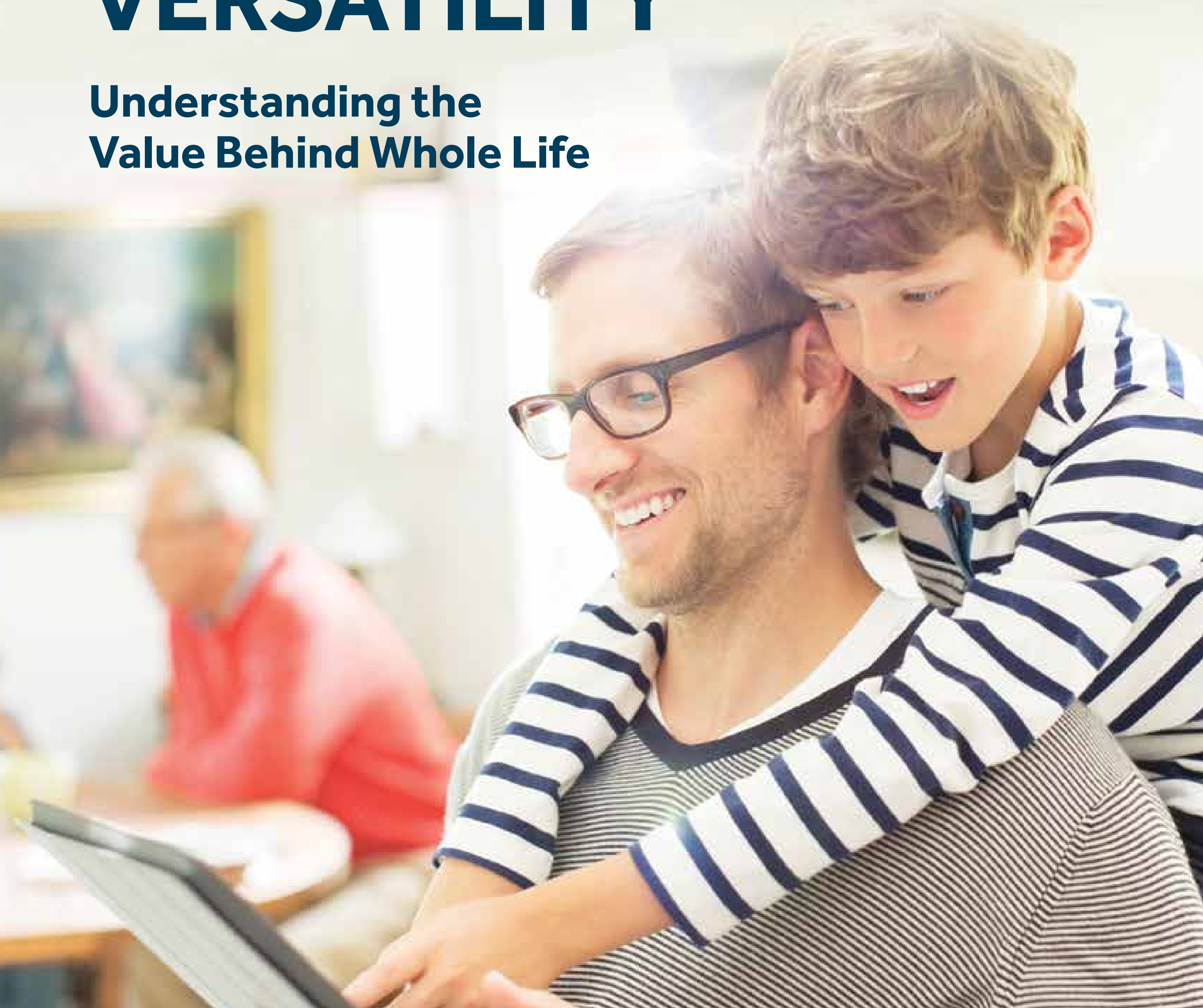
A life insurance guide for individuals, families, and business owners

Guardian®

# A STORY OF GUARANTEES AND FINANCIAL VERSATILITY

## Understanding the Value Behind Whole Life



# Whole life is a versatile financial product that provides unique benefits which differentiate it from other financial instruments. To truly appreciate the value of whole life, it's important to understand how it works, its uses, and its benefits.

# How does whole life work?

Whole life provides lifetime insurance protection with important guarantees and tax benefits. There are three guarantees:[1]

- **A guaranteed level premium** — The annual premium is contractually guaranteed to never change.
- **Guaranteed death benefit** — The level death benefit is contractually guaranteed to never go down.
- **A guaranteed cash value** — The contractually guaranteed cash value will increase each and every year until it is equal to the face amount of the policy at a specified age — typically 100 or 121.[2]

# What are dividends and how do they work?

Whole life offers the ability to provide additional value in excess of guarantees through dividends. Dividends are paid to policyholders if declared by the board of directors of the insurance company providing the policy. It is common for a mutual life insurance company to pay a dividend. In fact, many of the top rated mutual life insurance companies have paid a dividend each and every year for nearly 150 years or more — even during the “Great Depression”.[3]

# What are your options when a policy pays dividends?

Policy owners have different needs throughout their lives. Whole life offers a variety of dividend options to choose from, which allows an owner to customize the coverage. The dividend option election may be changed from year to year, based on the policy owner's changing needs:

- One of the most widely selected dividend options is to reinvest the dividends back into the whole life policy to purchase guaranteed paid-up additions.[4] This option provides an increase in total cash value and additional death benefit protection. Each year a dividend is reinvested, additional paid-up life insurance is purchased, which in turn, earns its own dividends. Over time, the accumulation of additional paid-up life insurance can help offset the effects of inflation by increasing death benefit protection and accumulated cash values.
- Dividends may be paid outright, typically income tax-free, up to the policy basis.
- Dividends may be used to reduce the policy's premium.
- Additional term insurance may be purchased with dividends.
- Dividends may be allowed to accumulate with interest. Interest will be subject to ordinary income taxes.
- Dividends may be used to pay back an existing policy loan.[5]

# Taxation protection[6]

Because of the contribution that whole life insurance makes to the welfare of society by providing protection for surviving family members, it is vested with the following important tax benefits:

- Income tax-free death benefits[7]
- Tax-deferred buildup of cash values inside of the policy
- Access to policy cash values on a tax-favored basis by withdrawals or through policy loans[8]
- Withdrawals from a life insurance policy are permitted on a First-In First-Out Basis (FIFO)[9]. This means that withdrawals to the extent of cost basis are considered a tax-free return of cost basis[10]

# What are the different uses for whole life?

### Human life value protection

- Property values are the result of human effort. Human life value is created for a family whenever income is earned to provide for that family's economic needs.
- Most people see the importance of insuring the value of property, such as their home or car, for its replacement value and are able to do so through the purchase of casualty insurance.[11] The human life value of an individual, which is typically the most valuable asset of a family or business, is also insurable for its replacement value on a permanent basis with whole life insurance. Whole life insurance provides an affordable, effective way of permanently protecting a family or business against the loss of its most valuable asset.

### Family protection

The death benefits of life insurance can help to assure the economic continuity of a family at a time when it is faced with the greatest of all possible traumas: the death of a beloved father, mother, husband, wife, or other loved one. Whole life insurance can also help to ensure financial stability through the funding of:

- Mortgage protection;
- Education funding; and
- Income needs.

### Business protection

Businesses face special insurance funding needs in order to provide a business continuity plan that will protect the owners in the event of death. Whole life insurance can provide the capital needed to adequately buy the interests of a deceased owner and help protect the business against the loss of the services, expertise, and skills of a key person. Life insurance can address four major areas of business planning:

- The funding of buy-sell agreements and stock redemption plans;
- The funding of supplemental retirement programs;
- Key person indemnification; and
- The payment of loans and mortgages.

### Estate planning

Planning for the orderly transfer of property at death can help to minimize taxes and provide for heirs in a way that will reflect an individual's desires. Whole life insurance can play a key role in providing for loved ones by offering:

- Liquidity to pay estate and inheritance taxes;
- Assets to generate income for a surviving spouse and children;
- Estate equalization among heirs; and
- Funding for special needs children and adults.

### Asset utilization

- One of the unique benefits of whole life is the way it can enhance the value of other assets during retirement. The presence of a guaranteed death benefit gives the owner the ability to use assets in ways that may not be possible if the insurance did not exist. The death benefit provides the "permission slip" that may enable you to spend down principal and interest (helping to increase retirement income), knowing that the principal will be replaced for your family upon death.
- The existence of permanent whole life insurance in the estate of a donor makes it possible to achieve the desired charitable intent with all the collateral benefits, while maintaining a comparable legacy for the donor's heirs.

# The benefits and flexibility of whole life

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| **The protection of an instant, permanent estate** | Instantly, with the payment of the first premium, the entire death benefit is set aside for your family. Whole life insurance provides a guaranteed death benefit for the entire life of the insured. |
| **Disability protection**[12] | Whole life is different from other financial vehicles, such as bank accounts, IRAs, 401(k) accounts, mutual funds, and brokerage accounts, in that it can continue to be funded even if you become disabled. Disability usually brings with it the strain of reduced income, increased expenses, and dissolution of existing savings and investments. The Waiver of Premium rider, when elected, guarantees that if the insured is totally disabled for 6 months or more, Guardian will waive all premiums while disability continues. Your policy continues as if you paid the premiums. This can add an extra measure of protection for your policy. |
| **Liability protection** | In many states, the benefits of life insurance are protected from the claims of creditors. If your state provides this legal protection, the cash values and death benefit of a whole life policy may be protected from lawsuits that can result in the loss of other assets.[6] |
| **Distribution to beneficiaries** | Whole life can avoid probate and have a named beneficiary: You specify who and how much of the benefit will be distributed to each beneficiary. Unlike a will, however, whole life insurance has the added benefit of privacy. Wills, once probated, become public documents. The distribution of a whole life insurance policy's death benefit is a private, contract-driven transaction between the policy owner and insurance company — the distribution passes outside of a will and thus provides privacy for the beneficiaries. |
| **Income tax-free death benefit** | The death benefits of whole life are generally not subject to federal income taxes. The value of this benefit must not be underestimated, especially in light of constantly growing government expenditures and taxes. |
| **Tax-deferred growth** | The growth of the cash value inside a whole life policy is deferred from taxation while the funds remain in the policy. This is yet another wealth-protecting benefit that whole life provides to families and businesses. |
| **Tax-favorable access to policy cash values through withdrawals** | During the insured's life, cash value can be accessed under favorable First-In-First-Out (FIFO) tax rules. This means withdrawals to the extent of cost basis are considered an income tax-free return of cost basis. |
| **Tax-favorable access to policy cash values through policy loans** | During the insured's life, loans taken against a whole life policy will typically not trigger a taxable event, even though the policy may have a large gain in excess of premiums paid. |
| **Self-funding**[13] | You have the option of having the policy pay for itself over time by applying dividends to pay premiums. This feature may be invoked or changed at any time to meet the changing circumstances of your life. |
| **Ability to pay itself back from future dividends** | Once a policy loan has been taken, the annual dividend can be used to help pay back a policy loan. |

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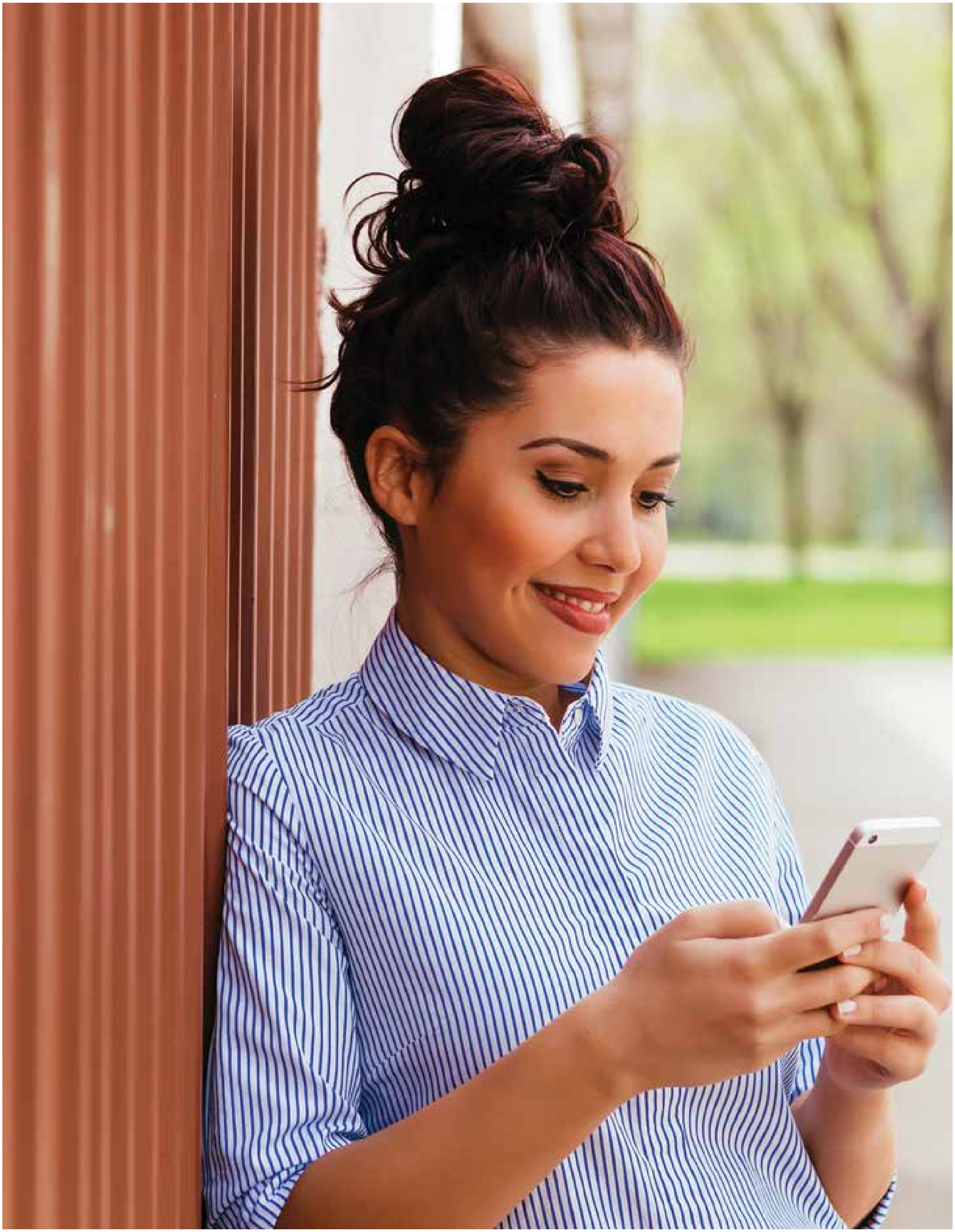
| **You can make direct loans to yourself for any reason** | Whole life can free a policyholder from reliance upon commercial lenders. Cash values can be accessed on a demand basis through a policy loan at any time and for any reason, without the application and approval process that is required for consumer or business loans. |
| **Can be used as collateral for a loan from a bank** | Whole life can be used as collateral to obtain a loan from a bank at favorable interest rates. The ability to either borrow directly from the insurance company or from a bank gives the owner of a whole life policy significant flexibility when there is a need to access policy values. |
| **Carries flexible loan repayment terms** | Loans against a whole life policy are flexible to the extent that they do not need to be paid back unless you decide to pay them back. Once a loan is taken out on your whole life policy, it can be paid back at the discretion of the policy owner. If the loan is not paid back during the lifetime of the insured, any remaining loan balance will simply be deducted from the death proceeds (i.e., the death benefit). |
| **Death benefit increase** | When dividends are reinvested back into the policy, they purchase paid-up additions, which increase the death benefit, helping to offset the eroding effects of inflation. Once a dividend has purchased paid-up additions, the additional death benefit and cash value of the paid-up additional insurance is guaranteed. |
| **Reduced paid-up policy** | The policy owner has the right to reduce the death benefit to a “paid-up” policy at any time. If the policy is “paid up,” the policy owner can never make another premium payment. Both the cash value and the death benefit can continue to grow through dividends for the rest of the insured’s life. |

The protection and wealth-enhancing benefits of whole life make it one of the most comprehensive and versatile financial instruments available today. Its value is enhanced by its flexibility, which enables it to be customized for a variety of consumer needs. Premium flexibility is provided by existing paid-up additions and dividend options. The loan feature and the ability to withdraw dividends provide readily available liquid assets. Together, the guaranteed cash value, guaranteed death benefit, and guaranteed premium provide policy owners with a solid foundation for financial protection, and the ability to build wealth in a turbulent and uncertain world.



[1] All whole life insurance policy guarantees are subject to the timely payment of all required premiums and the claims-paying ability of the issuing insurance company. Policy loans and withdrawals affect the guarantees by reducing the policy's death benefit and cash values.

[2] Some whole life polices do not have cash values in the first two years of the policy and don't pay a dividend until the policy's third year. Talk to your financial representative and refer to your individual whole life policy illustration for more information.

[3] Dividends are not guaranteed and may be declared by the company's board of directors. Guardian has paid a dividend every year since 1868.

[4] Paid-up Additions (PUA) are purchases of additional insurance (death benefit) that have a cash value. These purchases are made with dividends and/or a rider that allows the policyholder to pay an additional premium over and above the base premium. This creates the growth of death benefit and cash values in a participating whole life policy. Adding large amounts of paid-up additions may create a Modified Endowment Contract (MEC). A MEC is a type of life insurance contract that is subject to last-in-first-out (LIFO) ordinary income tax treatment, similar to distributions from an annuity. The distribution may also be subject to a 10% federal tax penalty on the gain portion of the policy if the owner is under age 59½. The death benefit is generally income tax free.

[5] For a non-MEC policy, if the amount of dividend payments used to repay the loan principal or interest exceeds the cost basis (cumulative premiums) of the policy, the excess dividend payments may be subject to income taxes.

[6] Guardian, its subsidiaries, agents and employees do not give tax, legal, or accounting advice. You should consult your tax, legal, or accounting advisor regarding your individual situation. State creditor protection for life insurance policies varies by state. Contact your state's insurance department or consult your legal advisor regarding your individual situation.

[7] Employer-owned life insurance must comply with the rules set forth in IRC Section 101(j) in order to ensure tax-free death benefits.

[8] Policy benefits are reduced by any outstanding loan or loan interest and/or withdrawals. Dividends, if any, are affected by policy loans and loan interest. Withdrawals above the cost basis may result in taxable ordinary income. If the policy lapses, or is surrendered, any loans considered gain in the policy may be subject to ordinary income taxes. If the policy is a Modified Endowment Contract (MEC), loans are treated like withdrawals, but as gain first, subject to ordinary income taxes. If the policy owner is under age 59½, any taxable withdrawal is also subject to a 10% tax penalty.

[9] FIFO tax rules apply as long as the policy has not been classified as a Modified Endowment Contract (MEC). A Modified Endowment Contract (MEC) is a type of life insurance contract that is subject to last-in-first-out (LIFO) ordinary income tax treatment, similar to distributions from an annuity. The distribution may also be subject to a 10% federal tax penalty on the gain portion of the policy if the owner is under age 59½. The death benefit is generally income tax free.

[10] Cost basis is the contribution (premiums) that is made to a life insurance policy.

[11] Neither Guardian nor its subsidiaries issue Property & Casualty Insurance.

[12] Disability waiver incurs an additional, relatively low premium. Rider form number 18-WP WL. A Waiver of Premium rider waives the obligation for the policyholder to pay further pr emiums should he or she become totally disabled continuously for at least six months. This rider will incur an additional cost. See policy contract for additional details and requirements.

[13] The premium offset year is not guaranteed and relies on the payment of non-guaranteed dividends and the amount of paid-up additions in the policy in order to pay for the policy's required premium.

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