



Putting Policyholders First: How Guardian's Mutuality Drives Everything We Do

Mutuality forms the cornerstone of everything we do at Guardian, and is clearly about doing the right thing for the people who put their trust in us. As a company, mutuality is at the top of our list of our strategic imperatives, guiding every decision we make, from our strong emphasis on values to our focus on long-term financial strength. Unlike publicly held companies, we have no stockholders and therefore no conflicts between the short-term, quarter-to-quarter financial demands of Wall Street and the long-term interests of our policyholders. Because our customers are also our owners, everything we do is measured against the yardstick of serving their best interests and delivering high-quality, low-net-cost Life insurance. The following takes a look at mutuality through the eyes of Home Office and Field leaders, who offer their perspective on why mutuality is essential to Guardian's unique value proposition.

Our Customers, Our Owners

Mutuality permeates our entire culture at Guardian. It determines our mission and values, the way in which we manage our company, and the way we perform every day. Because we are a mutual company, any efficiencies we obtain in our operations are passed on to our participating policyholders in the form of dividends or lower costs for their coverage. Our prudent management has historically allowed us to pay competitive dividends while consistently providing high-quality products and services at the best possible cost. "As a mutual company, we focus solely and directly on our customers, putting their needs first," says President and CEO Dennis Manning. "Our commitment to forging deep client relationships through our Field force, maintaining long-term financial strength, and continuing to grow and innovate are all products of our mutuality."

Dennis adds that mutuality is perfectly suited for our business. "The long-term decisions it allows us to make with an eye toward our financial future makes it the ideal structure for ensuring that we'll be here to pay the claims of our policyholders many, many years from now," he says. "The fact that we can concentrate on the future interests of our customers instead of the short-term demands of Wall Street means that we can

put the things that mean the most to people – their family, their future, and their legacy – first."

Delivering Value to Policyholders

One of the most important ways we enrich the lives of our policyholders is through our annual dividends, which provide our policyholders with a low, long-term net cost for their insurance policies. Throughout our history, Guardian has worked to ensure that all participating Life policyholders are treated equitably and share in our experience – regardless of when a policy was purchased, be it recently or 10, 20, or 50 years ago. This is accomplished through better investment earnings, mortality costs, and operating expenses than are guaranteed in our policies. We return the better experience in the form of a dividend, which can be viewed as representing a return of part of the premium paid by the policyholder.

Our company is proud of its proven track record of delivering a consistently superior product for our policyholders. This year, Guardian will deliver the highest total dividend payout in our company's history. Additionally, according to the historical 20-year interest adjusted surrender cost index (IASCI) – an industry standard used to measure the cost of insurance – Guardian policies consistently rank among the lowest cost policies in the industry, year after year. Both of these facts are clear benefits of our mutual status and proof positive of our commitment to enriching the lives of the people we touch.

Joe Caruso, Executive Vice President and Corporate Secretary, sees mutuality as one of the key drivers of our customer satisfaction as evidenced by our high premium persistency. "Our value proposition is to provide the greatest amount of insurance for the lowest possible long-term cost with the greatest degree of financial strength, so that we can deliver on promises many years in the future," says Joe. "Our long-term success is shared with our participating policyholders through participating dividends. The more successful that we are, the higher the dividends that we can return, thus increasing our value proposition as a mutual Life company and benefiting our important constituencies: our policyholders, our Field force, and our employees."

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What is a Mutual Company? A mutual company is primarily a cooperative, organized and maintained for the benefit of participating member policyholders. After setting aside an annual contribution to surplus each year, participating policyholders share in the “profits” or divisible surplus of the company in the form of dividends.

Another proof of the benefits of our mutuality is the favorable view the major rating agencies have of mutuality. “From their perspective, it provides us with several competitive advantages – we serve the interests of policyholders first; we have a long-term history of dividend payments; we distribute through our career agency system; and the adjustability of our dividends, which can be moved up or down according to the current environment,” says Dennis Manning. “From this superior performance against key mutual company performance indicators, we can be proud that a purchaser of permanent Life insurance from a well-run mutual company like Guardian is well served by purchasing participating Whole Life insurance from us.”

Standard & Poor’s, one of the most recent agencies to affirm our ratings, says:

“Guardian’s strategy is built on its ability to lever its mutual ownership structure into a competitive advantage through its highly effective captive distribution system. The company’s history of higher-than-average policyholder dividends and maintaining a strong capital base supports the objective. Both the Field force and customers respond positively to this philosophy. The demutualization of many other major players has left a competitive niche for Guardian and others that have remained committed to policyholder value and participating permanent Life insurance products.”

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Investing in Relationships

The long-term view afforded by our mutuality allows Guardian to remain strongly committed to the way we invest in our distribution channels, build lasting relationships, and provide outstanding products and services. A primary way we do this is through our nationwide network of Financial Representatives. “This is important because participating Whole Life insurance is not sold solely on the basis of price; it has long-term value and requires a trained career

distribution force which invests in relationships and is committed to educating potential policyholders in order to sell it,” says Dennis. “In contrast, public Life companies do not invest in a career agency approach, as they generally issue non-participating products sold through independent channels. These channels are generally focused on the lowest costs and highest commissions.”

Mutuality offers a strategic advantage to Life insurance companies like Guardian because mutual companies have a lower cost of capital than stock insurance companies. The lower our cost of capital, the larger the divisible surplus that will be available to be allocated to participating policyholders through dividends. Additionally, career agents produce a stable source of new business and provide ongoing service that helps achieve good policy persistency. Our policyholders enjoy the long-term, one-on-one relationships that are forged by working closely with our Field force and value the peace of mind that comes along with our 146-year history of fulfilling commitments made through our products and services.

At the Heart of Who We Are

Going forward, Guardian remains committed to continuing to perform as a well-run mutual Life company, because we think that it’s the best way to deliver our products and services to our target markets. Likewise, our mutual status provides our company the best way to support our distribution channels and meet the long-term needs of our customers. By living out our company values – we do the right thing, people count, and we hold ourselves to very high standards – we can fulfill our commitment to enriching the lives of the people we touch by helping them live well today and build better tomorrows. The combination of our mutuality, our people, and our financial strength will guide our continued success in the decades ahead.

Financial information for The Guardian Life Insurance Company of America as of 12/31/05: Assets = \$24.8 Billion; Liabilities = \$21.6 Billion (includes \$18.1 Billion of Reserves); Surplus = \$3.2 Billion.

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