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

Guardian®

The whole perspective

Making your assets work together

Diversification is key

The idea of diversifying investments stems from the original concept of Modern Portfolio Theory. In this theory, you examine your investable assets as the basic asset class components of cash, stocks, and bonds — while being especially mindful of your overall risk tolerance. From that analysis, an individual would create a customized asset allocation combining these components in such a way as to maximize their growth, while minimizing their exposure to risk. Assets are typically divided into three distinct categories of cash, stocks, and bonds, and each carries its respective correlation to returns.

Beyond these basic asset classes, there are additional classes that some money managers may include in their portfolio, such as real estate or certain commodities. But did you know that whole life insurance can also be another avenue for diversification?

Consider the two fundamental components of life insurance purchased for a lifetime: the death benefit itself and the underlying cash values that support the death benefit.[1] But, this is not to suggest life insurance as an investment. When acquired for the classic purposes of replacing an individual's human life value[2] (a concept describing the total of all the income an individual will earn in their lifetime), or when used to provide liquidity to an estate, business, or charity, life insurance properly acquired can be an important part of an overall approach with an eye toward building resources for retirement income distribution.

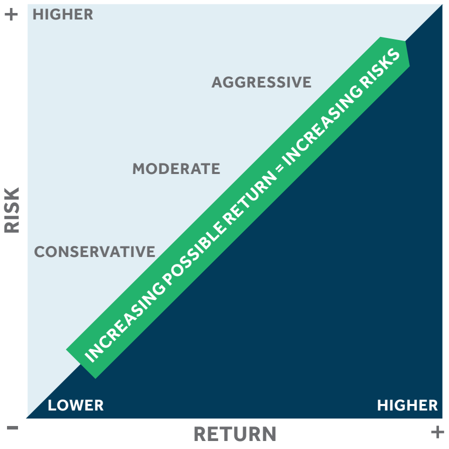
Life insurance is not a savings account — there's no immediate access to your cash value in the first few years. Life insurance should be considered for its long-term accumulation value with the tax advantage of tax-deferred accumulation. When the insured dies, the accumulation becomes part of the death benefit, for which there is typically no income tax to the beneficiary.[3]

Protection can be one of your best assets

The basic protection offered by participating whole life can be a cornerstone of a portfolio of policies — or at a minimum, term insurance with the intention of converting some or all to whole life as resources permit. Simply put, the critical benefit that life insurance provides should not be subject to the uncertainty of market volatility.

Life insurance is a unique asset class because of its ability to bring cash into the financial equation of a family, business or charity at the time it's likely to be most needed — with the loss of income or resources that death usually brings. It can also:

- Provide income tax-free and possibly estate tax-free cash to heirs through its death benefit when needed most.[4]



What is risk tolerance?

It defines the range of financial risk an investor is willing to take that will provide the greatest return without the investor losing sleep at night. Too little risk often results in not enough investment gain. Too much risk and the investor might experience more investment loss than he/she is comfortable with.

The bottom line of this brief lesson in "Portfolio Theory 101" is that when you:

- Create an investment portfolio of uncorrelated assets, and
- Stay within reasonable limits of your own unique risk tolerance

... it is possible (although not guaranteed) to get a higher long-term return within your range of risk tolerance for the combination of uncorrelated assets than would likely be achieved if such diversification were not used.

- Provide its policyowners with living benefits (through its cash value) that may be used to fund expected or unexpected needs, although it may take a number of years to achieve substantial cash value build-up with some policy designs.[5]
- Provide dividends[6] to purchase paid-up additional insurance, which could lead to guaranteed cash values possibly being equal to or exceeding premiums after a number of years. Life insurance as an asset class can be uniquely self-completing.[7]
- Allow the use of tax-deferred cash accumulation to be accessed income tax-free in the case of life's unexpected events.
- Can help reduce risk, within a portfolio of stocks and bonds than a portfolio without life insurance.

Diversification[8] is a critical piece of a well-thought-out portfolio. As an asset class of substantial value, life insurance can help keep you and your family protected, while also complementing your financial goals and needs.

First introduced by Guardian Life Insurance Company of America in 2008, life insurance as an asset class was a novel and perhaps even controversial idea 10 years ago. Today, it's an established concept that for those with lifetime needs for life insurance, properly acquired policies can be optimized when they are considered part of the overall financial structure of an individual, business, or charity — and managed along with all other important assets.

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 planners, advisors and their clients to explore and view life insurance in the broader context of financial planning.

The Guardian Life Insurance Company of America

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[1] Some whole life policies don't have any cash values in years one or two. 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 representative and refer to your whole life insurance illustration for more information about your particular life insurance policy.

[2] The HLV Theory states that one should maintain life insurance equal to the present value 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 30 times their annual income, 20 times for a person in their 40s and 10 times for people in their 50s. Age 60 and over about 1 times net worth.

[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] For life insurance death proceeds to escape inclusion in the insured's taxable estate, the insured may not have incidents of ownership in the policy. The policy must be owned by a third-party, for example an irrevocable life insurance trust.

[5] 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 outstanding 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 may also be subject to a 10% federal tax penalty.

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

[7] 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).

[8] Diversification does not guarantee a profit or protect against market loss.

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