THE STORY BEHIND OUR FINANCIAL STRENGTH

DID YOU KNOW THAT SELECTING A LIFE INSURANCE COMPANY IS JUST AS IMPORTANT AS SELECTING THE POLICY ITSELF?

It's important to review the financial strength and stability of the insurance company you are considering. *Why?* Because your life insurance policy is a promise that's only as good as the company that can honor it.

With life insurance, you're purchasing more than just coverage. Because the values contained in a policy often represent a major source of accumulated cash value and security, you're buying a lifetime of protection that's expected to help fulfill your goals for the rest of your life — and the lives of your loved ones.

WHAT ARE THE LEADING INDICATORS FOR FINANCIAL STRENTH AT GUARDIAN®?

The three leading indicators include financial strength ratings, growth of surplus, and capitalization ratio. Here's what you need to know about each one:

1. **Financial strength ratings**

   Independent rating services measure the qualifications of insurance companies, and provide impartial evaluations as to the insurer's financial strength and ability to pay a claim.

   The Comdex score[2] is an unbiased number consisting of the four major rating agencies' (Standard & Poor's, Fitch, A.M. Best Company, and Moody's) ratings. With respect to the Comdex score itself, industry experts consider 85 as "reasonably safe" and 95 as "extremely safe."[3] To date, Guardian has consistently earned a Comdex score of 98.[4] In fact, Guardian ranks in the top two percent of insurance company rating and rankings.

"GUARDIAN'S INVESTMENT PORTFOLIO HAS GENERATED SOLID INVESTMENT PERFORMANCE AND VERY LOW CREDIT-RELATED IMPAIRMENTS..."[1]

GUARDIAN®

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[1] Fitch Report, 2016.

[2] 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.

[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.

2. **Growth of surplus**

Life insurance reserves represent the dollars a company sets aside to pay future benefits — both in terms of cash value and death claims. Surplus is simply the excess of an insurance company's assets over its reserves and 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. **Collectively, the reserves that Guardian holds exceed the cash values that underlie its whole life policies**.

Guardian also has a strong surplus position and understands the importance of growing its surplus each year to ensure funds are available to handle unforeseen events. Our prudent investment philosophy focuses on maintaining a well-diversified portfolio with a long-term orientation. This underlies an investment return that is used to develop Guardian's competitive whole life dividend.[5] As of 12/31/16, Guardian has a three-year growth of surplus rate of 6.2 percent.

3. **Capitalization ratio**

This ratio measures the financial strength of a company, and is a key indicator of the company's ability to remain strong during an economic downturn.

Insurance companies have reserves set aside to pay future claims. They also have liabilities (debt). Simply stated, the capitalization ratio is the percent of the company's debt compared to its assets. Therefore, a higher capitalization ratio indicates greater financial strength and stability. As of 12/31/16, Guardian's capitalization ratio ranks among the highest in the life insurance industry, with an average five-year capitalization ratio of 14.9 percent.[6]

IS MY LIFE INSURANCE POLICY SAFE?

In general, whole life insurance — particularly participating whole life from a highly rated mutual life insurance company — is the safest type of permanent life insurance. For the life of the policy, the premium, cash value, and death benefit are guaranteed.[7] Moreover, policies have the potential to accumulate greater cash values and death benefits by way of dividends.

HOW DO THE GUARANTEES OF A POLICY WORK?

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 rates to determine the policy's guaranteed premium. The guaranteed premium, cash value, and death benefit are set when the policy is issued.

> "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]

[5] Dividends are not guaranteed. They are declared annually by Guardian's Board of Directors.
[6] Information provided was obtained from statutory statements.
[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.
[8] A.M. Best Report, 2017.

In addition, consumers can be confident when purchasing whole life because state regulations require that money be set aside, assuring that both guaranteed cash values and guaranteed death benefits will be paid when needed. Guardian's reserves are set aside with conservative assumptions and regulated by the New York State Insurance Department.

As a mutual life insurance company, Guardian provides dividends that result from actual morality and investment experience that's generally better than guaranteed. Our dividends are declared by the Board of Directors each year. Our dividends are primarily developed from these three components:

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

Because the guaranteed factors for investments and mortality are conservative, the actual experience tends to be better, which ordinarily makes 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. These factors are pivotal to building and maintaining strong capital and liquidity required to pay out death claims.

For these reasons, you should consider doing business with a company that is:

- Positioned to withstand market swings;
- Relatively conservative in investing 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.

Guardian's investment philosophy starts with a sound asset allocation and diversification strategy that's designed to optimize long-term returns, while reducing risk.

Our portfolio managers employ a disciplined investment decision-making process based on proprietary research and analysis, with an asset liability investment management process that's consistent with prudent funding of insurance liabilities. Simply put, our process is designed to optimize risk/reward and deliver consistent financial results.

> "Guardian's strong balance sheet fundamentals include extremely strong statutory capitalization, low leverage, and a stable liability profile."[9]

[9] Fitch Report, 2017.

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 independent stress tests as market conditions change, as well as financial stress tests with the New York State Insurance Department. Our three-year growth of surplus rate of 6.2 percent as of 2016, and an average five-year capitalization ratio of 14.9 percent, gives us confidence in meeting all obligations that may result from large-scale, foreseeable risks, such as a flu pandemic or a major market crash.

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.

At Guardian, we're in it for the *long term*.

For more information on Guardian, its products and services, contact your local Guardian representative.

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Financial information concerning The Guardian Life Insurance Company of America as of December 31, 2016, on a statutory basis: Admitted Assets = $51.9 Billion; Liabilities = $45.7 Billion (including $39.4 Billion of Reserves); and Surplus = $6.2 Billion.
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