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

Guardian®

Protecting life's most valuable moments

The whole story of whole life

Whole life is a versatile financial instrument devised for the protection of families and businesses, while helping to create and enhance wealth. To appreciate the great value of this type of life insurance protection, one needs to explore how it works, its uses, its benefits, and its flexibility.

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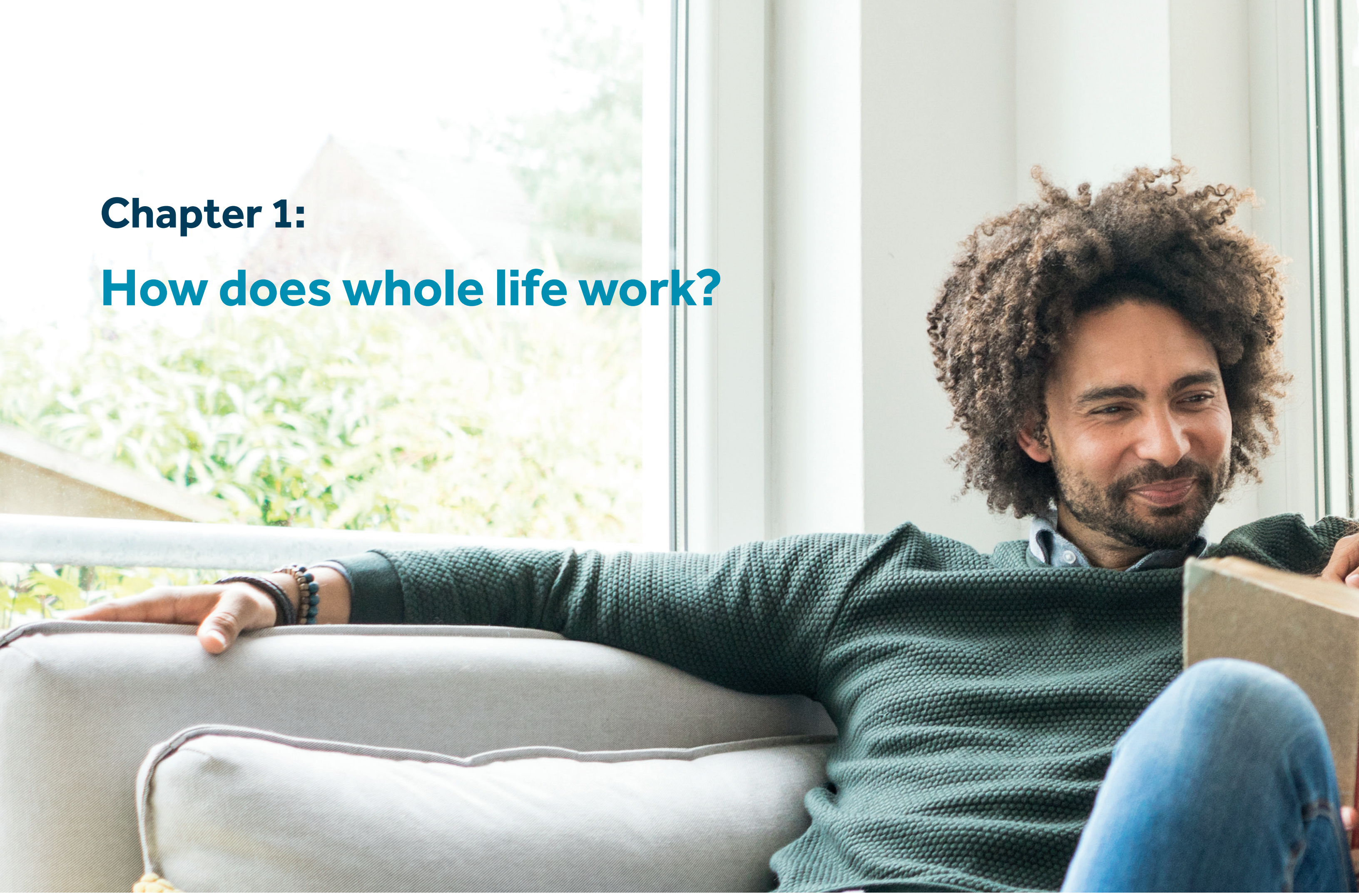


Chapter 1:

How does whole life work?

Whole life insurance can provide lifetime insurance protection with **important guarantees** and **tax benefits**.[1] When actuaries design a whole life policy, they begin by determining which **rates** are going to be guaranteed. Once the guaranteed rates have been set, they are used to determine policy premiums and **values**. Guaranteed rates and values are based upon conservative assumptions. A mutual life insurance company, such as Guardian, will then adjust these rates and values to current market conditions through the mechanism of a non-guaranteed **dividend**. Because life insurance is seen as financially beneficial to society, significant **tax benefits** have been bestowed on it — benefits that are not typically found with most other financial instruments.

What are the guaranteed rates?[2]

A whole life policy is built upon a foundation of three guaranteed rates:

- The guaranteed **mortality rate** – This guarantee comes from the current CSO Table, whose guaranteed mortality rates were adopted by the National Association of Insurance Commissioners in 2016.
- The guaranteed **interest rate** – This rate for Guardian policies is 4.0% for the entire life of the policy.
- The guaranteed **expense factor** – This factor is an allocation for expenses that is covered in guaranteed values.

What are the guaranteed values?

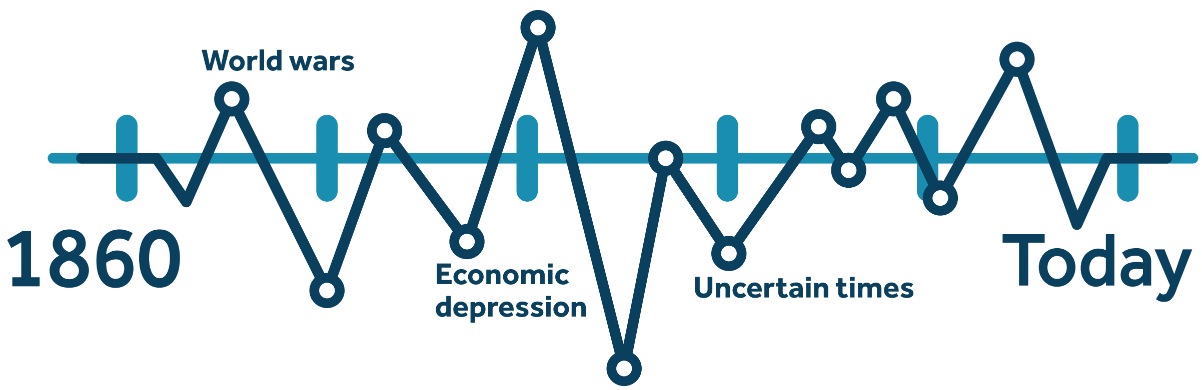
The three guaranteed rates are combined in an actuarial formula that results in three guaranteed values. These guaranteed features set whole life apart from other types of financial instruments:

- A guaranteed **level premium –** The annual premium that is contractually guaranteed to never change.
- A guaranteed **death benefit –** The level of death benefit that is contractually guaranteed to never decrease.
- A guaranteed **cash value –** A cash value that is contractually guaranteed to grow each year until it is equal to the face amount of the policy at a specified age, typically 100 or 121.[3]

Dividends

Whole life offers the ability to provide value **in excess of its guarantees** through dividends.[4] Dividends are paid to policyholders, if declared by the Board of Directors. When dividends are declared, they have three components:

- **Current investment rate, which is in excess of the guaranteed rate** promised in the policy;
- **Mortality experience,** which is the guaranteed mortality rate defined in the policy, less the actual mortality experienced, multiplied by the net amount at risk; and
- **Expenses of policy administration,** which are less than the cost guaranteed in the policy.



Whole life provides lifetime insurance protection with important guarantees and tax benefits.

What are my dividend options?

Policy owners have different needs. Whole life offers a variety of dividend options to choose from, which allows you to customize your coverage so that it's right for you. You may change your dividend option up to once per year to address your changing needs throughout your lifetime.

The most widely selected dividend option is to apply dividends to purchase paid-up additions (PUA).[5] A paid-up addition is guaranteed permanent, paid-up participating life insurance. **This option can provide you with a growing cash value and death benefit that is guaranteed once purchased.** Under this option, each year a dividend is declared, more PUAs are purchased, which in turn earn their own dividends. Over time, the accumulation of PUAs can help to offset the effects of inflation by providing a greater level of death benefit protection and accumulated cash values. These dividend accumulations can also be withdrawn tax favored up to the policy basis.[6]

In addition to using dividends to purchase PUAs, Guardian currently offers these other dividend options:

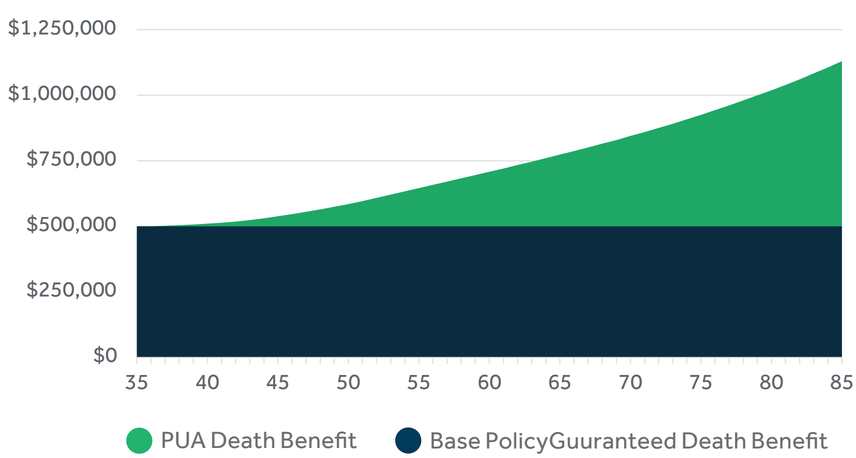
- Receive in cash
- Reduce premium
- Purchase additional term insurance
- Accumulate with interest
- Apply to outstanding policy loans

"Everything we do is designed to reinforce Guardian's status as a trusted mutual company, delivering financial protection how, when, and where our clients prefer."

- Deanna M. Mulligan, President and Chief Executive Officer

The graph below illustrates how the death benefit of a whole life policy can grow in value with paid-up additional insurance purchased by dividends.

Base Policy Death Benefit With Dividends Purchasing Paid-Up Additions* — $500,000 Base Policy Age 35, Best Class — $5,895 Annual Premium



*Based on Guardian's 2020 dividend scale. Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors. Guardian has paid a policyholder dividend every year since 1868. Sample values based on a hypothetical policy not available for sale.

Taxation protection

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

- **Income tax-free death benefits**[7]
- **A tax-deferred buildup of cash values** inside the policy
- **Access to policy values on a tax-favored basis**

The cash values of life insurance policy additions may generally be accessed on a tax-favored basis through withdrawals or policy loans:

- Income tax-free withdrawals from a life insurance policy are permitted on a First-In First-Out (FIFO) Basis.[8] This means that withdrawals, to the extent of cost basis, are considered a tax-free return of cost basis[9]
- You can withdraw cash value from a policy without triggering income tax on any gain that has been borrowed from the policy

Chapter 2:

What are the different uses for whole life?

Whole life insurance provides a means by which a family or business may enjoy the benefit of the family member's or employee's human life value, even if something should happen to individual.

Solomon Huebner defined human life value as the capitalized monetary worth of the earning capacity resulting from the economic forces that are incorporated within our being: namely, our character and health, our education, training, and experience, our personality and industry, our creative power, and our driving force to realize the economic images of the mind.[10]

Human life value protection

Property values, whether they exist in the context of a family or business, are in fact the result of human effort. Human life value is clearly seen in a family whenever income is earned to provide for that family's economic needs. Human life value is present in a business when a key person has been identified as a significant contributor to the company's revenue and earnings.

Whole life insurance provides a means by which an individual or a business may insure human life value.

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. The human life value of an individual, which can be 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 provides an affordable, effective way of permanently indemnifying a family or business against the loss of its most valuable asset.

There are many benefits that a family may enjoy from the protection of income, such as the purchase of a home, the rearing and education of children and the enjoyment of life. Insuring the lives of the breadwinners in a family will help to ensure that these benefits will continue to the survivors in the event of a premature death.

Human life value can be the most valuable asset of a family or business.

Family protection

The death benefit of life insurance can help to ensure 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, or wife. Whole life insurance can also help to ensure financial stability through the funding of:

- Mortgage protection;
- Education funding;
- Income needs; and
- Additional time away from employment incurred beyond bereavement leave.

Did you know...

In 1913, the United States Congress gave special tax treatment to whole life insurance as an incentive for individuals and business owners who were expected to take more responsibility for their financial future. Those same unique tax benefits remain in place for policyholders today.

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 can be used to provide the capital needed to adequately buy the interests of a deceased owner and indemnify the business against the loss of the services, expertise, and skills of a key person. Life insurance can be used to address four major areas of business planning strategies:

- 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 strategies

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 plays a key role in providing for loved ones by offering:

- Adequate 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.

Asset maximization

One of the unique benefits of whole life insurance is the way that it helps enhance the value of other assets in your estate. The presence of whole life enables the policy owner to use estate assets in ways that might not be possible if the insurance were not in place. For example:

- **The power to consume –** Whole life can be the "permission slip" that may enable you to maximize your retirement income and personal net worth. Life insurance gives you the power to spend assets that may otherwise have to be managed in an ultra-conservative fashion in order to preserve the principal and the income stream they produce.
- **Charitable Remainder Trust –** The cost of successfully building a business or managing a personal investment portfolio is often the capital gains tax that must be paid when a business owner sells a business interest or portfolio holdings in order to fund retirement income. Often financial success brings with it a desire for individuals and business owners alike to express benevolence toward those charitable causes that are of particular interest. With a Charitable Remainder Trust, these two seemingly diverse issues can come together in a strategy that can provide:
  - A lifetime income for a benevolent donor;
  - A bequest to a charity of the donor's choice;
  - Avoidance of capital gains tax; and
  - Income tax deductions.

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.

Chapter 3:

What are the benefits of whole life insurance?

The protection of an instant permanent estate

Whole life insurance provides a guaranteed death benefit for the entire life of the insured. Instantly, with the payment of the first premium, the entire death benefit is set aside for your family.

Tax-free death benefit

The death benefit of a life insurance policy is generally free from all federal income taxes. The value of this benefit should not be underestimated, especially in light of constantly growing government expenditures and taxes.

Tax-deferred growth

The growth of cash value inside of whole life insurance 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.

Did you know...

Estate taxes can reduce the accrued value of retirement accounts, real estate, and businesses by forcing beneficiaries to liquidate assets. A whole life policy's income tax-free, guaranteed death benefit can help cover the estate tax bill and protect the wealth that a policyholder has worked so hard to accumulate.

Tax-favorable access to policy cash values through withdrawals

During the insured's life, cash values can be accessed under favorable First-In-First-Out (FIFO) tax rules. This means **withdrawals to the extent of cost basis are considered a 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 not trigger a taxable event,** even though the policy may have a large gain in excess of premiums paid.

Self-funding

You have the option to have **a whole life 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.

Disability protection

Lastly, life insurance is different from all forms of savings and investment vehicles, such as bank accounts, IRAs, 401(k) accounts, mutual funds, and brokerage accounts, because **it can continue to be funded even if you are disabled.** Disability often results in reduced income, increased expenses, and dissolution of existing savings and investments. When you elect the Waiver of Premium rider,[11] it guarantees that if you suffer a qualifying disability, you (as the policy owner) will not lose the financial protection provided by your whole life policy. **Your policy will continue to provide death benefit protection, its cash values will continue to grow, and dividends will continue to be paid** just as they would have been if you had not been disabled and were paying the premiums yourself.

Liability protection

In many states, the benefits of life insurance are protected from the claims of creditors.[12] If your state provides this legal protection, the cash values and death benefit of a whole life policy will be protected from lawsuits that can claim other unprotected assets, such as bank accounts, mutual funds, and brokerage accounts.

Distribution

Life insurance helps avoid probate and has a named beneficiary. You specify who and how much of the benefit will be distributed to each beneficiary. Additionally, whole life has the added benefit of privacy, unlike a will. Wills, once probated, become public documents. The distribution of a life insurance policy's death benefit is a private, contractually driven transaction between the policy owner and insurance company: The distribution passes outside of a will and thus provides privacy for the beneficiary.

Instantly, with the payment of the first premium, Guardian sets aside the entire death benefit for your family.

The ability to pay itself back from anticipated earnings

Once a policy loan has been taken, the annual dividend can be used to help pay back the policy loan.

You can make direct loans to yourself for any reason

Whole life insurance can help free a policyholder from reliance on commercial lenders. Cash values can be accessed on demand via a policy loan at any time and for any reason, without the application and approval process that is required for traditional loans.

Collateral for a loan from a bank

Whole life may 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.

Flexible loan repayment terms

Loans against your 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 a policy, it can be paid back at the discretion of the policy owner. If not repaid during the lifetime of the insured, any remaining loan balance will be deducted from the policy's net death benefit. When a policy loan is paid back, there will be a commensurate increase in the cash value of the policy, which may be reborrowed at a future date or paid out to the beneficiary.

Death benefit increase

When dividends are used to purchase paid-up additions, death benefits will increase, 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 are guaranteed.** The policy owner also has the right to reduce the death benefit to create a "paid-up" policy at any time. If this is chosen, the policy owner will no longer pay policy premiums. However, both the cash value and the death benefit will continue to increase for the rest of the owner's life.

Did you know...

When he was unable to secure a substantial bank loan, Walt Disney used the cash value from his whole life policy to build a sprawling theme park that is now known as "the happiest place on earth."[13]

Chapter 4:

What types of whole life are available?

There are several types of whole life insurance that are designed to provide flexibility and options in the structuring of an insurance program:

Level premium whole life

This is the most common type of whole life insurance, and Guardian's level premium policies go to ages 95, 99, and 121. Other carriers may have different ages. The level premium structure is designed to provide affordable lifetime insurance coverage. As a policy owner, the guaranteed level premium structure gives you financial confidence, because regardless of what happens, your premium will not change.

Limited payment whole life

This type of policy has a fixed level premium like, a level premium whole life policy, but the premium is only payable for a *fixed* period of time. The advantage of these limited-payment policies is that they are guaranteed to be paid up at the end of the payment period. Thus, they allow valuable insurance coverage to continue for the insured's entire life without any payment required at later ages.

The guaranteed level premium structure helps provide financial confidence.

Did you know...

The cash value accumulating inside a whole life contract can act as a "second emergency fund" to help cover retirement, medical expenses, long-term care, a down payment on a house, or other needs.[14]

Chapter 5:

What options can Guardian whole life give you?

Guardian's whole life insurance products offer many riders and features that you may add to a policy in order to customize the coverage to suit your specific needs.[15] Some of the more popular riders are:

Paid-Up Additions Rider[5]

This rider provides flexibility by purchasing paid-up additional insurance to supplement non-guaranteed cash value and death benefit. The greater the premium paid into the rider, the greater the protection afforded by the policy. This means that the PUA rider **can help increase the accumulation of tax-deferred cash values and death benefit.**

Index Participation Feature (IPF)[16]

The IPF adds a new dimension of index-linked upside potential for building whole life cash value. This innovative feature, ***offered only by Guardian,*** allows policyholders to allocate all or a portion of their cash value of paid-up additions to receive a dividend adjustment based on the movement of the S&P 500® Price Return Index, subject to a cap and a floor.

The rider provides you with a unique opportunity for index-linked upside potential not normally found with whole life policies. And the floor ensures that your year-to-year downside market exposure is limited — supporting the guarantees that consumers have come to expect from whole life.

Finally, you have the ability to choose your IPF allocation amount, anywhere between 0% and 100% of the cash value of paid-up additions each year, giving you maximum flexibility.

Accidental Death Benefit

This rider can be added to a policy to provide an additional death benefit in the event that death occurs by accidental bodily injury. The benefit will be doubled if the injury is sustained while a passenger in a public conveyance.

Renewable Term Rider

This rider results in the purchase of 10-year renewable and convertible level term insurance.

Accelerated Benefit Rider[17]

The Enhanced Accelerated Benefit Rider allows you to accelerate the benefits of a whole life policy for chronic and terminal illnesses. A portion of your policy's death benefit may be accelerated during your lifetime if you become permanently unable to perform two out of six Activities of Daily Living (ADLs), if you become permanently cognitively impaired, or if you are diagnosed with 12 months or less to live. There is no premium charged to add this rider.

Waiver of Premium[11]

Protects you in the event of disability by paying the premium if you should suffer a qualifying disability. Because the premium will be paid, cash values will continue to build, dividends will continue to be paid, and your whole life policy will continue to permanently protect you and your family.

Guaranteed Insurability Option (GIO)

Gives the policy owner the right to purchase additional insurance on the insured's life without evidence of insurability. There are up to eight scheduled option dates, falling on anniversaries every three years, based on the insured's age. Alternate option dates are available upon marriage, birth/adoption of a child or grandchild, home purchase, child enrollment in college, or when a 20% or more income increase occurs for the insured. The GIO becomes even more valuable in the event of disability.

With GIO Plus, an insured who is disabled and has their premium waived under the original policy rider may exercise the GIO rider on the option dates, and Guardian will pay the premium on the new policy as well as on any existing policy(ies) that have the Waiver of Premium rider.

Whole life insurance may be customized to suit your specific needs.

Chapter 6:

Why Guardian?

Did you know...

Guardian has paid annual dividends to our policyholders every year since 1868.

Quality company

Guardian is recognized by all the major rating agencies as a company that provides financial strength. The table below shows Guardian's ratings from each of the five major rating agencies.

Guardian ratings

Rating Agency	Rating
A.M. Best	A++ (Superior – highest of 15 ratings)
Fitch Ratings	AA+ (Very Strong – 2nd highest of 21 ratings)
Moody's Investors Service	Aa2 (Excellent – 3rd highest of 21 ratings)
Standard & Poor's	AA+ (Very Strong – 2nd highest of 20 ratings)
COMDEX[18]	99

Ratings are as of March 2020 and are subject to change.

Mutual company

Guardian is proud to be one of the few remaining major mutual insurance companies in the nation. We are owned by our policyholders, who share directly in our annual earnings. We have no stockholders expecting dividends, immediate returns, or short-term growth. Guardian has no stock and thus no stock options exercisable by senior management. Guardian is committed to its status as a mutual life insurance company and is here to provide for policyholder insurance needs, now and far into the future. Guardian's financial figures are updated annually. More recent figures may be available than those listed above. You should check **guardianlife.com** to ensure you are reviewing the most up-to-date information.

[1] 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.

[2] 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.

[3] 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.

[4] Cash values in a whole life policy grow from dividends. Dividends are not guaranteed and are declared annually by Guardian's Board of Directors.

[5] 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.

[6] 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.

[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] FIFO tax rules apply as long as the policy has not been classified as a Modified Endowment Contract (MEC).

[9] Cost basis is the contribution that is made to a life insurance policy.

[10] S.S. Huebner, The Economics of Life Insurance, page 5 (Executive Asset Mgmt. 3rd ed. 1996) (1927)

[11] 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.

[12] 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.

[13] Think Advisor Magazine Article by Brian Anderson, April 06, 2012 "6 famous brands started or saved by life insurance".

[14] From National Underwriter article by Warren S. Hersch, November 2004.

[15] Riders may incur an additional cost or premium. Riders may not be available in all states.

[16] The Index Participation Feature (IPF) is a rider available with select Guardian participating whole life policies. With the new IPF, policyholders can now allocate between 0% and 100% of the cash value of paid-up additions (PUA) to the IPF each year. The IPF provides an adjustment to the dividend paid under the policy. This adjustment, subject to the cap rate (currently 11%) and floor (currently 4%), may be positive or negative based on the S&P 500 price return index performance. Adverse market performance can create negative dividend adjustments which may cause lower overall cash values than would otherwise have accrued had the IPF rider not been selected. While the adjustment provided by this rider is affected by the S&P 500 price return index, it does not participate in any stock or equity investment of the S&P 500 price return index.

The S&P 500 price return index is a product of S&P Dow Jones Indices LLC ("SPDJI") and has been licensed for use by The Guardian Life Insurance Company of America (Guardian). Standard & Poor's® and S&P® are registered trademarks of Standard & Poor's Financial Services LLC ("S&P"); Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC ("Dow Jones"); and these trademarks have been licensed for use by SPDJI and sub-licensed for certain purposes by Guardian. The Index Participation Feature ("Product") is not sponsored, endorsed, sold or promoted by SPDJI, Dow Jones, S&P, or their respective affiliates, and none of such parties make any representation regarding the advisability of investing in such Product nor do they have any liability for any errors, omissions, or interruptions of the S&P 500 price return index.

The cost of the IPF rider is currently 2% with a guaranteed rate of 3% on the IPF portion of the policy. Policy loans against, or withdrawals of, values allocated to the IPF could negatively impact rider performance. Selection of the IPF may restrict the use of certain dividend options.

[17] The cash surrender value, loan value, and death proceeds payable will be reduced by any lien outstanding due to the repayment of an accelerated benefit under this rider. The accelerated benefits in the first year reflect deduction of a one-time $250 administrative fee, indexed at an inflation rate of 3% per year to the rate of acceleration. Please see state-specific EABR Disclosure form (01-ABR-1) for complete details about the rider.

[18] COMDEX is a composite index created from various current financial strength rating agencies. It gives a company's standing, from 1 to 100 (with 100 being the best), in relation to other companies that have been rated.

Guardian Whole Life Products are issued on Policy Forms 19-WL 10, 19-WL 20, 19-WL 65, 18-L95, 18-L99, and 18-L121.
Rider form numbers: 18-WP WL, 18-GIO, 01-R111, 18-PUA, 06-R66, 86-R1, 15-IPR.

Guardian®

The Guardian Life Insurance Company of America

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