A life insurance guide for individuals, families, and businesses

Guardian®

What is whole life insurance?

The value of whole life

1. Lifetime insurance protection

Whole life insurance provides a family or business with permanent protection against the overall long-term impact of losing a family member, business owner, or employee.

- **Family protection:** If you pass away, whole life insurance can help your loved ones replace your income or cover expenses like tuition, loans, or mortgages.
- **Estate planning:** Whole life helps to ensure the orderly transfer of assets after you pass away by offering:
  - liquidity to pay estate and your taxes
  - assets to generate income for spouse or children
  - estate equalization among heirs
- **Business protection:** Whole life insurance can help fund business continuity strategies, including buy-sell agreements, supplemental retirement programs and the payment of loans and mortgages.

2. Asset diversification

In addition to providing a death benefit, whole life has lifetime benefits that are uncorrelated to most other typical asset classes. 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 may enable you to spend down principal and interest to supplement retirement income — knowing that the principal will be replaced for your family upon your death.

3. Guaranteed rates and values[1]

The guarantees within a whole life policy can be viewed as either rates or values. When actuaries design a Whole Life policy, they begin by determining what rates are going to be guaranteed. Once the guaranteed rates have been set, they are used to determine policy premiums and values.

- A whole life policy is built upon a foundation of three guaranteed rates:
  - **Mortality rate:** This guarantee comes primarily from the CSO table, a table of guaranteed mortality rates that is periodically updated by the National Association of Insurance Commissioners.
  - **Interest rate:** This rate for Guardian policies is 4.0% .
  - **Expense factor:** An allocation for expenses that is covered in guaranteed values.
- The above guaranteed rates are combined in an actuarial formula creating three unique guaranteed values:
  - **Level premium:** The annual premium or cost for the policy is guaranteed to never change.
  - **Death benefit:** The amount of money that is paid if you pass away is guaranteed to never go down.
  - **Cash value:** The guaranteed cash value grows until it is equal to the face amount of the policy at a specified age, typically age 100 or 121.[2]

4. Dividends[3]

Whole life from a mutual company, such as Guardian, can offer dividend payments to policyholders if declared by the Board of Directors. When dividends are declared, they have three components:

- **Investment results:** The insurance company's current investment rate in excess of the guaranteed rate promised in the policy.
- **Mortality experience:** The difference between actual mortality experienced and the guaranteed mortality rate in the policy is multiplied by the net amount at risk to determine part of the dividend.
- **Expense management:** If the company's expenses are lower than anticipated, those savings also help to support a more favorable dividend that year.

Policy owners may choose among several dividend options. The most popular option is to use dividends to purchase Paid-up Additions (PUA).[4] This allows the policy owner to purchase additional guaranteed permanent paid-up insurance.

5. Taxation protection[5]

Life insurance is viewed as a good thing for the benefit and welfare of society. Therefore, significant tax benefits have been given to it that may not be found in other financial instruments.

These include:

- Income tax-free death benefits
- Tax deferred buildup of cash values inside the policy
- Access to policy values on a tax-favored basis

Whole life insurance is a versatile product that provides unique benefits which differentiate it from other financial instruments. This guide offers a high-level overview of the top five features that make whole life a valuable asset.

Whole life insurance provides:

- Guaranteed lifetime protection for those that you leave behind.
- A comprehensive asset that is insulated from market fluctuations.
- Guaranteed rates and values
- Dividend payments that can be used in a variety of ways.[3]
- Protection from typical asset or estate taxation.[5]

[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] 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. They are declared annually by Guardian's Board of Directors. The total dividend calculation includes mortality experience and expense management as well as investment results.

[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] 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. 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.

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