

**REPORT ON EXAMINATION**  
**OF THE**  
**GUARDIAN INSURANCE and ANNUITY**  
**COMPANY, INC.**  
**AS OF**  
**DECEMBER 31, 2007**

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2007 of the

**THE GUARDIAN INSURANCE & ANNUITY COMPANY, INC.**

is a true and correct copy of the document filed with this Department.

Attest By:           *Sonia C. Harris*          

Date: 30 June 2009



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 30th day of June 2009.

*[Handwritten signature]*

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



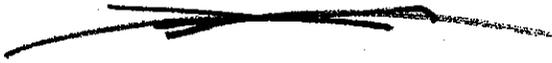
Delaware Department of Insurance

REPORT ON EXAMINATION  
OF THE  
THE GUARDIAN INSURANCE & ANNUITY COMPANY, INC.  
AS OF  
DECEMBER 31, 2007

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.



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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 30th day of June, 2009

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## **SALUTATION**

Honorable Alfred W. Gross  
Chairman, Financial Condition (E)  
Subcommittee, NAIC  
State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218

Honorable Merle D. Scheiber  
Secretary, Midwestern Zone (III), NAIC  
South Dakota Division of Insurance  
Department of Revenue and Regulation  
445 East Capitol Avenue  
Pierre, SD 57501-3185

Honorable James J. Donelson  
Secretary, Southeastern Zone (II), NAIC  
Louisiana Department of Insurance  
1702 North Third Street  
Baton Rouge, LA 70802

Honorable Joel Ario, Commissioner  
Secretary, Northeastern Zone (I), NAIC  
Pennsylvania Insurance Department  
1326 Strawberry Square  
Harrisburg, PA 17120

Honorable Morris J. Chavez  
Secretary, Western Zone (IV), NAIC  
Department of Insurance  
State of New Mexico  
Post Office Box 1269  
Santa Fe, NM 87504-1269

Honorable Karen Weldin-Stewart, CIR-ML  
Commissioner  
Delaware Department of Insurance  
841 Silver Lake Boulevard  
Dover, DE 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 08-024, dated May 6, 2008, an examination has been made of the affairs, financial condition and management of the

### **GUARDIAN INSURANCE & ANNUITY COMPANY, INC.**

hereinafter referred to as “Company” or “GIAC”, incorporated under the laws of the State of Delaware as a stock company with its statutory home office located at 1209 Orange Street, Wilmington, Delaware. The examination was conducted at the principal offices of the Company located at 7 Hanover Square, New York, NY. The examination report thereon is respectfully submitted.

## **SCOPE OF EXAMINATION**

The last examination was as of December 31, 2003. This examination covered the period of January 1, 2004, through December 31, 2007, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2007. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook (the "NAIC Handbook"). The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing current and prospective inherent risks to which the Company is exposed, and evaluating its system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

The general procedures of the examination followed rules established by the NAIC Financial Condition (E) Committee as set forth in the Financial Condition Examiner's Handbook and included such other examination procedures as were considered necessary.

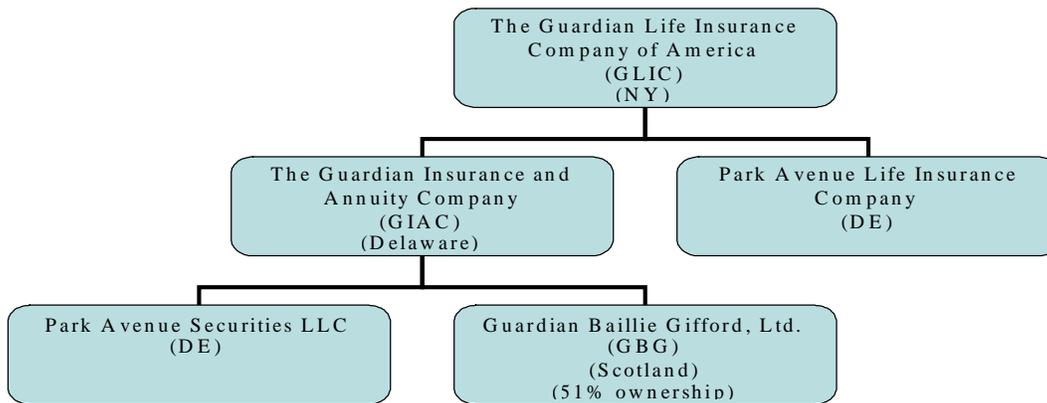
All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report only addresses regulatory information revealed by the examination process.

During the course of this examination, consideration was given to work performed by the Company's Internal Audit Department (IAD) and by the external accounting firm, PricewaterhouseCoopers LLP (PWC). Certain auditor workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination.

The examination was conducted concurrently with that of affiliate Park Avenue Life Insurance Company (PALIC), also a Delaware domestic insurance company. Separate reports of examination were filed for each company.

### **HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system as defined under Chapter 50, "Insurance Holding Companies" of the Delaware Insurance Code. The Company operates under the immediate and ultimate controlling parent, The Guardian Life Insurance Company of America (GLIC). GLIC is domiciled in the State of New York and is the fourth largest mutual life insurance company in the U.S., with consolidated admitted assets of \$28.3 billion, liabilities of \$24.5 billion and surplus of \$3.7 billion as of December 31, 2007. The following is an abbreviated organizational chart provided by the Company as of December 31, 2007.



Park Avenue Securities LLC (PAS), a wholly-owned subsidiary of the Company and a registered broker dealer under the Securities and Exchange Act of 1934, was established in 1999 and has assumed the registered representatives formerly affiliated with Guardian Investors Services LLC (GIS). GIS is a registered broker dealer under the Securities and Exchange Act of 1934 and is a registered investment advisor under the Investment Adviser's Act of 1940. GIS operates as the distributor and underwriter for GIAC's variable products, and until October 9, 2006, served as the investment advisor to certain affiliated mutual funds sponsored by GLIC which are investment options for the variable products. Effective October 9, 2006, all Guardian-sponsored mutual funds were invested into RS Mutual Fund Family, and as a result, RS Investment Management Company LLC (RS Investments), a subsidiary of GIS, replaced GIS as the investment advisor on these mutual funds. GIS serves as a sub-advisor to the fixed income, assets allocation and index funds and is the sole distributor of RS Funds.

On August 31, 2006, under a corporate restructuring, GIAC transferred 100% of the GIS shares that it owned to GLIC. In 2006, as a result of the transfer, the Company recognized a return of contributed capital of \$9 million and paid a dividend to the parent of \$13 million. In

addition, the Company recognized a capital gain of \$13 million on the appreciation of the value of its equity investment in GIS.

The Company, in agreement with Baillie Gifford Overseas Ltd., has an equity ownership interest in Guardian Baillie Gifford Ltd. (GBG), which is organized as a corporation in Scotland. GBG is registered in both the United Kingdom and the United States to act as an investment sub-advisor for the RS International Growth VIP Series (RSIGS), the RS Emerging Markets VIP Series (RSEMS), RS International Growth Fund (RSIGF) and RS Emerging Markets Fund (RSEMF). Effective October 9, 2006, GBG serves as the sole investment sub-advisor to these funds. These funds are offered in the U.S. as investment options under certain variable annuity contracts and variable life policies sold by the Company. GBG is 49% owned by GLIC and 51% owned by GIAC at December 31, 2007.

## **HISTORY**

The Company was incorporated by GLIC on March 2, 1970, under the laws of the State of Delaware as a stock life insurance company authorized to transact the business of life, health, credit life, credit health, variable annuities and variable life insurance.

The Company was incorporated with authorized capital amounting to \$2,500,000 consisting of 20,000 shares of common stock having a par value of \$125 per share.

All authorized shares were issued to GLIC, for a consideration of \$175,000,000, which represents capital paid up of \$2,500,000 and paid in and contributed surplus of \$172,500,000.

The Company paid dividends as follows to its parent GLIC:

2006	\$13,093,648
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The dividends were considered ordinary in accordance with Title 18, Section 5005 of the Delaware Insurance Code and were reported to and approved prior to payment by the Delaware Insurance Department.

## **MANAGEMENT AND CONTROL**

### **MANAGEMENT**

The business affairs and corporate activities are vested in a Board of Directors that shall consist of not less than five members. The directors are elected for a term of one year at the annual stockholder's meeting which is held not less than 30 nor more than 120 days after the end of the last preceding fiscal year.

The bylaws provide that the Board of Directors may, by resolution passed by a majority, designate one or more committees that shall consist of two or more Directors. The Board of Directors has designated an Executive Committee and an Investment Committee to oversee Company operations.

The Executive Committee has any and all powers of the Board of Directors during the interval between Board meetings. The Investment Committee has general control and supervision over the financial affairs and accounts of the Company. The bylaws provide that the findings of the committees shall be reported to the Board of Directors.

The Board of Directors and Officers, duly elected in accordance with the bylaws and serving as of December 31, 2007, are as follows:

Guardian Insurance and Annuity Company, Inc.

Director

Robert Ernest Broatch

Joseph Anthony Caruso

Armand Michael de Palo

Gary Bert Lenderink

Bruce Carson Long

Dennis James Manning

Principal Occupation

Executive Vice President & Chief Financial Officer,  
Guardian Life Insurance Company

Senior Vice President & Corporate Secretary,  
Guardian Life Insurance Company

Executive Vice President & Chief Actuary,  
Guardian Life Insurance Company,

Executive Vice President - Risk Management Products,  
Guardian Life Insurance Company

President ,  
Guardian Insurance and Annuity Company

Chief Executive Officer,  
Guardian Life Insurance Company

Officers

Bruce Carson Long

Joseph Anthony Caruso

Dennis James Manning

Richard Allen Cuminsky

Michael Sakoulas

Dennis Paul Mosticchio

Peggy Louise Coppola

Richard Thomas Potter, Jr.

Hugh Joseph McAleer

John H. Walter

Thomas George Sorell

Donald Paul Sullivan, Jr.

President

Executive Vice President & Corporate Secretary

Chief Executive Officer

Senior Vice President and Chief Compliance Officer

Senior Vice President & Chief Actuary

Vice President, Group Pensions

Senior Vice President, Equity Business Development

Senior Vice President and Counsel

Vice President, Selections, Claims & Individual  
Markets Operation

Vice President & Controller

Executive Vice President & Chief Investment Officer

Senior Vice President, Administration

Executive Committee

Joseph Anthony Caruso

Dennis James Manning

Investment Committee

Bruce Carson Long

Dennis James Manning

Bruce Carson Long  
Gary Bert Lenderink

Robert Ernest Broatch  
Joseph Anthony Caruso (Alternate)

## **CORPORATE GOVERNANCE**

Although not completely formalized as of December 31, 2007, the Company is in the process of adopting a formalized Corporate Governance and Enterprise Risk Management framework for proactively addressing and mitigating risk (including prospective business risks).

The Company operates under a corporate governance environment that includes the oversight and corporate direction of the parent GLIC, and the Board of Directors and management of both the Company and its parent have an overall positive effect on the control environment within the organization. The control consciousness is developed throughout the organization through a sound organizational structure that allows for ease of communication across the entity, a conscious commitment to integrity, promoting ethical values and competence of employees, the assignment of clear authority and responsibility, an open management philosophy and operating style and a commitment to the development of resources.

In addition, the governance process establishes the roles of the Audit Committee, of the Parent and Board of Directors in the establishment of a sound risk management process that has a pervasive influence on the way business activities are structured, objectives and strategies are established and risks identified. It also influences risk assessment, control activities, information and communication systems, monitoring activities, and antifraud programs.

The Audit Committee, of the Parent and Board of Directors assist management in significantly influencing the “tone at the top”. In its fiduciary role, the board is responsible for overseeing the internal controls over financial reporting established by management and the process by which management satisfies itself that they are working effectively. The Board of

Directors is also responsible for assessing the risk of financial fraud by management and ensuring that controls are in place to prevent, deter and detect such fraud. The oversight controls of the Board of Directors extend to understanding management's strategic initiatives, risk management processes (including antifraud programs) and controls as well as the internal and external audit plans and procedures for addressing risks within the organization. In addition, the oversight procedures include a review of significant non-routine transactions entered into by management and extend to a review of accounting principles and the policies and estimation processes used by management in determining significant estimates. Significant estimates are also reviewed annually with the Audit Committee. Strategic business plans, budgets and all new products are approved by the Board of Directors prior to implementation or introduction into the market. The oversight role of the parent company Board of Directors over Company activities could not be verified, however, as the Board of Directors' minutes of GLIC were not provided for our review.

Internal audit, in its oversight capacity, has broad knowledge about the Company which enables them to identify operational deficiencies as well as indicators of fraud. Internal audit assists in the monitoring of organizational objectives, the adherence with policies and procedures and the deterrence of fraud by examining and evaluating the effectiveness of the operational processes and the adequacy and effectiveness of internal controls as part of their audits. The scope of the Internal Audit program is coordinated with the Company's independent accountants to ensure adequate coverage and maximum efficiency. Each year, a comprehensive risk-based audit plan is prepared and presented to the Audit Committee and to senior management. It was observed, however, that Internal Audit did not have access to all records of the Parent Company

Therefore:

**It is recommended that the Internal Audit Department (IAD) be granted full access to Parent Company records. (Please refer to Summary of Significant Findings)**

## MANAGEMENT AND SERVICE AGREEMENTS

### Intercompany Agreement for Services and Reimbursement between GIAC and GLIC

Effective December 31, 2007, the Company was a party to an amended and restated Agreement for Services and Reimbursement with GLIC which superseded an agreement that was amended on July 19, 2001. The agreement is an expense sharing agreement pursuant to which GLIC provides office space, furniture, equipment, heat and light, clerical staff, and employee benefits and any other services as requested by the Company. Expenses are allocated to the Company on a direct basis or through an allocation system developed by GLIC's cost accounting department utilizing asset, head count or overhead information. Settlement occurs 45 days following the end of each quarter. The agreement was amended, effective December 31, 2007, and approved by the Delaware Insurance Department on January 15, 2008. The agreement was not originally properly submitted on a Form D filing at least 30 days before the effective date of the agreement as required by 18 Del.C. §5005(a)(2)d. The Company submitted the agreement to the Delaware Insurance Department with a cover letter, not in the required NAIC format Form D filing. The agreement was also not disclosed in the annual Form B filing as required by Del.C. §5004(b)(3)e.

Therefore:

**It is recommended that the Company comply with 18 Del.C. §5005(a)(2)d on future Form D filings for any new related party management and service agreements.**

**It is also recommended that the Company comply with 18 Del.C. §5004(b)(3)e on future Form B filings to include all existing management and service agreements.**

Tax Allocation Agreement between GIAC and GLIC

The Company entered into a federal tax consolidation agreement effective December 31, 1983, with GLIC. The tax liability is allocated to the members of the group in the ratio that each member's separate return tax liability for the year bears to the sum of the separate return tax liabilities of all the members. However, the tax charge shall not exceed the amount that would be paid had the member filed on an individual basis. The agreement was amended July 19, 2001, to reflect changes in GLIC's corporate structure, and filed with the Delaware Insurance Department on August 21, 2001.

Distribution and Service Agreement between GIAC and Guardian Investor Services LLC (GIS)

Through December 30, 2007, the Company was a party to an amended and restated distribution and service agreement with GIS (formerly Guardian Investor Service Corporation) (GISC) which superseded an original agreement dated December 18, 2001. The agreement allows GIS to act as distributor and underwriter for GIAC's variable products. GIS provides investment advisory services to various affiliated diversified open-ended management companies sponsored by GLIC and GIAC. GIS receives investment advisory fees. The superseded intercompany services and reimbursement agreement, amended on December 31, 2007, effectively replaced and terminated the Distribution agreement. After December 31, 2007, these services and fees are included in the Intercompany Services and Reimbursement agreement noted above.

Participation Agreement among GIAC, RS Investments LLC and RS Variable Products Trust

Effective July 31, 2007, the Company was a party to a Participation Agreement with RS Investments LLC and RS Variable Products Trust. The agreement provides fee income to GIAC

Guardian Insurance and Annuity Company, Inc.

calculated based on the monthly/quarterly average assets of the affiliated mutual funds' participation within GIAC's variable insurance products separate accounts. The Participation Agreement among RS Investments LLC, RS Variable Products Trust and GIAC effective July 31, 2007, was not properly disclosed as Form D filings at least 30 days before the effective date of the agreement as required by 18 Del.C. §5005(a)(2)d.

Therefore:

**It is recommended that the Company comply with 18 Del.C. §5005(a)(2)d on future Form D filings for any new related party management and service agreements. (Please refer to Summary of Significant Findings)**

Custodial Agreement between GIAC and Chase Manhattan Bank

Effective September 3, 1997, the Company entered into a Custody Agreement with Chase Manhattan Bank (Chase). Chase agrees to act as custodian over the Company's assets in exchange for a fee as structured in the agreement.

**TERRITORY AND PLAN OF OPERATION**

At December 31, 2007, the Company was licensed to conduct life and health insurance business in all fifty states and the District of Columbia.

The Company's primary business is the sale of variable deferred annuity contracts and variable life insurance policies. For variable products, other than 401(k) products, contracts are sold by insurance agents who are licensed by GIAC and are either Registered Representatives of Park Avenue Securities, LLC (PAS) or of other broker dealer firms that have entered into sales agreements with GIAC. The Company's general agency distribution system is used for the sale of other products and policies. In October of 2002, the Company and GLIC discontinued selling new Group Pension business but continued servicing existing pension plans. In 2004, the

Guardian Insurance and Annuity Company, Inc.

Company restarted the business by contracting with Distribution Partners of Dublin, Ohio (DP) to exclusively market GIAC's 401k Advantage Group Variable Annuity Product. DP works only with Guardian to promote products to brokers. The Company also markets its services through GLIC's exclusive agent workforce.

The Company offers fixed and variable annuities on an individual or group basis under plans that are categorized as tax qualified or non-tax qualified in accordance with the Internal Revenue Code. The Company has issued fixed and variable annuities since 1971 and variable life products since 1985. In 1993, the Company began to offer policies under a new 10-year term specialty life program. The Company discontinued sales of this product in 1998. All policies are issued on a non-participating basis.

The sale of other products and policies is generated by the Company's general agency distribution system, which is primarily the agency force of the GLIC. GLIC's agency force consists of authorized agents and unaffiliated broker/dealers.

The Company has established eighteen insurance separate accounts primarily to support the variable annuity and life insurance products it offers. The majority of the separate accounts are unit investment trusts registered under the Investment Company Act of 1940. Proceeds from the sale of variable products are invested through these separate accounts in certain mutual funds specified by the contract holders. Of these separate accounts, the Company maintains one separate account whose sole purpose is to fund certain employee benefit plans of GLIC.

A detailed description of the separate accounts and their use by the Company can be found later in this Report under the caption "Separate Account Assets".

Variable annuities, which have been deemed to be securities under federal law and their selling entities (brokers/dealers) are subject to regulation by the Securities and Exchange Commission and the National Association of Securities Dealers.

### **GROWTH OF THE COMPANY**

The following information was obtained from the Company's filed Annual Statements and covers the five preceding years:

<u>Year</u>	<u>Separate Account Assets</u>	<u>Admitted Assets General Account</u>	<u>Capital &amp; Surplus</u>	<u>Premiums &amp; Annuity Considerations</u>	<u>Net Income</u>
2007	\$8,337,821,353	\$2,065,113,482	\$244,673,931	\$1,190,116,679	\$19,993,416
2006	8,028,171,517	2,263,055,865	228,579,415	1,214,021,938	20,485,916
2005	7,538,180,021	2,316,950,516	244,428,922	1,091,375,497	21,585,308
2004	7,740,174,428	2,164,657,921	230,832,831	1,132,285,163	13,283,937
2003	7,726,312,581	2,084,096,862	222,375,628	1,735,129,249	(12,738,018)

Since December 31, 2003, the Company's financial results were as follows:

- A 6.04 % increase in admitted assets (including separate accounts)
- A 10.03% increase in capital and surplus
- A 22.7 % decrease in premiums and annuity considerations
- A 256.9 % increase in net income

As GIAC's business is principally related to variable insurance products, the Company's assets are primarily in separate account assets. The increase in admitted assets was primarily due to a favorable investment market. The Company has remained profitable over the examination period. Premium and annuity considerations decreased significantly due to the 401K operations being suspended until 2004.

## REINSURANCE

Following is a summary of the principal reinsurance agreements in effect as of December 31, 2007:

### Ceded

The Company entered into coinsurance, modified coinsurance and yearly renewable term agreements primarily with GLIC and other entities to provide for reinsurance of selected variable annuity contracts and group and individual life policies.

### Affiliate

Risks ceded to GLIC as of December 31, 2007, consisted of policies in force amounting to \$5,866,250,620 or approximately 99.52% of all of the reinsured policies in force of \$5,894,421,441. The modified coinsurance and yearly renewable term agreements of \$19,706,232 accounted for 82.4 % of the Company's total reinsurance reserve credit taken of \$23,923,541.

The affiliated reinsurance contracts in effect as of December 31, 2007, are as follows:

<b><u>Type of Contract</u></b>	<b><u>Effective Date</u></b>	<b><u>Line of Business</u></b>	<b><u>Retention/Limits</u></b>	<b><u>Inforce</u></b>
First Excess Automatic Reinsurance - yearly renewable term	7/1/89	Annual premium variable life	\$ 5,000,000 (\$2.5 million for substandard) excess of \$250,000	\$1,124,757
Modified coinsurance	1/1/93	Variable annuity contracts issued from 1/1/93 to 9/1/95	50% in 1993, 20% in 1994	46,340,102
Automatic Coinsurance/ Modified coinsurance	1/1/93	Level benefit term	10% of each policy up to a per life maximum of \$500,000	
Coinsurance/Modified Coinsurance	9/1/95	Variable life	10% of each policy up to a per life maximum of \$ 500,000	5,194,662,942

Guardian Insurance and Annuity Company, Inc.

Risk Premium - yearly renewable term	9/1/95	Variable life	10% of each policy up to a per life maximum of \$ 500,000	8,641,746
Automatic Indemnity Modified Coinsurance	2/1/98	Group Universal life	10% of each policy up to a per life maximum of \$ 500,000	509,965,000
Yearly renewable term (facultative option)	11/15/05	Universal Life	10% of each policy up to a per life maximum of \$ 500,000, Super Preferred Max \$1,000,000	49,300
Coinsurance/Modified Coinsurance	11/15/05	Universal Life	10% of each policy up to a per life maximum of \$ 500,000, Super Preferred Max \$1,000,000	105,466,773
Total				\$5,866,250,620

A review of the Modified Coinsurance and YRT agreements with GLIC effective as of September 1, 1995, indicated that the agreements exceeded the filing threshold established by 18 Del. C. § 5005(a)(2)c, which requires that when the reinsurance premium or a change in the insurer's liabilities equals or exceeds 5% of the insurer's surplus as regards policyholders, as of the 31st day of December next preceding, the agreement be submitted to the Delaware Department of Insurance for approval through a Form D filing. The required Form D filing was not submitted as required.

It was also observed that the Company did not comply with 18 Del. C. §5004(b)(3)f, by not properly disclosing all intercompany reinsurance agreements in the annual Form B filing.

Therefore:

**It is recommended that the Company comply with 18 Del.C. §5004(a)(2)c to obtain approval on affiliated reinsurance agreements that exceed the stated thresholds through a Form D filing and 18 Del. C. §5004(b)(3)f on future Form B filings to include all existing management, service and reinsurance agreements.**

Non-affiliates:

The Company has entered into one new reinsurance agreement during the examination period. Non-affiliated agreements in effect as of December 31, 2007 are:

Type of Contract	Effective Date	Line of Business	Retention	Amount Inforce
Automatic reinsurance – yearly renewable term – covered by two reinsurers	9/15/85	Single premium variable life	10% (\$100,000 maximum) on risks over \$250,000 and 100% on risks under \$250,000	\$ 14,728,836
Automatic reinsurance – Yearly renewable term	9/1/99	Flexible premium variable annuity guaranteed minimum death benefit	None-100% reinsured	\$5,531,110
Automatic Quota share	9/1/01	Annuity contracts for guaranteed minimum death benefit and earnings enhancement benefits	Dependent upon year of death and amount of annuity contract	\$7,642,258
Other	3/8/04	Variable annuity contract rider – guaranteed minimum income benefit for the following products: Investor Income Access Asset Builder CXC	100% quota share up to \$2,000,000 of retail annuity premium without prior written approval	
Yearly renewable term	4/4/05	Variable annuity contract rider – guaranteed minimum death benefit for the following products: Investor Income Access Asset Builder CXC	100% quota share, individual maximum claim limits is, \$1 million on claims occurring thru 4/07 \$1.5 million on claims occurring from 4/07 to 4/12 \$2.0 million on claims occurring from 4/12 to 4/17 \$2.5 million in claims occurring after 4/17	268,617
Yearly renewable term (Swiss Re)	7/1/07	Variable annuity contract rider – guaranteed minimum withdrawal benefit	90% quota share	
Total				\$ 28,170,821

GIAC reinsures certain guarantees embedded within its variable annuity business on a non-proportional basis. GIAC does not take reserve credit for this reinsurance, except for the

guaranteed minimum withdrawal benefit rider. The reserve credit taken for this contract was \$4,217,309.

In 2007, both affiliated and non-affiliated reinsurance ceded totaled \$65,536,510 or 5.2% of the Company's direct and assumed (assumed treaty was recaptured in October 2007) premium and annuity considerations.

## **ACCOUNTS AND RECORDS**

Premium, claim and separate account transactions are administered by its parent, GLIC, using various systems. Data from these systems is automatically posted into the Company's PeopleSoft general ledger. The Company utilizes GLIC's mainframe located in Bethlehem, PA for processing, updating, and storing the primary records of the company. Personal computers and file servers support financial reporting and analysis.

Investment transactions are administered through GLIC's investment department which is located in the New York office. The transactions are processed using CAMRA software. During the examination period, the data was then manually posted into the general ledger system, but effective late in 2008 the flow between the systems was automated. All other company-related transactions, such as accounting, are also handled out of the New York office.

The independent certified public accounting firm, PricewaterhouseCoopers, LLP, audited the organizations records for the years ended 2004, 2005, 2006 and 2007. Audit reports and applicable workpapers were made available for the examiners' use.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were

identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The primary systems used in the operations of the Company were also evaluated. The Information Systems (IS) portion of the examination was performed by INS Services. The review was performed in accordance with the NAIC Handbook. The review of IS controls included IS management and organizational controls; application and operating system software change controls; system and program development controls; overall systems documentation; logical and physical security controls; contingency planning; local and wide area networks, personal computers, and mainframe controls. Control testing performed by the Company's Risk Management function, IAD, and PwC was evaluated and testing of end user computing and IS outsourcing controls were performed in making the evaluation. As a result of the procedures performed, the IS Examination Team obtained reasonable assurance that IS general controls and general application controls were functioning as management intended and that an effective system of controls is in place and conducive to the accuracy and reliability of financial information processed and maintained by the Company. There are no reportable items related to our review of IS controls.

## **FINANCIAL STATEMENTS**

The following statements show the assets, liabilities, surplus and other funds of the Company, as determined by this examination, as of December 31, 2007.

Analysis of Assets  
Liabilities, Surplus and Other Funds  
Summary of Operations  
Capital and Surplus Account  
Analysis of Financial Statement Changes resulting from Examination

It should be noted that various schedules and exhibits may not total due to rounding.



### Liabilities, Surplus and Other Funds

	General <u>Account</u>	<u>Note</u>	Separate <u>Accounts</u>	<u>Note</u>	<u>Consolidated</u>
Aggregate reserve for life policies and contracts	\$1,857,330,102	2	\$8,244,782,814	3	\$10,102,112,916
Policy and contract claims: Life	2,617,796				2,617,796
Charges for investment management, administration and contract guarantees due and accrued			14,200,224		14,200,224
Premiums and annuity considerations in advance	1,395				1,395
Other amounts payable on reinsurance	289,703				289,703
Commissions to agents due or accrued	1,488,801				1,488,801
General expenses due or accrued	2,031,501				2,031,501
Transfers to Separate Accounts due or accrued	(90,405,085)		76,204,861		(14,200,224)
Taxes, licenses and fees due or accrued	1,469,537				1,469,537
Federal and foreign income taxes due or accrued			(24)		(24)
Unearned investment income	1,057,270				1,057,270
Amounts withheld or retained by company as agent or trustee	1,782,627				1,782,627
Remittances and items not allocated			176,800		176,800
Asset valuation reserve	22,201,572				22,201,572
Payable to parent, subsidiaries, and affiliates	11,341,936				11,341,936
Payable for securities	708,898				708,898
Aggregate write-ins for liabilities	10,980,178				10,980,178
<b>Total Liabilities</b>	<b>\$1,822,896,230</b>		<b>\$8,335,364,675</b>		<b>\$10,158,260,905</b>
Common capital stock	2,500,000				2,500,000
Gross paid in and contributed surplus	172,500,000				172,500,000
Aggregate account value over the aggregate reserve			11,095		11,095
Unassigned funds (surplus)	67,217,253		2,445,583		69,662,836
<b>Total Capital and Surplus</b>	<b>\$ 242,217,253</b>		<b>\$ 456,678</b>		<b>\$ 244,673,931</b>
<b>Total Liabilities, Surplus and Other Funds</b>	<b>\$1,847,113,483</b>		<b>\$8,337,821,353</b>		<b>\$10,402,934,836</b>

**Summary of Operations**

For the Year Ended December 31, 2007

Premiums and annuity considerations	\$	1,190,116,679
Net investment income		111,224,771
Amortization of interest maintenance reserve		(13,209)
Separate Accounts net gain from operations excluding unrealized gains or losses		(507,823)
Commissions and expense allowances on reinsurance ceded		12,973,816
Reserve adjustments on reinsurance ceded		37,039,799
Income from fees associated with investment management, administration of separate accounts		126,362,281
Aggregate write-ins for miscellaneous income		(19,724,810)
<b>Total Income</b>	<b>\$</b>	<b><u>1,457,471,503</u></b>
Death benefits	\$	11,930,985
Annuity benefits		355,229,957
Disability benefits and benefits under accident and health policies		46,918
Surrender benefits and other fund withdrawals for life contracts		1,540,732,531
Interest on policy or contract funds		200,062
Increase in aggregate reserves for life and accident and health policies and contracts		(185,109,259)
Commissions on premiums and annuity considerations		60,787,841
Commissions and expense allowances on reinsurance assumed		3,866,916
General insurance expenses		99,227,141
Insurance taxes, licenses and fees		7,875,618
Increase in loading on deferred and uncollected premiums		172,221
Net transfers to or (from) Separate Accounts		(445,128,885)
Aggregate write-ins for deductions		(34,729)
<b>Total Expenses</b>	<b>\$</b>	<b><u>1,449,797,318</u></b>
Net gain from operations before dividends to policyholders and federal income taxes	\$	7,674,186
Federal income taxes incurred		(10,048,934)
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains	\$	17,723,120
Net realized capital gains		2,270,297
<b>Net Income</b>	<b>\$</b>	<b><u>19,993,416</u></b>

## Capital and Surplus Account

From December 31, 2006 to December 31, 2007

Capital and Surplus, December 31, 2006	\$228,579,415
Net income	19,993,416
Change in net unrealized capital gains (losses)	(3,410,867)
Change in net unrealized capital gains	(25,565)
Change in net deferred income tax	(627,389)
Change in non-admitted assets and related items	(2,418,634)
Change in asset valuation reserve	2,583,555
Surplus (contributed) Separate accounts	(997,645)
Other changes in surplus in Separate Accounts	1,020,225
Other changes in surplus	(22,580)
Net change in capital and surplus for the year	<u>\$ 16,094,517</u>
Capital and Surplus, December 31, 2007	<u><u>\$244,673,931</u></u>

**Analysis of Changes in Financial Statement resulting from Examination: NONE**

## Notes to the Financial Statements

### **1. Bonds**

**\$1,717,801,474**

The largest categories of assets at December 31, 2007 include bonds and mortgage backed securities (MBS) (approximately 88% of total assets). Approximately 94% of the Company's bonds and MBS are rated as Class 1 or Class 2 by the NAIC. The Company has approximately 12% of its investments in private placement securities. The Company has minimal exposure to mortgage loans with below-prime borrowers, and has not taken any impairment on assets due to credit deterioration.

### **2. Aggregate Reserve for Life Policies and Contracts**

**\$1,857,330,102**

The above captioned amount is the same as that reported by the Company in its 2007 Annual Statement. The reserve breakdown in Exhibit 5, by type of benefit, is presented in the following table:

Reserve Segment	Total (Gross)	Reinsurance Ceded	Total (Net)
Life Insurance	\$ 115,668,719	\$6,444,962	\$109,223,757
Annuities	1,735,458,629	0	1,735,458,629
Accidental Death Benefits	46,551	40,826	5,725
Disability - Active Lives	3,585,061	3,180,437	404,624
Disability – Disabled Lives	161,883	135,885	25,998
Miscellaneous Reserves	26,332,800	14,121,431	12,211,369
Totals	\$1,881,253,643	\$23,923,541	\$1,857,330,102

The Department's consulting actuary INS Consultants Inc., (INS) performed the valuation review of GIAC's December 31, 2007 reserves and prepared the Certificate of Reserve Valuation. During that process, summary work papers were reviewed and found to be in order. The Actuarial Opinion was reviewed and found to be in order. As of December 31, 2007, GIAC held reserves for direct-written fixed and variable annuities, ten-year term insurance, variable life insurance (VLI) and variable universal life insurance. The only VLI currently being issued was developed by an affiliate, PALIC and is referred to as the Park Avenue Life (PAL) plan.

The overwhelming majority of GIAC's business relates to variable deferred annuities under individual and group contracts for which GIAC holds full account values as the reserve. The fixed interest segment is reported in the General Account (GA) annual statement, whereas the variable segments are reported in the Separate Accounts (SA) annual statement. GIAC also holds sizeable reserves for the variable segment of the variable life insurance policies. Most of the investment risks are borne directly by the contract owner. GIAC holds full account values as the reserve for these contracts. Reserves were reviewed for compliance with standard valuation laws, applicable National Association of Insurance Commissioners (NAIC) Actuarial Guidelines and Model Regulations. Based on the review, INS has accepted the conclusion that additional actuarial reserves were not required as of December 31, 2007. Reserve trend analyses and an in depth review of the Actuarial Opinion Memoranda (AOM) which included asset adequacy / cash flow testing (CFT) analysis for the examination period were also performed. As a result of this review, several areas of concern were noted giving rise to the following recommendations:

- Tables of liabilities tested should be consistent among all sections of the report.
- Product descriptions including market, underwriting and other aspects of a risk profile and the significant risks the appointed actuary deems significant should be included.
- There should be an indication of how the assets supporting the asset valuation reserve are used in the analysis.

- Discussions and descriptions of all asset adequacy analysis methods used and a presentation of results for all liability items tested using all methods should be indicated.

**3. From Separate Account Assets**

**\$8,244,782,814**

The amount transferred from the separate account consists mainly of the following common stock funds:

Separate Accounts  
December 31, 2007

<u>Separate Account</u>	<u>Product</u>	<u>Assets</u>
VA 1	Variable Annuity 1	\$ 15,993,450
VA 2	Variable Annuity 2	6,557,932
GVL	Value Line	77,598,818
SA A	Value Guard II	457,302,205
SA B	Value Plus	221,645,932
SA C	Select Guard	8,161,900
SA D	Guardian Investor	1,598,111,384
SA E	Guardian Investor-RAM	1,338,149,519
SA F	Guardian C+C Variable	170,937,602
SA H	401k Investor	51,730,563
SA I	Guardian EISP/CIP	101,911,610
SA K	Park Avenue Life	279,791,489
SA L	Guardian Advantage	2,329,624,081
SA M	Variable Universal Life	43,424,702
SA N	VUL & SVUL Series	59,394,216
SA Q	Guardian Investor-IAVA	685,585,958
SA R	GIAB	798,861,453
Total	Common Stocks	\$ <u>8,244,782,814</u>

All amounts were obtained from the Separate Account Annual Reports to policy owners/ contract owners.

The Company has established eighteen insurance separate accounts primarily to support the variable annuity and life insurance products it offers. The majority of the separate accounts are unit investment trusts registered under the Investment Company Act of 1940. Proceeds from the sale of variable products are invested through these separate accounts in certain mutual funds specified by the contract owners. Of these separate accounts the Company maintains one separate account (SA I) whose sole purpose is to fund certain employee benefit plans of GLIC.

The assets and liabilities of the separate accounts are clearly identified and distinct from the other assets and liabilities of the Company. The assets of the separate accounts are not charged with liabilities arising out of any other business of the Company. However, the obligations of the separate accounts, including the promise to make annuity and death benefit payments, remain obligations of the Company. Assets and liabilities of the separate accounts are stated primarily at the market value of the underlying investments and corresponding contract owner obligations.

Pursuant to an agreement with the New York State Insurance Department, the Company maintained assets in each of its separate accounts for the mortality risk associated with contracts in the annuity payout phase. Such accounts are referred to as the Annuity Mortality Fluctuation Fund (AMFF) and are in the cash subdivisions of the Separate Accounts. During 2005, this requirement was terminated and \$60,819,000 was transferred from the separate accounts representing the AMFF balances.

The Company established one additional separate account subsequent to the examination period. The Guardian Separate Account T was established on May 1, 2008.

A significant portion of the Company's separate account assets is invested in affiliated mutual funds. Each of these funds has an investment advisory agreement with RS and GIS, except for the Baillie Gifford Funds. Investments in the affiliated managed funds as of December 31, 2007 were \$3.29 billion of separate account assets as compared \$3.42 billion at the prior examination date.

**Compliance with Prior Report Recommendations**

<p><u>Management and Control</u></p> <p>It was recommended that the Company comply with Section 4919 of the Delaware Insurance Code by promptly reporting changes in its principal Officers and Directors.</p>	<p>The Company has complied.</p>
<p><u>Reinsurance</u></p> <p>It is recommended that upon entering into reinsurance agreements there should be clear and definitive provisions that accurately name the intended parties to the agreement and that such agreements should be executed in a timely manner.</p>	<p>The Company has complied.</p>
<p><u>Aggregate Reserve for Life Policies and Contracts</u></p> <p>It was recommended that future AOM's automatically include the following:</p> <ul style="list-style-type: none"> <li>○ Include a discussion of the major risks associated with each of the actuarial liability segments covered within the AOM.</li> <li>○ Include a description of the various products, including those not subject to CFT analysis. Terminology such as "annuities that are no longer being sold" should be better qualified by a listing of such policies by policy form or generic description.</li> <li>○ The discussion of the asset portfolio should include the quality and the nature of the assets supporting all actuarial liabilities and default assumptions.</li> <li>○ Coordinate tables showing those liabilities subject to cash flow testing in the Statement of Actuarial Opinion and the Actuarial Memorandum for Cash Flow Testing.</li> </ul>	<p>Please refer to Summary of Significant Examination Findings</p>

**SUMMARY OF SIGNIFICANT FINDINGS**

1. It was observed that the Internal Audit Department (IAD) did not have access to all Parent Company records.

Therefore:

**It is recommended that the IAD Department be granted full access to Parent Company records. (p.10)**

2. The Amended and Restated Agreement for Services and Reimbursement between GLIC and GIAC effective December 31, 2007, and approved the Delaware Insurance Department on January 15, 2008, was not properly submitted on a Form D filing.

Therefore:

**It is recommended that the Company comply with 18 Del.C. §5005(a)(2)d on future Form D filings for any new related party management and service agreements. (p.11)**

3. The Amended and Restated Agreement for Services and Reimbursement between GLIC and GIAC effective December 31, 2007, and approved the Delaware Insurance Department on January 15, 2008, was improperly excluded from disclosure in the filed 2007 Form B submitted in April 2008.

Therefore:

**It is recommended that the Company comply with 18 Del.C. §5004(b)(3)e on future Form B filings to include all existing management and service agreements. (p. 11)**

4. The Participation Agreement among RS Investments LLC, RS Variable Products Trust and GIAC effective July 31, 2007, was not properly disclosed as Form D filings at least 30 days before the effective date of the agreement as required by 18 Del.C. §5005(a)(2)d.

Therefore:

**It is recommended again that the Company comply with 18 Del.C. §5005(a)(2)d on future Form D filings for any new related party management and service agreements. (p. 12)**

5. Related party reinsurance agreements that exceed the filing threshold established by 18 Del. C. § 5005(a)(2)c, were not submitted to the Delaware Department of Insurance for approval in a Form D filing as required and were not properly disclosed in the filed 2007 Form B filing.

Therefore:

**It is recommended that the Company comply with 18 Del.C. §5005(a)(2)c to obtain approval on affiliated reinsurance agreements that exceed the stated thresholds through a Form D filing and 18 Del.C. §5004(b)(3)f on future Form B filings to include all existing management, service and reinsurance agreements. (p. 16)**

6. During the review of the Actuarial Opinion Memorandum, several areas of concern have arisen as a result of the review regarding information in the memorandum and the asset adequacy/CFT analyses. As a result of these concerns the following recommendations are made:

- **Tables of liabilities tested should be consistent among all sections of the report. (p.26)**
- **Product descriptions including market, underwriting and other aspects of a risk profile and the significant risks the appointed actuary deems significant should be included. (p.26)**
- **There should be an indication of how the assets supporting the Asset Valuation reserve are used in the analysis. (p.26)**
- **Discussions and descriptions of all asset adequacy analysis methods used and a presentation of results for all liability items tested using all methods should be indicated. (p.27)**

## CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<b><u>Description</u></b>	<b><u>December 31, 2007</u></b>	<b><u>December 31, 2003</u></b>
Assets	\$10,402,934,835	\$ 9,810,409,444
Liabilities	10,158,260,905	9,588,033,816
Capital and Surplus	244,673,931	222,375,628

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. is acknowledged.

Respectfully submitted,



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Anthony Cardone, CFE  
Examiner In-Charge  
State of Delaware