsidize the dividends for policies with loans.

Why We Use Direct Recognition

At Pan-American Life, we use the direct recognition method because we believe it is more equitable to calculate dividends based on each policy's contribution to our surplus. This allows policyowners to maintain maximum control over their policy's performance, while policyowners who don't carry loans can avoid paying for those who do.

It has been our observation that, at the end of the day, there is very little difference in the total dividend distributed between the two calculation methods. Dividend-wise, the end results are generally quite close.

In fact, sometimes, it appears that this issue gets more attention than is truly warranted.

For more information about this—or any aspect of our whole life products—please contact your Pan-American Life Representative.

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