Expanding the Conversation about Whole Life Insurance

The Statement You Will Want to Open

“I stopped opening my statements.”

“My 401(k) is still a 201(k).”

“I don’t want to hear any more bad economic news.”

It’s not news anymore, but it feels fresh in our minds. The credit crisis has heavily impacted assets invested in the market. Economic conditions continue to raise caution about financial ventures—where is it safe to put your money?

The uncertainty of downside risk in today’s marketplace can create confusion and hesitation about committing to a sound financial strategy. But there is one asset today that takes the worry out of opening your statement—whole life insurance.

An uncommonly recognized fact is that whole life insurance is an asset that greatly enhances a financial portfolio. It provides stability and security, with guaranteed financial protection against untimely death plus an efficient way to pass on wealth to your heirs. It is a long-term asset, developing cash values, which can grow to a significant amount over time and can be accessed through withdrawals and loans.\(^1,2\)

The “up” asset in a “down” market

There is virtually no other financial asset like whole life insurance. Compare some of its features with other financial instruments—the benefits are exceptional:

• Guaranteed death benefit, typically income-tax free to beneficiaries.\(^2\)
• Guaranteed cash value is not correlated to the market.
• Access to cash available through withdrawals and loans. Policy loans may be income tax-free as long as the policy is in force.\(^1,2,3\)
• Policy can be transferred or pledged as collateral for a loan.
• In the long run, the cash values provide stable returns over time.
• Self-completing in the case of disability with a Waiver of Premium Rider.\(^4\)

---

\(^1\) Depending upon the policy chosen, cash value may be available as early as the payment of the second year’s premium.

\(^2\) Policy benefits are reduced by outstanding loans including loan interest.

\(^3\) Assumes policy is not a Modified Endowment Contract (MEC).

\(^4\) Riders may incur additional costs.
Leveraging your assets—when more is more

Over and above the value provided by your whole life policy, there is also an optional feature that not everyone has, but it provides even greater benefits as a portfolio asset. The Paid-Up Additions Rider (PUA) allows the purchase of additional paid-up insurance with flexible payment options and at favorable rates to enhance the policy’s value. Extra dollars can work harder here, boosting values at an accelerated pace!

Money on the sidelines?
Where are you putting your extra cash these days?

Suppose you earned a $25,000 bonus. What can you do with a one-time cash windfall? Let’s see what happens to a policy’s values and returns if the policyholder makes a one-time PUA payment of $25,000.

This hypothetical example shows results for a 40-year-old, Best Class, with a policy of $1 million in face amount. Please note that a contribution of $100 is required each year the policy is in force to maintain the PUA rider option, but that amount is not included in the following chart in order to highlight the affect of the $25,000 one-time contribution in policy year 3.

<table>
<thead>
<tr>
<th>Policy Year</th>
<th>PUA Payment*</th>
<th>Cash Value**</th>
<th>Internal Rate of Return (IRR)</th>
<th>Pre-tax Equivalent on IRR</th>
<th>Additional Death Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>$ 25,000</td>
<td>$ 25,156</td>
<td>0.62%</td>
<td>0.89%</td>
<td>$ 94,935</td>
</tr>
<tr>
<td>4</td>
<td>–</td>
<td>26,646</td>
<td>3.24</td>
<td>4.60</td>
<td>97,192</td>
</tr>
<tr>
<td>5</td>
<td>–</td>
<td>28,223</td>
<td>4.12</td>
<td>5.80</td>
<td>99,523</td>
</tr>
<tr>
<td>6</td>
<td>–</td>
<td>29,891</td>
<td>4.57</td>
<td>6.36</td>
<td>101,932</td>
</tr>
<tr>
<td>7</td>
<td>–</td>
<td>31,657</td>
<td>4.83</td>
<td>6.66</td>
<td>104,423</td>
</tr>
</tbody>
</table>

* The PUA payment is made at the beginning of the policy year. Please note that the required annual contributions of $100 are not shown in policy years 1, 2 and 4-7 in this example.

** Cash value results only from the $25,000 extra payment, and is shown at the end of the policy year. Cash values include both guaranteed cash values and dividends.

Values are based on Guardian’s 2010 dividend scale and are subject to change. Dividends are not guaranteed. They are declared annually by Guardian’s Board of Directors.

The policyholder used the $25,000 bonus as a PUA contribution in policy year 3—an ideal strategy for cash received from a bonus or from the sale of an asset. When considering alternatives for money on the sidelines, be sure to include life insurance—how do these rates look to you?

---

1 Policyholders can purchase paid-up additional insurance on the insured’s life, within policy limits, over and above the base face amount.

2 Example shown is based on a hypothetical policy not available for sale, using Guardian’s Whole Life Paid-Up at Age 99 and averaging male and female values for issue age 40. 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.
Flexible features built for change

Since life insurance is a long term asset designed to fit your financial profile during your lifetime, the Paid-Up Additions Rider\(^1\) on a whole life policy was created to dovetail with the policy to provide more control. PUA allows you to:

- Schedule an amount that you wish to pay with your policy premium each year.
- Make unscheduled payments within policy limits at any time, assuming that the rider is selected and funded at issue.
- Alter payment amounts from year to year, which will affect the cash value growth.
- Earn dividends on the additional paid-up insurance purchased. The timing of the payment relative to the policy anniversary will affect policy values.

Moreover, as values build,\(^2\) the policy becomes a source of ready, liquid cash available.\(^3\) And, just as policy loans are typically available income tax-free, **withdrawals from PUA are income tax-free up to the policy basis.**\(^4,5\) Plus, the PUA rider is not a contractual obligation—just an annual contribution of $100 keeps this option open. In the event of disability, a Waiver of Specified Amount rider purchased when the policy was issued would cover specified PUA payments in addition to the policy’s premium.

Why Guardian?

The Guardian Life Insurance Company of America is one of the oldest mutual life insurance companies in the nation. Founded in 1860, Guardian has paid a dividend to its participating life policyholders every year since 1868, when it was authorized to do so, through boon years as well as turbulent times.

In November 2009, Guardian’s Board of Directors approved a dividend allocation of $712 million to its individual life policyholders in 2010, the second highest amount in company history. Our strong results in 2009 have allowed us to declare a dividend interest rate of 7% for 2010.


---

1 Riders may incur additional costs.
2 Cash values include dividends. Dividends are not guaranteed. They are declared annually by Guardian’s Board of Directors.
3 Policy benefits are reduced by any outstanding loans and loan interest. In any given year, annual dividends, if any, are affected by policy loans.
4 Guardian, its subsidiaries, agents or employees do not give tax or legal advice.
5 Assumes the policy is not a Modified Endowment Contract (MEC).
What the rating agencies say

Guardian received upgrades from 3 renowned rating agencies in the short span between October 2007 and December 2008 – a noteworthy accomplishment. The chart below shows how the company is evaluated by four of these independent sources:

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Rating / Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. M. Best</td>
<td>A++ (Superior)</td>
</tr>
<tr>
<td>Fitch</td>
<td>AA+ (Very Strong)</td>
</tr>
<tr>
<td>Moody’s Investors Service</td>
<td>Aa2 (Excellent)</td>
</tr>
<tr>
<td>Standard &amp; Poor’s</td>
<td>AA+ (Very Strong)</td>
</tr>
</tbody>
</table>

Fitch raised Guardian’s rating in October 2007, stating in part that Guardian demonstrated “improved operating performance and higher than expected capital adequacy.”

In July, 2008, Standard & Poor’s characterized Guardian as having “a conservative investment philosophy which has limited speculative grade credit risk and no exposure to sub-prime mortgages,” and raised the rating from AA (Positive Outlook) to AA+ (Stable Outlook).

A.M. Best raised Guardian’s rating to A++ in November, 2008, citing the company’s “superior capitalization,” our ability to “sustain positive earnings trends,” the company’s “well-diversified product portfolio” as well as the focus on “building policyholder value.”

Guardian’s ratings from Moody’s, A.M. Best, Fitch, and Standard & Poor’s, were all reaffirmed in 2009 with a stable outlook.

The Bottom Line: How Do You Feel About Your Money?

For the wise consumer, a vital component underlying every financial strategy should be a solid foundation of life insurance. In fact, income from other assets can easily be used as a funding vehicle for a life insurance policy and its enhancements such as PUA. These synergies are a smart way to create, leverage, and retain wealth for the long term.

Generations have come to rely on Guardian and its high quality products for financial growth and protection.