

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 333-1173

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

(Exact name of registrant as specified in its charter)

COLORADO

(State or other jurisdiction of incorporation or organization)

84-0467907

(I.R.S. Employer Identification Number)

8515 EAST ORCHARD ROAD, GREENWOOD VILLAGE, CO 80111

(Address of principal executive offices)

(303) 737-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company as defined in Rule 12b-2 of the Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Act.

Yes No

As of May 1, 2009, 7,032,000 shares of the registrant's common stock were outstanding, all of which were

owned by the registrant's parent company.

Note: This Form 10-Q is filed by the registrant only as a consequence of the sale by the registrant of a market value adjusted annuity product.

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Part I Financial Information
Item 1. Interim Financial Statements

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

Condensed Consolidated Balance Sheets
 March 31, 2009 and December 31, 2008
 (In Thousands, Except Share Amounts)
 (Unaudited)

	March 31, 2009	December 31, 2008
Assets		
Investments:		
Fixed maturities, available-for-sale, at fair value (amortized cost \$13,597,393 and \$13,394,675)	\$12,034,560	\$11,973,536
Fixed maturities, held for trading, at fair value (amortized cost \$255,067 and \$39,803)	256,902	38,834
Mortgage loans on real estate (net of allowances of \$8,834 and \$8,834)	1,365,489	1,380,101
Equity investments, available-for-sale, at fair value (cost \$16,522 and \$16,330)	15,194	17,790
Policy loans	3,995,736	3,979,094
Short-term investments, available-for-sale (cost approximates fair value)	485,630	366,370
Limited partnership and limited liability corporation interests	281,565	293,956
Other investments	26,416	31,992
Total investments	<u>18,461,492</u>	<u>18,081,673</u>
Other assets:		
Cash	6,210	28,352
Reinsurance receivable	540,637	546,491
Deferred acquisition costs and value of business acquired	732,994	714,031
Investment income due and accrued	164,348	145,775
Premiums in course of collection	3,258	8,309
Deferred income taxes	637,437	577,799
Collateral under securities lending agreements	29,308	43,205
Due from parent and affiliates	59,491	41,793
Goodwill	105,255	105,255
Other intangible assets	32,776	33,824
Other assets	478,014	603,091
Assets of discontinued operations	97,401	124,089
Separate account assets	<u>15,271,683</u>	<u>15,121,943</u>
Total assets	<u><u>\$36,620,304</u></u>	<u><u>\$36,175,630</u></u>

See notes to condensed consolidated financial statements.

(Continued)

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Condensed Consolidated Balance Sheets
March 31, 2009 and December 31, 2008
(In Thousands, Except Share Amounts)
(Unaudited)

	March 31, 2009	December 31, 2008
Liabilities and stockholder's equity		
Policy benefit liabilities:		
Future policy benefits	\$18,438,946	\$18,105,648
Policy and contract claims	286,895	290,288
Policyholders' funds	301,980	320,320
Provision for policyholders' dividends	72,407	70,700
Undistributed earnings on participating business	1,257	1,614
Total policy benefit liabilities	19,101,485	18,788,570
General liabilities:		
Due to parent and affiliates	545,734	533,870
Repurchase agreements	349,278	202,079
Commercial paper	95,556	97,167
Payable under securities lending agreements	29,308	43,205
Other liabilities	601,573	655,576
Liabilities of discontinued operations	97,401	124,089
Separate account liabilities	15,271,683	15,121,943
Total liabilities	36,092,018	35,566,499
Commitments and contingencies (Note 14)		
Stockholder's equity:		
Preferred stock, \$1 par value, 50,000,000 shares authorized; none issued and outstanding	—	—
Common stock, \$1 par value, 50,000,000 shares authorized; 7,032,000 shares issued and outstanding	7,032	7,032
Additional paid-in capital	758,022	756,912
Accumulated other comprehensive loss	(863,945)	(762,673)
Retained earnings	627,177	607,860
Total stockholder's equity	528,286	609,131
Total liabilities and stockholder's equity	\$36,620,304	\$36,175,630

See notes to condensed consolidated financial statements.

(Concluded)

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
 Condensed Consolidated Statements of Income
 Three Months Ended March 31, 2008 and 2007
 (In Thousands)
 (Unaudited)

	Three Months Ended March 31,	
	2009	2008
Revenues:		
Premium income, net of premiums ceded of \$6,626 and \$4,595	\$142,101	\$148,755
Fee income	83,894	110,102
Net investment income	281,352	268,975
Net realized gains on investments	2,293	8,134
Total revenues	509,640	535,966
Benefits and expenses:		
Life and other policy benefits (net of reinsurance recoveries of \$11,366 and \$12,828)	144,830	145,056
Increase in future policy benefits	23,805	34,504
Interest paid or credited to contractholders	131,195	126,634
Provision (benefit) for policyholders' share of earnings on participating business (Note 3)	(66)	(207,560)
Dividends to policyholders	25,596	21,033
Total benefits	325,360	119,667
General insurance expenses	98,750	112,575
Amortization of deferred acquisition costs and value of business acquired	16,651	34,648
Interest expense	9,433	10,273
Total benefits and expenses, net	450,194	277,163
Income from continuing operations before income taxes	59,446	258,803
Income tax expense	15,447	10,810
Income from continuing operations	43,999	247,993
Income from discontinued operations, net of income taxes of \$- and \$18,549	—	35,004
Net income	\$43,999	\$282,997

See notes to condensed consolidated financial statements.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Condensed Consolidated Statements of Stockholder's Equity
Year Ended December 31, 2008 and Three Months Ended March 31, 2009
(In Thousands)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)		Retained Earnings	Total
			Unrealized Gains (Losses) on Securities	Employee Benefit Plan Adjustments		
Balances, January 1, 2008 , as restated, see Note 1	\$7,032	\$747,533	(\$5,687)	\$4,169	\$1,282,064	\$2,035,111
Net income					1,098,295	1,098,295
Other comprehensive income (loss):						
Net change in unrealized gains (losses)			(685,907)			(685,907)
Employee benefit plan adjustment				(75,248)		(75,248)
Total comprehensive income						337,140
Impact of adopting SFAS No. 158 measurement date provisions, net of tax					(206)	(206)
Dividends					(1,772,293)	(1,772,293)
Capital contribution - stock-based compensation		5,123				5,123
Income tax benefit on stock-based compensation		4,256				4,256
Balances, December 31, 2008	\$7,032	\$756,912	(\$691,594)	(\$71,079)	\$607,860	\$609,131
Net income					43,999	43,999
Other comprehensive income (loss):						
Net change in unrealized gains			(100,040)			(100,040)
Employee benefit plan adjustment				(1,232)		(1,232)
Total comprehensive income						(57,273)
Dividends					(24,682)	(24,682)
Capital contribution - stock-based compensation		673				673
Income tax benefit on stock-based compensation		437				437
Balances, March 31, 2009	\$7,032	\$758,022	(\$791,634)	(\$72,311)	\$627,177	\$528,286

See notes to condensed consolidated financial statements.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Condensed Consolidated Statements of Cash Flows
Three Months Ended March 31, 2009 and 2008
(In Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income	\$43,999	\$282,997
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Earnings allocated to participating policyholders	(66)	(207,560)
Amortization of (premiums) accretion of discounts on investments, net	(16,369)	(15,296)
Net realized (gains) losses on investments	(2,293)	(5,626)
Net purchases of trading securities	(215,101)	(21,135)
Interest credited to contractholders	129,396	125,595
Depreciation and amortization	21,368	42,056
Deferral of acquisition costs	(16,612)	(19,805)
Deferred income taxes	11,829	(9,166)
Changes in assets and liabilities:		
Policy benefit liabilities	(99,590)	(9,703)
Reinsurance receivable	32,542	(5,831)
Accrued interest and other receivables	(13,522)	(9,658)
Other, net	(84,471)	(90,647)
Net cash provided by (used in) operating activities	(208,890)	56,221
Cash flows from investing activities:		
Proceeds from sales, maturities and redemptions of investments:		
Fixed maturities available-for-sale	1,014,364	1,567,109
Mortgage loans on real estate	18,478	47,271
Equity investments and other limited partnership interests	15,183	11,574
Purchases of investments:		
Fixed maturities available-for-sale	(1,048,606)	(935,329)
Mortgage loans on real estate	(5,600)	(95,190)
Equity investments and other limited partnership interests	(2,971)	(4,591)
Net change in short-term investments	(266,870)	(814,803)
Net change in repurchase agreements	147,199	368,819
Other, net	115,221	(60,308)
Net cash provided by (used in) investing activities	(13,602)	84,552

See notes to condensed consolidated financial statements.

(Continued)

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Condensed Consolidated Statements of Cash Flows
Three Months Ended March 31, 2009 and 2008
(In Thousands)
(Unaudited)

	Three Months Ended March 31,	
	2009	2008
Cash flows from financing activities:		
Contract deposits	\$584,176	\$675,372
Contract withdrawals	(347,610)	(534,424)
Change in due to parent and affiliates	(5,834)	29,284
Dividends paid	(24,682)	(299,985)
Net commercial paper borrowings (repayments)	(1,611)	(1,388)
Change in bank overdrafts	(4,526)	(16,353)
Income tax benefit of stock option exercises	437	963
Net cash provided by (used in) financing activities	200,350	(146,531)
Net decrease in cash	(22,142)	(5,758)
Cash, continuing and discontinued operations, beginning of period	28,352	65,436
Cash, continuing and discontinued operations, end of period	6,210	59,678
Less cash, discontinued operations, end of period	—	(9,907)
Cash, end of period	\$6,210	\$49,771
 Supplemental disclosures of cash flow information:		
Net cash paid during the periods for:		
Income taxes	\$1,417	\$2,891
Interest	175	1,016
 Non-cash investing and financing transactions during the periods:		
Share-based compensation expense	673	828
Fair value of assets acquired in settlement of fixed maturity investment	—	8,674
 See notes to condensed consolidated financial statements.		(Concluded)

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

Notes to Condensed Consolidated Financial Statements

Three Months Ended March 31, 2009 and 2008

(Dollars in Thousands)

(Unaudited)

1. Organization and Basis of Presentation

Organization - Great-West Life & Annuity Insurance Company and its subsidiaries (collectively, the “Company”) is a direct wholly-owned subsidiary of GWL&A Financial Inc. (“GWL&A Financial”), a holding company formed in 1998. GWL&A Financial is an indirect wholly-owned subsidiary of Great-West Lifeco Inc. (“Lifeco”). The Company offers a wide range of life insurance, retirement and investment products to individuals, businesses and other private and public organizations throughout the United States. The Company is an insurance company domiciled in the State of Colorado, and is subject to regulation by the Colorado Division of Insurance.

Basis of presentation - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are required to account for allowances for credit losses on mortgage loans on real estate, derivative instruments, valuation of privately placed and non-actively traded public investments, goodwill and other intangible assets, deferred acquisition costs and value of business acquired, future policy benefits, employee benefits plans and taxes on income. Actual results could differ from those estimates. However, in the opinion of management, these condensed consolidated financial statements include all normal recurring adjustments necessary for the fair presentation of the financial position and the results of operations.

These financial statements should be read in conjunction with the audited consolidated financial statements and the accompanying notes included in the Company’s latest Annual Report on Form 10-K for the year ended December 31, 2008. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2009.

Restatement of January 1, 2008 retained earnings - The accompanying condensed consolidated statement of stockholder’s equity has been restated as a result of a previous misstatement of deferred income taxes. As a result of the completion of the Company’s analysis of its deferred income tax accounts, retained earnings on January 1, 2008 was increased by \$43,914 from the amount previously reported of \$1,238,150.

2. Discontinued Operations

On April 1, 2008, the Company and certain of its subsidiaries completed the sale of substantially all of their healthcare insurance business to a subsidiary of CIGNA Corporation (“CIGNA”) for \$1.5 billion in cash. The Company recognized a gain in the amount of \$681,528, net of income taxes, upon completion of the transaction. The business that was sold, formerly reported as the Company’s Healthcare segment, was the vehicle through which it marketed and administered group life and health insurance to small, mid-sized and national employers. CIGNA acquired from the Company the stop loss, group life, group disability, group medical, group dental, group vision, group prescription drug coverage and group accidental death and dismemberment insurance business in the United States and the Company’s supporting information technology infrastructure through a combination of 100% indemnity reinsurance agreements, renewal rights, related administrative service agreements and the acquisition of certain of the Company’s subsidiaries. The Company retained a small portion of its Healthcare business and reports it within its Individual Markets segment. As discussed in Note 13, the Company’s business is now comprised of its Individual Markets, Retirement Services and Other segments. As required by Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” the statements of income and balance sheets of the disposed business activities are presented as discontinued operations for all periods presented in the condensed consolidated financial statements.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2009 and 2008
(Dollars in Thousands)
(Unaudited)

In addition, the Company and CIGNA entered into a Transition Services Agreement (the “Transition Agreement”) whereby the Company will provide certain information technology and administrative and legal services on behalf of CIGNA for a period of up to twenty-four months. CIGNA will pay the Company predetermined monthly fees for these services and will reimburse it for other expenditures it makes under the terms of the Transition Agreement.

The following table summarizes the classifications of assets and liabilities of discontinued operations at March 31, 2009 and December 31, 2008:

<u>Assets</u>	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Reinsurance receivable	\$97,401	\$124,089
Total assets	<u>\$97,401</u>	<u>\$124,089</u>
 <u>Liabilities</u>		
Future policy benefits	\$51,924	\$39,776
Policy and contract claims	45,477	84,313
Total liabilities	<u>\$97,401</u>	<u>\$124,089</u>

The following table summarizes selected financial information included in income from discontinued operations in the condensed consolidated statements of income for the three months ended March 31, 2009 and 2008:

	<u>Three Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Revenues from discontinued operations	\$ —	\$314,431
Benefits and expenses from discontinued operations	—	260,878
Income from discontinued operations before income taxes	—	53,553
Income tax expense	—	18,549
Income from discontinued operations	<u>\$ —</u>	<u>\$35,004</u>

The Company adopted a restructuring plan in connection with the sale of its Healthcare segment. The restructuring plan consisted of a structural reorganization which will enable the Company to operate effectively in its present business environment. The liability for the restructuring plan is included in other liabilities in the condensed consolidated balance sheets. The amounts incurred and adjustments to original estimates have been charged (credited) to income from discontinued operations during the year ended December 31, 2008. The Company does not anticipate incurring significant additional costs in the future. It is estimated that the restructuring plan will be substantially complete during 2009.

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

Notes to Condensed Consolidated Financial Statements

Three Months Ended March 31, 2009 and 2008

(Dollars in Thousands)

(Unaudited)

The following is a reconciliation of the liability that the Company recorded related to the restructuring plan:

	Severance, retention and other employee related costs
Balance, April 1, 2008	\$ —
Amount incurred	49,202
Adjustments to original estimates, net	(6,268)
Cash payments and other settlements	(30,222)
Balance, December 31, 2008	12,712
Cash payments and other settlements	(80)
Other adjustments	529
Balance, March 31, 2009	<u>\$13,161</u>

3. Undistributed Earnings on Participating Business

During the first quarter of 2008, the liability for undistributed earnings on participating business decreased by \$207,785 in connection with a long-standing assumption reinsurance agreement under which the Company had reinsured a block of participating policies. In addition, the agreement also required the Company to perform an analysis as of March 31, 2008, to determine whether the policyholders were eligible for a special dividend. Based on the Company's analysis, it was determined that a special dividend was not required and, accordingly, the liability was released. An income tax provision was recorded on the undistributed earnings when those earnings occurred. Accordingly, there was no income tax provision recorded at the time of the liability release. On January 1, 2008, the Company began recognizing the net earnings on these policies in its net income. A liability for undistributed earnings on participating business remains for those participating policies that are not subject to this reinsurance agreement.

4. New Accounting Pronouncements**Recently adopted accounting pronouncements**

In December 2007, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" ("SFAS No. 141(R)") and Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" ("SFAS No. 160"). These statements change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. Some of the significant changes include the recognition of one hundred percent of the fair value of assets acquired, liabilities assumed and non-controlling interest of acquired businesses; recognition of contingent consideration arrangements at their acquisition date fair values, with subsequent changes in fair value reflected in net income; recognition of acquisition related transaction costs as expense when incurred; and recognition of acquisition related restructuring cost accruals in acquisition accounting only if certain criteria are met as of the acquisition date. SFAS No. 141(R) and SFAS No. 160 are required to be adopted simultaneously and are effective for fiscal years beginning after December 15, 2008. The Company adopted the provisions of these statements for its fiscal year beginning January 1, 2009. The adoption of SFAS No. 141(R) and SFAS No. 160 did not have an impact on the Company's condensed consolidated financial position or results of its operations.

In February 2008, the FASB issued Staff Position No. 157-2, "Effective Date of FASB Statement No. 157" ("FSP No. 157-2"), which defers the effective date of FASB Statement of Financial Standards No. 157, "Fair Value Measurement" ("SFAS No. 157") for all nonrecurring fair value measurements of non-financial assets and non-financial liabilities until fiscal years beginning after November 15, 2008. Non-financial assets

include assets associated with business acquisitions and impairment testing of tangible and intangible assets. The Company adopted the provisions of FSP No. 157-2 on January 1, 2009. The adoption of FSP

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2009 and 2008
(Dollars in Thousands)
(Unaudited)

No. 157-2 did not have a material impact on the Company's condensed consolidated financial position or results of its operations.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" ("SFAS No. 161"). SFAS No. 161 applies to all derivative instruments and related hedged items accounted for under Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 161 requires entities to provide enhanced disclosures regarding (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. SFAS No. 161 is effective for fiscal years beginning after November 15, 2008. The Company adopted the provisions of SFAS No. 161 for its fiscal year beginning January 1, 2009. The adoption of SFAS No. 161 did not have an impact on the Company's condensed consolidated financial position or the results of its operations.

In April 2008, the FASB issued Staff Position No. FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FAS No. 142-3"). FAS No. 142-3 amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." In determining the useful life of an intangible asset for amortization purposes, an entity shall consider, among other things, the periods of expected cash flows, adjusted for certain entity-specific factors. FAS No. 142-3 is effective for fiscal years beginning after December 15, 2008. The Company adopted the provisions of FAS No. 142-3 for its fiscal year beginning January 1, 2009. The adoption of FAS No. 142-3 did not have an impact on the Company's condensed consolidated financial position or the results of its operations.

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1, "Employers' Disclosures About Postretirement Benefit Plan Assets" ("FSP No. FAS 132(R)-1"). FSP No. FAS 132(R)-1 requires additional disclosures about assets held in an employer's defined benefit pension plan including disclosures regarding investment policies and strategies, categories of plan assets, fair value measurements of plan assets and significant concentrations of risk. The disclosure requirements of FSP No. FAS 132(R)-1 are effective for fiscal years ending after December 15, 2009. The Company adopted the provisions of FSP No. FAS 132(R)-1 for its fiscal year beginning January 1, 2009. The adoption of FSP No. FAS 132(R)-1 did not have a material impact on the Company's disclosures regarding its post-retirement benefit plan assets.

Future adoption of new accounting pronouncements

In April 2009, the FASB issued Staff Position No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for an Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly", ("FSP No. FAS 157-4"). FSP No. FAS 157-4 relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. Specifically, FSP No. FAS No. 157-4 reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. FSP No. FAS 157-4 applies to all assets and liabilities within the scope of accounting pronouncements that require or permit fair value measurements. FSP No. FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company will adopt FSP No. FAS 157-4 for its fiscal quarter ending June 30, 2009. The Company is evaluating the impact of the adoption of FSP No. FAS 157-4.

In April 2009, the FASB issued Staff Position No. FAS 107-1 and APB 28-1, "Interim Disclosures About Fair Value of Financial Instruments", ("FSP No. FAS 107-1 and APB 28-1"). FSP No. FAS 107-1 and APB 28-1 requires those disclosures required by Statement of Financial Accounting Standards No. 107 "Disclosures About Fair Value of Financial Instruments" for interim reporting periods. FSP No. FAS 107-1 is effective for periods ending after June 15, 2009. The Company will adopt FSP No. FAS 107-1 and APB 28-1 for its

GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY

Notes to Condensed Consolidated Financial Statements

Three Months Ended March 31, 2009 and 2008

(Dollars in Thousands)

(Unaudited)

fiscal quarter ending June 30, 2009. The Company is evaluating the impact of the adoption of FSP No. FAS 107-1 and APB 28-1.

In April 2009, the FASB issued Staff Position No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments", ("FSP No. FAS 115-2 and FAS 124-2"). FSP No. FAS 115-2 and FAS 124-2 requires companies to bring greater consistency to the timing of impairment recognition and provides for greater clarity about the credit and noncredit components of impaired debt securities that are not expected to be sold. FSP No. FAS 115-2 and FAS 124-2 also requires increased and more timely disclosures regarding expected cash flows, credit losses and an aging of securities with unrealized losses. FSP No. FAS 115-2 and FAS 124-2 is effective for interim and annual periods ending after June 15, 2009. The Company will adopt FSP FAS No. 115-2 and FAS 124-2 for its fiscal quarter ending June 30, 2009. The Company is evaluating the impact of the adoption of FSP No. FAS 115-2 and FAS 124-2.

5. Related Party Transactions

Included in the condensed consolidated balance sheets at March 31, 2009 and December 31, 2008 are the following related party amounts:

	<u>March 31, 2009</u>	<u>December 31, 2008</u>
Reinsurance receivable	\$422,498	\$425,004
Future policy benefits	2,363,646	2,393,013

Included in the condensed consolidated statements of income for the three months ended March 31, 2009 and 2008 are the following related party amounts:

	<u>Three Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Premium income, net of related party premiums ceded of \$806 and \$866	\$29,445	\$37,379
Increase (decrease) in future policy benefits	(15,935)	9,562

Great-West Life & Annuity Insurance Company of South Carolina ("GWSC"), a wholly-owned subsidiary of the Company, and CLAC are parties to a reinsurance agreement pursuant to which GWSC assumes term life insurance from CLAC. GWL&A Financial obtained two letters of credit for the benefit of the Company as collateral under the GWSC and CLAC reinsurance agreement for on-balance sheet policy liabilities and capital support. The first letter of credit is for \$934,900 and renews automatically until it expires on December 31, 2025. The second letter of credit is for \$70,000 and renews automatically. At March 31, 2009 and December 31, 2008 there were no outstanding amounts related to the letters of credit.

The Company's separate accounts invest in shares of Maxim Series Fund, Inc., an open-end management investment company, and Putnam Funds which are affiliates of the Company, and shares of other non-affiliated mutual funds and government and corporate bonds. The Company's separate accounts include mutual funds or other investment options that purchase guaranteed interest annuity contracts issued by the Company. During the three-month periods ended March 31, 2009 and 2008, these purchases totaled \$18,384 and \$12,206, respectively. As the general account investment contracts are also included in the separate account balances in the accompanying condensed consolidated balance sheets, the Company has reduced the separate account assets and liabilities by \$273,636 and \$265,299 at March 31, 2009 and December 31, 2008, respectively, to eliminate these amounts in its condensed consolidated balance sheets at those dates.

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6. Fair Value Measurements

In September 2006, the FASB issued Statement of Accounting Standards No. 157, "Fair Value Measurements" ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 is applicable in conjunction with other accounting pronouncements that require or permit fair value measurements, but does not expand the use of fair value to any new circumstances. More specifically, SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement and sets out a fair value hierarchy with the highest priority given to quoted prices in active markets and the lowest priority to unobservable inputs. Further, SFAS No. 157 requires tabular disclosures of the fair value measurements by level within the fair value hierarchy.

The Company's assets and liabilities recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157. The levels of the fair value hierarchy are described below.

- Level 1 inputs utilize observable, quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Financial assets and liabilities utilizing Level 1 inputs include actively exchange-traded equity securities.
- Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. The fair values for some Level 2 securities were obtained from a pricing service. The list of inputs used by the pricing service is reviewed on a quarterly basis. The pricing service inputs include, but are not limited to, benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, offers and reference data. Level 2 securities include those priced using a matrix which are based on credit quality and average life, U.S. government and agency securities, restricted stock, some private equities, certain fixed maturity investments and some over-the-counter derivatives. See Note 8 for further discussions of derivatives and their impact on the Company's condensed consolidated financial statements.
- Level 3 inputs are unobservable and include situations where there is little, if any, market activity for the asset or liability. The prices of the majority of Level 3 securities were obtained from single broker quotes. Financial assets and liabilities utilizing Level 3 inputs include certain private equity, fixed maturity and over-the-counter derivative investments.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

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The following table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2009 and indicates the fair value hierarchy of the valuation techniques utilized by the Company to determine such fair value:

Assets and Liabilities Measured at Fair Value on a Recurring Basis March 31, 2009				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets				
Fixed maturities, available-for-sale	\$ —	\$11,221,718	\$812,842	\$12,034,560
Fixed maturities, held for trading	—	256,902	—	256,902
Equity investments available-for-sale	15,041	153	—	15,194
Short-term investments available-for-sale	460,160	25,470	—	485,630
Collateral under securities lending agreements	29,308	—	—	29,308
Other assets ¹	—	42,120	1,654	43,774
Separate account assets ²	8,807,261	6,077,366	8,303	14,892,930
Total assets	\$9,311,770	\$17,623,729	\$822,799	\$27,758,298
Liabilities				
Total liabilities	\$ —	\$ —	\$ —	\$ —

¹ Includes derivative financial instruments.

² Includes only separate account investments which are carried at the fair value of the underlying invested assets owned by the separate accounts.

The following table presents additional information about assets and liabilities measured at fair value on a recurring basis and for which the Company has utilized Level 3 inputs to determine fair value:

Recurring Level 3 Financial Assets and Liabilities Three Months Ended March 31, 2009					
	Fixed maturities available- for-sale	Equity investments available- for-sale	Collateral under securities lending agreements	Other assets and liabilities ¹	Separate accounts
Balance, January 1, 2009	\$795,571	\$ —	\$ —	\$3,224	\$532
Realized and unrealized gains and losses:					
Gains (losses) included in net income	—	—	—	—	—
(Gains) losses included in other comprehensive income	(73,557)	—	—	(1,570)	(34)
Purchases, issuances and settlements	(50,200)	—	—	—	6,336
Transfers in (out) of Level 3	141,028	—	—	—	1,469
Balance, March 31, 2009	\$812,842	\$ —	\$ —	\$1,654	\$8,303

Total gains (losses) for the period included in net income

attributable to the change in unrealized gains and losses
relating to assets held at March 31, 2009

\$ — \$ — \$ — \$ — \$ —

¹ Includes derivative financial instruments.

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Realized and unrealized gains and losses included in net income for the three months ended March 31, 2009 are reported in net realized gains (losses) on investments and net investment income as follows:

	Three Months Ended March 31, 2009	
	Net realized gains (losses) on investments	Net investment income
Realized and unrealized gains and losses included in net income for the period	\$ —	\$ —

Non-recurring Level 3 assets and liabilities - At March 31, 2009, the Company has no assets or liabilities measured at fair value on a non-recurring basis.

7. Impairment of Fixed Maturity and Equity Investments Classified as Available-For-Sale

The Company classifies the majority of its fixed maturity investments and all of its equity investments as available-for-sale and records them at fair value with the related net unrealized gain or loss, net of policyholder related amounts and deferred taxes, in accumulated other comprehensive income in the stockholder's equity section in the accompanying condensed consolidated balance sheets. All available-for-sale securities with gross unrealized losses at the balance sheet date are subjected to the Company's process for the identification and evaluation of other-than-temporary impairments.

The Company writes down to fair value securities that it deems to be other-than-temporarily impaired in the period the securities are deemed to be so impaired. The Company records write-downs as realized losses and adjusts the cost basis of the securities accordingly. The Company does not adjust the revised cost basis for subsequent recoveries in value.

The assessment of whether an other-than-temporary impairment has occurred is based upon management's case-by-case evaluation of the underlying reasons for the decline in fair value. Management considers a wide range of factors, as described below, regarding the security issuer and uses its best judgment in evaluating the cause of the decline in its estimated fair value and in assessing the prospects for near-term recovery. Inherent in management's evaluation of the security are assumptions and estimates about the operations and future earnings potential of the issuer.

Considerations used by the Company in the impairment evaluation process include, but are not limited to, the following:

- Fair value is significantly below cost.
- The decline in fair value is attributable to specific adverse conditions affecting a particular instrument, its issuer, an industry or geographic area.
- The decline in fair value has existed for an extended period of time.
- A debt security has been downgraded by a credit rating agency.
- The financial condition of the issuer has deteriorated.
- Dividends have been reduced or eliminated or scheduled interest payments have not been made.

While all available information is taken into account, it is difficult to predict the ultimate recoverable amount from a distressed or impaired security.

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Unrealized losses on fixed maturity and equity investments classified as available-for-sale

The following tables summarize unrealized investment losses by class of investment at March 31, 2009 and 2008. The Company considers these investments to be only temporarily impaired:

	March 31, 2009					
	Less than twelve months		Twelve months or longer		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Fixed Maturities						
U.S. government direct obligations and U.S. agencies	\$71,370	\$1,907	\$77,798	\$4,831	\$149,168	\$6,738
Obligations of U.S. states and their subdivisions	687,651	28,101	53,351	4,850	741,002	32,951
Corporate debt securities	2,340,807	238,848	1,029,430	429,829	3,370,237	668,677
Mortgage-backed and asset-backed securities	600,137	153,089	2,431,237	885,707	3,031,374	1,038,796
Total fixed maturities	\$3,699,965	\$421,945	\$3,591,816	\$1,325,217	\$7,291,781	\$1,747,162
Equity investments	\$8,013	\$1,009	\$1,264	\$1,235	\$9,277	\$2,244
Total number of securities in an unrealized loss position	1,954		478		2,432	
	December 31, 2008					
	Less than twelve months		Twelve months or longer		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Fixed Maturities						
U.S. government direct obligations and U.S. agencies	\$41,965	\$2,042	\$157,062	\$4,559	\$199,027	\$6,601
Obligations of U.S. states and their subdivisions	662,723	28,728	65,697	5,715	728,420	34,443
Corporate debt securities	2,271,214	213,400	1,556,161	402,247	3,827,375	615,647
Mortgage-backed and asset-backed securities	1,143,410	205,615	2,038,847	707,866	3,182,257	913,481
Total fixed maturities	\$4,119,312	\$449,785	\$3,817,767	\$1,120,387	\$7,937,079	\$1,570,172
Equity investments	\$2,451	\$964	\$ —	\$ —	\$2,451	\$964
Total number of securities in an unrealized loss position	1,956		571		2,524	

Fixed maturity investments - Total unrealized losses increased by \$176,990 from December 31, 2008 to March 31, 2009. This increase in unrealized losses is primarily due to the corporate debt securities and mortgage-backed and asset-backed securities classes and reflects market illiquidity, widening of credit spreads and economic uncertainty in these markets.

Unrealized losses on mortgage-backed and asset-backed securities comprise \$125,315 of this increase and are attributable to widening of credit spreads resulting from a lack of market liquidity. The market disruption has influenced valuations at March 31, 2009; however, the underlying collateral on the securities within the portfolio along with credit enhancement and/or guarantees is sufficient to expect full repayment of the principal. See Note 6 for additional discussion regarding fair value measurements.

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Unrealized losses on corporate debt securities increased \$53,030 from December 31, 2008 to March 31, 2009. The valuation of these securities has also been significantly influenced by market conditions. Management has classified these securities by sector, calculated as a percentage of total unrealized losses as follows:

<u>Corporate sector</u>	<u>March 31,</u> <u>2009</u>	<u>December 31,</u> <u>2008</u>
Finance	62%	51%
Utility	16%	20%
Natural resources	7%	9%
Consumer	6%	8%
Transportation	3%	4%
Other	6%	8%
	<u>100%</u>	<u>100%</u>

Approximately \$101,887 of the increase in unrealized losses was related to the finance industry. These unrealized losses were primarily related to securities in the insurance industry, and perpetual floating-interest-rate securities issued by Canadian and other foreign banks. At March 31, 2009, 28% of total unrealized losses on corporate debt securities (approximately \$186,372 of the \$668,677), was related to securities in the finance industry on which there has been a ratings downgrade since December 31, 2008. All of these securities, except four, representing \$31,509 of the unrealized losses, are rated BBB or above.

All remaining sectors within the corporate debt security class had a decrease in unrealized losses since December 2008, providing an offset of \$48,858. Less than 6% (approximately \$38,214 of the \$668,677) of the total unrealized losses on corporate debt securities was related to securities on which there has been a ratings downgrade since December 31, 2008. All of these securities, except three, representing \$10,414 of the unrealized losses, are rated BBB or above.

Future changes in the fair value of these securities will be dependent upon the return of market liquidity and changes in general market conditions including interest rates and credit spread movements. While the decline in fair value has been increasing and many unrealized losses have existed for longer than twelve months, the Company believes this is attributable to general market conditions and not reflective of the financial condition of the issuer or collateral backing the securities and has little bearing on whether the investment will be ultimately recoverable. Current liquidity conditions in the market place contribute to the uncertainty in the financial condition of the many issuers; however, the Company continually monitors its credit risk exposure to identify potential losses. The Company has the ability and intent to hold the securities with unrealized losses until a recovery of the fair value, which may be maturity; therefore, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2009.

Equity investments - The increase in unrealized losses of \$1,280 from December 31, 2008 to March 31, 2009 is primarily related to issues in the financial services industry. At March 31, 2009, the Company is continuing to monitor conditions impacting the industry, as noted above, and has determined that these securities are not other-than-temporarily impaired.

Other-than-temporary impairment recognition - The Company recorded other-than-temporary impairments on fixed maturity investments of \$2,462 and \$16,161 for the three months ended March 31, 2009 and 2008, respectively. Of the \$16,161 recorded during the first three months of 2008, \$11,901 was related to continuing operations, and \$4,260 was related to discontinued operations. The Company recorded no other-than-temporary impairments on equity securities during the three months ended March 31, 2009 or 2008.

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8. Derivative Financial Instruments

The Company makes limited use of derivative financial instruments for risk management purposes associated with its invested assets. Derivatives are not used for speculative purposes. To hedge the Company's interest rate risk on certain floating rate debt securities, interest rate swap agreements are used to effectively convert the floating rate on the underlying asset to a fixed rate from the swap. In order to hedge the risk of a change in the fair value of certain fixed rate maturity investments, interest rate futures are utilized. Foreign currency exchange rate risk associated with bonds denominated in other than U.S. dollars is hedged through the use of foreign currency exchange contracts. Not all of these derivative transactions are eligible for hedge accounting treatment under SFAS No. 133. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one party to the other at the due date, expiration, or termination of the agreement.

The Company controls the credit risk of its derivative contracts through credit approvals, limits and monitoring procedures. Risk of loss is limited to the fair value of derivative instruments and not to the notional or contractual amounts of the derivatives. Counterparty credit risk was evaluated and fair values were adjusted accordingly at March 31, 2009. As the Company enters into derivative transactions only with high quality institutions, no losses associated with non-performance of derivative financial instruments have occurred. The Company had no derivatives with credit-risk-related contingent features at March 31, 2009.

The Company's derivatives treated as fair value hedges are eligible for hedge accounting under SFAS No. 133. At March 31, 2009, the Company did not have any derivatives designated as net investment hedging relationships, or any derivatives that were not designated as hedging instruments under SFAS No. 133. Unrealized derivative gains and losses from cash flow hedges are included in accumulated other comprehensive income ("Accumulated OCI") and are reclassified into earnings at the time interest income is recognized.

The Company occasionally purchases a financial instrument that contains a derivative instrument that is "embedded" in the financial instrument. Upon purchasing the instrument, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e. the host contract) and whether a separate instrument with the same terms as the embedded instrument could meet the definition of a derivative instrument. The Company determines if (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument. If both of these are true, the Company has the option of separating the embedded derivative from the host contract and carrying it at its fair value or under Statement of Financial Accounting Standards No. 155 "Accounting for Certain Hybrid Financial Instruments", the Company may carry the entire hybrid instrument at fair value with gains and losses recognized in earnings.

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The following table summarizes derivative financial instruments and volume of activity at March 31, 2009 and for the three months ended March 31, 2009:

	March 31, 2009		
	Notional Amount	Strike/Swap Rate	Maturity
Interest rate swaps	\$217,500	1.07% - 1.74%	February 2012 - February 2045
Foreign currency exchange contracts	52,001	N/A	March 2014 - December 2016
Futures:			
Thirty year U.S Treasury:			
Short position	41,400	N/A	June 2009

The following tables present the effect of derivative instruments in the statement of income for the three months ended March 31, 2009:

	Gain (loss) recognized in OCI on derivatives (Effective portion)	Gain (loss) reclassified from accumulated OCI into income (Effective portion)		Gain (loss) recognized in income on derivatives (Ineffective portion and amount excluded from effectiveness testing)	
	Three months ended March 31, 2009	Income statement location	Three months ended March 31, 2009	Income statement location	Three months ended March 31, 2009
	Derivatives under SFAS No 133 cash flow hedging relationships:				
Interest rate swaps	(\$31,705)	(A)	\$70	(A)	\$19
Foreign exchange contracts	(363)		—		—
Interest rate futures	—	(A)	13		—
Total	(\$32,068)		\$83		\$19

(A) Net investment income

	Gain (loss) recognized in income on derivatives		Gain (loss) recognized in income on hedged assets	
	Three months ended March 31, 2009	Income statement location	Three months ended March 31, 2009	Income statement location
Derivatives under SFAS No. 133 fair value hedging relationships:				
Interest rate futures	\$3,233	(A)	\$ —	
Interest rate futures	(1,544)	(B)	—	
Items hedged in interest rate futures	—		(1,649)	(A)
Total	\$1,689		(\$1,649)	

- (A) Net investment income
- (B) Net realized gains on investments

As of March 31, 2009, the Company estimates that \$8,751 of net derivative gains included in accumulated other comprehensive income will be reclassified into net income within the next twelve months.

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The following table presents derivative instruments in the balance sheet at March 31, 2009:

	Asset Derivatives	
	March 31, 2009	
	Balance sheet location	Fair Value
Derivatives designated as hedging instruments under SFAS No. 133:		
Interest rate swaps	(A)	\$42,120
Foreign exchange contracts	(A)	1,654
Total		<u>\$43,774</u>

(A) Other assets

At March 31, 2009, the Company did not have any derivatives in a liability position.

9. Goodwill and Other Intangible Assets

The balances of and changes in goodwill, all of which is within the Retirement Services segment, for the three month period ended March 31, 2009 and the year ended December 31, 2008 are as follows:

	Amount
Balance, January 1, 2008	\$101,655
Purchase price accounting adjustment	3,600
Balance, December 31, 2008 and March 31, 2009	<u>\$105,255</u>

The following tables summarize other intangible assets, all of which are within the Retirement Services segment, as of March 31, 2009 and December 31, 2008:

	March 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	\$36,314	(\$8,155)	28,159
Preferred provider agreements	7,970	(3,353)	4,617
Total	<u>\$44,284</u>	<u>(\$11,508)</u>	<u>\$32,776</u>

	December 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	\$36,314	(\$7,249)	\$29,065
Preferred provider agreements	7,970	(\$3,211)	4,759
Total	<u>\$44,284</u>	<u>(\$10,460)</u>	<u>\$33,824</u>

Amortization expense for other intangible assets included in general insurance expenses was \$1,048 and \$653 for the three months ended March 31, 2009 and 2008, respectively. Except for goodwill, the Company has no intangible assets with indefinite lives. The Company did not incur costs to renew or extend the term of acquired intangible assets during the three months ended March 31, 2009.

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The estimated future amortization of other intangible assets using current assumptions, which are subject to change, for the years ended December 31, 2009 through December 31, 2013 is as follows:

Year Ended December 31,	Amount
2009	\$4,492
2010	4,004
2011	3,801
2012	3,597
2013	3,418

10. Share-Based Compensation

Lifeco, of which the Company is an indirect wholly-owned subsidiary, has a stock option plan that provides for the granting of options on its common shares to certain of its officers and employees and those of its subsidiaries, including the Company. During the three months ended March 31, 2009 and 2008, the Company recognized \$673 and \$828, respectively, in its condensed consolidated statements of income related to share-based compensation expense under the Lifeco stock option plan.

11. Components of Net Periodic (Benefit) Cost

Net periodic (benefit) cost of the Defined Benefit Pension Plan and the Post-Retirement Medical Plan included in general insurance expenses in the accompanying condensed consolidated statements of income for the three months ended March 31, 2009 and 2008 includes the following components:

	Three Months Ended March 31,			
	2009		2008	
	2009	2008	2009	2008
	Defined benefit pension plan		Post-retirement medical plan	
Components of periodic (benefit) cost:				
Service cost	\$961	\$2,079	\$153	\$521
Interest cost	4,853	5,100	256	480
Expected return on plan assets	(3,917)	(5,842)	—	—
Amortization of transition obligation	(378)	(410)	—	—
Amortization of unrecognized prior service cost	22	59	(412)	(1,009)
Amortization of loss from earlier periods	2,664	—	—	121
Net periodic (benefit) cost	<u>\$4,205</u>	<u>\$986</u>	<u>(\$3)</u>	<u>\$113</u>

The Company will make contributions at least equal to the minimum contribution of \$8,625 to its Defined Benefit Pension Plan during the year ended December 31, 2009. The Company expects to contribute approximately \$1,634 to its Post-Retirement Medical Plan during the year ended December 31, 2009.

12. Federal Income Taxes

The provision for income taxes from continuing operations is comprised of the following:

Three Months Ended March 31,

	<u>2009</u>	<u>2008</u>
Current	\$3,618	\$21,046
Deferred	<u>11,829</u>	<u>(10,236)</u>
Total income tax provision	<u>\$15,447</u>	<u>\$10,810</u>

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The following table presents reconciliation between the statutory federal income tax rate and the Company's effective federal income tax rate from continuing operations for the three months ended March 31, 2009 and 2008:

	<u>Three Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Statutory federal income tax rate	35.0%	35.0%
Income tax effect of:		
Investment income not subject to federal tax	(2.3%)	(4.9%)
Tax credits	(2.2%)	(5.8%)
State income taxes net of federal benefit	0.8%	0.6%
Provision for policyholders' share of earnings on participating business	—	(21.9%)
Other, net	(5.3%)	1.2%
Effective federal income tax rate from continuing operations	<u>26.0%</u>	<u>4.2%</u>

Included above in the provision for policyholder's share of earnings on participating business for the three months ended March 31, 2008, is the \$207,785 decrease in undistributed earnings on participating business as discussed in Note 3.

During the three months ended March 31, 2009, the Company did not recognize any material changes in unrecognized tax benefits relating to FIN 48. The Company does not expect any material changes relating to unrecognized tax benefits within the next twelve months.

Tax years 2005, 2006 and 2007 are open to federal examination by the Internal Revenue Service. The Company is currently under examination by the Internal Revenue Service for the 2005 tax year. The Company does not expect significant increases or decreases to the unrecognized tax benefits in 2009. Also, the Company does not expect significant increases or decreases relating to state and local audits.

Deferred income taxes represent the tax effect of the differences between the book and tax bases of assets and liabilities. The change in the deferred income tax asset between January 1, 2009 and March 31, 2009 is as follows:

Balance, January 1, 2009	\$577,799
Increase in deferred tax asset included in other comprehensive income related to the change in unrealized (gains) losses on investment assets, net of policyholder related amounts	55,631
Increase in deferred tax asset related to FIN 48	890
Increase in deferred tax asset related to the condensed consolidated statement of income	(11,829)
Other, net	<u>14,946</u>
Balance, March 31, 2009	<u>\$637,437</u>

13. Segment Information

The Company has three business segments: Individual Markets, Retirement Services and Other. The Individual Markets segment distributes life insurance and individual annuity products to both individuals and businesses through various distribution channels. Life insurance products in-force include participating and non-participating term life, whole life, universal life and variable universal life. The Retirement Services segment

provides retirement plan enrollment services, communication materials, various retirement plan investment options and educational services to employer-sponsored defined contribution/defined benefit plans and 401(k) and 403(b) plans, as well as comprehensive administrative and record-keeping services

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for financial institutions and employers. The Company's Other segment includes corporate items not directly allocated to any of its other business segments, interest expense on long-term debt and the activities of a wholly owned subsidiary whose sole business is the assumption of a certain block of term life insurance from an affiliated company. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately as each segment has its own unique distribution channels.

As discussed in Note 2, substantially all of the Company's former Healthcare segment has been reclassified as discontinued operations in the condensed consolidated financial statements and, accordingly, is no longer reported as a separate business segment. The Company retained a small portion of its Healthcare business and reports it within its Individual Markets segment.

The following table summarizes the financial results of the Company's Individual Markets segment for the three months ended March 31, 2009 and 2008:

	<u>Three Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Revenues:		
Premium income	\$114,093	\$112,776
Fee income	10,660	14,427
Net investment income	173,013	172,949
Net realized gains on investments	4,378	5,260
Total revenues	<u>302,144</u>	<u>305,412</u>
Benefits and expenses:		
Policyholder benefits	241,796	237,702
Operating expenses	22,593	23,054
Total benefits and expenses	<u>264,389</u>	<u>260,756</u>
Income before income taxes	37,755	44,656
Income tax expense	10,303	14,096
Net income from continuing operations	<u><u>\$27,452</u></u>	<u><u>\$30,560</u></u>

The following table summarizes the financial results of the Company's Retirement Services segment for the three months ended March 31, 2009 and 2008:

	<u>Three Months Ended March 31,</u>	
	<u>2009</u>	<u>2008</u>
Revenues:		
Premium income	\$817	\$1,137
Fee income	72,011	94,478
Net investment income	97,283	87,443
Net realized gains on investments	(2,233)	2,684
Total revenues	<u>167,878</u>	<u>185,742</u>
Benefits and expenses:		
Policyholder benefits	57,745	58,337
Operating expenses	85,016	90,540
Total benefits and expenses	<u>142,761</u>	<u>148,877</u>

Income before income taxes	25,117	36,865
Income tax expense	<u>6,396</u>	<u>8,896</u>
Net income from continuing operations	<u><u>\$18,721</u></u>	<u><u>\$27,969</u></u>

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GREAT-WEST LIFE & ANNUITY INSURANCE COMPANY
Notes to Condensed Consolidated Financial Statements
Three Months Ended March 31, 2009 and 2008
(Dollars in Thousands)
(Unaudited)

The following table summarizes the financial results of the Company's Other segment for the three months ended March 31, 2009 and 2008:

	Three Months Ended March 31,	
	2009	2008
Revenues:		
Premium income	\$27,191	\$34,842
Fee income	1,223	1,197
Net investment income	11,056	8,583
Net realized gains on investments	148	190
Total revenues	<u>39,618</u>	<u>44,812</u>
Benefits and expenses:		
Policyholder benefits	25,819	(176,372)
Operating expenses	17,225	43,902
Total benefits and expenses	<u>43,044</u>	<u>(132,470)</u>
Income (loss) before income taxes	(3,426)	177,282
Income tax expense (benefit)	(1,252)	(12,182)
Net income (loss) from continuing operations	<u>(\$2,174)</u>	<u>\$189,464</u>

14. Commitments and Contingencies

The Company is involved in various legal proceedings that arise in the ordinary course of its business. In the opinion of management, after consultation with counsel, the resolution of these proceedings are not expected to have a material adverse effect on its consolidated financial position or results of operations.

The Company has entered into a corporate credit facility agreement in the amount of \$50,000 for general corporate purposes. The credit facility matures on May 26, 2010. Interest accrues at a rate dependent on various conditions and terms of borrowings. The agreement requires the Company to maintain a minimum adjusted net worth of \$900,000 plus 50% of its net income, if positive (both compiled by the unconsolidated statutory accounting basis prescribed by the National Association of Insurance Commissioners), for each quarter ending after June 30, 2008. The Company had no borrowings under the credit facility at either March 31, 2009 or December 31, 2008 and was in compliance with all covenants.

The Company makes commitments to fund partnership interests and other investments in the normal course of its business. The amounts of these unfunded commitments at March 31, 2009 and December 31, 2008 were \$80,124 and \$49,334, respectively, all of which is due within one year from the dates indicated.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

General

This Form 10-Q contains forward-looking statements. Forward-looking statements are statements not based on historical information and that relate to future operations, strategies, financial results, or other developments. In particular, statements using verbs such as "expect," "anticipate," "believe," or words of similar import generally involve forward-looking statements. Without limiting the foregoing, forward-looking statements include statements which represent the Company's beliefs concerning future or projected levels of sales of its products, investment spreads or yields, or the earnings or profitability of its activities. Forward-looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond the Company's control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, the Company. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments, some of which may be national in scope, such as general economic conditions and interest rates, some of which may be related to the insurance industry generally, such as pricing competition, regulatory developments, and industry consolidation and others of which may relate to the Company specifically, such as credit rating, volatility and other risks associated with its investment portfolio and other factors. Readers should also consider other matters, including any risks and uncertainties discussed in documents filed by the Company and certain of its subsidiaries with the Securities and Exchange Commission.

Current Market Conditions

During the second half of 2008 and continuing into 2009, the financial markets were marked by continued turmoil in the United States and around the world. While the Company has conservative investment policies and practices, the significant deterioration in the capital markets had an impact to the financial results for the quarter ended March 31, 2009.

The S&P 500 Index declined by 40% at March 31, 2009 when compared to March 31, 2008. The average of the S&P 500 Index level during the three months ended March 31, 2009 also declined by 40% when compared to March 31, 2008.

S&P 500 Index	March 31,	
	2009	2008
Index close	798	1,323
Index average	808	1,351

Variable asset-based fees fluctuate with changes in participant account balances. Participant account balances change due to cash flow and unrealized market gains and losses associated with changes in the United States equities market. Fee income decreased by \$26 million, or 24%, to \$84 million for the three months ended March 31, 2009 when compared to 2008. The decrease is primarily related to lower variable fee income as a result of lower average account balances due to the weak performance of the U.S. equities market.

Continued market declines during the remainder of 2009 could result in additional decreases in fee income as well as adjustments to the amortization of deferred policy acquisition and other costs.

During the three months ended March 31, 2009, the Company recorded other-than-temporary impairments in the fair value of its fixed maturity investments in the amount of \$2 million. Current market conditions have also contributed to lower market values for the Company's fixed maturity and equity investments. The Company has recorded an increase in gross unrealized losses of \$177 million during the three months ended March 31, 2009. See Notes 6 and 7 to the accompanying condensed consolidated financial statements for a discussion of these and other investment losses.

The deterioration in the credit markets has not had a significant impact on the Company's sources of liquidity. The Company has met its operating requirements by maintaining appropriate liquidity in its investment portfolio and utilizing cash flows from operations. The Company's credit rating has remained stable. If necessary, the Company has continued access to a \$50 million line of credit which currently has no amounts outstanding.

The U.S. government has implemented a number of initiatives to restore stability and provide liquidity to financial institutions and financial markets. Furthermore, governments throughout the world are taking steps to provide significant support to financial institutions in their markets and to restore liquidity. The Company did not participate in any of these initiatives.

Discontinued Operations

On April 1, 2008, the Company and certain of its subsidiaries completed the sale of substantially all of their healthcare insurance business to a subsidiary of CIGNA Corporation ("CIGNA"). The business that was sold, formerly reported as the Company's Healthcare segment, was the vehicle through which it marketed and administered group life and health insurance to small, mid-sized and national employers. CIGNA acquired from the Company the stop loss, group life, group disability, group medical, group dental, group vision, group prescription drug coverage and group accidental death and dismemberment insurance business in the United States and the Company's supporting information technology infrastructure through a combination of 100% indemnity reinsurance agreements, renewal rights, related administrative service agreements and the acquisition of certain of the Company's subsidiaries. The Company retained a small portion of its Healthcare business and reports it within its Individual Markets segment. As required by Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the statements of income and balance sheets of the disposed business activities are presented as discontinued operations for all periods presented in the accompanying condensed consolidated financial statements.

Company Results of Operations

The following discussion addresses the Company's results of operations for the three months ended March 31, 2009, compared with the same period in 2008. The discussion should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2008 under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," to which the reader is directed for additional information.

Three months ended March 31, 2009 compared with the three months ended March 31, 2008

Income statement data (In millions)	Three Months Ended March 31,	
	2009	2008
Revenues:		
Premium income	\$142	\$149
Fee income	84	110
Net investment income	281	269
Net realized gains on investments	2	8
Total revenues	509	536
Benefits and expenses:		
Policyholder benefits	325	119
Operating expenses	125	158
Total benefits and expenses	450	277
Income from continuing operations before income taxes	59	259
Income tax expense	15	11
Income from continuing operations	\$44	\$248

Income from Continuing Operations

The Company's consolidated income from continuing operations decreased by \$204 million for the three months ended March 31, 2009 when compared to 2008. The income from continuing operations of the Company's Other segment included a gain in the amount of \$208 million in 2008 as a result of the release of the liability associated with certain participating policies as discussed in Note 3 to the condensed consolidated financial statements.

Premium income decreased by \$7 million, or 5%, to \$142 million for the three months ended March 31, 2009 when compared to 2008. This decrease is primarily related to the decrease of reinsurance activity in the Company's Other segment.

Fee income decreased by \$26 million, or 24%, to \$84 million for the three months ended March 31, 2009 when compared to 2008. The decrease is primarily related to lower variable fee income as a result of lower average account balances due to the weak performance of the U.S. equities market.

Net investment income increased by \$12 million, or 4%, to \$281 million for the three months ended March 31, 2009 when compared to 2008. The increase is primarily due to a \$10 million increase in net investment income in 2009 in the Company's Retirement Services segment.

Net realized gains on investments decreased by \$6 million, or 75%, to \$2 million during the three months ended March 31, 2009 when compared to 2008. The decrease is due primarily to sales activity of invested assets.

Excluding the impact of the aforementioned gain upon the release of participating policy liabilities, benefits and expenses decreased by \$35 million, or 7% for the three months ended March 31, 2009 when compared to 2008. The decrease is primarily due to a \$23 million adjustment to cumulative deferred acquisition cost ("DAC") amortization in 2008 as discussed in the Company's Other segment and a \$9 million decrease in commission expense, primarily in the Company's Retirement Services segment.

The segment information below discusses the reasons for these changes.

Income From Discontinued Operations

As more fully described in Note 2 to the accompanying condensed consolidated financial statements, the Company sold substantially all of its healthcare insurance business on April 1, 2008 resulting in a gain in the amount of \$1,090 million (\$682 million net of income taxes) upon completion of the transaction. The healthcare insurance business comprised all of the Company's discontinued operations. Accordingly, the Company ceased recording operating activity from its discontinued operations on April 1, 2008. Income from discontinued operations decreased by \$35 million during the three months ended March 31, 2009 when compared to 2008.

Segment Results

The Company has three business segments: Individual Markets, Retirement Services and Other. The Individual Markets segment distributes life insurance and individual annuity products to both individuals and businesses through various distribution channels. Life insurance products in-force include participating and non-participating term life, whole life, universal life and variable universal life. The Retirement Services segment provides retirement plan enrollment services, communication materials, various retirement plan investment options and educational services to employer-sponsored defined contribution/defined benefit plans and 401(k) and 403(b) plans, as well as comprehensive administrative and record-keeping services for financial institutions and employers. The Company's Other segment includes corporate items not directly allocated to any of its other business segments, interest expense on long-term debt and the activities of a wholly owned subsidiary whose sole business is the assumption of a certain block of term life insurance from an affiliated company. The Company's reportable segments are strategic business units that offer different products and services. They are managed separately as each segment has its own unique distribution channels.

Individual Markets Results of Operations

Three months ended March 31, 2009 compared with the three months ended March 31, 2008

The following is a summary of certain financial data of the Company's Individual Markets segment:

Income statement data (In millions)	Three Months Ended March 31,	
	2009	2008
Revenues:		
Premium income	\$114	\$113
Fee income	11	14
Net investment income	173	173
Net realized gains on investments	4	5
Total revenues	302	305
Benefits and expenses:		
Policyholder benefits	242	238
Operating expenses	23	23
Total benefits and expenses	265	261
Income from continuing operations before income taxes	37	44
Income tax expense	10	14
Income from continuing operations	\$27	\$30

The following is a summary of the Individual Markets segment policies and participant accounts at March 31, 2009 and 2008:

(In thousands)	March 31,	
	2009	2008
Policies and Participant Accounts	529	548

Income from continuing operations for the Individual Markets segment decreased by \$3 million, or 10%, to \$27 million during the three months ended March 31, 2009 when compared to 2008. This decrease is primarily related to a \$2 million, net of tax, decrease in fee income in addition to a \$3 million, net of tax, increase in policyholder benefits.

Fee income decreased by \$3 million, or 21%, to \$11 million for the three months ended March 31, 2009 when compared to 2008. The decrease is primarily related to lower variable fee income as a result of lower average account balances due to the weak performance of the U.S. equities market in the first quarter of 2009.

Policyholder benefits remained stable, increasing by \$4 million, or 2%, to \$242 million during the three months ended March 31, 2009 when compared to 2008.

Retirement Services Results of Operations

Three months ended March 31, 2009 compared with the three months ended March 31, 2008

The following is a summary of certain financial data of the Company's Retirement Services segment:

Income statement data (In millions)	Three Months Ended March 31,	
	2009	2008
Revenues:		
Premium income	\$1	\$1
Fee income	72	95
Net investment income	97	87
Net realized gains (losses) on investments	(2)	3
Total revenues	<u>168</u>	<u>186</u>
Benefits and expenses:		
Policyholder benefits	58	58
Operating expenses	85	91
Total benefits and expenses	<u>143</u>	<u>149</u>
Income from continuing operations before income taxes	25	37
Income tax expense	6	9
Income from continuing operations	<u>\$19</u>	<u>\$28</u>

The following is a summary of the Retirement Services segment participant accounts at March 31, 2009 and 2008:

(In thousands)	March 31,	
	2009	2008
Policies and Participant Accounts	3,811	3,886

Income from continuing operations for the Retirement Services segment decreased by \$9 million, or 32%, to \$19 million during the three months ended March 31, 2009 when compared to 2008. This decrease is primarily related to a \$17 million, net of tax, decrease in fee income partially offset by an increase of \$5 million, net of tax, in investment margins on general account products and a decrease of \$4 million, net of tax, in operating expenses.

Fee income decreased by \$23 million, or 24%, to \$72 million for the three months ended March 31, 2009 when compared to 2008. The decrease is primarily related to lower variable fee income as a result of lower average account balances due to the weak performance of the U.S. equities market in the first quarter of 2009.

Net investment income increased by \$10 million, or 11%, to \$97 million for the three months ended March 31, 2009 when compared to 2008. The increase is primarily due to a 10% increase in the account value of the general accounts at March 31, 2009 when compared to 2008. This asset increase is primarily due to transfers from the separate account to the general account.

Net realized gains (losses) on investments decreased by \$5 million to a loss of \$2 million during the three months ended March 31, 2009 when compared to a gain of \$3 million during 2008. This change is due to increased realized losses from sales of investments.

Operating expenses decreased by \$6 million, or 7%, to \$85 million for the three months ended March 31, 2009 when compared to 2008. The decrease is primarily related to lower commissions expense as a result of lower asset based commissions from lower average account balances due to the weak performance of the U.S. equities market in the first quarter of 2009.

The following table provides information for the Retirement Services' segment participant account values:

Income statement data (In millions)	March 31,	
	2009	2008
General Account - Fixed Options:		
Public / Non-profit	\$3,338	\$3,380
401(k)	3,458	2,812
	<u>\$6,796</u>	<u>\$6,192</u>
Separate Account - Variable Options:		
Public / Non-profit	\$6,452	\$6,319
401(k)	4,347	6,447
	<u>\$10,799</u>	<u>\$12,766</u>
Unaffiliated Retail:		
Investment Options and Administrative Services Only:		
Public / Non-profit	36,128	48,966
401(k)	14,244	20,016
Institutional	23,274	28,463
	<u>\$73,646</u>	<u>\$97,445</u>

Account values invested in the general account fixed investment options have increased by \$604 million, or 10% at March 31, 2009 compared to March 31, 2008 primarily due to transfers from the separate account to the general account.

Account values invested in the separate account variable investment options have decreased by \$1,967 million, or 15% at March 31, 2009 compared to March 31, 2008. The decrease is primarily due to the decrease in the U.S. equity markets. In addition to the equity market decline, the asset decrease is due to transfers from separate account options to the general account. These decreases were offset in the Public / Non-profit market by the transfer of assets from a large plan sale during 2009 of \$1 billion.

Participant account values invested in unaffiliated retail investment options and participant account values where only administrative services and recordkeeping functions are provided have decreased by \$23,799 million or 24% at March 31, 2009 compared to March 31, 2008. The decrease is primarily attributable to the weak performance in the U.S. equities market.

Other Results of Operations

Three months ended March 31, 2009 compared with the three months ended March 31, 2008

The following is a summary of certain financial data of the Company's Other segment:

Income statement data (In millions)	Three Months Ended March 31,	
	2009	2008
Revenues:		
Premium income	\$27	\$35
Fee income	1	1
Net investment income	11	9
Total revenues	39	45
Benefits and expenses:		
Policyholder benefits	25	(177)
Operating expenses	17	44
Total benefits and expenses	42	(133)
Income from continuing operations before income taxes	(3)	178
Income tax expense (benefit)	(1)	(12)
Income (loss) from continuing operations	(\$2)	\$190

Income (loss) from continuing operations for the Company's Other segment was (\$2) million for the three months ended March 31, 2009 compared to net income of \$190 million for 2008. The decrease is primarily related to a \$208 million gain as a result of the release of the liability associated with certain participating policies in 2008. This decrease is partially offset by a \$15 million after tax charge in 2008 from an adjustment to cumulative deferred acquisition cost ("DAC") amortization related to additional overhead that the Individual Markets and Retirement Service segments incurred as a result of the sale of the Company's Healthcare business. See Notes 2 and 3 to the accompanying condensed consolidated financial statements.

Total benefits and expenses increased by \$175 million to \$42 million during the three months ended March 31, 2009 when compared to 2008. Excluding the impact of the aforementioned gain upon the release of participating policy liabilities, total benefits and expenses decreased by \$33 million. The decrease is primarily attributable to the aforementioned DAC amortization adjustment in the gross amount of \$23 million. The remaining decrease in policyholder benefits and the decrease in premium income are primarily attributed to decreased reinsurance activity.

General Account Investments

The Company's primary investment objective is to acquire assets with duration and cash flow characteristics reflective of its liabilities, while meeting industry, size, issuer, and geographic diversification standards. Formal liquidity and credit quality parameters have also been established. The Company's portfolio composition is conservative with 85% of general account assets in cash, short-term investments, policy loans and fixed maturity and mortgage investments.

The Company follows rigorous procedures to control interest rate risk and observes strict asset and liability matching guidelines. These guidelines ensure that even under changing market conditions, the Company's assets will meet the cash flow and income requirements of its liabilities. Using dynamic modeling to analyze the effects of a range of possible market changes upon investments and policyholder benefits, the Company works to ensure that its investment portfolio is appropriately structured to fulfill financial obligations to its policyholders.

Fixed Maturities

Fixed maturity investments include public and privately placed corporate bonds, government bonds and mortgage-backed and asset-backed securities. The Company's strategy related to mortgage-backed and asset-backed securities is to focus on those investments with low prepayment risk and minimal credit risk. The Company does not invest in higher-risk collateralized mortgage obligations such as interest-only and principal-only strips, and currently has no plans to invest in such securities.

Private placement investments are generally less marketable than publicly traded assets, yet they typically offer enhanced covenant protection that allows the Company, if necessary, to take appropriate action to protect its investment. The Company believes that the cost of the additional monitoring and analysis required by private placements is more than offset by their enhanced yield.

One of the Company's primary objectives is to ensure that its fixed maturity portfolio is maintained at a high average quality to limit credit risk. If not externally rated, the securities are rated by the Company on a basis intended to be similar to that of the rating agencies.

The distribution of the Company's fixed maturity portfolio by credit rating at March 31, 2009 and December 31, 2008 is summarized as follows:

Credit Rating	March 31, 2009	December 31, 2008
AAA	47.4%	50.1%
AA	9.1%	9.4%
A	20.1%	20.3%
BBB	21.5%	18.4%
BB and below (Non-investment grade)	1.9%	1.8%
Total	100.0%	100.0%

The following table contains the corporate sector distribution of the Company's fixed maturity investment portfolio, calculated as a percentage of fixed maturities:

Corporate sector	March 31, 2009	December 31, 2008
Utility	13.2%	11.9%
Finance	7.5%	8.8%
Consumer	7.3%	6.6%
Natural resources	5.5%	4.4%
Transportation	3.0%	2.8%
Other	7.8%	7.3%

The Company holds approximately \$37 million in direct debt of the Federal Home Loan Mortgage Corporation, which is less than 1 percent of its fixed maturity investment portfolio and the Company expects full recoverability of this debt. The Company does not hold any direct debt of the Federal National Mortgage Association. The Company holds \$4 million of fixed maturity investments of an American International Group, Inc. subsidiary and does not consider this investment to be other than temporarily impaired.

Monoline insurers guarantee the timely payment of principal and interest of certain securities. Entities will often purchase monoline insurance to "wrap" a security issuance in order to benefit from better market execution. As of March 31, 2009, the fair value of the Company's total monoline insured asset-backed securities was \$802 million. At both March 31, 2009 and December 31, 2008, the overall credit quality of the insured portfolio, including the benefits of the monoline insurance, was A.

Of the Company's total investments of \$18 billion as of March 31, 2009, approximately \$796 million, or 4%,

excluding government agency backed securities, are home equity loan asset-backed securities with potential exposure to the subprime market. All of these securities, except one, are investment grade rated,

95% of which have the highest possible rating of AAA. The weighted average credit enhancement level for these securities is 33% (excluding any monoline guarantees) as of March 31, 2009.

Fair Value Measurements and Impairment of Fixed Maturity and Equity Investments Classified as Available-for-Sale

Total assets and liabilities measured using significant unobservable inputs (Level 3) increased by \$24 million at March 31, 2009 from December 31, 2008. Total Level 3 assets and liabilities at March 31, 2009 were \$823 million or 2% of total assets and liabilities under SFAS No. 157 compared to Level 3 assets of \$799 million or 2% at December 31, 2008. During 2008, the Company determined that the use of internal models utilizing asset-backed index spread assumptions instead of an external source that used credit default swap spread assumptions, was a better measurement of fair value for these securities due to current market conditions. Utilizing internal models for these securities resulted in a decrease to unrealized losses in the amount of \$109 million. The increase in Level 3 assets did not affect the Company's operations, liquidity or capital resources during the period.

The Company classifies the majority of its fixed maturity and all of its equity investments as available-for-sale and records them at fair value with the related net gain or loss, net of policyholder related amounts and deferred taxes, being recorded in accumulated other comprehensive income in the stockholder's equity section in the accompanying condensed consolidated balance sheets. All available-for-sale securities with gross unrealized losses at the balance sheet date are subjected to the Company's process for identification and evaluation of other-than-temporary impairments.

While the decline in fair value has been increasing and many unrealized losses have now existed for longer than 12 months, the Company believes this is attributable to general market conditions and not reflective of the financial condition of the issuer or collateral backing the securities and has little bearing on whether the investment will be ultimately recoverable. The Company has the ability and intent to hold the securities with unrealized losses until a recovery of the fair value, which may be maturity; therefore, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2009. While the Company has experienced unrealized losses across all classes within its fixed maturity investments, the majority of total unrealized losses are in the mortgage-backed and asset-backed security class as well as the corporate debt class.

- The Company holds approximately \$5,350 million in various mortgage-backed and asset-backed collateralized mortgage securities of which \$3,208 million are experiencing unrealized losses of approximately \$1,047 million at March 31, 2009. Included in this amount is \$875 million which has declined and remained below amortized cost by 20% or more. Of the \$1,047 million in unrealized losses, approximately \$120 million is related to securities on which there had been a credit rating downgrade since December 31, 2008. Of the \$120 million, \$96 million are rated investment grade, and \$24 million are rated non-investment grade at March 31, 2009. Future changes in the fair value of these securities will be dependent upon the return of market liquidity and changes in general market conditions including interest rates and credit spread movements.
- The Company holds approximately \$5,430 million of corporate debt securities of which \$3,370 million are experiencing unrealized losses of approximately \$669 million at March 31, 2009. Included in this amount is \$472 million which has declined and remained below amortized cost by 20% or more. Approximately \$225 million of the \$669 million was related to securities on which there had been a credit rating downgrade since December 31, 2008. Of the \$225 million, \$183 million are rated investment grade, and \$42 million are rated non-investment grade at March 31, 2009.

During the three months ended March 31, 2009, the Company recorded other-than-temporary impairments in the fair value of its fixed maturity investments in the amount of \$2 million. The write-downs during the three months ended March 31, 2009 generally related to assets the Company no longer had the intent to hold until recovery and assets associated with repurchase agreement financing transactions. (See Note 7 to the accompanying condensed consolidated financial statements).

Following the recognition of the other-than-temporary impairment for fixed maturities, the Company accretes the new cost basis to par or to estimated future value over the remaining life of the security based on the future estimated cash flows by adjusting the security's yields. See Note 7 to the accompanying condensed consolidated financial statements for a further discussion of impaired fixed maturity investments.

Securities Lending and Cash Collateral Reinvestment Practices

The Company takes a very conservative approach to its securities lending, repurchase agreement and dollar roll practices. All cash collateral received from such practices is invested in U.S. Government or U.S. Government Agency securities. Some cash collateral may be invested in short-term repurchase agreements which are also collateralized by U.S. Government or U.S. Government Agency securities. In addition, the securities lending agent indemnifies the Company against borrower risk, meaning that the lending agent agrees contractually to replace securities not returned due to a borrower default. As of March 31, 2009, the Company had \$28 million out on loan, \$375 million in repurchase agreements and \$349 million in dollar rolls, all of which are fully collateralized as described above. The Company does not enter into these types of transactions for liquidity purposes, but rather for yield enhancement on its investment portfolio.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's management to adopt accounting policies that make a significant variety of estimates and assumptions. These estimates and assumptions affect, among other things, the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results can differ from the amounts previously estimated, which were based on information available at the time the estimates were made.

The critical accounting policies are those that management believes are important to the portrayal of the Company's results of operations and financial condition and which require management to make difficult, subjective and/or complex judgments. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown.

Management has identified the following as critical accounting policies:

- Valuation of investments, other-than-temporary impairments and recognition of income on certain investments;
- Valuation and accounting for derivative instruments;
- Future policy benefits;
- Policy and contract claims;
- Deferred acquisition costs and value of business acquired;
- Goodwill;
- Employee benefit plans and
- Taxes on income.

A discussion of each of these critical accounting policies may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

New Accounting Pronouncements

See Note 4 to the accompanying condensed consolidated financial statements for a discussion of new accounting pronouncements that the Company has recently adopted.

Liquidity and Capital Resources

Liquidity refers to a company's ability to generate sufficient cash flows to meet the needs of its operations. The Company manages its operations to create stable, reliable and cost-effective sources of cash flows to meet all of its obligations.

The principal sources of the Company's liquidity are premiums and contract deposits, fees, investment income and investment maturities and sales. Funds provided from these sources are reasonably predictable and normally exceed liquidity requirements for payment of policy benefits, payments to policy and contractholders in connection with surrenders and withdrawals and general expenses. However, since the timing of available funds cannot always be matched precisely to commitments, imbalances may arise when demands for funds exceed those on hand. A primary liquidity concern regarding cash flows from operations is the risk of early policyholder and contractholder withdrawals. A primary liquidity concern regarding investment activity is the risks of defaults and market volatilities. In addition, a demand for funds may arise as a result of the Company taking advantage of current investment opportunities. The sources of the funds that may be required in such situations include the issuance of commercial paper or other debt instruments. Management believes that the liquidity profile of its assets is sufficient to satisfy the liquidity requirements of reasonably foreseeable scenarios.

Generally, the Company has met its operating requirements by utilizing cash flows from operations and maintaining appropriate levels of liquidity in its investment portfolio. Cash flows from operating activities are (\$209) million for the three months ended March 31, 2009 primarily due to the net purchases of trading securities of \$215 million. The Company intends to reinvest these securities for higher yielding permanent investments. Liquidity for the Company has remained strong, as evidenced by the amounts of short-term investments and cash that totaled \$492 million and \$395 million as of March 31, 2009 and December 31, 2008, respectively. In addition, 98% of the bond portfolio carried an investment grade rating at both March 31, 2009 and December 31, 2008, thereby providing significant liquidity to the Company's overall investment portfolio.

The Company continues to be well capitalized, with sufficient borrowing capacity to meet the anticipated needs of its business. The Company's financial strength provides the capacity and flexibility to enable it to raise funds in the capital markets through the issuance of commercial paper. The Company had \$96 million and \$97 million of commercial paper outstanding at March 31, 2009 and December 31, 2008, respectively. The commercial paper has been given a rating of A-1+ by Standard & Poor's Ratings Services and a rating of P-1 by Moody's Investors Service, each being the highest rating available. Through the recent financial market volatility, the Company continued to have the ability to access the capital markets for funds. The loss of this access in the future would not have a significant impact to the Company's liquidity as the commercial paper is not used to fund daily operations and is an insignificant amount in relation to total invested assets.

The Company also has available a corporate credit facility agreement in the amount of \$50 million for general corporate purposes. The Company had no borrowings under the credit facility at either March 31, 2009 or December 31, 2008. The Company does not anticipate the need for borrowings under this facility and the loss of its availability would not significantly impact its liquidity.

Capital resources provide protection for policyholders and financial strength to support the underwriting of insurance risks and allow for continued business growth. The amount of capital resources that may be needed is determined by the Company's senior management and Board of Directors, as well as by regulatory requirements. The allocation of resources to new long-term business commitments is designed to achieve an attractive return, tempered by considerations of risk and the need to support the Company's existing business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company has established processes and procedures to effectively identify, monitor, measure and manage the risks associated with its invested assets and its interest rate sensitive insurance and annuity products. Management has identified investment portfolio management, including the use of derivative instruments, insurance and annuity product design and asset/liability management as three critical means to accomplish a successful risk management program.

The major risks to which the Company is exposed include the following:

- Market risk - the potential of loss arising from adverse fluctuations in interest rates and equity market prices and the levels of their volatility;
- Insurance risk - the potential of loss resulting from claims and expenses exceeding policy benefit liabilities held;
- Credit risk - the potential of loss arising from an obligator's inability or unwillingness to meet its obligations to the Company and
- Operational and corporate risk - the potential of direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from other external events.

A discussion of each of these risk factors may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 under Item 7A, "Quantitative and Qualitative Disclosures About Market Risk."

Item 4T. Controls and Procedures

- (a) As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our current disclosure controls and procedures are effective in facilitating timely decisions regarding required disclosure of any material information relating to us that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934.
- (b) There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company or any of its subsidiaries are a party or of which any of their property is the subject.

Item 1A. Risk Factors

In the normal course of its business, the Company is exposed to certain operational, regulatory and financial risks and uncertainties. The most significant risks include the following:

- Competition could negatively affect the ability of the Company to maintain or increase market share or profitability;
- The insurance industry is heavily regulated and changes in regulation may reduce profitability;
- A downgrade or potential downgrade in the Company's financial strength or claims paying ratings could result in a loss of business and negatively affect results of operations and financial condition;

- Deviations from assumptions regarding future persistency, mortality and interest rates used in calculating policy benefit liabilities for future policyholder benefits and claims could adversely affect the Company's results of operations and financial condition;
- The Company may be required to accelerate the amortization of deferred acquisition costs or valuation of business acquired, or recognize impairment in the value of goodwill, which could adversely affect its results of operations and financial condition;
- If the companies that provide reinsurance default or fail to perform or the Company is unable to obtain adequate reinsurance for some of the risks underwritten, the Company could incur significant losses adversely affecting results of operations and financial condition;
- Interest rate fluctuations could have a negative impact on results of operations and financial condition;
- Market fluctuations and general economic conditions may adversely affect results of operations and financial condition;
- Changes in U.S. federal income tax law could make some of the Company's products less attractive to consumers and increase its tax costs;
- The Company may be subject to litigation resulting in substantial awards or settlements, and this may adversely affect its reputation and results of operations;
- The Company's risk management policies and procedures may leave it exposed to unidentified or unanticipated risk, which could adversely affect its business, results of operations and financial condition and
- The Company may experience difficulty in marketing and distributing products through its current and future distribution channels.

A discussion of each of these risk factors may be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 under Item 1A, "Risk Factors." There are no material changes from Risk Factors as previously disclosed in the Annual Report on Form 10-K for the year ended December 31, 2008 under Item 1A, "Risk Factors."

Item 6. Exhibits

Index to Exhibits

Exhibit Number	Title	Page
31.1	Rule 13a-14(a)/15-d14(a) Certification	39
31.2	Rule 13a-14(a)/15-d14(a) Certification	40
32	18 U.S.C. 1350 Certification	41

Signature

Pursuant to the requirements of the Securities Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Great-West Life & Annuity Insurance Company

By: /s/Glen R. Derback Date: May 7, 2009
 Glen R. Derback, Senior Vice President and Controller
 (Duly authorized officer and chief accounting officer)

Exhibit 31.1

Certification

I, Mitchell T.G. Graye, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Great-West Life & Annuity Insurance Company (the "Registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/Mitchell T.G. Graye

Date: May 7, 2009

Mitchell T.G. Graye, President and Chief Executive Officer

Exhibit 31.2

Certification

I, James L. McCallen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Great-West Life & Annuity Insurance Company (the "Registrant");
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this quarterly report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/James L. McCallen

Date: May 7, 2009

James L. McCallen, Senior Vice President and
Chief Financial Officer

Exhibit 32

Certification**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of Great-West Life & Annuity Insurance Company, a Colorado corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2009 /s/ Mitchell T.G. Graye
Mitchell T.G. Graye
President and Chief Executive Officer

Dated: May 7, 2009 /s/ James L. McCallen
James L. McCallen
Senior Vice President and Chief Financial Officer

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.