Guardian®

Life insurance with disability insurance as an asset class

by Richard M. Weber, MBA, CLU®, AEP (Distinguished)

Most families and businesses own a variety of assets — including real estate, cars, retirement accounts, investments, cash and life insurance. But some assets may be vulnerable to possible loss, through economic downturns, mismanagement or natural disaster. Fortunately, some of those losses can be offset by transferring the risk of loss to an insurance company. Still, there are other risks — such as losing your job or experiencing a business failure — that cannot be so readily transferred.

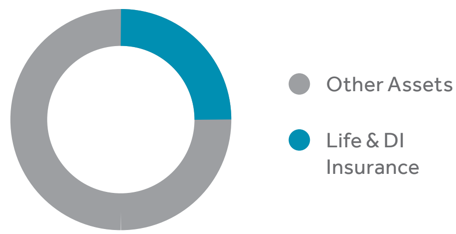
Protecting your greatest asset

Many individuals attempt to protect their assets from the reach of creditors[1] — for example, through trusts designed for that purpose.[2] But that strategy can't help to protect our most valuable asset, which is typically our lifetime earning power, or what we call our human life value.[3]

Life insurance is the medium that is often used to transfer the financial risk of loss due to premature death from an individual or family to an insurance carrier. When the need to transfer such risk is lifelong — and when resources are sufficient — participating whole life insurance is an ideal uncorrelated asset with which to transfer the financial risk of premature death. At the same time, the "living asset" — i.e., the cash value[4] associated with the life insurance policy — becomes part of the fixed portion of a well-diversified portfolio.

> Life insurance replaces income that can no longer be produced in the event of premature death. Similarly, disability income insurance replaces a portion of your income lost due to sickness or accident.

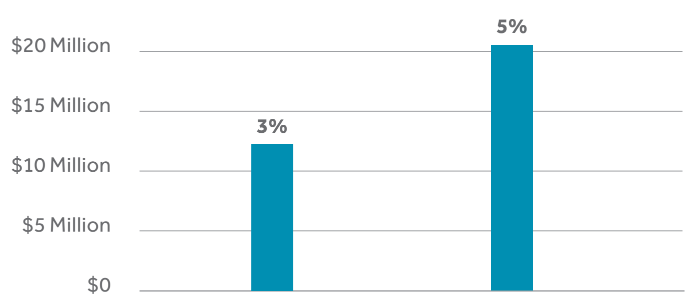
These two types of protection help assure the fulfillment of human life value — a simple concept describing the total of all the income an individual will earn in his or her lifetime.



Together, life and disability income insurance can provide a sufficient level of human life value protection to a family or business — a protection generally overlooked in the advanced planning arena of asset protection.

The need for protection: a case in point[5]

Let's consider a 33-year-old attorney earning $150,000 a year and working to age 75 (recognizing that 75 is the new 65!).



With 5% annual increases over that period, she will have generated more than $20 million of income in her working lifetime. Even just 3% increases would add up to almost $13 million. Either way, that's a large asset! But premature death or disability would deny her and her family the maximum benefit of that earning power.

There's a great consumer resource at: **DisabilityCanHappen.org**. Starting with the most natural question, "How likely is it that I will get disabled?," our extremely healthy 33-year-old attorney would discover that her "PDQ" (Personal Disability Quotient) is a low 16%. ("Disability" is identified as the chance of being injured or becoming ill and unable to work for at least three months.)

But if she *does* become disabled, there's about a 1 in 3 chance that she will be disabled for six years or longer. (The average length of disability for her age/health/activity is 78 months.)

A slightly older and perhaps "not quite in shape" 38-year-old store manager has a 38% likelihood of experiencing a disability lasting three months or longer — and he has an almost 40% chance of it lasting seven years.

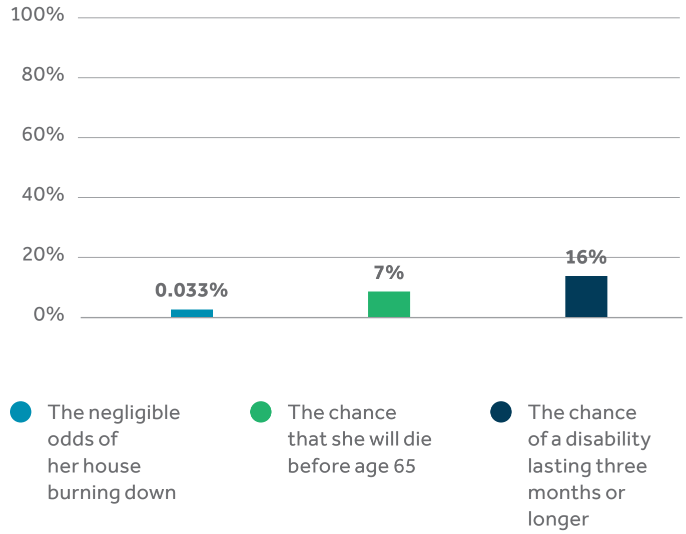
Perception vs. reality

When it comes to emergency savings, only 48% of American adults indicate that they have enough savings to cover three months of living expenses in the event they are not earning any income.[6] Yet there are still 5.6 percent of working Americans that will experience a short-term disability (six months of less) due to illness or injury on average every year.[7] Although the perception is that you might never face a disability, these statistics show the reality of the chances that it can impact you.

Why insure the risk?[8]

For context, here's an interesting statistic: There's an estimated 0.033% chance that an individual's house will burn down in his or her lifetime.

So for our healthy, skilled 33-year-old attorney, let's put it all together:



All of those statistics are in favor of using insurance to mitigate significant financial loss ***because the low early probabilities make the risk transfer (insurance) affordable***.

But there is one interesting disconnect about the risks and liabilities surrounding house fires versus those related to premature death or disability: We tend to *fully* insure our homes — but many people have woefully *insufficient coverage* for loss of income due to death or disability!

While disability income insurance doesn't need cash value to make it affordable during the insured's working years, when it is combined with appropriate amounts and kinds of life insurance, a "double-duty" synergy is achieved, resulting in complete protection for the portion of human life value for which insurance exists and can be obtained at a reasonable cost relative to the potential for loss.

Life and disability insurance as an asset class

We cover the loss of the full human life value potential with life insurance — and *Life Insurance as an Asset Class* makes a compelling argument that the cash value of participating whole life is a respected and valuable fixed income component of an individual's fully diversified portfolio.

An important, yet overlooked, aspect of "disability insurance as an asset class"

With appropriate amounts of monthly income to cover the normal expenses of living, the economic life of a family can continue while the breadwinner is unable to bring home a paycheck:

- The mortgage gets paid;
- Children's allowances are received and spent;
- Vacations can be planned;
- Savings and investments for retirement, weddings, and other future needs can be accomplished.

In fact, unless there is a substantial amount of wealth prior to the loss of earned income, disability income insurance is the *only* asset that can assure the family's economic normalcy in the face of disability.

Super-charge your protection

Looking for a triple-play rather than just double-duty? Adding a "Waiver of Premium" rider[9] to a life insurance policy can help you ensure that your life insurance premiums will be paid in full during qualifying periods of disability.[10] With an active waiver provision, cash value growth and dividends[11] continue to accrue unimpaired by what otherwise might have been a budget strain to pay life insurance premiums during a period of a disability.

It's a fact of life that we're reluctant to spend much time contemplating our own mortality or the loss of our ability to earn a living. Unfortunately, that can lead to failing to plan for those contingencies that have the potential to devastate a family or business.

> While it is impossible to predict what the future has in store, you can help protect yourself and your loved ones in the event that the unforeseen should happen.

This piece was created with the help of Richard M. Weber, MBA, CLU®, AEP (Distinguished). Mr. Weber is Managing Member of Ethical Edge Insurance Solutions, LLC, and was the 2012–2013 President of the 14,000-member Society of Financial Service Professionals. With Mr. Weber's 50+ years of experience in sales, training, product design, senior management and compliance, his firm provides training and consulting services that help empower life insurance agents, financial professionals, and their clients to explore and view life insurance in the broader context of financial planning.

Contact your local Guardian financial professional to review your financial circumstances and develop a customized strategy that brings all your asset classes into a cohesive approach — one that's designed to give you and your loved ones the long-term protection you need.

The Guardian Life Insurance Company of America

guardianlife.com

New York, NY

Please note: Individual disability income products underwritten and issued by Berkshire Life Insurance Company of America (BLICOA), Pittsfield, MA. BLICOA is a wholly owned stock subsidiary of and administrator for The Guardian Life Insurance Company of America, New York, NY. Product provisions and availability may vary by state.

[1] 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.

[2] 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.

[3] The HLV Theory states that one should maintain life insurance equal to the present value of all of their expected future earnings. Life insurance companies place limits on life insurance available to consumers based upon this formula and have created age-based multiples of current income as a guideline. For example, a person in their 30s may be insured for around 20 times their annual income, 15 times for a person in their 40s, and 10 times for people over 50.

[4] Whole life insurance should be considered for its long-term value. Early cash value accumulation and early payment of dividends depend upon policy type and/or policy design, and cash value accumulation is offset by insurance and company expenses. Consult with your Guardian financial professional and refer to your whole life insurance illustration for more information about your particular life insurance policy.

[5] All scenarios and names mentioned herein are purely fictional and have been created solely for training purposes. Any resemblance to existing situations, persons or fictional characters is coincidental. The information presented should not be used as the basis for any specific investment advice.

[6] Source: Federal Reserve, Report on the Economic Well-Being of U.S. Households in 2016.

[7] Source: Integrated Benefits Institute, Health and Productivity Benchmarking 2016 (released November 2017), Short-Term Disability, All Employers. Group average for new claims per 100 covered lives.

[8] Source: Council for Disability Awareness, July 2013 Report, www.disabilitycanhappen.org.

[9] A Waiver of Premium rider waives the obligation for the policyholder to pay further premiums 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. Whole life riders may incur either an additional premium or cost. Riders may not be available in all states.

[10] Before waiving any premium, Guardian must receive proof that total disability began before the policy anniversary nearest the insured's 65 birthday and has existed continuously for at least six months. Any premium which is paid and later waived during a period of disability will be refunded.

[11] Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.

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