THE NEXT GENERATION OF WHOLE LIFE:
Discover the Synergy of Whole Life and Index-Linked Cash Value Growth Potential

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Synergy occurs when different things are combined and the result is stronger or better than any of the individual components. For example, synergy results when gold, an inherently soft metal, gains durability and brilliance when small quantities of silver or copper are added.

Synergy can also occur when working with a financial planning team comprised of legal, tax, investment and insurance experts to enhance the efficiency of an individual's legacy. Or alternatively, when the team recommends a customized allocation of equity and fixed-income asset classes, which has the potential to produce a somewhat *higher* return, while at the same time exposing the result to a lower vulnerability of investment risk, when compared to the use of any single asset class.

Guardian has taken synergy to a new level with the introduction of its Index Participation Feature[1], which offers the protection and guarantees of whole life insurance, combined with the upside potential of stock market index-linked cash value growth.

LIFE INSURANCE AS AN ASSET CLASS

The premise of *Life Insurance as an Asset Class* (LIAC) places the cash value of life insurance in the context of an uncorrelated asset class in an individual's portfolio when there is an underlying lifetime need for life insurance.

LIAC's Efficient Choices derives from *Modern Portfolio Theory* to describe the conditions under which a *combination* of styles of life insurance might be appropriate when larger amounts of life insurance are purchased.

Efficient Choices deploys a risk tolerance-driven matrix of participating whole life, guaranteed death benefit policies and possibly investment-based policies for the fulfillment of such a portfolio.

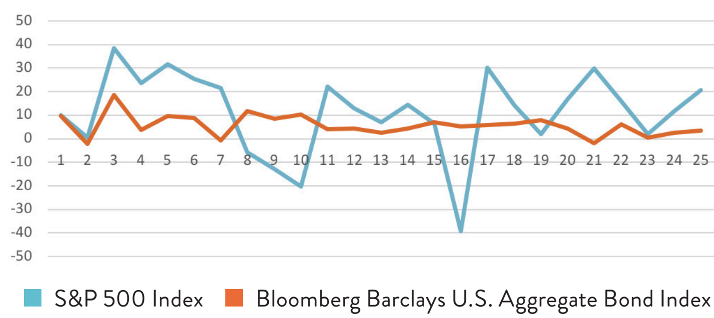
STOCK MARKET VS. FIXED-INCOME PERFORMANCE

Over broad periods of time, equities (as represented by the S&P 500® Index) have outperformed fixed-income returns (as represented by the Bloomberg Barclays U.S. Aggregate Bond Index), as shown in **the following charts**. But while equities tend to have more upside potential, there is also exposure to greater market volatility:

	25-YEAR HIGH[2]		25-YEAR LOW[2]	
	RETURN	YEAR	RETURN	YEAR
S&P 500 INDEX (LARGE-CAP EQUITIES)	+37.58%	1995	-37.00%	2008
BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX (FIXED-INCOME)	+18.46%	1995	-2.92%	1994

These numbers demonstrate how synergy can result when insurance company fixed-income returns underlying the guaranteed growth of whole life cash values are combined with equity exposure in other areas of the policy owner's overall portfolio of assets. Policy dividends[3] — a non-guaranteed (until paid) reflection of the profitability of an insurance company — add to the stability of the life insurance asset when premiums are paid as billed.

YEAR-END EQUITY AND FIXED-INCOME RETURNS FROM 1993-2017



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1993–2017 AVERAGE RESULTS:

S&P 500 INDEX	BLOOMBERG BARCLAYS U.S. AGGREGATE BOND INDEX
11.16%	5.6%

LIFE INSURANCE: TRADITIONAL VS. INDEX-BASED POLICIES

Traditional whole life insurance is an inherently conservative asset class because of the underlying conservative assets (i.e., fixed-income securities) in which insurers ordinarily invest in in order to meet their long-term obligations to policyholders. This approach to investing results in whole life policies that are able to offer guaranteed growth of cash values, as long as premiums are paid when due.

Over the years, whole life policy owners have come to rely on the stability and guarantees of whole life, but the cash value rate of growth (when compared to the potential returns of investments such as stocks) left many wanting more upside potential. That caused some consumers to turn their attention to indexed universal life.

A HYBRID APPROACH: INDEXED UNIVERSAL LIFE

As economic recovery followed the deep recession of 2008–2009, a hybrid approach to accumulating policy value gained popularity in the form of cash value credits derived by reference to the returns in policy owner-selected stock market indexes in durations ranging from 1–5 years (often tied to results determined by benchmarks such as the S&P 500 Index).

Underlying guarantees in these indexed universal life policies generally were reduced to 0% accumulation with *upside potential* deriving exclusively from indexed returns in excess of 0% and typically capped or "collared" at non-guaranteed returns of approximately 10%–12%. Guaranteed caps for these policies were generally in the range of 3%–4%.

The next chart shows the effective "collared" index returns in the S&P 500 Index when guaranteed no less than 0% and "capped" at rates ranging from 10% to 13%, compared to the Bloomberg Barclays U.S. Aggregate Bond Index average of 5.6% for the same period. This index is a benchmark often used by life insurance companies to construct and measure their own bond portfolio investments.

1-YEAR S&P 500 INDEX CAPPED EQUITY RETURNS FROM 1993-2017: 0% MINIMUM GUARANTEE WITH VARIOUS TOP-END "CAPS"
(Indexed returns do not include reinvested dividends)

CAP RATE	25-YEAR EQUITY COMPOUND RETURN[4]	25-YEAR AVERAGE BOND RETURN[5]
10%	6.09%	5.60%
11%	6.54%	5.60%
12%	6.96%	5.60%
13%	7.33%	5.60%

It's important to keep in mind that while "uncollared" equities ordinarily outperform fixed-income investments in the long run, fixed-income investments protect an overall portfolio from collapse when cyclical equity markets turn "bear."

THE NEXT GENERATION OF LIFE: GUARDIAN BRINGS SYNERGY TO WHOLE LIFE AND STOCK MARKET PERFORMANCE

Now, Guardian — innovative promoter of *Life Insurance as an Asset Class* — has taken synergy to a new level. *How?* With its introduction of the unique Index Participation Feature (IPF), a whole life policy feature available with Paid-up Additions.

With the IPF — *only* available from Guardian — policy owners can choose the precise amount of equity exposure they wish to take, and can change that exposure over time. The IPF starts with the individual's risk tolerance for participation in the equity markets — within the safety of the guarantees of the whole life product. Although the IPF ties the policy's Paid-up Additions to the performance of an index, it offers *downside protection* so policy owners don't have to worry about stock market volatility.

Even more importantly, the IPF helps take the focus off of crediting rate-driven illustrations that invariably form unrealistic expectations about buying lifetime protection "on the cheap." Consumers drawn into the unreasonable expectations of the typical indexed universal life policy illustration could easily find themselves forced into a policy lapse with unacceptable "premium calls" as the only alternative.

The following chart compares whole life with IPF to indexed universal life:

	WHOLE LIFE	INDEXED UNIVERSAL LIFE
PREMIUMS	Guaranteed for life.	Often projected based on unrealistic assumptions for which only the policy owner has responsibility.
CASH VALUES	Guaranteed, with an underlying reserve rate of 4% for the life of the insured.	0% guarantee
DIVIDENDS	Not guaranteed until declared and paid.	None
DEATH BENEFITS	Stipulated in the policy and guaranteed, as long as premiums are paid when due.	Policy death benefits are only “in force” as long as underlying cash values are at least $1. If values fall below $1, the policy lapses.
CAP	IPF cap guaranteed 8% minimum.	Typically 10%-12% non-guaranteed; typically 3%-4% guaranteed.
FIDUCIARY ISSUES	Whole life is the “gold” standard.	May not be appropriate in all situations.

SYNERGY IN ACTION WITH THE IPF

By contrast, when deploying whole life with the IPF option, the strategy is to place the index portion in the *background* of an otherwise guaranteed policy. Putting the emphasis on both Efficient Choices and efficiency, the performance of the policy is based on substantial guarantees plus dividends (when paid) that can provide a more stable approach to fulfilling the needs for lifetime protection, estate liquidity, business continuation, deferred compensation, and charitable legacies.

The IPF allows a select group of Guardian’s whole life policies — with the policy owner’s election — to move along the risk spectrum from “conservative” to “moderately conservative,” and the underlying dividend election can be included in the policy at no cost until (or unless) it is implemented.

The IPF rider assures that there is immediate *lifetime* life insurance protection, secure long-term growth with index-linked “upside” potential — and substantial and valuable guarantees underlying the policy.

This piece was created with the help of Richard M. Weber, MBA, CLU®, AEP (Distinguished). Mr. Weber is Managing Member of Ethical Edge Insurance Solutions, LLC, and was the 2012–2013 President of the 14,000-member Society of Financial Service Professionals. With Mr. Weber's more than 50 years of experience in sales, training, product design, senior management and compliance, his firm provides training and consulting services that help empower life insurance agents, financial planners, advisors and their clients to explore and view life insurance in the broader context of financial planning.*

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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 12.5%) and floor (currently 4%), may be positive or negative based on index performance. Adverse market performance can create negative dividend adjustments which would cause lower overall cash values than would otherwise have accrued had the IPF not been selected. While the adjustment provided by this rider is affected by an external index, it does not participate in any stock or equity investment of the external index.

PUAs 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). An 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.

Whole life riders may incur either an additional premium or cost. Riders may not be available in all states. Rider Form Number: 15 IPR.

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.

[1] Riders may incur additional costs.
[2] Past performance is not indicative of future returns.
[3] Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.
[4] Source: Hause Actuarial Solutions, LLC
[5] Source: Bloomberg Barclays U.S. Aggregate Bond Index

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