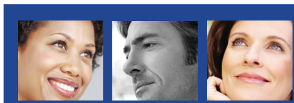

The Story Behind Strength

Why is financial strength important?[1]

Regardless of what you want your life insurance to do, it is important that you review the financial strength and stability of the insurance company you are considering. Your life insurance policy is a promise and a promise is only as good as the company that can honor it.

When you purchase life insurance, you are not just buying the coverage itself. The values contained in a life insurance policy often represent a major source of accumulated cash value and security for your family and your business. Quite distinct from most other types of financial instruments, such as savings accounts and short-term investments, a life insurance policy is expected to perform or fulfill your goals for the rest of your life — and the lives of your children. Therefore, the long-term financial viability of the company should be a concern.

? What are some leading indicators of Guardian's financial strength and what do they mean?

"Guardian investment portfolio has generated solid investment performance and very low credit-related impairments…"[2]

The three leading indicators are financial strength ratings, growth of surplus and capitalization ratio. Here's why:

- **Independent rating services provide essential measures of the qualifications of insurance companies and are impartial in their evaluations, offering a common ground for valid comparisons.** Comdex is the arithmetical compilation of the four major rating agencies' ratings (Standard & Poor's, Fitch, A.M. Best Company and Moody's). According to industry experts, 85 is considered "reasonably safe" and 95 is "extremely safe."[3] Since Guardian has been tracking Comdex, we have consistently earned a Comdex of 98.

When you compare ratings, Guardian is ranked in the top 2% of insurance company ratings and rankings.[4]

- **Capitalization ratio is a measure of financial strength and an indicator of a company's ability to ride out uncertain economic times.** Most of the liabilities of any insurance company are composed of the reserves set aside to pay future claims. Capital represents the amount of assets in excess of those liabilities, and a high capitalization ratio indicates a greater proportion of these excess assets.

As of 12/31/15, Guardian ranks among the highest in the life insurance industry with an average five-year capitalization ratio of 15.1%.[5]

- **Life insurance reserves represent the dollars that an insurance company sets aside to pay future benefits, both in terms of cash value and death benefits. Surplus represents the excess of an insurance company's assets over its reserves and other liabilities.** Minimum reserve levels are set by the state of domicile for each insurance company. Guardian is domiciled in New York, which has one of the strictest (i.e., highest) reserve standards in the United States. **In aggregate, the reserves that Guardian holds are in excess of the cash values that underlie the whole life policies.** In addition to the reserves being higher than cash values, Guardian has a strong surplus position. It is important for an insurance company to grow its surplus each year, in order to have money available to handle unforeseen events. Backing Guardian's reserves are quality assets, such as investment-grade bonds. Guardian applies a prudent investment philosophy that focuses on maintaining a well-diversified portfolio with a long-term orientation. This investment philosophy underlies an investment return that is used to develop Guardian's competitive whole life dividend.[6]

Continued…

As of 12/31/15, Guardian has a five-year growth of surplus rate of 6.6%.[5]

? Is my life insurance policy safe?

In general, the safest type of permanent life insurance policy on the market is whole life insurance — especially participating whole life insurance from a highly rated mutual life insurance company. Whole life is guaranteed[7] for the life of the contract, unlike term life insurance, which ends after a set period of time. And when it comes to whole life, there are no surprises. You know what the policy's guaranteed premium, cash value and death benefit will be — for the *life* of the policy. There is also upside potential to enhance the policy cash values and death benefits through dividends.

? How do the guarantees of a policy work?

"Guardian has a formal and disciplined structure to monitor and manage risk…(their) efforts allow the entity to maintain excellent financial strength, favorable capitalization and provide its customers with products that optimize the balance between financial risk and return for both policyholders and the enterprise."[8]

The policy's guaranteed mortality and interest rates (i.e., the maximum amount a company can charge for mortality and the minimum amount a company can use as an interest rate, respectively) are determined when the whole life product is developed. Actuaries use these guaranteed rates to determine the policy's guaranteed premium. The guaranteed premium, cash value and death benefit are set at the time the policy is issued and are contractually defined.

In addition to these guarantees, consumers can be confident when purchasing whole life, because money is set aside as required by state regulation to assure that both guaranteed cash values and guaranteed death benefits will be paid when needed. The reserves that Guardian sets aside are set with conservative assumptions and are regulated by the New York State insurance department.

A mutual life insurance company, such as Guardian, provides dividends that generally result from actual mortality and investment experience being better than what is guaranteed. Dividends are not guaranteed, but are declared by the Board of Directors each year. A dividend provided by an insurance company is developed primarily from three components:

- **Investments** – the current rate earned in excess of the guaranteed rate promised in the policy;
- **Mortality** – the mortality experience, which is better than that which is guaranteed in the policy; and
- **Expenses** – the fees for acquiring the business, servicing the business and risk management.

"Guardian's strong balance sheet fundamentals include extremely strong statutory capitalization, low leverage and a stable liability profile."[2]

Since the guaranteed factors for investments and mortality are conservative, the actual experience tends to be better, therefore making a dividend possible.

? What measures should companies take to ensure that they can meet their obligations and earn their clients' trust?

A company's strength and ability to protect its policyholders are dependent on its investment objectives and philosophy. You may want to consider doing business with a company that is:

- Defensively positioned to withstand market swings;
- Relatively conservative in investing the insurance premium dollars in a strong, well-diversified portfolio;
- Known for thorough due diligence and an independent research process;
- Avoiding risky investments, such as sub-prime mortgages; and
- Executing on a risk management plan to protect capital in volatile financial markets.

This philosophy lends itself to building and maintaining the kind of strong capital and liquidity needed to pay out death claims.

With regard to Guardian's investment philosophy, it starts with a sound asset allocation strategy that seeks to optimize expected long-term returns within well-defined risk parameters, while benefiting from diversification strategies that are designed to reduce risk.

Guardian's portfolio managers employ a disciplined investment decision-making process, which is fundamentally based on proprietary research and analysis, rather than being overly reliant on ratings agencies or quantitative models. Additionally, our asset liability investment management process carefully integrates asset maturities in a manner that's consistent with prudent funding of insurance liabilities. Our process is designed to optimize risk/reward and deliver consistent financial results.

? Has Guardian done any financial stress tests to ensure that both the company and its life insurance policies can endure extreme market volatility?

Guardian actively conducts stress tests of its own as market conditions change. It also conducts financial stress tests with the New York State insurance department. With a five-year growth of surplus rate of 6.6% as of 2015 and an average five-year capitalization ratio of 15.1%, we are confident that we can meet all obligations that may result from large-scale, foreseeable risks, such as a flu pandemic, or a major market crash. We are in it for the long term.

Since Guardian's inception in 1860, our company has stood its ground for over 150 years of environmental events and two major market meltdowns — the Great Depression of 1929 and the Great Recession of 2008.

Since 1868, Guardian has always paid out a dividend — even through the Great Depression — which means that we have consistently experienced better results than what we have guaranteed.

[1] Financial information concerning The Guardian Life Insurance Company of America as of December 31, 2015 on a statutory basis: Admitted Assets = $48.1 Billion; Liabilities = $42.0 Billion (including $37.0 Billion of Reserves); and Surplus = $6.1 Billion.

[2] Fitch Report 2016.

[3] Source: Richard M. Weber, MBA, CLU, AEP; and Chris Hause, FSA, MAAA, CLU; *Life Insurance as an Asset Class: Managing a Valuable Asset.*

[4] *Vital Signs*, March 2016. *Vital Signs*, a collection of published industry research, provides financial analysis of 633 participating carriers. Of those 633 companies, only 80 are rated by all four independent rating agencies; out of those 80 companies, only 12 have ratings equal to or better than Guardian's and the top four mutual life insurance companies (including Guardian) are among the top 2% of the 633 rated insurance companies. Comdex is not a rating, but a composite of all ratings that a company has received from the 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).

[5] Information provided was obtained from statutory statements.

[6] Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.

[7] 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.

[8] A.M. Best Report 2016.

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