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 insurance can be a versatile financial instrument — used for the protection of families and businesses, while helping build and enhance wealth.

To appreciate the great value of this life insurance protection, you should explore how whole life works, its uses, its benefits, and its flexibility.

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Chapter 1

How does whole life insurance 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 guaranteed. Once those rates are set, they're used to determine policy premiums and values. Guaranteed rates and values are based on conservative assumptions. A mutual life insurance company, like Guardian, then adjusts those rates and values to current market conditions through the use of a non-guaranteed dividend.[2] Because life insurance is considered financially beneficial to society, valuable tax benefits have been bestowed on it — benefits not typically found with other financial instruments.

What are the guaranteed rates?[3]

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

- The guaranteed **mortality rate** – this rate comes from the current CSO Table, adopted by the National Association of Insurance Commissioners in 2016.
- The guaranteed **interest rate** – this rate varies by policy, issued by Guardian, and may be anywhere between 2% and 4%.
- The guaranteed **expense factor** – an allocation for expenses that is covered in guaranteed values.

What are the guaranteed values?

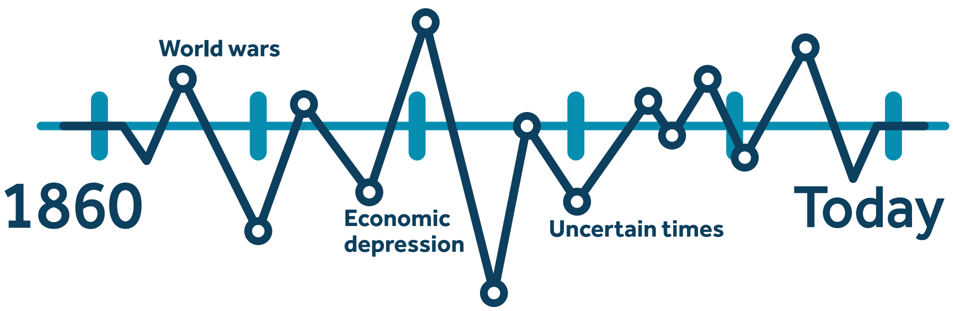
The three guaranteed rates are combined in an actuarial formula that results in three guaranteed values, differentiating whole life from other financial instruments:

- Guaranteed **level premium**: An annual premium that's contractually guaranteed never to change.
- Guaranteed **death benefit**: The level of death benefit that's contractually guaranteed to never decrease.
- Guaranteed **cash value**: A cash value that's contractually guaranteed to grow each year until it's equal to the face amount of the policy at a specified age, typically 100 or 121.[4]

Dividends

Whole life can sometimes provide value **in excess of its guarantees**, through dividends. If declared by the Board of Directors, dividends are paid to policyholders. When declared, there are three dividend 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 offers lifetime protection with important guarantees and tax benefits.

What are your dividend options?

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

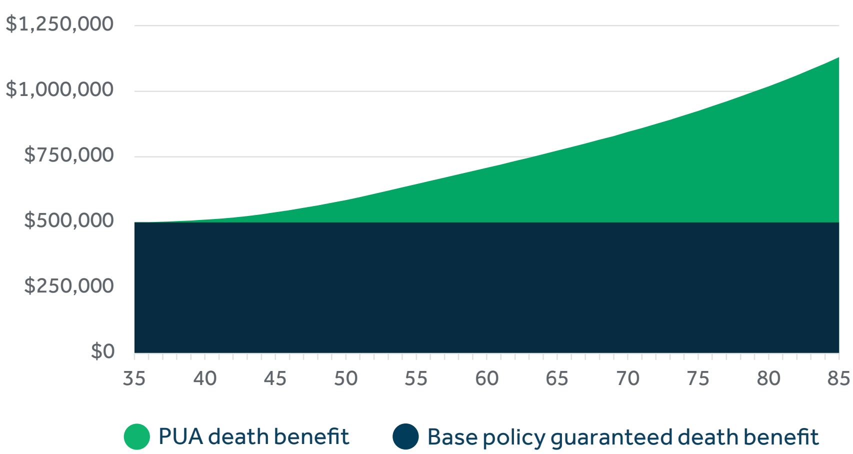
The most commonly selected dividend option is to apply dividends to purchase Paid-Up Additions (PUAs).[5] A Paid-Up Addition is guaranteed permanent, paid-up participating life insurance. **Once purchased, this option can provide a growing cash value and death benefit that's guaranteed**. With this option, 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 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-efficiently, up to the policy basis.[6]

In addition to the option of purchasing PUAs, Guardian currently offers these other dividend options:

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

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 — $7,510 annual premium



*Based on Guardian's 2023 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.

> "For over 160 years, Guardian has helped our customers prepare for what life brings them, remaining strong and resilient. The people we serve depend on us to provide them with financial confidence and maintain our strength and stability."
>
> **Andrew McMahon,**
> President and Chief Executive Officer

Taxation protection

Because of the contribution life insurance makes to the welfare of society, providing protection for surviving family members, life insurance has been given the following 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-efficient basis

The cash values of life insurance policy additions may generally be accessed on a tax-efficient 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 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's 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 an insured family member's or employee's human life value through life insurance, even if something should happen to the individual.

Human life value protection

Property values, either in the context of a family or business, are the result of human effort. We see human life value whenever income is earned to provide for a family's economic needs. Human life value is present in a business when a key person is identified as a significant contributor to the company's revenue and earnings.

Most people see the importance of insuring the value of property, like their home or car, for its replacement value, and 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, through whole life insurance. Whole life can provide an affordable, and effective way to help protect a family or business against the loss of its most valuable asset.

A family may enjoy many benefits from the protection of income, such as the purchase of a home, the rearing and education of children, and even the enjoyment of life. Insuring the lives of a family's breadwinners can help ensure these benefits will continue for the survivors, in the event of a premature death.

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

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]

Family protection

The death benefit of life insurance can help ensure the economic continuity of a family at the time it's faced with the greatest of all possible traumas: the death of a beloved family member. Whole life insurance can also help ensure financial stability through the funding of:

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

Business protection

Businesses face special insurance funding needs in order to provide a business continuity plan that'll protect the owners in the event of the insured employee's death. Whole life can provide the capital needed to adequately buy out the interests of a deceased owner and help protect the business against the loss of the services, expertise, and the 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 a time of death can help to reduce taxes and provide for heirs in a way that fulfills the individual's wishes. 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 surviving loved ones;
- Estate equalization among heirs; and
- Funding for special needs children.

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. Today, those same tax benefits remain in place for policyholders.

Asset maximization

One of the unique benefits of whole life insurance is how it can help enhance the value of other assets in an estate. The purchase of whole life enables a policy owner to use estate assets in ways that might not otherwise be possible. For example:

- **The power to consume**: Whole life can be the "permission slip" that helps enable you to maximize your retirement income and personal net worth. Life insurance can give you the power to spend assets that may otherwise have been managed in an ultra-conservative fashion 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's due when a business owner sells a business interest or portfolio holdings in order to fund retirement income. Financially successful individuals often like to support their favorite charities. With a Charitable Remainder Trust, these two seemingly diverse issues 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 whole life insurance in an estate allows the donor to implement their 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?

Protection of an instant permanent estate

Whole life insurance provides a guaranteed death benefit for the entire life of the insured. With the payment of the first premium, the entire death benefit is set aside for your beneficiaries, instantly.

Income 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 shouldn't be underestimated, especially in light of constantly growing government expenditures and taxes.

Tax-deferred growth

The growth of cash value inside a whole life policy is deferred from taxation while the funds remain in the policy. Yet another wealth-protecting benefit that whole life provides to families and businesses.

Tax-efficient 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 that withdrawals, to the extent of cost basis, are considered a tax-free return of cost basis.

Tax-efficient access to policy cash values through policy loans

During the insured's life, loans taken against a whole life policy won't 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 let 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.

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 an estate tax bill and protect wealth that a policyholder worked hard to accumulate.

Disability protection

Life insurance is different from other forms of savings and investment vehicles, like bank accounts, IRAs, 401(k) accounts, mutual funds, and brokerage accounts, because funding may be able to continue, even if you're disabled. Disability often results in reduced income, increased expenses, and the dissolution of existing savings and investments. When you elect the Waiver of Premium rider,[11] it helps guarantee you (as the policy owner) will not lose the financial protection provided by your whole life policy if you suffer a qualifying disability. 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 be 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 are protected from lawsuits that can claim other unprotected assets, like 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, providing privacy for the beneficiary.

With the payment of the first premium, Guardian sets aside the entire death benefit for your beneficiaries, instantly.

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 you from reliance on commercial lenders. Your policy's cash values can be accessed on demand through 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 you significant flexibility when there's a need to access policy values.

Flexible loan repayment terms

Loans against your whole life policy are flexible to the extent that they don't need to be paid back unless you decide to do so. Once a loan is taken, it's paid back at your discretion. If not repaid during your lifetime, any remaining loan balance will be deducted from your policy’s net death benefit. When your policy loan is paid back, there's a commensurate increase in your policy's cash value, which may be reborrowed at a future date or paid out to your 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 elected, the policy owner no longer pays policy premiums. But, both the cash value and the death benefit will continue to increase for the rest of the policy 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's known as “the happiest place on earth.”[13]

Chapter 4

What types of whole life insurance are available?

There are several types of whole life insurance, designed to provide flexibility for different needs, like:

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 coverage. As a policy owner, your premium will not change, regardless of what happens.

Limited payment whole life

This type of policy has a fixed level premium, like a level premium whole life policy, but with premiums only payable for a fixed period of time. The advantage of these limited-payment policies is that they're guaranteed to be paid up at the end of the payment period. The insurance coverage will then continue for the rest of the insured's life.

The guaranteed level premium structure ensures that the premium will never change.

Did you know

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

Chapter 5

What options can Guardian whole life give you?

Guardian's whole life insurance products offer an array of riders so you can customize coverage to suit your needs.[15] Some of the more popular riders are:

Paid-Up Additions rider[5]

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

Index Participation Feature (IPF) rider[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 floor ensures that your year-to-year downside market exposure (i.e., "market risk") is limited — supporting the guarantees that consumers have come to expect from whole life. If you choose the IPF rider, 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 rider

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 doubles if the injury is sustained while a passenger in a public vehicle.

Renewable Term rider

This rider results in the purchase of 10-year renewable and convertible level term insurance, providing additional death benefit coverage for at least 10 years.

Enhanced Accelerated Benefit rider[17]

This 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're diagnosed with 12 months or less to live. This rider may be elected at no additional premium.

Waiver of Premium rider[11]

If you elect this rider, it offers protection in the form of premium payments, should you suffer a qualifying disability. And because your premiums will be paid, your cash values will still build, dividends will still be paid, and your whole life policy protection will continue for you and your family.

Guaranteed Insurability Option (GIO) rider

This rider 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 policy 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 the insured receives a 20% or more income increase. It's important to note that the GIO becomes even more valuable in the event of disability.

With GIO Plus, an insured who's 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 *and* 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?

Quality company

Guardian is recognized by all the major rating agencies as a company that provides financial strength.[18] 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)
Moody's Investors Service	Aa1 (High Quality – 2nd highest of 21 ratings)
Standard & Poor's	AA+ (Very Strong – 2nd highest of 20 ratings)
Comdex[19]	99

Ratings are as of December 31, 2022 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're owned by our policyholders, who share directly in our annual earnings. Our company structure has no stockholders expecting dividends, immediate returns, or short-term growth. Guardian has no stock; thus, no stock options exercisable by senior management. Guardian is committed to its status as a mutual life insurance company and prepared to provide for policyholder insurance needs, now and far into the future. Guardian updates financial figures annually and more recent figures may be available than those listed above. Check **guardianlife.com** to ensure you're reviewing the most up-to-date information.

Did you know

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

[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] Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors. The total dividend calculation includes mortality experience and expense management as well as investment results.

[3] 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.

[4] Some whole life policies 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.

[5] Paid-up Additions (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). 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 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 10.5%) 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 maximum 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] Financial information concerning Guardian as of December 31, 2022, on a statutory basis: Admitted Assets= $76.0 Billion; Liabilities = $67.2 Billion (including $55.0 Billion of Reserves); and Surplus = $8.8 Billion.

[19] 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 Form 21-WL.

Rider form numbers: 18-WP WL, 18-GIO, 01-R111, 21-PUA, 06-R66, 86-R1, 15-IPR.

Guardian®

The Guardian Life Insurance Company of America

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Pub4085 (05/23) 2023-155526 (Exp. 05/25) | New York, NY