

## Rule 2024 – 002 - Total Cost Reporting

### 1 Interpretation

1(1) In this Rule,

- (i) “Act” means the *Insurance Act*, R.S.O. 1990, c. I.8, as amended,
- (ii) “accumulation phase” means the time between the date an insured begins making deposits to an individual variable insurance contract that provides a guaranteed withdrawal benefit and the date the insured notifies the insurer the insured wants to begin receiving such guaranteed payments under the individual variable insurance contract, or otherwise triggers the commencement of such payments,
- (iii) “advisory service fee” means any fee payable by an insured to an agent with respect to an individual variable insurance contract, that is paid by an insurer to the agent on direction of the insured from assets within the individual variable insurance contract,
- (iv) “annuitant” means a person whose life triggers any guarantee on death or maturity of the individual variable insurance contract or any payment for life under an individual variable insurance contract,
- (v) “benefits phase” means the time between the date when the withdrawal phase ends for all or part of an individual variable insurance contract that provides a guaranteed withdrawal benefit and the last date a guaranteed withdrawal benefit is payable,
- (vi) “customer fees and charges” means, for the purpose of Schedule A,
  - (a) any sales charges, distribution fees, management fees, administrative fees, account set-up or closing charges, surrender charges, transfer fees or insurance fees, and
  - (b) any other fees, charges or expenses whether or not contingent or deferred which are or may be payable by an insured in connection with the acquisition, holding, transferring or withdrawal of units of a segregated fund credited to an individual variable insurance contract,
- (vii) “fee option” means any option available to an insured under an individual variable insurance contract which results in there being more than one set of customer fees and charges applicable in respect of a segregated fund,
- (viii) “fund expense ratio” means the sum of a segregated fund’s management expense ratio and trading expense ratio, expressed as a percentage,

- (ix) “fund expense ratio for the day” means the ratio, expressed as a percentage, of the amount of fund expenses of a class or series of a segregated fund for the day to the net asset value of the class or series of the segregated fund for the day,
- (x) “fund expenses” means all of a segregated fund’s expenses that are paid out of assets of the segregated fund, including management expenses and trading expenses,
- (xi) “fund facts” means a disclosure document, for each segregated fund available under an individual variable insurance contract, which forms part of the information folder referred to in s. 110(2) of the Act,
- (xii) “individual variable insurance contract” means an individual contract of life insurance under which the insurer’s liabilities vary in amount depending upon the market value of a specified group of assets in a segregated fund. Individual variable insurance contract includes a provision in an individual contract of life insurance under which policy dividends are deposited in a segregated fund,
- (xiii) “insurer’s name” means an insurer’s full legal name,
- (xiv) “investment option” in connection with an individual variable insurance contract means each segregated fund offered for investment under the individual variable insurance contract and any other investment offered under the individual variable insurance contract, including a guaranteed interest investment,
- (xv) “individual variable insurance contract structure” with respect to an insured’s individual variable insurance contract means how the individual variable insurance contract is structured, including the individual variable insurance contract’s,
  - (a) ownership structure, including,
    - (1) whether there is one insured or more than one, and
    - (2) if there is more than one insured,
      - 1. the respective rights of the insureds while the insureds are alive, and
      - 2. the rights surviving insureds will have when one insured dies, and
    - (3) designation of successor insureds under s. 199 of the Act, if applicable,
  - (b) beneficiaries, and successor annuitants or successor holders, if applicable,

- (c) annuitant or annuitants upon whose death the individual variable insurance contract will end, and
- (d) measuring life or lives where benefits under the individual variable insurance contract are available as long as one of the measuring lives are alive, if applicable,
- (xvi) “management expense ratio” means the ratio, expressed as a percentage, of the management expenses of a segregated fund to the segregated fund’s average daily net asset value for a financial year, as calculated under s. 5,
- (xvii) “management expenses” means a segregated fund’s management fees, operating and other administration expenses, including those of any secondary fund, and all taxes other than income taxes but excluding trading expenses. Management fees are net of any fees or expenses waived,
- (xviii) “material change to customer information” means a change in information about an insured that could result in a change in the insured’s needs or the recommendations or advice provided to the insured, or should reasonably cause an agent to question whether all of the following continue to meet the insured’s needs,
  - (a) the insured’s individual variable insurance contract,
  - (b) the individual variable insurance contract structure, and
  - (c) the insured’s investments in the individual variable insurance contract,
- (xix) “net asset value” means the value of the total assets of a segregated fund less the value of the segregated fund’s total liabilities, other than net assets attributable to insureds who have invested in the segregated fund, as at a specific date and calculated by,
  - (a) using the fair value of the segregated fund’s assets and liabilities, and
  - (b) including the income and expenses of the investment fund accrued up to the date of calculation of the net asset value,
- (xx) “secondary fund” means a segregated fund, a mutual fund or other investment fund, limited partnership or income trust, including an index participation unit, in which a segregated fund may invest,
- (xxi) “segregated fund” has the same meaning as in s. 110(1) of the Act,
- (xxii) “statement date” means the date of the last day of the period covered by the statement,

- (xxiii) “trading expense ratio” means the ratio, expressed as a percentage, of the trading expenses of a segregated fund to the segregated fund’s average daily net asset value for the financial year, as calculated under s. 4,
  - (xxiv) “trading expenses” means the total commissions and other portfolio transaction costs paid or payable by an insurer from the assets of a segregated fund on the purchase and sale of the segregated fund’s assets, including those of any secondary fund, and
  - (xxv) “withdrawal phase” means the time between,
    - (a) the date an insured triggers the guaranteed withdrawal benefit under an individual variable insurance contract that provides such benefit, and
    - (b) the date when there is no longer enough money held within the individual variable insurance contract to pay a scheduled withdrawal.
- 1(2) In addition to s. 1(1), if a term or phrase used in this Rule is defined in the Act, that definition shall apply for the purpose of this Rule.
- 1(3) For the purpose of this Rule, fair value shall be calculated as follows,
- (i) if reported prices and/or quotations for the market value are available in an active market, and the manager of the investment fund does not reasonably believe that the market value based on these prices and/or quotations is unreliable, then the fair value shall be the market value based on reported prices and/or quotations, and
  - (ii) otherwise, the fair value shall be a value that is fair and reasonable in all the relevant circumstances.
- 1(4) For the purpose of this Rule, market value of the units of a segregated fund in an individual variable insurance contract shall be calculated by taking the number of fund units within the individual variable insurance contract and multiplying such number by the market value per unit at the end of the date for which the market value is calculated.

## **2 Annual Statement to Insured**

- 2(1) An insurer shall provide to an insured with respect to each individual variable insurance contract, within four months of each fiscal year end of the segregated funds within the individual variable insurance contract, a statement showing the information described in Schedule A.
- 2(2) Despite s. 2(1), an insurer is not required to provide an insured with information with respect to an individual variable insurance contract for time periods before this Rule comes into force if the insurer,

- (i) does not possess and cannot, with reasonable efforts, obtain the information,
- (ii) provides the information for any period for which the insurer possesses or can reasonably obtain the information,
- (iii) notifies the insured that the statement does not include certain information for the entire period from the date the individual variable insurance contract began and specifies which information, and
- (iv) prior to the date the insurer is required to provide the insured with the statement described in s. 2(1),
  - (a) makes reasonable efforts, if any are available, to obtain the information for the entire period since the individual variable insurance contract began, and
  - (b) files a document with the Authority which contains at a minimum the following information for each such individual variable insurance contract,
    - (1) the name of the contract,
    - (2) the number of such contracts for which the insurer is unable to provide the information,
    - (3) the information which the insurer does not possess and cannot, with reasonable efforts, obtain,
    - (4) the identity of any person who does possess any such information,
    - (5) the efforts the insurer made to obtain the information from such person(s), if the insurer has made any effort,
    - (6) if the insurer has not made any effort to obtain the information from one or more of these persons, why the insurer does not consider it reasonable to do so, and
    - (7) an attestation stating the information in clauses (1)-(6) is true and complete, and that to the best of the insurer's knowledge, the insurer does not possess and cannot reasonably obtain the information.

### **3 Calculating Fund Expenses**

- 3(1) An insurer must calculate and report the amount of a segregated fund's fund expenses allocated to an individual variable insurance contract based on,
  - (i) how many segregated fund units an insured held in the individual variable insurance contract, and

- (ii) when the insured held the segregated fund units during the reporting period.
- 3(2) An insurer must use the following formula to calculate the fund expenses of an applicable class or series of segregated fund for each day an insured held units of the applicable class or series of the segregated fund during the reporting period, making any adjustments reasonably necessary to accurately determine fund expenses attributed to the insured,

$$A \times B \times C$$

- A= the fund expense ratio for the day of the applicable class or series of the segregated fund,
- B= the market value of a unit for the day of the applicable class or series of the segregated fund, and
- C= the number of segregated fund units within the insured's individual variable insurance contract for the day.
- 3(3) For the purpose of s. 3(2), an insurer may use a reasonable approximation of the fund calculation inputs "A" and "B" provided the insurer reasonably believes that doing so would not result in reporting misleading information to an insured.
- 3(4) For greater clarity, a reasonable approximation may include estimating the fund expense ratio for the day by dividing the segregated fund's fund expense ratio in the most recent fund facts document or financial statement by the number of days in the year unless the insurer knows there has been an event which resulted in a significant change to the fund expense ratio since the document was published.
- 3(5) For reporting an insured's fund expenses under s. 3(i) of Schedule A, an insurer must repeat the calculation under s. 3(2) for each class or series of segregated fund which the insured held units of during the reporting period and aggregate the results.
- 3(6) An insurer is not required to calculate and report the fund expenses of a segregated fund which was established less than 12 months before the statement date.

#### **4 Calculation of Trading Expense Ratio**

- 4(1) An insurer must calculate the trading expense ratio of a segregated fund for any financial year by,
- (i) dividing
- (a) the total commissions and other portfolio transaction costs before income taxes, for the financial year as shown on the segregated fund's statement of comprehensive income,

by

(b) the same denominator as is used to calculate the management expense ratio under s. 5, and

(ii) multiplying the result obtained under s. 4(1)(i) by 100.

4(2) If a segregated fund invests in a secondary fund, an insurer must calculate the trading expense ratio using the methodology required for the calculation of the management expense ratio, making reasonable assumptions or estimates where necessary.

## **5 Calculation of Management Expense Ratio**

5(1) An insurer must calculate the management expense ratio of a segregated fund applicable to a particular fee option under an individual variable insurance contract for any financial year by,

(i) dividing

(a) the aggregate of,

(1) total expenses of the segregated fund, excluding commissions and other portfolio transaction costs, before income taxes, for the financial year as shown on the segregated fund's statement of comprehensive income, and

(2) any other fee, charge or expense of the segregated fund that has the effect of reducing the segregated fund's net asset value,

by

(b) the average net asset value of the segregated fund for the financial year obtained by,

(1) adding together the net asset value of the segregated fund as at the close of business of the segregated fund on each day during the financial year on which the net asset value of the segregated fund has been calculated, and

(2) dividing the amount obtained under s. 5(1)(i)(b)(1) by the number of days during the financial year on which the net asset value of the segregated fund has been calculated, and

- (ii) multiplying the result obtained under s. 5(1)(i) by 100.
- 5(2) For the purpose of this section, “any other fee, charge or expense” means all fees, charges and expenses paid or payable by the segregated fund and all expenses incurred in the ordinary course of business relating to the organization, management and operation of the segregated fund including interest charges, if applicable, and all taxes other than income taxes but excluding commissions and brokerage fees on the purchase and sale of portfolio securities.
- 5(3) Where a segregated fund has separate classes or series of units, an insurer must calculate a management expense ratio for each class or series of units in the manner required by this section, modified as appropriate.
- 5(4) An insurer must annualize the management expense ratio of a segregated fund for a financial year of less than 12 months.

## **6 Contact Information for Insurers and Agents**

- 6(1) The statement referred to in s. 2(1) must contain information that is reasonably designed to enable an insured to contact,
- (i) the insurer, and
  - (ii) either
    - (a) the agent who sold the individual variable insurance contract to the insured, or
    - (b) another agent with sufficient knowledge and expertise to provide suitable recommendations and advice to the insured with respect to the insured’s individual variable insurance contract.
- 6(2) For the purpose of s. 6(1)(i), one way to reasonably design information to enable the insured to contact the insurer is to include in the statement the insurer’s,
- (i) name,
  - (ii) telephone number,
  - (iii) mailing address, and
  - (iv) website.
- 6(3) For the purpose of s. 6(1)(ii), one way to reasonably design information to enable the insured to contact the agent is to include in the statement the agent’s,
- (i) name,
  - (ii) telephone number,



- (iii) mailing address, and
- (iv) email address.

## **7 Reminder to Contact Agent Periodically**

- 7(1) With respect to each individual variable insurance contract it insures, each insurer must, on an annual basis, take reasonable steps to,
- (i) invite each insured to contact the agent referred to in s. 6(1)(ii) and update the agent about any material change in customer information since the last time the insured provided information to the agent,
  - (ii) explain why it is important for the agent to have up-to-date information about each insured, and
  - (iii) invite each insured to review the following and discuss any proposed changes with the agent,
    - (a) the individual variable insurance contract,
    - (b) the individual variable insurance contract structure, and
    - (c) the investments the insured has made in the individual variable insurance contract.
- 7(2) For the purpose of s. 7(1), one way an insurer can take the reasonable steps required is to include the elements of s. 7(1)(i)-(iii) in the statement described in s. 2(1).

## **8 Coming Into Force**

- 8(1) This Rule comes into force on the later of the date that clause 11.1 of s. 121.0.1(1) of the Act comes into force and 15 days after the Rule is approved by the Minister.

## **Schedule A – Minimum Content of Annual Statement**

### **1) General**

- (i) Statement date,
- (ii) The following information about the individual variable insurance contract:
  - (a) Individual variable insurance contract name,
  - (b) Individual variable insurance contract tax status,
  - (c) Individual variable insurance contract number, and
  - (d) When the individual variable insurance contract began,
- (iii) Insured(s),
- (iv) Annuitant(s),
- (v) Designated beneficiary(ies),
- (vi) A notice in plain language to:
  - (a) Remind insured(s) that the information contained in the statement will help the insured track the insured's financial goals,
  - (b) Remind insured(s) that the insured can obtain copies of the most recent fund facts associated with the individual variable insurance contract, annual audited financial statements and semi-annual unaudited financial statements for each segregated fund and how to obtain such contract and statements, and
  - (c) Invite insured(s) to contact the insured's agent or the insurer if the insured needs additional information.

### **2) Performance – Contract**

- (i) For the individual variable insurance contract as a whole, the market value at the start of the year and at the statement date,
- (ii) For the individual variable insurance contract as a whole, as of the statement date, the total deposits:
  - (a) Since the individual variable insurance contract began, and
  - (b) Since the start of the year,
- (iii) For the individual variable insurance contract as a whole, as of the statement date, total withdrawals:
  - (a) Since the individual variable insurance contract began, and
  - (b) Since the start of the year,
- (iv) For the individual variable insurance contract as a whole, as of the statement date, the change in value of investments in the individual variable insurance contract for reasons other than deposits to or withdrawals from the individual variable insurance contract:
  - (a) Since the individual variable insurance contract began, and
  - (b) Since the start of the year,
- (v) Personal rate of return, as a percentage, calculated on the dollar-weighted method for the individual variable insurance contract as a whole:
  - (a) Since the individual variable insurance contract began, and
  - (b) Where the individual variable insurance contract has been in effect for the relevant time:

- (1) For the 10 years ending on the statement date,
- (2) For the 5 years ending on the statement date,
- (3) For the 3 years ending on the statement date, and
- (4) For the year ending on the statement date, and
- (vi) A plain language explanation that the personal rate of return may be different than the rate realized by the segregated funds within the individual variable insurance contract because calculation of personal rate of return depends on factors such as timing of deposits and withdrawals.

### **3) Customer Fees and Charges – Contract**

- (i) For the individual variable insurance contract as a whole, the dollar amount the insured incurred during the year for each of the following,
  - (a) Fund expenses,
  - (b) Front end load charges,
  - (c) Deferred sales charges,
  - (d) Advisory service fee,
  - (e) Withdrawals fees
  - (f) Transfer fees,
  - (g) Reset fees,
  - (h) Early withdrawal and/or short term trading fee,
  - (i) Fees with respect to cheques returned due to insufficient funds,
  - (j) Small policy fee,
  - (k) Insurance fees not paid by the insurer from the assets of a segregated fund, and
  - (l) Any other customer fees and charges deducted from the individual variable insurance contract.
- (ii) For greater clarity, the insurer is not required to include a fee or charge under s. 3(i)(a)-(l) of Schedule A if the dollar amount the insured incurred for such fee or charge in the year is zero.
- (iii) For the individual variable insurance contract as a whole, the dollar amount of the total of the items listed in s. 3(i) of Schedule A ,
- (iv) Any changes to the insurance fee, where legally permitted,
- (v) A plain language explanation that any customer fees and charges the insured pays directly to the agent, if applicable, are not included in the amount in s. 3(iii) of Schedule A, and
- (vi) Plain language explanations of:
  - (a) How customer fees and charges affect returns,
  - (b) The actions an insured can take regarding the customer fees and charges information in the statement,
  - (c) The fact approximations have been used when calculating fund expenses, if applicable, and
  - (d) The fact an insured can look at the fund facts document for more information about customer fees and charges, including fund expenses.
- (vii) Where applicable, a notice in plain language:

- (a) Explaining that the total market value of the individual variable insurance contract is not necessarily the amount the insured will receive if the insured ends the insured's individual variable insurance contract,
  - (b) Explaining how the insured can get more details about the amount of money the insured would receive if the insured ended the insured's individual variable insurance contract, and
  - (c) If the costs the insured would incur if the insured withdrew the total market value of the individual variable insurance contract are significant, explaining the costs of withdrawing the total market value of the individual variable insurance contract in enough detail to allow the insured to understand the effect of such costs.
- (viii) For greater clarity, the disclosure explicitly required under this Rule with respect to deferred sales charges is sufficient to address item s. 3(vii)(c) of Schedule A regarding deferred sales charges.

#### **4) Segregated Fund details – Value, Fund Expense Ratio, Deferred Sales Charges**

- (i) For each segregated fund held within the individual variable insurance contract during the year described by the statement:
  - (a) The segregated fund name,
  - (b) Market value of the insured's units in the segregated fund at start of year,
  - (c) Since the start of the year:
    - (1) Total deposits into the segregated fund,
    - (2) Total withdrawals from the segregated fund, and
    - (3) The change in value of investments in the segregated fund for reasons other than deposits or withdrawals,
  - (d) As of the statement date:
    - (1) Number of segregated fund units held,
    - (2) Market value per segregated fund unit, and
    - (3) Total market value of segregated fund units held,
  - (e) The fund expense ratio for the fund,
  - (f) The fact that a deferred sales charge applies, if applicable, and
  - (g) The fact that no fund expense ratio is provided for a segregated fund because the segregated fund was established less than 12 months before the statement date, if applicable.
- (ii) A plain language explanation of:
  - (a) What the fund expense ratio is, and
  - (b) The fact that the dollar amount of the fund expenses allocated to the individual variable insurance contract are included in the details of the charges for the individual variable insurance contract for the year.

#### **5) Guarantees**

- (i) For the individual variable insurance contract as a whole as of the statement date:
  - (a) The market value of the insured's units in the segregated funds subject to the guarantee under the individual variable insurance contract,

- (b) The maturity date of the guarantee of the individual variable insurance contract as a whole,
  - (c) The dollar value guaranteed on the individual variable insurance contract maturity date, and
  - (d) The dollar value guaranteed on death of the annuitant(s).
- (ii) For greater clarity, if the individual variable insurance contract has more than one maturity date, the insurer is only required to provide the information under s. 5(i)(a)-(c) of Schedule A for the maturity guarantee of the individual variable insurance contract as a whole, not for each separate deposit.
- (iii) If the individual variable insurance contract has an automatic reset provision, the date of the next automatic reset and an explanation of the impacts of an automatic reset on the values of the guarantees.

## **6) Guarantees – Contracts with guaranteed withdrawals**

### **Accumulation Phase**

- (i) If the individual variable insurance contract provides a guaranteed withdrawal benefit and all or part of the individual variable insurance contract is in the accumulation phase, the following information with respect to the assets in the accumulation phase:
- (a) The annual guaranteed withdrawal amount for every withdrawal option available to the insured under the individual variable insurance contract at:
    - (1) The earliest age at which the insured can begin receiving guaranteed withdrawals,
    - (2) Age 65, if applicable, and
    - (3) Age 70, if applicable,
  - (b) A notice in plain language that the guaranteed amounts have been calculated assuming,
    - (1) The insured will make no further deposits to the individual variable insurance contract,
    - (2) The insured will make no withdrawal from the individual variable insurance contract, aside from the guaranteed withdrawals,
    - (3) The value of the units in the individual variable insurance contract will not change between the date of calculation and the dates for which guaranteed withdrawal amounts are shown,
    - (4) That no bonuses will be credited to the individual variable insurance contract, if applicable, between the date of calculation and the dates for which guaranteed withdrawal amounts are shown, and
    - (5) That the insured will not reset any guarantees under the individual variable insurance contract, if applicable, between the date of calculation and the dates for which guaranteed withdrawal amounts are shown,
  - (c) A notice in plain language explaining how guarantees are affected by withdrawals, and

- (d) If applicable, a notice in plain language to remind the insured of the insured's ability to make discretionary resets of the guarantees under the individual variable insurance contract.

### **Withdrawal Phase**

- (ii) If the individual variable insurance contract provides a guaranteed withdrawal benefit and all or part of the individual variable insurance contract is in the withdrawal phase, the following information with respect to the assets in the withdrawal phase:
  - (a) The guaranteed annual withdrawal amount,
  - (b) How long the guaranteed annual withdrawal amount will be payable, assuming the insured does not make any withdrawals other than the scheduled withdrawals,
  - (c) The amount the insured has chosen to receive annually, if different from the guaranteed annual withdrawal amount,
  - (d) If the individual variable insurance contract is a registered retirement income fund, life income fund, locked-in retirement income fund or restricted life income fund, the minimum registered retirement income, life income fund, locked-in retirement income fund or restricted life income fund withdrawal for the year following the statement date,
  - (e) If the individual variable insurance contract is a life income fund, locked-in retirement income fund or restricted life income fund, the maximum life income fund, locked in retirement income fund or restricted life income fund withdrawal for the year following the statement date,
  - (f) A notice that any withdrawals that exceed the guaranteed annual withdrawal amount will decrease future guaranteed withdrawal amounts, except if required with respect to a registered retirement income fund, life income fund, locked in retirement income fund or restricted life income fund minimum withdrawals, and
  - (g) A notice in plain language explaining the guaranteed withdrawal amount will be payable to the insured even if the market value of the relevant assets in the individual variable insurance contract is less than the guaranteed withdrawal amount.

### **Benefits Phase**

- (iii) If the individual variable insurance contract provides a guaranteed withdrawal benefit and all or part of the individual variable insurance contract is in the benefits phase, the following information with respect to the portion of the individual variable insurance contract in the benefits phase:
  - (a) The guaranteed annual benefit amount, and
  - (b) How long the withdrawal amount is guaranteed to be payable.