



Creating a Tax-Efficient “Living” Asset

Guardian 10 Pay Whole Life using the *Prepayment of Premium* feature

A portfolio asset

Consumers consider shifting assets from one bucket to another in order to accomplish several strategies in financial planning – one being tax efficiency. When looking for tax efficiency within a portfolio, life insurance can be a favorable strategy. Using Whole Life insurance as an asset class can work well for those looking at ways to create tax efficient transfer of assets to another generation. This concept proposes thinking of the life insurance policy as a fixed asset in an overall financial portfolio.

When an individual working with a financial representative is considering whether or not this concept is right for them, many times the discussion of shifting assets in a lump sum comes up. However, when dropping a lump sum premium into a permanent life policy, a Modified Endowment Contract (MEC) can be created. This means that if the person would like to use the cash value by taking a withdrawal or loan against it – a living benefit of a life insurance policy – they would be taxed on the cash coming out similarly to the way an annuity is taxed. This does not allow you to recover basis tax-free, something most people using life insurance cash values are used to enjoying.

What if there was a way to create this guaranteed fixed asset in a portfolio using a whole life insurance policy, while funding it with a lump sum, and also still later have access to the cash value tax-free up to basis in case it's needed while the insured is living?!

Good news! With Guardian there is a way by using Guardian's 10 Pay Whole Life and the Prepayment of Premium feature.

Coupling a competitive product with a unique ‘account’

Guardian's 10 Pay Whole Life offers:

- Guaranteed paid up policy after 10 annual premiums
- Guaranteed cash value beginning in year one
- High premium structure that generates favorable dividends²

Guardian's *Prepayment of Premium* feature offers:

- Rapid funding without causing a MEC
- Guaranteed interest rate (currently 4.75% a year for 10 years)
- Refund of remaining account balance upon death or surrender³
- Favorable current taxation of the discounted premium

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¹The policy owner only has access to the cash values in the policy, not the Prepayment of Premium feature unless the policy is surrendered. Therefore, the policy owner would have full access after 10 years when all the premiums are paid into the policy out of Prepayment of Premium.

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

³Guardian may assess a penalty on the remaining Prepayment of Premium funds if the policy is surrendered.

Here is how it works—Hypothetical Case

Tom, a healthy (Preferred NT) 40 year-old businessman determines with his financial representative that he would like to create a guaranteed asset of \$500,000. They choose to use a \$500,000 Guardian 10 Pay Whole Life policy, funding it by using the *Prepayment of Premium* feature.

- Tom has \$200,000 of cash in his brokerage account and decides to transfer a lump sum of \$132,128 to prepay 10 premiums of \$16,138 once he's approved for the policy (creating a \$161,375 policy tax basis).
- Tom is in the 40% tax bracket. Over 10 years, he pays a total of \$13,201 in taxes for the premium discount.
- This creates Tom's total outlay for his initial \$500,000 Guardian 10 Pay Whole Life policy to be \$148,175.
- After 10 years, Tom has a Guaranteed Death Benefit of \$500,000 and a Guaranteed Cash Value of \$165,103.
- Referring to the illustrated policy value chart below, the policy in future years creates a strong portfolio asset.

Year	Cumulative Outlay	Guaranteed Cash Value	Net Cash Value	Net Death Benefit
10	\$148,175	\$165,103	\$192,125	\$569,456
20	\$148,175	\$224,465	\$336,621	\$738,732
30	\$148,175	\$292,510	\$578,459	\$976,725
40	\$148,175	\$363,898	\$969,649	\$1,320,462
50	\$148,175	\$422,198	\$1,554,230	\$1,830,330

Guardian 10 Pay Whole Life is issued on policy form number 06-WL.

Guardian, its subsidiaries, agents or employees do not give tax or legal advice. You should consult your tax or legal advisor regarding your individual situation.

Guardian 10 Pay Whole Life using the *Prepayment of Premium* feature—a great combination!

The example shown here is based on a hypothetical policy not available for sale, using male and female blended values of Guardian's 10 Pay Whole Life. A full illustration, showing both guaranteed and non-guaranteed values, must be provided by a Guardian representative to individuals applying for any Guardian whole life insurance policy.

1. Prepayment factors are based on 2010 factors. Prepayment premiums cannot be withdrawn except upon surrender of the contract. A Supplementary Agreement (Form 92-R82 Rev.12/06) must be signed by the policyholder acknowledging the non-withdrawal of prepaid premiums.
2. Equivalent to the stream of taxable income if the Total Deposit less the first premium were invested in a taxable side fund and annuitized at 4.75% for 10 years; 4.25 for the next 5 years and 3.5% thereafter. This table assumes that both the side fund and the insurance policy are started at the beginning of the year and that the policyholder pays income taxes annually.
3. The difference between a discounted premium and the premium due is included in taxable income ONLY when the premium is payable.
4. Pre-payment money is not available

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