A Guide for Individuals, Families and Business Owners

Guardian®

Building an Effective Retirement Portfolio

Leveraging whole life insurance

Retirement Realities to Consider

The Longevity Dilemma

For many, 20 or 30+ years in retirement is a new reality. People are living longer, enjoying better health and maintaining an active lifestyle, but how is this lifestyle financially sustainable? You may or may not have Social Security to depend on fully. According to the 2019 annual report of the Social Security Board of Trustees, the trust funds that disburse retirement and other Social Security benefits will be depleted by 2035. How will you ensure you'll have the retirement income needed for your golden years?

What about taxes at retirement? Will they be higher?

What effect will taxes have on actual spendable income from your 401(k) or a similar retirement plan? Unless all of your retirement savings are in an after-tax vehicle, such as a Roth IRA, the U.S. government may claim a sizable share of each dollar you withdraw from your account(s).

A common rule of thumb says that people generally need only 70%–80% of their final salary each year during retirement — but how do you feel about taking a 30% pay cut — especially when the cost of living never decreases?

Can you predict where the market will be when you retire?

You may have done everything right — started saving early for your retirement, maximized your contributions, and diversified among a variety of investment accounts. But what happens if it's time to start taking withdrawals during a bear market, when stock and bond prices are declining?

Withdrawals from an equity-based retirement account during a time of negative returns will **unnecessarily deplete your savings,** affecting your retirement income, as well as compromise the remaining value of your account.

“A retirement portfolio balanced with whole life insurance allows you to enjoy other assets, either by spending them or holding onto them during a market decline.”

Whole Life Insurance — a Possible Solution to Supplement Retirement Income

Whole life insurance is one of the most versatile and stable assets, offering growth, tax-advantaged benefits and protection against untimely death — regardless of market conditions.

The required premium can provide future savings in the form of guaranteed cash values[1] and non-guaranteed cash values (dividends) within the policy.[2] The cash value of a whole life policy grows over the long term to develop the funds that may be used to provide the supplemental retirement income.

Benefits of whole life insurance:

- Offers lifetime financial protection
- Remains unaffected by market fluctuations
- Provides tax-advantaged, accessible funds for retirement and an income tax-free legacy to beneficiaries[3, 4]
- Is not affected by government programs
- Can be transferred or pledged as collateral for a loan
- Guaranteed level premium
  (The amount you pay into the policy)
- Guaranteed death benefit
- Guaranteed cash value
  (This cash value, which grows tax-deferred, is the amount accumulated over time, through the premium payments you must make and the dividends paid into your policy.)
- Riders and options create flexibility and help customize the policy to meet changing needs and objectives[5]
- Annual dividends enhance the growth of policy values
  (The dividend is the amount the insurance company returns to you from profits)

Case Study: John's Situation[6]

John was a 38-year-old business executive who had been saving for retirement since he started working. His insurance representative suggested that he purchase a $1 million whole life insurance policy out of current cash flow to protect his earning power and to possibly supplement other income at retirement.

By age 65, John accumulated approximately $2 million in his pre-tax Individual Retirement Account, which was well diversified between stocks and bonds. John relied mainly on his retirement account for annual withdrawals. When he retired, he took $150,000 annually from his account to augment income from other sources.

The chart below shows how much his retirement account balance fluctuated, based on actual S&P 500® Index total returns over 20 years, and that how he lost the original value of his retirement account by the end of the 11th year.

Age	Year	S&P 500 Index total return*	Balance beginning of year	Balance after annual $150,000 withdrawal	Balance at end of year	Intended withdrawal
65	2000	-9.1%	$2,000,000	$1,850,000	$1,681,650	$150,000
66	2001	-11.9%	$1,681,650	$1,531,650	$1,349,384	$150,000
67	2002	-22.1%	$1,349,384	$1,199,384	$934,320	$150,000
68	2003	28.7%	$934,320	$784,320	$1,009,420	$150,000
69	2004	10.9%	$1,009,420	$859,420	$953,096	$150,000
70	2005	4.9%	$953,096	$803,096	$842,448	$150,000
71	2006	15.9%	$842,448	$692,448	$802,547	$150,000
72	2007	5.5%	$802,547	$652,547	$688,437	$150,000
73	2008	-37.0%	$688,437	$538,437	$339,216	$150,000
74	2009	26.5%	$339,216	$189,216	$239,358	$150,000
75	2010	15.1%	$239,358	$89,358	$102,851	$150,000
76	2011	2.1%	$102,851	$0	$0	$150,000
77	2012	16.0%	$0	$0	$0	$150,000
78	2013	32.4%	$0	$0	$0	$150,000
79	2014	13.7%	$0	$0	$0	$150,000
80	2015	1.4%	$0	$0	$0	$150,000
81	2016	12.0%	$0	$0	$0	$150,000
82	2017	21.8%	$0	$0	$0	$150,000
83	2018	-4.4%	$0	$0	$0	$150,000

*The S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. Indexes are unmanaged, and one cannot invest directly in an index. Past performance is no guarantee of future results.

The Benefits of Whole Life Insurance in Action

This chart shows illustrated values of the whole life insurance policy John bought, and how cash values can be used to preserve the assets in his retirement account.

- The retirement account balance, with withdrawals of $150,000 per year, starting at age 65 and continuing for all years **except** those following a negative market return.
- The S&P 500 Index total return is applied to the retirement account balance at the end of each year.
- Then, in the years following negative returns, the client exercises the option to withdraw and/or borrow cash values from his policy instead of withdrawing them from his retirement account in a bear market, which would effectively plunder his retirement savings, as shown on page 3.
- Assuming an effective tax rate of 20%[7] on the $150,000 distributions from his retirement account, John would only need to withdraw $120,000 from his policy to have the same net withdrawal.

Age/ year	S&P 500 Index total return	Cumulative net after-tax outlay	Net non-guaranteed cash values[2]	Guaranteed cash values (CV)[1]	Withdrawals and loans[4]	Net death benefit[2]	Retirement account withdrawals	Retirement account balance from $2 million[8]
64/1999	21.0	$488,424	$802,909	$515,900		$1,535,648		$2,000,000
65/2000	(9.1)	$488,424	$836,728	$529,575		$1,566,836	$150,000	$1,681,650
66/2001	(11.9)	$368,424	$746,796	$543,385	$120,000	$1,361,989		$1,481,534
67/2002	(22.1)	$248,424	$653,007	$557,360	$120,000	$1,160,082		$1,154,115
68/2003	28.7	$128,424	$554,955	$571,480	$120,000	$989,293		$1,485,346
69/2004	10.9	$128,424	$577,740	$585,770		$1,003,978	$150,000	$1,480,898
70/2005	4.9	$128,424	$601,368	$600,180		$1,019,118	$150,000	$1,396,112
71/2006	15.9	$128,424	$625,857	$614,680		$1,034,759	$150,000	$1,444,244
72/2007	5.5	$128,424	$651,161	$629,140		$1,050,986	$150,000	$1,365,428
73/2008	(37.0)	$128,424	$677,334	$643,595		$1,067,830	$150,000	$765,719
74/2009	26.5	$8,424	$579,124	$658,030	$120,000	$921,094		$968,635
75/2010	15.1	$8,424	$601,624	$672,450		$934,475	$150,000	$942,249
76/2011	2.1	$8,424	$624,830	$686,835		$948,308	$150,000	$808,886
77/2012	16.0	$8,424	$648,758	$701,145		$962,624	$150,000	$764,308
78/2013	32.4	$8,424	$673,381	$715,315		$977,464	$150,000	$813,344
79/2014	13.7	$8,424	$698,699	$729,300		$992,866	$150,000	$754,222
80/2015	1.4	$8,424	$724,719	$743,085		$1,008,848	$150,000	$612,681
81/2016	12.0	$8,424	$751,344	$756,465		$1,025,532	$150,000	$518,203
82/2017	21.8	$8,424	$778,582	$769,455		1,042,945	$150,000	$448,471
83/2018	-4.4	$8,424	$806,484	$782,125		1,061,044	$150,000	$285,338
Internal Rate of Return (IRR) on Net Non-Guaranteed Cash Value at Age 83: 3.61%								**Remaining Balance**

*The values shown from the whole life policy are hypothetical and do not represent an actual Guardian policy currently available for sale. They are a blend of male and female rates based on the scenario described in the case study, a Guardian Life Paid-Up at 65 policy, age 38, Best Class, for a face amount of $1 million. Please contact your financial professional to have a full illustration run based on your unique scenario. Additionally, please note, the policy values are also assuming a CSO 2001 policy beginning in 1973, based on the 2019 dividend scale in all years. No retirement account withdrawal is shown in 2009, since the IRS suspended the Required Minimum Distribution (RMD) provision for all retirement plan participants that year, due to the stock market's steep 2008 loss.

John purchased a Life Paid-Up at 65 policy with a coverage of $2,000,000 at age 65, which provided for a fully paid-up policy at the anticipated start of his retirement.

- John still has the remaining life insurance cash value of $806,484 and a $1,061,044 death benefit.
- The addition of whole life insurance to his asset portfolio gave John the flexibility to forgo distributions from his retirement account during a market downturn. Instead, he receives tax-free income from his policy to make up the difference.

In spite of a few bad economic years, John's retirement assets have reached $1 million.

Guardian offers high-quality whole life insurance products, with riders and options available at a modest additional cost, to ensure ongoing financial protection for you.

For more information on how you can enhance your retirement income, contact your trusted Financial Professional.

This Material is Intended for General Public Use. By providing this material, we are not undertaking to provide investment advice for any specific individual or situation, or to otherwise act in a fiduciary capacity. Please contact one of our financial professionals for guidance and information specific to your individual situation.

[1] All whole life insurance 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] Dividends are not guaranteed — they are declared annually by Guardian's Board of Directors.

[3] Guardian, its subsidiaries, agents, and employees do not provide tax, legal, or accounting advice. Consult your tax, legal, or accounting professional regarding your individual situation.

[4] 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 59 ½, any taxable withdrawal may also be subject to a 10% federal tax penalty.

[5] Riders may incur additional costs. Riders and options may not be available in all states. Please check with your financial professional.

[6] This case study should not be extrapolated to apply to anyone without consideration of a client's specific circumstances, and to ensure discussion with a Financial Professional about a particular situation.

[7] For this hypothetical, the 20% effective tax rate does not take into account state, local, or additional taxes that may be due from the retirement account withdrawal.

[8] Values are not guaranteed.

Guardian®

The Guardian Life Insurance Company of America

guardianlife.com

Pub4821 (06/19) 2019-80125 (Exp. 06/21) | New York, NY