

*Debunking The Myths  
About Whole Life  
Insurance:*

*Taking a Fresh Look  
at a Time-Tested Product*



**GUARDIAN<sup>®</sup>**

*The economic downturn has forced many Americans to rethink the way they plan for their financial future. In this more fiscally conservative environment, a growing number of consumers are returning to a financial product whose worth was recognized by their grandparents: whole life insurance.*

*Whole life insurance, which provides a broad range of financial benefits, has proved its long-term value over generations. While other financial instruments faltered recently, whole life insurance provided small business owners with a much-needed source of funds and retirees with access to additional income – all the while, continuing to pay death benefits to beneficiaries.*

*For the last two decades, financial pundits and journalists have discounted the benefits of whole life insurance in favor of trendy, equity-oriented vehicles that seemed to offer higher returns at lower costs, but in fact were high risk. Throughout this time, a number of myths about whole life insurance have been perpetrated, with the result being that many Americans are unaware of the flipside of the story – the benefits that make whole life insurance one of the most valuable and flexible financial planning tools available.*

## *Myth #1:*

*You only benefit from whole life when you die.*

*Facts: Wrong! Mutual whole life policyowners enjoy substantial “living” benefits during their lifetime of coverage:*

- Mutual insurance company policyowners generally receive annual dividends after the first policy year. For example, Guardian declared a dividend of \$712 million at the end of 2009 and has paid dividends on whole life policies every year since 1868.<sup>1</sup>
- A 25-year Guardian policy begun in 1986 and tracked through 2010 provided a 5.19% historic cash-on-cash return, along with strong guarantees and low volatility. Keep in mind that past performance does not indicate future results.
- Dividends can be used to fund policy premiums or to buy more permanent increments of death benefit and cash value.
- Access to the policy's cash value is typically available through withdrawals or tax-free loans.<sup>2,3</sup>
- The cash value of the policy can be pledged as collateral for a tax-free loan.
- Small business owners may borrow against their policies to provide working capital.
- Wealthy individuals use whole life in their estate planning by setting up an insurance trust to pay estate taxes from proceeds of the policy.<sup>3</sup>

## *Myth #2:*

*Whole life is a lousy place to put your money.*

*Facts: Um, No...*

- The value of a whole life insurance policy is uncorrelated to the stock market and is guaranteed by the insurer, so that death benefits and cash values are not affected by declining markets. Therefore, a whole life policy can serve as the stable component of an overall financial plan.
- The accumulated value in whole life insurance grows tax-deferred. Accumulated values on a policy may be withdrawn, up to the cost basis, tax-free. Any withdrawal in excess of cost basis is taxed (this assumes the policy is not a Modified Endowment Contract which has different tax implications).<sup>2,3</sup>

<sup>1</sup> Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.

<sup>2</sup> Policy benefits are reduced by outstanding policy loans or policy loan interest.

<sup>3</sup> Guardian, its subsidiaries, agents or employees do not give tax or legal advice.

### *Myth #3:*

*Once you retire, you should cash your life insurance policy in.*

*Facts: We hope not!*

- Through the loans and withdrawals available to whole life policyowners, an individual can supplement retirement income with tax-free funds.<sup>2,3,4</sup>
- Having whole life as part of a financial plan provides an additional level of security, financial freedom and a legacy for loved ones.
- Many people have estate liquidity problems that can only be met through the availability of immediate cash. Heirs can use the proceeds of a whole life policy to pay estate taxes.<sup>3</sup>
- Whole life also provides a good source of tax-free funds for big-ticket items that could put a dent in a tight retirement budget—such as a grandchild’s college tuition or wedding.
- Some families must establish “special needs” trusts to provide financial care for certain family members, and life insurance is ideal for that purpose.
- Families with real estate, closely held businesses, leveraged investments or margined stock portfolios—to name just a few categories—often use life insurance to offset the significant cash liquidity demands on their estates.
- Today’s healthy Baby Boomer couples have—on average—as much as a 30-year life expectancy (for at least one of them) past an age 65 “retirement.”
- Retirement is no longer the appropriate time to drop life insurance—today it’s the time when many people realize the importance of buying it!

### *Myth #4:*

*Whole life is too expensive.*

*Facts: In considering whether to purchase whole life or to “buy term and invest the rest,” you must take into account not just the premium cost, but also the length of time you want coverage and your ability to “invest the rest” profitably.*

- For longer periods—an entire lifetime—whole life insurance is substantially less costly than a lifetime payout for term. If the need for life insurance is for less than 30 years, a term insurance policy is cheaper.
- Term insurance isn’t designed for lifetime coverage. In fact, term insurance is prohibitively expensive to maintain for the average U.S. life expectancy of 78.9 years—never mind to age 100. Term costs average a staggering 70% of the death benefit to life expectancy, or \$700,000 per \$1 million of death benefit, and more than 400% of the death benefit, or \$4,000,000, to age 100 for a \$1 million policy.<sup>5</sup>
- While term life is typically affordable during the primary premium guarantee period (5 to 30 years), annual premiums quickly escalate to an unaffordable degree once the guarantee period ends.
- With term insurance, the policyholder does not accumulate any lasting cash value. At the expiration of the term of the insurance, the policyholder owns nothing, in contrast to whole life insurance, where premiums build cash value that belongs to the policyowner.
- Whole life insurance provides a disciplined means of accumulating cash values that are guaranteed (with respect to the base policy) and subject to the declaration of dividends for that complementary portion of a long-term policy values projection. To achieve returns equivalent to those of a Guardian whole life policy in a 25-year policy study from 1986–2010, an individual investor would have to achieve returns in the apocryphal “difference” fund of at least 10% before-tax each and every year—over a long period of time—a feat requiring serious investment acumen, as well as discipline.

<sup>4</sup> Assumes the policy is not a Modified Endowment Contract (MEC).

<sup>5</sup> Source: Life Insurance as an Asset Class: A Value-Added Component of an Asset Allocation

### *Myth #5:*

*All life insurance is created equal.*

*Facts: It just isn't the case.*

- The safety and security of your whole life policy depends on the insurer you purchase it from. It makes sense to buy whole life from a well-established mutual carrier that has decades of experience in the industry and maintains a high credit rating.
- The four major mutual insurers, including Guardian, are at the very top of the financial rating spectrum. Their "COMDEX"—an arithmetic compilation of the four major rating agencies' ratings—is 98 to 100 (With respect to these ratings, 85 is considered "reasonably safe", 95 is "extremely safe.")
- One of the reasons the mutual companies are so highly rated is that they invest a high percentage of portfolio assets in "safe-haven" government-guaranteed investments and other high-quality fixed return instruments. In comparison to stock companies' quarterly earnings pressure, mutual companies can take a long-term investment and management view.
- Whole life insurance policies can be customized with a variety of "riders" or special features, such as a guaranteed insurability rider or an accelerated benefit rider, that match an individual's financial goals and protect from different risks.

### *Myth #6:*

*Once you buy life insurance you don't have to think about it again.*

*Facts: Sticking the policy in the bottom of your file cabinet and never thinking about it again, isn't the best way to approach your life insurance purchase. Leave the 'set it and forget it' tag line to infomercials—sit down with your financial professionals at least on a bi-annual basis to review your situation.*

- Economic realities can affect your policies cash values. As you review your other asset classes to check performance, you need to review this one.
- Gain reassurance of your life insurance portfolio. Life changes. Make sure your policy still fits. Whole life is generally designed with the built-in flexibility to make modifications.
  - New family member?
  - New career?
  - New windfall?
- Performing due diligence is also critical
  - Positive health changes can sometimes lower previous quoted premiums
  - Policy with loans and withdrawals should be monitored
  - Policies held in trusts need review, too
- Performing policy maintenance can help link your advisors together. Strengthen their relationships around you. Cross check ideas between your investment, tax, estate, and insurance advisors.
- Of course, if you purchased term insurance, discuss your options soon! When the term period runs out, premiums can go way up...



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