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ISSUER COMMENT

Guardian's Sale of Its 401(k) Business Is Credit Positive

From Credit Outlook

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Last Thursday, Guardian Life Insurance Company of America (financial strength Aa2 stable), and Ameritas Life Insurance Corp. (unrated) announced that Ameritas had signed a definitive agreement to acquire Guardian's 401(k) business for an undisclosed amount. The sale of Guardian's 401(k) business is credit positive for Guardian because the company will benefit from the divestiture of a non-core operation that is not at scale. The companies expect to complete the transaction in the third quarter of 2016, pending regulatory approvals.

We expect Guardian to use the 401(k) divestiture proceeds, along with excess surplus from its strong capital position (Guardian's risk-based capital ratio was 568% at year-end 2015), to continue expanding its core businesses. One such business is its group non-medical business, which has provided strong earnings and has allowed the company to maintain a competitive dividend on its participating whole life insurance product.

Guardian's 401(k) business added diversification to its overall earnings and broadened its product portfolio for both corporate and individual clients. The company's goal was to use earnings from the 401(k) business and other similar businesses (e.g., mutual funds) to pay a competitive dividend to its insurance policyholders. However, the 401(k) business, dominated by large and entrenched players that are able to spread high operating costs associated with the business (such as for technology) over large client bases, proved challenging for Guardian to grow in a profitable manner.

As of 31 March 2016, Guardian's 401(k) business had roughly $3.2 billion in assets under management and its contribution to Guardian's total pre-tax operating earnings was negligible. Exhibit 1 shows the five largest defined contribution players by asset size.

EXHIBIT 1

Five Largest US Defined Contribution Companies by Assets

Rank	Company	Total Assets, $ Millions
1	Fidelity Investments	$1,445,635
2	TIAA-CREF	$429,808
3	Empower Retirement	$416,313
4	Aon Hewitt	$394,058
5	Vanguard	$389,402

Source: PLANSPONSOR

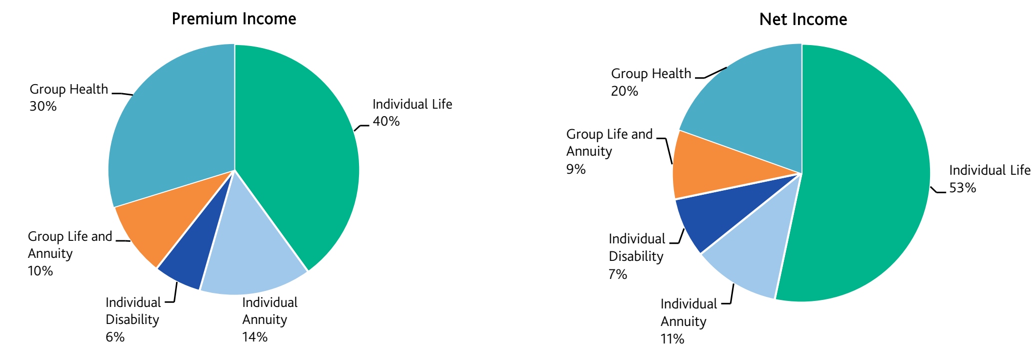
What is Moody's Credit Outlook?

Published every Monday and Thursday morning, Moody's Credit Outlook informs our research clients of the credit implications of current events.

The sale is Guardian's third divestiture of non-core operations in the past 18 months. In the first quarter of 2015, Guardian sold eMoney Advisor to FMR LLC (A2 stable) for $267 million and recognized a $150 million gain on the sale. In December 2015, Guardian announced the sale of RS Investments, a mutual fund company, to Victory Capital Holdings, Inc. (B2 positive), recognizing a loss on the sale on a statutory accounting basis.

Although Guardian has a top-five position in group non-medical, we expect that the company will look for opportunities to further enhance its market share, given the business' risk profile as generally a short-term business, 85% of which can be re-priced annually. That re-pricing capability gives the company some flexibility to adjust premiums to offset unfavorable claim experience. Guardian's group non-medical business offers a diverse suite of products, including dental, vision, life and disability, stop loss, and other supplemental health products. Exhibit 2 shows the segment breakdown of premium income and net income for Guardian as of year-end 2015.

EXHIBIT 2
Guardian's Premium Income and Net Income by Segment as of Year-End 2015



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