

The Whole Story of Whole Life

Your Freedom Guaranteed



GUARDIAN®

A GUIDE FOR CONSUMERS

Introduction

“Whole life is a versatile financial instrument devised for the protection of families, businesses, and the creation and enhancement of wealth. To appreciate the great value of this type of life insurance protection, one needs to explore how it works, its uses, its benefits, and the options you have in structuring a contract to meet your specific needs, and why Guardian is the company of choice.”

Chapter I: How Does Whole Life Work?

Whole life is an insurance policy that provides lifetime insurance protection with **significant guarantees** and **tax benefits** for the policyowner. These guarantees can be viewed as either **rates** or **values**. When actuaries design a whole life policy, they begin by determining which rates are going to be guaranteed. Once the guaranteed rates have been set, they are used to determine policy premiums and values. Guaranteed rates and values are based upon conservative assumptions. A mutual life insurance company, such as Guardian, will then adjust these rates and values to current conditions through the mechanism of a non-guaranteed **dividend, which is considered to be a refund of premium**. Because life insurance is seen as financially beneficial to society, significant **tax benefits** have been given to it – benefits that are not found with other financial instruments.



WHAT ARE THE GUARANTEED RATES?¹

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

- The guaranteed **mortality** rate – This guarantee comes from the 2001 CSO table, a table of guaranteed mortality rates that was adopted by the National Association of Insurance Commissioners in 2002.
- The guaranteed **interest** rate – This rate for Guardian policies is 4.0% or 5.0% (depending on the policy) for the entire life of the policy.
- The guaranteed **expense** factor – An allocation for expenses that is covered in guaranteed values.

WHAT ARE THE GUARANTEED VALUES?¹

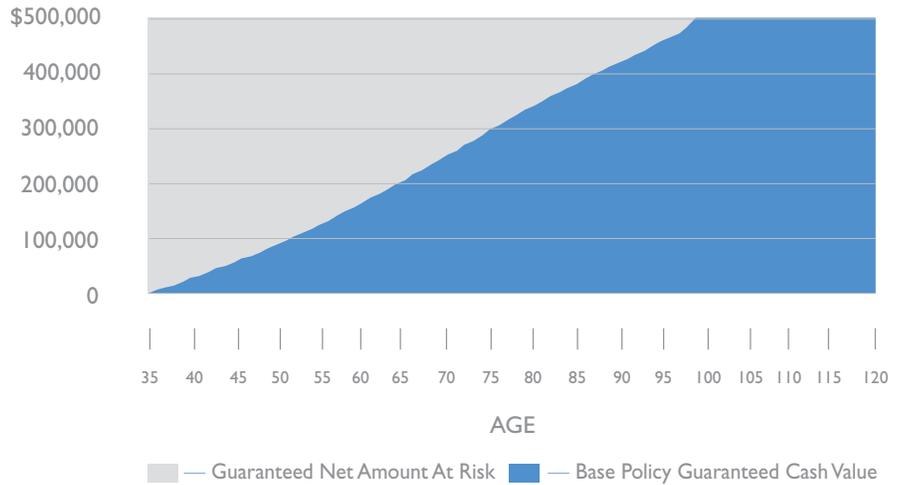
The three guaranteed rates are combined in an actuarial formula that results in three guaranteed values. It is this trio of guaranteed features that sets whole life policies apart from all other types of financial instruments. Whole life insurance has:

- A Guaranteed **Level Premium** – The annual premium is contractually guaranteed to never change.
- Guaranteed **Death Benefit** – The level death benefit is contractually guaranteed never to go down.
- A Guaranteed **Cash Value** – The contractually guaranteed cash value grows each year until it is equal to the face amount of the policy at a specified age, typically age 100 or 121. (Prior to the 2001 CSO table, it was age 100.)

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.

The graph below illustrates the guaranteed values of a whole life insurance policy without any dividend values. The Guaranteed Death Benefit of \$500,000 is a combination of Guaranteed Cash Value and Guaranteed Net Amount at Risk.² Year by year, the Guaranteed Cash Value increases until it is equal to the face amount of the policy at age 121.

\$500,000 Whole Life Insurance Guaranteed Values — Base Policy Guaranteed Cash Value and Guaranteed Net Amount at Risk — Age 35 - \$6,525 Annual Premium



“Whole life provides lifetime insurance protection with significant **guarantees** and tax **benefits...**”

The examples shown here and on page 4 are based on a hypothetical policy not available for sale, using Guardian’s Whole Life Paid-Up at Age 95 policy, preferred risk class, and averaging male and female values for issue age 35. 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.

² Net Amount at Risk is the difference between the policy death benefit and the cash value.

DIVIDENDS

Whole life offers the ability to provide value **in excess of its guarantees** through dividends. Dividends are paid to the policyholders if declared by the Board of Directors. When dividends are declared, they have three components:

- The insurance company's **current investment rate in excess of the guaranteed rate** promised in the policy;
- Mortality **experience, which is better than that which is guaranteed** in the policy; and
- Expenses of policy administration, which are **less than the cost guaranteed** in the policy.

The graphs on the next page illustrate how a whole life policy can grow in value when paid-up additional insurance is purchased with dividends.

WHAT ARE MY DIVIDEND OPTIONS?

Diverse policyowners have different needs. Whole life offers a variety of dividend options to choose from, which allows you to customize your coverage so that it's right for you. The dividend option may be changed year by year to address your needs as they change over your lifetime.

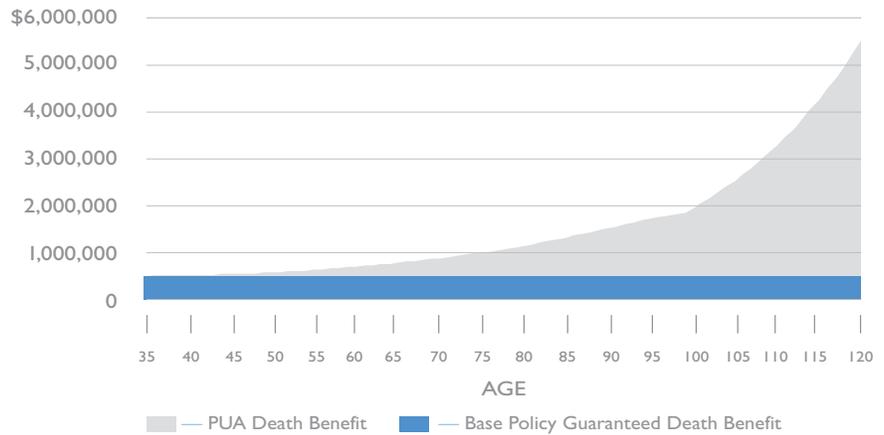
- By far the most widely selected dividend option is to apply dividends to purchase Paid-Up Additions (PUA). A Paid-Up Addition is guaranteed permanent, paid-up participating life insurance. **This option provides you with a growing cash value and death benefit that is guaranteed once purchased.** Under this option, each year as dividends are declared, more and more PUAs are purchased, which in turn earn their own dividends. Over time, the accumulation of PUAs will offset the effects of inflation by providing a greater level of death benefit protection and accumulated cash values. Following are Guardian's other current dividend options:
- Dividends may be paid to you in cash.
- Dividends may be used to reduce your premium.
- Additional term insurance may be purchased with your dividends.
- Dividends may be allowed to accumulate with interest.
- Dividends may be used to pay back an existing loan on a policy.

The graph on the top of page 4 illustrates how the death benefit of a whole life policy can grow in value with Paid-Up Additional Insurance purchased by dividends.

DID YOU KNOW...

Walt Disney, unable to secure a substantial bank loan, used the cash value from his whole life policy to build a sprawling theme park that is now known to the world as "the happiest place on earth."

Base Policy Death Benefit With Dividends Purchasing Paid-Up Additions* — \$500,000 Base Policy Age 35, Best Class - \$6,525 Annual Premium

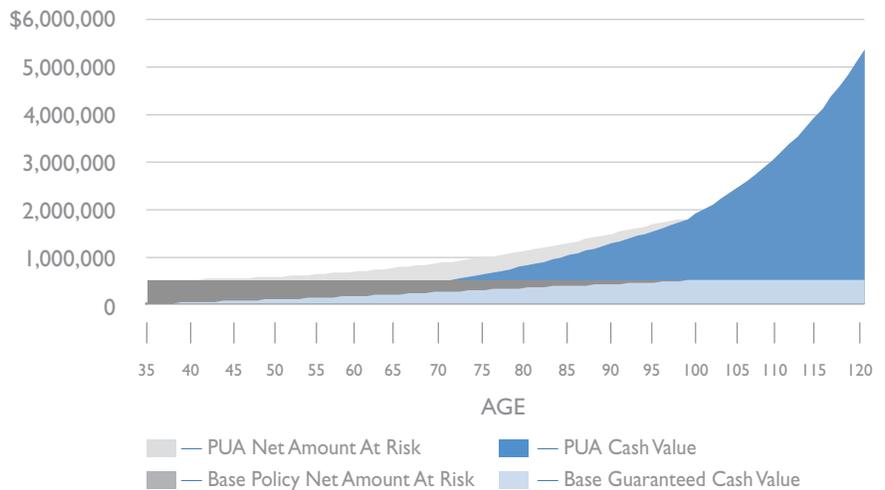


The graph below illustrates the four elements of a whole life policy:

- The base policy guaranteed cash value;
- The base policy net amount at risk;
- The paid-up addition cash value; and
- The paid-up addition net amount at risk.

These four elements constitute the total death benefit of a whole life policy.

Policy Elements – Whole Life With Dividends Purchasing Paid-Up Additions — \$500,000 Base Policy Age 35, Best Class - \$6,525 Annual Premium*



*Based on Guardian's 2014 dividend scale. Dividends are not guaranteed. They may be declared annually by Guardian's Board of Directors. Guardian has paid a policyholder dividend every year since 1868.

TAXATION PROTECTION³

Because of the contribution that life insurance makes to the welfare of society by providing protection for surviving family members, it is vested with the following significant tax benefits:

- **Income tax-free death benefits⁴.**
- **Tax-deferred buildup of cash values** inside of the life policy.
- **Access to policy values on a tax-favored basis.**
- The cash values of life insurance policies may generally be accessed on a tax-favored basis by withdrawals or through policy loans.⁵
- Withdrawal from a life insurance policy is permitted on a First-In First-Out Basis (FIFO)⁶. This means that withdrawals to the extent of cost basis are considered a tax-free return of cost basis.⁷
- You can withdraw cash value from a policy without triggering income tax on any gain that has been borrowed from the policy.

³ Guardian, its subsidiaries, agents and employees do not give tax or legal advice. You should consult your tax or legal advisor regarding your individual situation.

⁴ Employer-owned life insurance must comply with the rules set forth in IRC Section 101(j) in order to ensure tax-free death benefits.

⁵ 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.

⁶ FIFO tax rules apply as long as the policy has not been classified as a Modified Endowment Contract (MEC).

⁷ Cost basis is the contribution that is made to a life insurance 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 the family member's or employee's human life value when the family or business is threatened by the loss of that individual.

HUMAN LIFE VALUE PROTECTION

Property values, whether they exist in the context of a family or a business, are in fact the result of human effort. Human life value is clearly seen in a family whenever income is earned to provide for that family's economic needs. Human life value is clearly seen in a business where a key person is often identified as a significant contributor to revenue and earnings.

Whole life insurance provides a means by which an individual may insure their human life value.

Solomon Huebner defines 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.*⁸

Most people see the importance of insuring the value of property, such as their home or car, for its replacement value and are able to do so through the purchase of casualty insurance. The human life value of an individual, which is by far the most valuable asset of a family or business, is also insurable for its replacement value on a permanent basis with whole life insurance. Whole life insurance provides an affordable, effective way of permanently indemnifying a family or business against the loss of its most valuable asset.

There are many benefits that a family may enjoy from the protection of income, such as the purchase of a home, the rearing and education of children, and the enjoyment of life. The indemnification of the breadwinners in a family will help to ensure that these benefits will continue to the survivors in the event of the insured's death.

“Human life value is the most valuable **asset**...

⁸S.S. Huebner, *The Economics of Life Insurance*, page 5, (Executive Asset Mgmt. 3rd ed. 1996) (1927)

FAMILY PROTECTION

The death benefits of life insurance can help to assure the economic continuity of a family at a time when it is faced with the greatest of all possible traumas: the death of a beloved father, mother, husband or wife. Whole life insurance can also help to ensure financial stability through the funding of:

- Mortgage protection;
- Education funding; and
- Income needs.

BUSINESS PROTECTION

Businesses face special insurance funding needs in order to provide a business continuity plan that will protect the owners in the event of death. Whole life insurance is ideally suited to provide the capital needed to adequately buy the interests of a deceased owner and indemnify the business against the loss of the services, expertise, and skill of a key person. Life insurance is ideally suited to address four major areas of business planning:

- 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

Planning for the orderly transfer of property at death can help to minimize taxes and provide for heirs in a way that will reflect an individual's desires. Whole life insurance plays a key role in providing for loved ones by offering:

- Adequate liquidity to pay estate and inheritance taxes;
- Assets to generate income for a surviving spouse and children;
- Estate equalization among heirs; and
- Funding for special needs children.

ASSET MAXIMIZATION

One of the unique benefits of whole life insurance is the way that it enhances the value of other assets in your estate. The presence of guaranteed whole life insurance gives the owner the ability to use estate assets in ways that would not

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. Those same unique tax benefits remain in place for policyholders today.

be possible if the insurance did not exist. Whole life is the “permission slip” that may enable you to maximize retirement income and your personal net worth. For example:

- The Power to Consume – The presence of whole life insurance in your estate will allow other assets to produce greater income by providing access to the principal as well as interest as a source of income. Life insurance gives the owner the power to consume assets that would otherwise have to be managed in an ultra-conservative fashion in order to preserve the principal and the income stream it produces.
- Charitable Remainder Trust – The cost of successfully building a business or managing a personal investment portfolio is often measured by the enormous capital gains tax that must be paid when a business owner sells a business interest or portfolio holdings in order to fund retirement income. Often financial success brings with it a desire to express benevolence towards those charitable causes that are of particular interest. With a Charitable Remainder Trust, these two seemingly diverse issues can come together in a plan that provides:
 - A lifetime income for a benevolent donor;
 - A substantial bequest to a charity of the donor’s choice;
 - Avoidance of the capital gains tax; and
 - Significant income tax deductions.

The existence of permanent whole life insurance in the estate of a donor makes it possible to achieve the desired charitable intent with all the collateral benefits, while maintaining a comparable legacy for the donor’s heirs.

...of a **family or business...**”

Chapter 3:

What are the Benefits of Whole Life Insurance?

THE PROTECTION OF AN INSTANT PERMANENT ESTATE

Instantly, with the payment of the first premium, Guardian sets aside the entire death benefit for your family. Whole life insurance provides a guaranteed death benefit for the entire life of the insured.

DISABILITY PROTECTION

Life insurance is uniquely different from all forms of savings and investment vehicles, such as bank accounts, IRAs, 401(k) accounts, mutual funds, and brokerage accounts, because it can continue to be funded even if you are disabled. Disability usually brings with it the strain of reduced income, increased expenses, and dissolution of existing savings and investments. The Waiver of Premium Rider guarantees that if disabled, you (as a policyowner) will not lose the umbrella of financial protection provided by your whole life insurance policy. The policy will continue to provide death benefit protection, the cash values will continue to grow, and dividends will continue to be paid just as they would if you had not been disabled.

LIABILITY PROTECTION

In many states, the benefits of life insurance are protected from the claims of creditors. If your state provides this legal protection, the cash values and death benefit of a whole life policy will be protected from lawsuits that can claim other assets, such as bank accounts, mutual funds, and brokerage accounts.

DISTRIBUTION LIKE A WILL

Life insurance is distributed like a will: You specify who and how much of the benefit will be distributed to each beneficiary. Unlike a will, however, life insurance has the added benefit of privacy. Wills, once probated, become public documents. The distribution of a life insurance policy's death benefit is a private, contractual-driven transaction between the policyowner and insurance company – the distribution passes outside of a will and thus provides privacy for the beneficiary.



“Instantly with the payment of the first premium, Guardian sets aside...

DID YOU KNOW...

Estate taxes can wipe out the accrued value of retirement accounts, real estate, and businesses by forcing beneficiaries to liquidate assets. Whole life's income tax-free, guaranteed death benefit can cover the bill and protect the wealth that a policyholder has worked to accumulate.

TAX-FREE DEATH BENEFIT

The death benefits of life insurance policies are generally free from all federal income taxes. The enormous value of this benefit must not be underestimated, especially in light of constantly growing government expenditures and taxes.

TAX-DEFERRED GROWTH

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

TAX-FAVORABLE ACCESS TO POLICY CASH VALUES THROUGH WITHDRAWALS

During the insured's life, cash values can be accessed under favorable FIFO (First-In-First-Out) tax rules. This means withdrawals to the extent of cost basis are considered a tax-free return of cost basis.

TAX-FAVORABLE ACCESS TO POLICY CASH VALUES THROUGH POLICY LOANS

During the insured's life, loans taken against a life insurance policy will not trigger a taxable event, even though the policy may have a large gain in excess of premiums paid.

SELF-FUNDING

You have the option of having the 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.

...the **entire** death benefit for your family.”

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 a policy loan.

YOU CAN MAKE DIRECT LOANS TO YOURSELF FOR ANY REASON

Whole life insurance can free a policyholder from reliance upon commercial lenders. Cash values can be accessed on a demand basis via a policy loan at any time and for any reason without the application and approval process that is required for consumer or business loans.

COLLATERAL FOR A LOAN FROM A BANK

A whole life insurance policy 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 the owner of a whole life insurance policy significant flexibility when there is a need to access policy values.

FLEXIBLE LOAN REPAYMENT TERMS

Life insurance policy loans are flexible to the extent that **they do not need to be paid back unless you decide to pay them back**. Once a loan is taken out on a policy, it can be paid back at the discretion of the policyowner. If they are not paid back during the lifetime of the insured, any remaining loan balance will be deducted from the policy net death benefit. When a policy loan is paid back, there will be a commensurate increase in the cash value of the policy, which may be reborrowed at a future date or paid out to the beneficiary.

DEATH BENEFIT INCREASE

When dividends are used to purchase Paid-Up Additions, death benefits will grow, 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 is guaranteed.**

Chapter 4: What Types of Whole Life Insurance are Available?

DID YOU KNOW...

The cash value accumulating inside a whole life contract can act as a “second emergency fund” to help cover retirement, medical expenses, long-term care, a down payment on a house, or other needs.⁹

There are several types of whole life insurance that are designed to provide flexibility and options in the structuring of an insurance program:

LEVEL PREMIUM WHOLE LIFE

This is the most popular type of whole life insurance, and it is offered with a guaranteed level premium to either age 95, 99, or 120. The level premium structure makes the policy ideally designed to provide affordable lifetime insurance coverage. As a policyowner, the guaranteed level premium structure gives you peace of mind, because regardless of what happens in a volatile world, your premium will not change.

LIMITED PAYMENT WHOLE LIFE

This type of policy has a fixed level premium like a Level Premium Whole Life policy, but the premium is only payable for a fixed period of time. The advantage of these limited payment policies is that they are guaranteed to be paid up at the end of the payment period. Thus, they allow valuable insurance coverage to continue for the insured’s entire life without any payment required at later ages.

“The guaranteed level premium structure helps provide
peace of mind...”

⁹From National Underwriter article by Warren S. Hersch. November, 2004.

Chapter 5:

What Options Does Guardian Whole Life Insurance Give You?

Guardian's whole life insurance products offer many riders that you may add to a policy in order to customize the coverage to suit your specific needs. Some of the more popular riders are:

WAIVER OF PREMIUM

Protects you in the event of disability by paying the premium if you should suffer a qualifying disability. Because the premium will be paid, cash values will continue to build, dividends will continue to be paid, and the financial security of your whole life policy will permanently protect you and your family.

ENHANCED ACCELERATED BENEFIT 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) or if you become permanently cognitively impaired.

GUARANTEED INSURABILITY OPTION (GIO)

Gives the owner the right to purchase additional insurance on the insured's life without evidence of insurability. There are up to eight option dates on the anniversaries nearest the insured's 25th, 28th, 31st, 34th, 37th, 40th, 43rd, 46th, 49th, 52nd, 55th, and 58th birthdays and/or upon marriage, the birth or adoption of a child, the birth or adoption of a grandchild, a home purchase, child enrollment in college, or a 20% income increase for the insured. The GIO option becomes all the more valuable in the event of disability.

An insured who is 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 as well as on any existing policy(ies) that have the Waiver of Premium rider.



PAID-UP ADDITIONS RIDER¹⁰

Gives the owner the right to purchase paid-up participating insurance on the insured's life. The real benefit of this rider is that it gives premium flexibility so that you may add varying amounts of premium to a whole life policy. The greater the premium paid into a policy, the greater will be the protection afforded by the policy; the greater will be the guaranteed cash value; and the greater will be the tax-deferred accumulation of cash values and dividends.

RENEWABLE TERM RIDER¹⁰

Purchases 10-year renewable and convertible level term insurance.

ACCIDENTAL DEATH BENEFIT¹⁰

Can be added to a policy to provide an additional death benefit in the event that death occurs by accidental bodily injury. The benefit will be doubled if the injury is sustained while a passenger in a public conveyance.

“Whole life insurance may be **customized**
for your specific needs.”

¹⁰There is an additional premium cost when these riders are selected on a policy.

Chapter 6: Why Guardian?

QUALITY COMPANY

Guardian is recognized by all the major rating agencies as a company that provides superior financial strength. The following table 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)
Fitch Ratings	AA+ (Very Strong – 2nd highest of 21 ratings)
Moody's Investors Service	Aa2 (Excellent – 3rd highest of 21 ratings)
Standard & Poor's	AA+ (Very Strong – 2nd highest of 20 ratings)
COMDEX ¹¹	98 (Extremely Safe)

Ratings are current as of May 2014.

MUTUAL COMPANY

Guardian is proud to be one of the few remaining major mutual insurance companies in the nation. We are owned by our policyholders, who share directly in our annual earnings. We have no stockholders expecting dividends, immediate returns or short-term growth. Guardian has no stock and thus no stock options exercisable by senior management that can sap the financial vitality of the company. Guardian is committed to its status as a mutual life insurance company and is here to provide for policyholder insurance needs, now and far into the future.

SOLID HISTORY

Founded in 1860, we have paid out dividends to our individual life policyholders every year since 1868. As a mutual company, we have been able to provide one of the lowest net costs on ordinary life coverage year after year, while still retaining a solid financial position.

DID YOU KNOW...

Founded over 150 years ago, Guardian has paid out annual dividends to our policyholders every year since 1868.

¹¹ COMDEX is not a rating, but a composite of all ratings that a company has received from the four 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).

“Guardian is **committed** to its status as a mutual life insurance company and is here to provide... now and far into the future.”

Concluding Note

“The protection and wealth-enhancing benefits of whole life insurance make it the most comprehensive financial tool available today. Its great value is enhanced by its flexibility, which enables it to be customized for a variety of consumer needs. Premium flexibility is provided by existing paid-up additions and dividend options. The loan feature and the ability to withdraw dividends provide readily available liquid assets. Together, the guaranteed cash value, guaranteed death benefit, and guaranteed premium provide policyowners with a solid foundation for financial protection and the ability to build wealth in a turbulent and uncertain world.”



GUARDIAN[®]

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