

Planning for Retirement

The longevity challenge. The annuity solution.



GUARDIAN®

This perspective on retirement planning has been prepared by The Guardian Insurance & Annuity Company, Inc. (GIAC) — a leading provider of variable annuities and a subsidiary of The Guardian Life Insurance Company of America (Guardian).

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Planning for Retirement: The longevity challenge. The annuity solution.

First, the good news: Retirement is longer than ever.

Now, the bad news: Retirement is longer than ever.

It's **good news** because it gives us **more time** for all the things
we've always **dreamed** about but never had **time** to do.

It's **bad news** because we have to **worry more** about
how we're going to **pay** for it all.

In the first part of this brochure, we'll discuss some of the issues and concerns we all face in planning for retirement.

In the second part, we'll discuss some solutions — positive steps you can take to deal with the challenge.

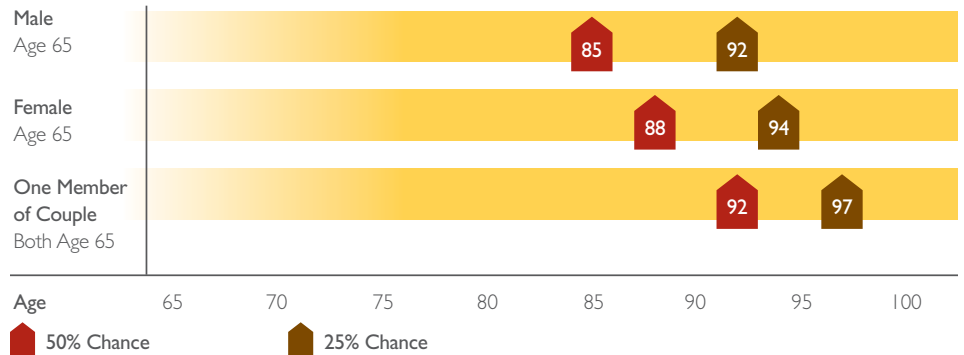
Retirement's Growing Price Tag

When it comes to rising costs, no segment of the public is as vulnerable as retirees.

Longer Life Spans

It's no secret that Americans are living longer than ever before. Whatever the reason — healthier lifestyles, more advanced medical care — life expectancies are on the rise.

A 65-year-old male in good health has a 25% chance of living to age 92 and beyond. For a healthy 65-year-old couple, there's a 50% chance that one spouse will live beyond age 92...and a 25% chance that one will live beyond 97.



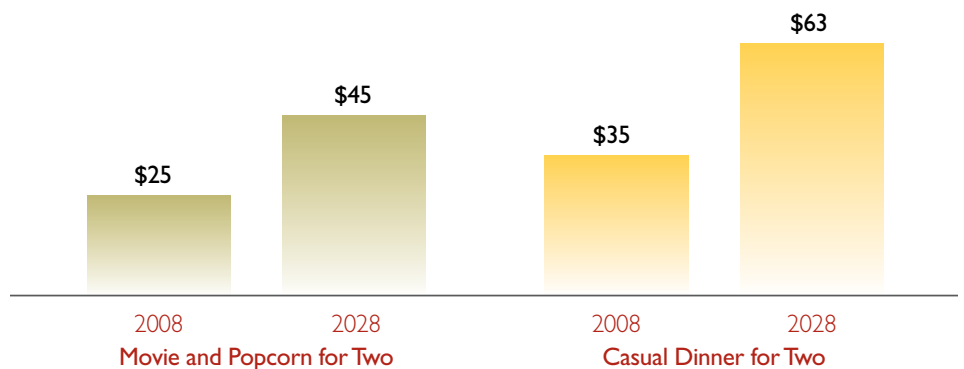
Source: Annuity 2000 mortality table. Society of Actuaries. Figures assume a person is in good health.

And this means that retirement tends to last much longer than in generations past. These days, if you wait until age 65 to retire, you need to plan for a 25 to 30-year retirement. By itself, the greater length of the retirement period suggests that retirement will cost a lot more than it used to. But *time* isn't the only factor. We also need to be concerned about *rising prices*.

Rising Prices

If inflation continues to average about 3% annually (as it has for the past 25 years), your income would need to increase by 80% over the next 20 years just to maintain your current level of purchasing power.

Here's what 3% inflation would do to the prices of some common day-to-day expenses.



Overwhelming Health Care Costs

When it comes to rising costs, no segment of the public is as vulnerable as retirees. That's because seniors have a much greater need for health care services, which continue to escalate in cost as they become more technologically advanced.

A recent study shows that the average 65-year-old couple that retires in 2010 would need to set aside about \$206,000 at retirement just to cover out-of-pocket health care costs over their retirement years. That's what they would need to meet the projected cost of Medicare premiums, co-payments and services not covered by Medicare, assuming they are not among the lucky few covered by an employer-sponsored retiree health plan. And, as the chart below shows, these medical costs will grow rapidly for people who will be retiring in the decades ahead.

Amount Needed at Retirement to Cover Projected Out-of-Pocket Medical Costs Over Entire Retirement (2007 dollars)

Year of Retirement	65-Year-Old Single	65-Year-Old Couple
2010	\$102,966	\$205,932
2020	\$141,752	\$283,503
2030	\$188,899	\$377,798
2040	\$242,767	\$491,534

Source: Center for Retirement Research

Furthermore, these figures don't even reflect expenses for long-term care.

This tells us that today's typical retirees will need a substantial amount of income if they are to enjoy a secure, comfortable retirement.

The Disappearing “Defined Benefit”

Just as retirees need more financial resources than ever, this important financial resource is fast disappearing.

Once upon a Time in America

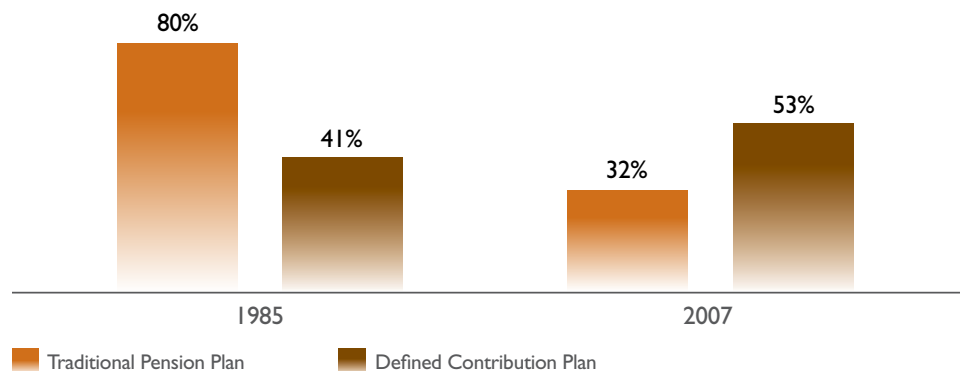
It used to be that employees of most companies could count on receiving a pension when they reached retirement. These traditional pensions, which are generally funded by the employer, are often referred to as “defined benefit” plans. The employee’s retirement benefit is defined by set criteria, including the employee’s salary history and years of service.

While the employee doesn’t actually own or control any of the assets that the company invests to fund this type of plan, the big advantage is the degree of certainty it fosters among retired employees. They know that they can depend on their set pension payment month after month, year after year, no matter how long they live.

Fewer Workers Now Covered by Traditional Pensions

Unfortunately, just as retirees need more financial resources than ever to fund longer retirements, this important financial resource is fast disappearing. In most companies today, the defined benefit pension is being replaced by “defined contribution” retirement plans such as the 401(k) plan, where the employees contribute most or all of the savings.

From 1985 to 2007, the percentage of full-time workers covered by a traditional pension plan fell from 80% to 32% (in companies with more than 100 employees), while the percentage covered by 401(k) type plans rose from 41% to 53%.



Source: Employee Benefit Research Institute Databook on Employee Benefits, July 2008 (for companies with more than 100 employees)

In the defined contribution plan, each participant generally owns and controls his or her vested plan balance. But the participating employee is responsible for saving enough money, managing the investments well, and generating enough retirement income. The employee must bear the inherent risks of investing and has no guarantees that the income generated will continue for as long as he or she lives.

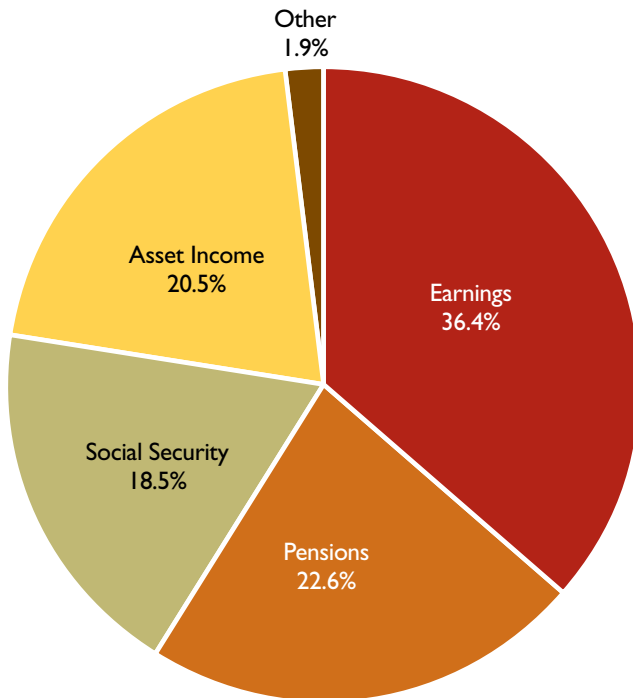
The Strength and Weakness of Social Security

Social Security retirement benefits are also a kind of defined benefit plan. You don't control any of the assets you've paid into the Social Security system. But, once you qualify to start receiving payments, you can count on a set monthly payment for as long as you live. The payments are even indexed to help keep pace with inflation.

But Social Security was never intended to be the primary source of income for people when they retire. Rather, it is a *supplemental* retirement program meant to replace only a portion of an average wage earner's income after retirement.

More Resources Needed

So, in order to secure a comfortable retirement, you'll need additional sources of retirement income. Particularly if you aren't covered by a traditional pension, you'll probably need income from some combination of a private retirement plan, savings and investments. Ideally, it would be a good idea to add resources that can generate defined benefits.



Sources of Retirement Income

Current retirees with over \$34,570 in annual retirement income report that 56.9% of their current income comes from earnings from work, savings and investments. Only 41.1% comes from pension payments and Social Security.

Source: Employee Benefit Research Institute, December 2007

Preparing for Retirement: Accumulating Resources

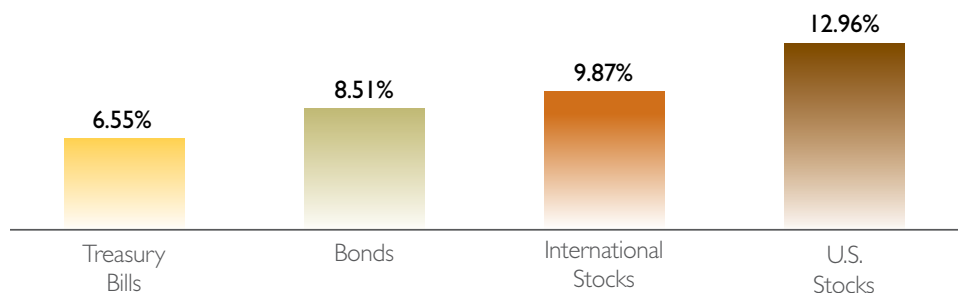
In particular, investors preparing for retirement will need the growth potential of stocks.

Greater Self-Reliance

Given the demise of the defined benefit pension plan and the need for additional sources of retirement income, people preparing for retirement are experiencing a need to become more self-reliant than ever before. One way to do this is to participate in the investment markets — through a defined contribution plan at work, an IRA and/or other types of investment accounts.

The Upside of Equity Investing

In particular, investors preparing for retirement will need the growth potential of stocks (often referred to as “equities”). History shows us that the stock market has helped long-term investors build greater wealth than other types of traditional investments.



Average Annual Returns: 30-year period (1978 – 2007)

Source: Treasuries — Merrill Lynch U.S. Treasury Bill 3-Month Index; Bonds — Lehman Brothers Aggregate Bond Index; International Stocks — MSCI EAFE Index; U.S. Stocks — S&P 500 Index.

Past performance does not guarantee future results.

The Downside: Dealing with Uncertainty

Of course, stocks don't just go *up*; from time to time they also go down. This short-term volatility can be disconcerting to investors, discouraging them from investing or, if they do invest, influencing them to make buy/sell decisions based on emotions rather than sound investment principles. To be a successful equity investor — and benefit from the long-term growth potential of stocks — you need to be the type of person who is comfortable with the uncertainty of short-term volatility and down markets.

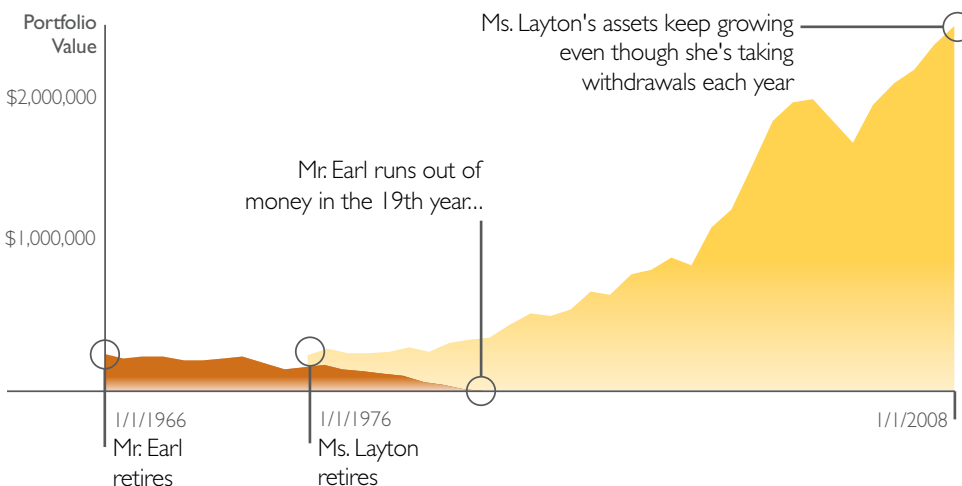
Implementing Retirement: Dealing with Longevity Risk

Given the pitfalls of today's long retirements, one might well ask: "Where are all those defined benefits now that we need them?"

Even if you accumulate substantial assets, when you begin withdrawing money from your investment portfolio during retirement, you may encounter further uncertainty. This is because the combination of your withdrawals, investment volatility and inflation can create a risk that your portfolio could run out of money during your retirement instead of lasting all the way through. This is *longevity risk*.

Retirement Portfolios: How You Start Is the Key to How You Finish

For example, consider the case of Mr. Earl and Ms. Layton, who both began their retirements with a \$250,000 portfolio made up of exactly the same investments (60% stocks, 40% bonds) — but not at the same time. Mr. Earl began his retirement on January 1, 1966, and Ms. Layton exactly 10 years later, at the beginning of 1976. Each withdraws \$12,500 in the first year of their retirement (5%) and then, in each subsequent year, this same amount (\$12,500) adjusted for inflation.



Assumptions: \$12,500 first-year withdrawal; withdrawals each subsequent year of \$12,500 adjusted for inflation (represented by changes in the historical CPI); 60% stock/40% bond allocations, represented by the S&P 500 Index and the Ibbotson Long-Term Government Bond Index, respectively.

This hypothetical example illustrates the degree to which factors not under the control of a retiree can have a material negative impact on the retiree's portfolio, even when a seemingly prudent withdrawal plan has been implemented. Results will be different for other time periods.

Past performance does not guarantee future results.

Because Mr. Earl encountered relatively poor returns in the early years of his retirement, as well as above-average inflation, his withdrawals caused his portfolio to run out of money in the 19th year of his retirement. Ms. Layton experienced considerably better returns in the first decade of her retirement. As a result, her portfolio continued to grow substantially over the next 22 years despite her growing annual withdrawals.

Self-reliance is commendable. But given the pitfalls of today's long retirements, one might well ask: "Where are all those defined benefits now that we need them?"

The Variable Annuity: Protection Against Longevity Risk

The insurance company's promise to make a monthly stream of payments to an investor year after year for the rest of his or her life.

The variable annuity is a long-term investment product designed to fund retirement needs. It combines aspects of *investing*, *tax deferral* and *insurance* to help investors accumulate assets for retirement and to protect against longevity risk.

Based on the “Original” Annuity

Although the advent of the *deferred variable annuity* occurred in the middle of the twentieth century, it is based on a financial tool — the annuity — that is over two thousand years old. In ancient Rome, the government decreed that it would make annual lifetime payments to the widows of slain soldiers. These payments were called by their Latin name: “*annua*.”

Longevity Risk Insurance

In more recent centuries, annuities have been issued by insurance companies. Insurance companies are in the business of pooling the risks of a great many individuals. By offering annuities, insurance companies were able to protect their customers against *longevity risk* — the risk that they'll outlive their financial assets. Conceptually, it's the opposite of life insurance, where policyholders insure against the risk of dying too soon.

A Lifetime Stream of Payments

The annuity component of the deferred variable annuity gives an investor the opportunity to exchange the asset value accumulated within the variable annuity for the insurance company's promise to make a monthly stream of payments to the investor year after year for the rest of his or her life. The investor can choose another individual to be the person on whose life the annuity payments will be based; whether this person is the investor or someone else, he or she is called the “annuitant.” The payment stream can be based on two lives instead of just one so that the payments continue as long as one of the two annuitants is still alive.

Rather than the government making the promise (as in the Roman *annua* and our own Social Security program)...or a corporation (as in the traditional pension plan)... it is the insurance company issuing the annuity contract that makes the promise to continue the lifetime payouts.

With this promise, the variable annuity complements whatever defined benefits you may be entitled to and helps protect you against longevity risk no matter how many years your retirement may last.

What's in a Name?

Annuity

A financial instrument that can pay a guaranteed lifetime stream of monthly payments

Deferred

The payout period can be *deferred* for many years (while the investor pursues accumulation of assets)

Variable

The payout amount can *vary*, depending on investment performance

Accumulation Potential from Professionally Managed “Funds”

In addition to the annuity component, the deferred variable annuity also provides a pre-retirement accumulation opportunity. When you invest in a variable annuity, you have access to an assortment of investment options that are typically managed by firms that also offer well-known mutual funds.

The investment options offered within the variable annuity usually span a wide range of asset classes and risk/reward objectives, giving you the opportunity to construct a portfolio that meets your specific accumulation goals, timeframe and tolerance for volatility. In addition to the “variable” investment options, variable annuities typically offer one or more options with a fixed return.

It is important to note that the investor has access to the variable annuity’s contract value during the accumulation period, but generally *not* once the contract value has been converted to a life annuity payout stream.

It should also be noted that variable annuities are long-term products and often levy substantial charges on withdrawals of premiums until they have been in the contract for a specified number of years. Furthermore, withdrawals of taxable amounts are taxed at ordinary income tax rates and a 10% federal income tax penalty may apply to withdrawals made before age 59½.

Tax-Deferred Growth

Because a variable annuity is an insurance product, federal income taxes are deferred on the investment earnings until they’re withdrawn. Even though taxes must be paid on the earnings at withdrawal (at ordinary income tax rates), when annuity investment options are held for a significant number of years, tax deferral has the potential to deliver a greater after-tax return.

Death Benefit Protection

Variable annuities generally include one or more death benefit options. These protect the investor’s beneficiaries in case he or she dies during the accumulation period (prior to converting the contract value to an annuity payout stream).

Variable Annuity Fees

As with other financial products, there are fees that apply to the purchase of a variable annuity. They include operating expenses for the underlying investment options, annual mortality and expense risk charges, administrative charges and an annual contract charge. There may also be additional annual fees for any optional features selected.

Today's More Advanced Variable Annuity

If investors feel protected, they are more likely to take the risk of investing in equities over the long term and to take the emotion out of their investment decision-making.

The New Breed: With “Living Benefits”

Since the mid-1990s, the master actuaries at insurance companies have been busy developing a new category of variable annuity features generally referred to as “living benefits.” These new features, which are designed to help protect the financial future of the investor, are referred to as *living benefits* to differentiate them from the *death benefits* that protect beneficiaries. They are typically offered as optional features for an additional annual charge.

There are several different types of living benefits. While they work somewhat differently, they have one thing in common:

They make it possible for the investor to lock in, on day one, a guaranteed level of annual payments for their retirement years (as described on the next page).

What's more, these guarantees can often rise to higher levels over time. Some of the factors that cause the guarantees to increase can be automatic and predictable from day one (as long as the investor refrains from taking withdrawals), while others depend on investment performance.

The word *ratchet* is often used to describe the growth of these guarantees, because once they increase, they will typically not ever *decrease* solely due to poor investment performance. It's important to note that, while these living benefits protect the investor's guaranteed payments, they do not assure the performance of the variable annuity's investment options, which are subject to the risks of the securities markets and could lose value.

The Guaranteed Lifetime Withdrawal Benefit (GLWB) The GLWB has become the dominant living benefit in recent years. This feature can provide guaranteed annual withdrawals that start when you choose and continue for as long as you live (or for as long as you or your spouse lives). To keep this guarantee in force, you must avoid taking withdrawals that exceed a specified guaranteed amount in any contract year.

One of the key reasons many investors find the GLWB appealing is that it allows you to retain control of your account balance while you are taking your guaranteed withdrawals and to continue seeking the upside of the investment markets. This control and upside potential are especially important if leaving a legacy from your variable annuity is one of your major goals.

The Bottom Line: How Important Are Living Benefit Guarantees?

When it comes to something as important as your retirement resources, locking in some guarantees would seem to be a prudent thing to do. That's the nature of insurance. You want it *just in case*.

However, the biggest benefit may be the psychological benefit that comes from reducing uncertainty. If investors feel protected against the most dire effects of poor investment performance...they are more likely to summon the courage to take the risk of investing in equities over the long term and to take the emotion out of their investment decision-making, both of which have the potential to improve investment results. Call it a *self-fulfilling prophecy*, but it often works.

And it helps investors build greater resources for their retirement years.

Pursuing a **Financially Secure** Retirement

Today's multifaceted variable annuities can play an important role in your retirement planning — helping you accumulate assets for retirement and protecting you against longevity risk.

However, variable annuities are not stand-alone retirement programs. They are meant to work in concert with employer retirement plans, Social Security and other financial products you may own.

Working with your financial professional, you can find the right mix to solve the longevity challenge and achieve a financially secure retirement.

Talk to Your Financial Professional about the Variable Annuity Solution

In planning for your retirement, we hope that you and your financial professional will consider The Guardian Insurance & Annuity Company, Inc. (GIAC) as a source of state-of-the-art variable annuities and other financial products.

We have a long history of meeting our financial obligations. All variable annuity guarantees — from death benefits to optional riders — are backed exclusively by the strength and claims-paying ability of GIAC.

We are recognized for the high level of service we provide to our contract owners. DALBAR, an independent financial services research firm, has awarded GIAC with the prestigious Annuity Service Award seven years in a row, from 2001 to 2007.

At GIAC, we are committed to helping people like you meet the challenge of longevity risk and enjoy a comfortable and secure retirement.

About Guardian



Our company serves individuals, businesses, and their employees through our products and services, expert advice and vision. The financial solutions we provide are backed by our company's solid reputation and focus on the long term.

When choosing a financial provider, it's important to look to the history and core values that form a company's foundation. Since 1860, Guardian has been committed to protecting clients so they can enjoy the freedom from worry and uncertainty, and capitalize on the freedom to live life to its fullest. The relationships we forge are guided by the values that govern all the decisions we make: we do the right thing, people count, and we hold ourselves to very high standards.

At Guardian we take great pride in providing solutions to help businesses and individuals build their financial security and protect what they value most. It is our privilege to serve you.

Important Considerations about Variable Annuities

This material is for informational use only. It should not be relied on as the basis to purchase a variable annuity or implement a retirement strategy.

Variable annuities are long-term investment vehicles that involve certain risks, including possible loss of the principal amount invested. The investment return and principal value may fluctuate so that the investment, when redeemed, may be worth more or less than original cost. Withdrawals of taxable amounts will be subject to ordinary income tax and possible mandatory federal income tax withholding. If taken prior to age 59½, a 10% IRS penalty may also apply. Withdrawals affect the variable annuity's death benefit, cash surrender value and any living benefit and may also be subject to a contingent deferred sales charge.

Variable annuities and their underlying variable investment options are sold by prospectus only. Prospectuses contain important information, including fees and expenses. Please read the prospectus carefully before investing or sending money. You should consider the investment objectives, risks, fees and charges of the investment company carefully before investing. The prospectus contains this and other important information. A prospectus may be obtained from your investment professional or by calling 800-221-3253. To download a fund or contract prospectus, please visit www.GuardianInvestor.com.

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