Debunking the Myths about Whole Life Insurance:

Taking a Fresh Look at a Time-Tested Product

GUARDIAN®

A CONSUMER GUIDE TO EXPAND
THE CONVERSATION ABOUT
WHOLE LIFE INSURANCE

Financial experts continue to discount the benefits of whole life insurance in favor of term life policies. Because of this, many families have failed to realize the broad range of financial benefits whole life insurance provides—most importantly, a guaranteed death benefit for the life of the insured[1].

In fact, whole life insurance has proven its long-term value over generations. While many investments faltered in the recent financial crisis, whole life insurance provided families and small business owners with a much-needed source of funds, and retirees with access to additional income—all the while building guaranteed cash values and paying death benefits to beneficiaries.

Myth #1:

You only benefit from whole life when you die.

Truth: Policyowners have the opportunity to enjoy substantial "living" benefits during their lifetime of coverage.

- "Participating" (or "par") whole life insurance pays dividends[2] to policy owners annually. Each year, the company's board of directors tends to declare a dividend, although dividends are not guaranteed. Guardian has paid a dividend every year since 1868. For example, Guardian declared a total dividend of $836 million to be paid out to policyholders in 2016, representing the largest in company history.
- A 30-year Guardian policy begun in 1984 and tracked through 2014 provided a 5.14% historic cash-on-cash return,[3] along with strong guarantees and low volatility. Keep in mind that past performance does not indicate future results.
- Dividends can be used to: provide a cash payment to the policy owner, repay policy loans, purchase additional paid-up insurance and/or reduce the policy owner's premium.[4]
- Small business owners may borrow or withdraw cash value,[5] if structured properly, from their policies to provide working capital.
- Wealthy individuals use whole life insurance to provide liquidity to pay estate taxes. This can be done by using a trust as the owner of the life insurance policy.[5]
- Retirees who own whole life insurance can look to generate more cash flow from their other assets because of the certainty that the ultimate death benefit will deliver to their heirs. They may choose to purchase higher-paying annuities or spend down their other retirement assets rather than living only on current interest generated by their assets.

Myth #2:

Whole life is a lousy place to put your money.

Truth: Whole life is an excellent place to put your money. Here's why:

- The cash value of a whole life insurance policy is uncorrelated to the stock market and is largely guaranteed by the insurer, so that neither death benefits nor cash values are affected by declining markets. Therefore, a whole life policy can serve as the stable and lasting component of an overall financial plan.
- The accumulated cash value in a whole life policy grows tax deferred. Accumulated cash values may be withdrawn income tax free, up to the cost basis (i.e., your cumulative premiums paid). Any withdrawal in excess of cost basis is taxed.[4, 5]
- You purchase whole life insurance to financially protect your family in the event of your death. However, its cash value has a return that performs competitively with other high-quality, fixed-return assets. This gives you two different ways of using the whole life policy: as a living asset with tax-advantaged distributions—and as a vehicle that provides a tax-free and potentially estate tax-free death benefit.

Myth #3:

Once you retire, you should cash in your life insurance policy.

Truth: We hope not.

- Retirement is no longer the appropriate time to drop life insurance—today, it's the time when many people realize the importance of *buying* a policy.
- Through the loans and withdrawals available to whole life policy owners, an individual can supplement retirement income with tax-free funds, if structured properly.
- Continuing whole life as part of a financial plan provides an additional level of security, financial freedom and a legacy for loved ones, even if other assets are used for retirement.
- Many people have estate liquidity problems that can only be resolved through the availability of immediate cash. Heirs can use the proceeds of a whole life policy to pay estate taxes.[5]
- Whole life also provides a good source of tax-free funds for big-ticket items that could put a dent in a tight retirement budget—such as a grandchild's college tuition or wedding.
- Some families may want to establish "special needs" trusts to provide financial care for family members with health issues, and life insurance is ideal for that purpose.
- Families with real estate, closely held businesses, leveraged investments or margined stock portfolios—to name just a few examples—often use life insurance to offset the significant cash liquidity demands on their estates.
- Today's healthy Baby Boomer couples have, on average, as much as a 30-year life expectancy (for at least one spouse) past an age-65 "retirement." Whole life can offer individuals the luxury of being able to spend down other assets first, since they would already have in place a financial foundation for the next generation. In other words, the legacy is secure.

Myth #4:

Whole life is too expensive.

Truth: In considering whether to purchase whole life or to "buy term and invest the rest," individuals must take into account not just the premium cost, but also the length of time they want coverage and their ability to "invest the rest" profitably.

- Term insurance isn't designed for lifetime coverage. In fact, term insurance is prohibitively expensive to maintain for the average U.S. life expectancy of 78.9 years—never mind to age 100. Term costs can average a staggering **$700,000 per $1 million** of death benefit, and more than **$4,000,000**, to age 100, for a $1 million policy.[6]
- For longer periods—such as an entire lifetime—whole life insurance is substantially less costly than a lifetime of premiums paid for term insurance. Term coverage becomes substantially more expensive at older ages.
- With term insurance, the policyholder does not accumulate any lasting cash value. Upon expiration of the term insurance policy, the policyholder owns nothing—in contrast to whole life insurance, where premiums build cash value that belongs to the policy owner.
- Whole life provides a disciplined means of accumulating cash values that are guaranteed once they have been credited to the policy, provided there are no loans or withdrawals. The policy can also be structured so the policy owner can use the cash value and dividends to pay premiums, while maintaining the policy's guaranteed death benefit.
- Many consumers purchase "lifetime term" without realizing that today's $1 million death benefit will depreciate in the future. For example, 30 years from now, $1 million will have the approximate buying power of just $400,000 today. Forty years from now, the buying power will drop to just around $300,000—only 30% of its initial value. The whole life policy grows from payment of premiums and dividends paid. This helps offset the effects of inflation.

Myth #5:

All life insurance is created equal.

Truth: That is not the case.

- The safety and security of a whole life policy depends on the insurer from whom it is acquired. That's why it makes sense to buy whole life from a well-established mutual carrier that has decades of experience in the industry and maintains a high credit rating.
- Mutuality forms the cornerstone of everything we do at Guardian, empowering us to do the right thing for the people who put their trust in us. As a mutual company, the interests of our policyholders guide our decisions, from our strong emphasis on values to our focus on long-term financial strength.[7] Unlike publicly held companies, Guardian is not owned by shareholders and the company's decisions are always based on what is best for its policyholders. Guardian serves their best interests by delivering high-quality, low-net-cost life insurance with the greatest degree of financial strength[7] possible.
- Guardian is among the top tier of all life insurers. For example, as one of the four major mutual insurers, Guardian has a "COMDEX" of 98 on a scale that tops out at 100 (as of October 2015).[8]
- One of the reasons why mutual companies are so highly rated is because they typically invest a high percentage of their portfolio assets in "safe-haven" government-guaranteed investments and other high-quality, fixed-return instruments.
- Whole life insurance policies can be customized with a variety of "riders" or special features. In fact, some of these riders can offer protection from disability, a guarantee of future protection without any health underwriting, and even guaranteed insurability for your children.[9]

Myth #6:

Once you buy life insurance, you don't have to think about it again.

Truth: Sticking your policy in the bottom of your filing cabinet and never thinking about it again is not the best approach to your life insurance purchase. A "set it and forget it" tag may result in missing opportunities. Sit down with your financial professionals on a regular basis to review your situation. Here's why:

- Economic realities can affect your policy's cash values. Just as you periodically review your other asset classes to monitor their performance, you need to review your policy's value regularly as well.
- Gain reassurance that your life insurance portfolio continues to meet your needs. Make sure your policy still "fits." Whole life is generally designed with the built-in flexibility to make modifications.
  - New family member?
  - New career?
  - New windfall?
- Performing due diligence is also critical:
  - Reviewing your policy may result in a reduction in your premium if you've experienced positive health changes.
  - Policies with loans and withdrawals, if not managed, may jeopardize some long-term policy provisions or guarantees.
  - Policies held in trusts need review, too. Just because a policy is out of your estate doesn't mean it should be forgotten.
- Performing policy maintenance can help link your advisors together, strengthening their relationships around you. This enables you to cross-check ideas between your investment, tax, estate, and insurance advisors.
- If you currently own term insurance, discuss your options with your financial professional now. When the term period runs out, premiums will escalate and conversion may be a viable option—but only for a limited period of time.

[1] 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.

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

[3] Dividends based on $1 million whole life policy issued to 38-year-old male, best class in 1984.

[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 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.

[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.

[6] Source: *Life Insurance as an Asset Class*, by Richard M. Weber, MBA, CLU, AEP and Christopher Hause, 2008 and 2010.

[7] Financial information concerning The Guardian Life Insurance Company of America as of December 31, 2014 on a statutory basis: Admitted Assets = $45.3 Billion; Liabilities = $39.6 Billion (including $34.9 Billion of Reserves); and Surplus = $5.7 Billion.

[8] Comdex is not a rating, but a composite of all ratings that a company has received from the major rating agencies (A.M. Best, Standard & Poor's, Moody's, and Fitch). Comdex percentile ranks the companies, on a scale of 1 to 100 (with 100 being the best).

[9] Whole life riders may incur either an additional premium or cost. Riders may not be available in all states.

The protection and wealth-enhancing benefits of whole life insurance make it one of the most comprehensive financial tools available today. Its great value is enhanced by its flexibility, which enables it to be customized for a variety of consumer needs.

To learn more about the benefits whole life can offer you, contact your local Guardian representative.

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