Business Update Call

Company Participants

- Beth Ann Bombara, Chief Financial Officer & Executive Vice President
- Christopher J. Swift, Chairman & Chief Executive Officer
- Douglas G. Elliot, President
- Sabra Rose Purtill, CFA, Senior Vice President, Head of Investor Relations & Treasurer

Other Participants

- Brian Meredith, Analyst
- Elyse B. Greenspan, Analyst
- Jamminder Singh Bhullar, Analyst
- Jay Gelb, Analyst
- Josh D. Shanker, Analyst
- Meyer Shields, Analyst
- Robert Glasspiegel, Analyst
- Ryan J. Tunis, Analyst
- Scott Frost, Analyst
- Thomas Gallagher, Analyst
- Yaron J. Kinar, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Denise and I'll be your conference operator today. At this time, I'd like to welcome everyone to The Hartford Special Investor Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. Thank you.

Sabra Purtill, Head of Investor Relations, you may begin your conference.

Sabra Rose Purtill, CFA

Thank you, Denise. Good morning and thank you all for joining us today at short notice. Today's webcast will discuss our agreement announced this morning to sell Talcott Resolution to an investor group with an expected closing in the first half of next year.

Please note that in addition to our news release and the investor presentation, which we posted this morning, there are two 8-K filings, one for Hartford Financial Services Group which includes the sales and purchase agreement, and one for Hartford Life Insurance which is the holding company being purchased by the investor group. We will not be using the slide deck for this call today, but we may refer to them in the Q&A in order to bring certain items or numbers to your attention.

Our speakers today include Chris Swift, Chairman and CEO of The Hartford; and Beth Bombara, Chief Financial Officer. Following their prepared remarks, we will have about 30 minutes for Q&A, depending on the amount of questions. I would also note that Doug Elliot, President, is also with us today on the call.

We would remind you as well that Chris and Beth will be at the Goldman Sachs Financial Services Conference this Wednesday morning, December 6. There is public question time included in that format, which is a fireside chat, and we'll also have some time set aside at the conference for small group meetings. Just a few comments before Chris begins.

Today's call includes forward looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and actual results could be materially different. We do not assume any obligation to update information or forward-looking statements provided on this call. Investors should also consider the risks and uncertainties that could cause actual results to differ from these statements. A detailed description of those risks and uncertainties can be found in our SEC filings which are available on our website.

Our commentary today include non-GAAP financial measures, explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings as well as in the news release and presentation which are available on our website.

Finally, please note that no portion of this conference may be reproduced or rebroadcast in any form without The Hartford's prior written consent. Replays of this webcast and an official transcript will be available on The Hartford's website for at least one year.

I'll now turn the call over to Chris.

Christopher J. Swift {BIO 3683719 <GO>}

Thank you, Sabra, and good morning. Today's announcement of our agreement to sell Talcott Resolution is a final step in our journey began in March of 2012 to exit the life insurance and annuity market and concentrate our focus on P&C, group benefits and mutual funds. Looking back at this decision now, it is clear this was the right path forward for The Hartford. I am proud of all the work done by The Hartford team to get us to this point and of what we've accomplished for our shareholders over the past five years. I am pleased to announce the definitive agreement to sell Talcott for total value to shareholders of approximately $3 billion including $1.7 billion in cash and nearly $1 billion in estimated retained tax benefits.

The announcement is the result of a comprehensive evaluation of the economics of the sale versus continued run-off and a thorough and robust sales process with multiple bidders. We feel very good about the deal terms and conditions and are highly confident in closing by June 30.

The transaction meets our financial objectives, structural requirements, including a full separation of the legal entities being sold. In addition, it provides a great opportunity for Talcott to leverage their capabilities in the run-off annuity market with their market leading people, technology and hedging expertise that can be applied to other blocks of business.

We know the team at Talcott will continue to be good stewards for our policyholders, given an enduring cultured centered on integrity and ethics and a commitment to outstanding customer service and fulfilling policyholder obligations.

As part of this transaction, we are taking a small equity interest in Talcott, allowing us to participate in their future success. We believe the long-term benefits of the sale will maximize shareholder value creation versus continuing to run-off Talcott. Let me touch briefly on a few of those benefits.

First, the sale will allow us to focus on our underwriting centric businesses. We have several exceptional businesses, including our market leading small commercial and group benefits franchises, as well as strong positions in middle market, specialty, commercial and personal lines. Together, these businesses, along with our well-positioned mutual funds operation, are generating attractive returns and present meaningful growth opportunities and we will continue to invest in them.

Second, we will have an improved ROE, stronger earnings growth profile as the sale eliminates Talcott's drag on both of these financial measures. Third, the sale will reduce our exposure to capital markets tail risk. We believe this will lower our volatility and align our cost of capital to levels more consistent with other P&C and group benefits peers.

Finally, selling Talcott will provide us with about $1.7 billion in cash proceeds, increasing our financial flexibility. We will continue to be thoughtful about our deployment of excess capital, with the goal of creating long-term shareholder value.

Our priorities for capital are unchanged. We are focused on investing for organic growth, strengthening our competitive advantages and we'll consider opportunities to accelerate profitable growth through acquisitions.

Before turning the call over to Beth, I'd like to highlight what we've accomplished over the past five years. The sale of individual life, retirement plans in the Japan operations, plus the run-off of Talcott generated more than $5.8 billion of capital, most of which was redeployed in equity and debt capital management actions.

Including the proceeds from the sale announced today, Talcott has returned nearly $7.6 billion since 2012. Combined with the significant improvement in the operating performances of our other businesses, these actions have led to strong shareholder value creation over the period.

It's been five years and a lot of hard work since we announced the strategic realignment of the firm, but we took on this challenge because we believe that our competitive advantages lay elsewhere and that to be a top performing, market leading company with a strong balance sheet, we needed to concentrate our focus. While today's announcement marks our exit from Talcott, it also begins a new era for The Hartford as we move forward completely focused on P&C, group benefits and mutual funds. We see plenty of upside in these businesses and continue to relentlessly pursue our goal of becoming a leading underwriting company with superior products, technology, talent and customer experience. We come to work every day focused on creating shareholder value in The Hartford's third century while sustaining our culture of integrity, ethics, and diversity and inclusion.

Now, I'll turn the call over to Beth.

Beth Ann Bombara

Thank you, Chris. The sale we announced today resulted from a rigorous evaluation and sale process. We concluded that this transaction provides a better economics and certainty compared to the continued run-off of the blocks. In addition to the proceeds received and the retention of certain tax benefits, the sale will result in significant improvements in our future financial results and risk profile.

There are several components of the deal consideration. First, cash to be received is about $1.7 billion, including $1.4 billion to be paid by the investor group and a pre-closing dividend of $300 million from Talcott. In addition, The Hartford's total debt will decrease by $143 million because debt previously issued by HLI, Talcott's holding company, will go with the sale. The Hartford will also receive an equity interest in the acquisition company with the value of $164 million for a total value of cash and other consideration of $2.05 billion.

In addition, another contributor to the economics of the sale is our retention of certain Talcott Resolution tax benefits. Under U.S. tax law, a seller can elect to retain net operating loss carryovers instead of recognizing a tax capital loss on sale with the limitation that you cannot retain more NOLs than the amount of the foregone capital loss. We decided to make this selection because we believe retaining these tax assets is very likely to provide better economics for The Hartford than generating a tax capital loss which could only be used to offset future capital gains over the next five years.

Under current tax law, the carrying value of the retained Talcott deferred tax assets is about $950 million, comprised of approximately $670 million of net operating loss carryovers, $240 million of AMT credits and a small amount of foreign tax credits. We estimate that the retained benefits are worth $450 million on a net present value basis.

As you know, there are competing proposals related to tax reform that could materially change the value of these tax attributes, as well as the value of other tax attributes of the company irrespective of the sale. Relative to current law, the House bill would potentially make these assets somewhat more valuable to us, while the Senate bill would significantly impair their value. Although we believe the likelihood of the Senate bill passing with its proposed treatment of AMT is extremely low, the situation is fluid and it is too early to predict the outcome of the reconciliation process or its implications for our financial statements and the future value of these tax attributes. Regardless of the ultimate resolution on tax reform, we see the underlying economics of this transaction as compared to continuing to run-off Talcott as an excellent result.

On a GAAP basis, the transaction will result in a net loss on sale of about $3.2 billion. Even though the sale is not expected to close until the first half of 2018, we will record the loss on sale and the reclassification to discontinued operations in our fourth quarter financial statements.

As a reminder, our definition of core earnings excludes earnings from discontinued operations, so with today's announcement, Talcott's previously reported core earnings will be reclassified to discontinued operations. For example, core earnings of $2.65 per share for the first nine months of 2017 will now be $1.94 per share, while net income per share of $1.54 remains the same. Additionally, fourth quarter core earnings will not include Talcott core earnings. Because the economics of Talcott transfer to the buyer at signing, Talcott's results between signing and closing will not impact our net income.

We provided some details in the slides which should help you adjust your models. I would note that there is one minor impact on corporate core earnings as a result of reallocating certain overhead expenses that were previously allocated to Talcott which is explained in the slides.

Taking into consideration both the $3.2 billion loss on sale and Talcott's earnings through September 30, the amount reported on the loss on discontinued operations line in the income statement will be approximately $3 billion or about $8.05 per diluted share based on weighted average diluted shares for the nine-month period ended September 30.

In addition, Talcott's balance sheet will be reclassified as held for sale, which aggregates all the assets and liabilities of the business to be sold to one line on each side of the balance sheet. There is one exception to this reclassification, which is that the AOCI reported on Talcott's investment portfolio remains separate from assets and liabilities held for sale until closing. Talcott's AOCI balance was $931 million as of September 30, 2017.

Let me briefly cover two other topics, stranded costs and debt leverage. Because the buyer is offering employment to a full complement of Talcott employees, including finance, legal, enterprise risk management, IT and other support functions, and because HIMCO, The Hartford Investment Management Operation, is being hired to manage Talcott's invested assets for an initial period of five years, stranded costs will be relatively minor at $20 million to $30 million after tax. Consistent with prior business sales, we will address these costs through expense initiatives over time.

A second impact is on consolidated debt leverage. Due to the loss on discontinued operations in the fourth quarter, our rating agency adjusted leverage ratio will increase to approximately 29.5%, which is above our long-term target.

We expect this ratio to decrease in the next 12 to 18 months based on our previously announced repayment of $500 million of debt in 2018, as well as about $400 million of additional debt repayment using a portion of the sale proceeds. We expect that these debt actions combined with future net income, will allow us to reach our goal of achieving a ratio in the low 20% range.

As Chris discussed, the benefits we see from this transaction include our strengthened focus on P&C, group benefits, and mutual funds, the improvement in our core earnings ROE and earnings growth profile and the reduction of risk.

As it relates to the improvement in core earnings ROE, I would like to provide some color on how that will manifest in our results. We've provided you with ROEs by major business for several years as well as consolidated ROE ex-Talcott. I know you are all aware that the Talcott ROE was much lower than our other businesses. For example, as of September 30, 2017, our 12-month trailing consolidated core earnings ROE ex-Talcott was 9.7% which was depressed in part by higher catastrophe losses. Talcott's core earnings ROE was 5.1% and its net income ROE, which includes the impact of DAC unlocks and hedging results, was only 3.4%.

Clearly, the sale of Talcott and the redeployment of the proceeds will improve our consolidated ROE. However, it will take a bit of time to be fully reflected in the financial statements, because first we have to close the deal and then we have to redeploy the proceeds. As a result, we won't realize the full benefit of the sale in our 2018 ROE, although we do expect to approach 10% in 2018 with improvements thereafter.

Actual results will obviously depend on a variety of factors including our ability to maintain or improve margins in our businesses, the redeployment of the Talcott proceeds and the level of interest rates, limited partnership returns and catastrophe losses. While this ROE level is well in excess of our cost of capital, we do not view it as an endpoint as we remain focused on investing in our businesses to drive profitable growth.

Before taking your questions, I'd like to acknowledge that today's announcement would not be possible without the dedicated work and exceptional effort of our Talcott colleagues over the last five years. Both Brion Johnson and I are proud to have had the opportunity to lead this team and we are pleased that this sale will allow our teammates the opportunity to apply their market leading capabilities to be ongoing management of the business. We thank them for all their efforts and look forward to working with them through closing and transition and wish them continued success.

I'll now turn the call back to Sabra for Q&A.

Sabra Rose Purtill, CFA

Thank you, Beth. Before beginning Q&A, I would like to note that a lot of the transaction details and benefits are addressed in the slides and other materials provided this morning. For the benefit of everyone listening to the call, it would be helpful to use the time today to focus on questions that need to be addressed in a Reg FD-friendly venue and that are not specifically addressed in the slides, news release or 8-K.

After the call, the Investor Relations team would be happy to help explain any financial disclosures or technical tax or accounting questions that can be addressed with the publicly available materials. We appreciate your consideration of this request. Denise, could you please repeat the Q&A instructions.

Q&A

Operator

Certainly. Your first question comes from Tom Gallagher with ISI. Your line is open.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Good morning. First question is on the, I guess $1.3 billion of cash that you would expect to have after the debt pay downs are announced. Chris or Beth, can you just comment on how are you thinking about use of proceeds? I think there was some mention of buyback or dividends. Will some other portion of that need to be used say to recapitalize to group benefits business which I think as of right now you were expecting retained earnings to get that back up to appropriate capital levels? But can you talk a bit about use of proceeds?

A - Christopher J. Swift {BIO 3683719 <GO>}

Sure, Tom. I think your last point is right on. We made our capital injection into the group benefits company concurrent with the closing. So, that's going to build its RBC base up over 2018 to the appropriate levels we want.

So I think what you're really asking is, what are we going to do with the proceeds from this sale, and I would just observe that we've - as I said in my opening remarks, I mean, our capital management philosophy is unchanged. I mean we're going to continue to invest to grow our businesses and capabilities.

If you want to be more specific, I would say we're focused on our commercial P&C operations, particularly specialty, our A&H capabilities, industry verticals in the commercial insurance area. And then we're always thinking about how we accelerate our growth through thoughtful M&A that makes strategic and financial sense, I think is the words I've used. And finally, if we can't deploy those, the proceeds into productive revenue streams that have good returns that we'll return it to shareholders, vis-à-vis buybacks and/or dividends.

Q - Thomas Gallagher {BIO 3311667 <GO>}

So, Chris, from that response, I take it to mean priority would be probably M&A or growth in P&C, one, and then buybacks and dividends would fall below that. Is that a fair assessment?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yeah, it is, Tom, and I think we've been talking about that for the last 18 months, 2 years. So when I change that philosophy, I'll let you know.

Q - Thomas Gallagher {BIO 3311667 <GO>}

And the group benefits deal doesn't alter that, even from a timing standpoint.

A - Christopher J. Swift {BIO 3683719 <GO>}

Not at all. Not at all.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Okay. And then my follow-up is just on the tax side. So Beth, I heard your $450 million net present value is the expectation for the DTA. Now your comments about the two different versions of tax reform one being negative - one being a modest positive for the expected value there, the other one being negative. Can you just flesh that out a little bit more? And granted, it sounds like you think the positive outcome is the more likely one, but can you just mention that a little bit what...

A - Beth Ann Bombara

Yeah.

Q - Thomas Gallagher {BIO 3311667 <GO>}

...what the impact would be. Thanks.

A - Beth Ann Bombara

Yeah, absolutely. So the real difference is as we look at that value relates to AMT, so in the House bill with the repeal of AMT as well as the pay back of any AMT credits, that would increase our view of the benefit slightly. So when I said $450 million maybe we're closer to $500 million of present value basis because basically what happens is the fact that the tax assets, the NOLs go from a 35% rate to a 20% rate is more than offset on a present value basis by the acceleration of the return of the AMT credits.

On the Senate bill with AMT staying on as it is today and the proposal being that the corporate tax rate and the AMT rate are the same rate, the assets become significantly less valuable to the extent that it could be hard to see how we'd actually be able to monetize those over time. Now if House - if the Senate bill were to change the AMT tax rate so that it was lower than the corporate tax rate, that would be helpful, but it would still be below our view today under current tax law of a value of about $450 million.

Q - Thomas Gallagher {BIO 3311667 <GO>}

So closer to zero if the Senate...

A - Beth Ann Bombara

Yeah. If the Senate bill were to go through as it is, then yes. You basically are become a permanent AMT taxpayer, and so you never get benefit for the credits and you really never able to utilize the NOLs.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Okay.

A - Christopher J. Swift {BIO 3683719 <GO>}

Tom, it's Chris. I think as Beth explained that is obviously very accurate and thorough. But you would also note, on Washington, things are heading to Conference Committee. You could see that the President is talking about a 22% tax rate instead of 20%. So, to me, that is being set up from what I could feel and sense a grand bargain and grand compromise because AMT doesn't make any sense the way it's constructed right now.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Okay. Thanks, guys.

A - Beth Ann Bombara

Yeah. And Tom, the only other I'd add is, again, we're talking specifically obviously about the tax attributes associated with the Talcott sale that we're retaining. Again, we have other tax attributes as well, so our comments are really broadly and, again, what we're talking about here really is irrespective of a sale or no sale. It just really relates to how our tax attributes as a company would be monetized over time.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Okay. Thanks.

Operator

Your next question comes from Jay Gelb with Barclays. Your line is open.

Q - Jay Gelb {BIO 21247396 <GO>}

Thanks very much. If I look at the headline numbers for the transaction value and the cash value of the deal, it appears that it kind of came in on the low end of expectations. Can you kind of talk us through the process a bit in terms of how Hartford and the investor group came up with the ultimate value of Talcott?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yeah, Jay. It's Chris. What I would say is in just classic negotiation, there's things that were important to us, there's things that was obviously important to that side. So some of the things that we placed a great deal of value on is having HIMCO continue to be the asset manager for effectively 80% of Talcott's assets. We were willing to make a small 9.7% equity investment in that. It gives us a board seat and representation that Brion Johnson will take that seat from Hartford. Obviously, they ran discounted cash flows in actuarial models. And so you arrive at sort of value, and then at the edges, you renegotiate points that are important.

So I wouldn't characterize it at the low end. I mean, remember, we took a lot of dividends out of Talcott in 2017, $1.4 billion. So I think everything's relative to, call it, the embedded value of the blocks of business, I mean, actual stat surplus. And again, I give Beth and our tax team a lot of credit for structuring the way we did tax-wise to – gives ourselves the option hopefully with a good tax law that's passed to maximize those benefits. So when you put it together, $3 billion compared to the statutory surplus value adjusted as of September 30, that's close to 90% which I think is a good outcome from my perspective.

A - Beth Ann Bombara

Yeah. And again, I just would remind you that if you – we took the $800 million of dividend to fund the Aetna transaction post-September 30. So our printed surplus at September 30 was $4.1 billion. But if you really think about the surplus that's there now, after that, it's more in the $3.3 billion range.

Q - Jay Gelb {BIO 21247396 <GO>}

That's helpful. Thank you. And then on the – Beth, on that return – on the core return on equity expectation for 2018, if I take kind of the $37 of pro forma book value as the nine months 2017 and kind of 10% on that, it equates to around call it $3.70 of earning power in 2018. Is that what you're considering kind of a calendar impact, or is that a run rate following the expected second half of 2018 close?

A - Beth Ann Bombara

Yeah. So, I think that math maybe gets you a little bit in the range. I mean, obviously, our results this year have been – when we think about moving forward, been impacted by cats and so forth, so when we think about normalized earnings levels. And then, again, there'll be a little bit of timing relative to just the equity base relative to when we close the sale and what we do with the proceeds because again – so, for example, if we don't close till the end of June, that value that's on our balance sheet through those six months isn't really earning a return. So you have to kind of take that into consideration as well when you look to do that math.

Q - Jay Gelb {BIO 21247396 <GO>}

Right.

A - Christopher J. Swift {BIO 3683719 <GO>}

Jay...

Q - Jay Gelb {BIO 21247396 <GO>}

Yeah, I'm sorry, Chris. Go ahead.

A - Christopher J. Swift {BIO 3683719 <GO>}

No. I was going to say, again, you've been consistent in your questioning. I think what we're ultimately saying is we think we could earn 10% next year and be on a path to continuingly expand that into 2019 and 2020 with thoughtful capital management, either from an earnings side or obviously returning excess capital to the shareholders. So we haven't been able to say that that definitively to all your questions over the last 12 quarters, but I think this is the first time that we're actually declaring that we see a path to 10% and beyond now that we've disposed of Talcott.

Q - Jay Gelb {BIO 21247396 <GO>}

Makes a lot of sense. Thanks again.

Operator

Your next question comes from the line of Josh Shanker with Deutsche Bank. Your line is open.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Yeah. Thank you. I was curious to know about your long-term plans on debt to capital. How many years out are we thinking to get to your goals?

A - Beth Ann Bombara

Yes. So if we – again, taking into consideration what our plans are for debt repayment that I highlighted, over the next couple of years, we anticipate that we can get into that lower 20% just by generation of net income. Obviously, that's going to be dependent on a lot of factors, but we think that those – that use of proceeds of repaying about $400 million of debt in addition to the $500 million we were already planning and had earmarked, the cash earmarked for that definitely puts us on that path.

Q - Josh D. Shanker {BIO 5292022 <GO>}

And just to be clear, couple, sometimes few, sometimes means two. Do you think you can be there in two years or it's going to take a little longer than that?

A - Beth Ann Bombara

I'd say to – within two years if you just think about that as 2018 and end of 2019, I think we're definitely in the lower part of the 20s and we'd look to continue to improve from there.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Okay. Thanks very much.

Operator

Your next question comes from Elyse Greenspan with Wells Fargo. Your line is open.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Hi. Good morning. My first question just coming back to your talk around the proceeds and obviously getting towards your ROE targets, when you think of the timing of putting forth I guess how you expect to use these proceeds, is that something that we'll hear more from when we get closer to the closing of this deal in the first half of next year kind of depending on what happens to the P&C market, et cetera?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yeah, Elyse, what I would say is we obviously expect to close this June 30, I would say generally in that point in time. But I would want you to think in terms of, look, we've been very, I'll call it, programmic on what we're doing with capital on a year-to-year basis. You might see us evolve to, I'll call it, a larger capital management or share buyback authorization that covers more of a multiple year period of time and it will be opportunistic in buying back shares and/or looking at acquisition opportunities.

So I'm trying to manage your expectations a little bit that July 1, we're not going to tell you what we're going to do with our capital. It will evolve into 2019 and 2020 and we'll be proactive in buying back shares if that's the right thing to do at that time and are deploying it in other ways. So just have that expectation going forward.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay, great. And then if I may just being that where in December your call was about six weeks or so ago. Is there any way you guys could provide a little bit of additional color on what you're seeing within the commercial lines marketplace, just everyone's been a bit more optimistic following on a high level of Q3 losses. Any chance you can provide an update on what you're seeing on the pricing environment?

A - Douglas G. Elliot {BIO 3700927 <GO>}

Elyse, good morning. This is Doug. A few thoughts for you, one, I'd start by saying we're not a significant market player in the large property space, right. So my comments really are very reflective of the middle market and small commercial. I'd also say it's still early. But I expect we're at the beginning of market firming.

Through early fourth quarter, we've not experienced widespread property price hardening. We do however, see some early signs in cat prone areas and I expect to see more of that as we move into 2018. So, we don't see a broad – across the country movement yet, but we're seeing early signs on the property side and I expect also to see movements in GL and obviously, the auto pricing improvements continue.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Thank you very much.

Operator

Your next question comes from Jimmy Bhullar with JPMorgan. Your line is open.

Q - Jamminder Singh Bhullar

Hi, good morning. Just a strategic question for Chris. Maybe, can you talk about your views of Hartford as takeout candidate and then conversely your desire to grow through acquisitions in the lines of business that you're in? To what extent was the rationale for this transaction reducing volatility in the business, and reducing tail risk versus making Hartford a more appealing takeout candidate?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yeah, Jimmy. I think I said in my prepared comments, I mean, we wake up every morning, thinking about how we can create shareholder value through things that we control, organic growth, M&A being thoughtful and the deployment of excess capital, so focused on improving our ROEs to improve valuation. If I think about some of the ROE drivers that you would put together, coming out of this transaction, investing those proceeds into P&C, it would be high priority.

Continue to improve the profitability of our personal lines book of business, we got expense takeout as it relates to this transaction plus integrating the Aetna implementation and will return as we've shown excess capital of shareholders if we don't have a good use for it. But none of this is conditioned upon positioning us to be taken out, honestly. We know our fiduciary duties in our board. But we're focused on trying to grow the organization, our capabilities. We're a national player that has a great brand, great culture, and we're just trying to compete every day and win business.

Q - Jamminder Singh Bhullar

Okay. Thanks. And just on the stranded overhead costs, is it reasonable to assume that they'll be mostly eliminated within the next year or two years or could it take longer than that?

A - Beth Ann Bombara

Yeah. That's a very realistic expectation. Again, they're relatively small if you compare them to other transactions that we've done and we would expect to do that over the next one to two years.

Q - Jamminder Singh Bhullar

Okay. Thank you.

Operator

Your next question comes from Brian Meredith with UBS. Your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes. Thanks. Just one or two quick ones here. Just curious on the assets that HIMCO is going to manage for the Talcott, are you going to receive fees for that? And is that factored in at all to your stranded costs?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yeah. I would say yes. From obviously a fees side, we're trying to be as competitive as we can with other third-party asset managers, but we feel good about the fee structure and then, Beth, you can address the costs.

A - Beth Ann Bombara

I agree and yes and we took all of that into consideration looking at those stranded costs. So the fact that we are receiving fees for the assets that HIMCO will manage, we'll obviously offset the cost of HIMCO and that was taken into consideration.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. So that's - so the $35 million to $45 million assumes the HIMCO fees coming in.

A - Beth Ann Bombara

Yes.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay, great. Thanks. And then lastly, Chris, I'm just curious, not to kind of beat on dead horse here, but with respect to just the proceeds coming in, how quickly should we think of your view that you think you need to redeploy these proceeds, just a meaningful amount of proceeds. Obviously, they're just sitting on your balance sheet earning kind of a cash return is going to kind of depress your return on equity at least initially.

A - Christopher J. Swift {BIO 3683719 <GO>}

Yeah. So make the assumption if cash comes in June 30, and again, we're not going to sit on excess capital forever. I don't have a precise formula I could give you, Brian, but we've deployed excess capital over time sort of not in one shot.

You haven't seen us doing accelerated buyback plans. We're sort of on a quarterly basis. So that philosophy will continue. But as we sit here today, I mean, I can't tell you by the end of 2019, we intend to deploy X percent of the proceeds. It will just evolve and we'll tell you what we're doing.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thank you.

Operator

Your next question comes from Ryan Tunis with Credit Suisse. Your line is open.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Hey. Thanks. I just have one for Beth, I guess, on tax. Any commentary based on how you're reading the House and the Senate bill, where you might see your pro forma tax rate?

A - Beth Ann Bombara

So that's a difficult question. Obviously, with the corporate tax rate going down to 20% in both provisions, you kind of can do that math to see what it is. I think the problematic thing with the Senate version is that our effective tax rate could be higher than that just because we'd be in a permanent AMT position. So that part that we see is very problematic to us.

But it's hard to give like an estimate off of that, just again it's going from 35% to 20% and you can think about where we'd be from an effective tax rate perspective with the idea that we still would have muni bond income. Obviously, we won't have the DRD benefit anymore. So we would see a reduction from where we sit today when we're kind of in mid to high-20s. We'd probably be a little bit below 20%. Again, under the House bill, the Senate bill totally different and a lot more complicated depending on where AMT comes out.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Sure. Thanks. That's all I had. That's helpful.

Operator

Your next question comes from Meyer Shields with KBW. Your line is open.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Good morning. Two quick questions. One, Beth, is the $400 million of contemplated debt reduction the same thing as the 2019 debt maturity? Or could you pay down some higher interest rate debt with that $400 million you're talking about?

A - Beth Ann Bombara

Yeah. It's a great question. So the way we're thinking about it right now is that we would look at that 2019 maturity and be able to repay that. And as you point out in January of 2019, again, our plan can always change as we sit here today, but as we think about just the timing of when the proceeds would come in and kind of how our debt stack looks, that's how we're thinking about it.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thanks. And second question, where in your income statement will your share of Talcott be – share of Talcott's earnings to be reported?

A - Beth Ann Bombara

Yeah. So that will show up in our corporate segment. Our investment in Talcott will not be owned by one of the operating companies. So, it will show up in corporate, and it will really be treated just like our other sort of investments and limited partnerships.

Q - Meyer Shields {BIO 4281064 <GO>}

Perfect. Thanks so much.

Operator

Your next question comes from Bob Glasspiegel with Janney. Your line is open.

Q - Robert Glasspiegel {BIO 1764160 <GO>}

Good morning, Hartford. Congratulations. I suspect this was a ton of work to get this to the goal line. Help me out with what the sort of balance sheet and financial strength of the acquiring company is. The reason I ask is I was at an insurance conference with an accounting firm, and they said that to try to get deals done, regulators are much more concerned about that the acquiring company have a balance sheet strength somewhat comparable to the one they've sold.

I assume you've walked through and spent a lot of time with the regulators walking through hypotheticals and what the acquiring balance sheet. But a little help on what it looks like and what sort of guarantees you've gotten from the regulators that this meets their satisfaction.

A - Christopher J. Swift {BIO 3683719 <GO>}

Bob, it's Chris. What I would say is we obviously have an open and transparent communication stream, dialogue with our regulators. So, they understand what we're trying to accomplish. I would say that the acquiring company is I'll call it being capitalized with fresh capital from their investors and that there is not an existing company. So, their acquisition vehicle will acquire our holding company, HLA (sic) [HLI] (43:03), as Beth described. That holding company will include about $150 million of debt, and that Talcott remains a well-capitalized organization today with, I'll call it, good capital positions even in severe stress scenarios.

So I think that's what the regulator will look to approve, to understand their business plan. The Form A process can now start with the acquiring company interacting with the Connecticut regulator. We do not have anything to do with that. But they will go through the process of showing how they're going to manage their business plans, and then obviously seek approval and the regulator will want to know who really is in control. So control becomes an important part of that Form A process. So, that's what I would share with you, Bob.

Q - Robert Glasspiegel {BIO 1764160 <GO>}

So as best you - it's Connecticut I assume?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yeah. And again, Talcott to Connecticut domiciled. And as I said in my prepared remarks, and I did it intentionally is that we do have a high degree of confidence this will get approved by June 30.

Q - Robert Glasspiegel {BIO 1764160 <GO>}

Right. So the residual balance sheet strength of Hartford doesn't go into the thought process, Talcott's stand-alone and the fact that they've got a well-financed parent is now and won't in the future, that's not relevant to their – how they're looking at it?

A - Christopher J. Swift {BIO 3683719 <GO>}

Yeah. Again, your words, not mine. I would say that their acquisition vehicle is raising fresh capital to acquire Talcott and cut us the equity check and then they get the Talcott balance sheet with its surplus position, liquidity and investment. So I'm not sure we're communicating, Bob, but that's my word.

Q - Robert Glasspiegel {BIO 1764160 <GO>}

No, I got you. I got you. Thank you. Appreciate the answer. Good luck.

A - Christopher J. Swift {BIO 3683719 <GO>}

Thanks.

A - Beth Ann Bombara

Only thing, I'll just to clarify because you said HLA, it's HLI. Just so no one's confused that we're selling our group benefits company, we are not.

Operator

Your next question comes from Scott Frost with SSGA. Your line is open.

Q - Scott Frost {BIO 16894956 <GO>}

Hey. Thanks for taking my call. It kind of sounds like getting your leverage targets down, you expect the liability management actions to be passive. Is that how we should think about that? And I have a follow-up as well.

A - Beth Ann Bombara

Yeah. So as we've laid out as we think about, as we said, the maturities that we have coming, the $500 million that we already indicated that we would be calling in June and then using an additional $400 million right now in our materials, it says targeting that maturity in January 2019 coupled with just the net income that will generate over the period, we think that those actions allow us to get to our targets.

Q - Scott Frost {BIO 16894956 <GO>}

And also just to address, the Glen Meadows have been effectively swapped out. I think that's to – your pay fixed at about 439, 440 basis points.

A - Beth Ann Bombara

Yes. Yes.

Q - Scott Frost {BIO 16894956 <GO>}

Is that right?

A - Beth Ann Bombara

Yeah.

Q - Scott Frost {BIO 16894956 <GO>}

And that still remains an attractive transaction for you at this time. Is that also fair to say?

A - Beth Ann Bombara

Yes. We felt that that was very attractive in the terms and no change there.

Q - Scott Frost {BIO 16894956 <GO>}

Okay. Thank you.

Operator

Your next question comes from Yaron Kinar with Goldman Sachs. Your line is open.

Q - Yaron J. Kinar {BIO 17146197 <GO>}

Hi. Good morning, everybody. Just had two questions. First one on the timing of the deal especially since it seems like a lot is riding on the tax benefits, can you maybe talk us through why you chose to do the deal now and not maybe wait for additional clarity on where tax reform will fall?

A - Beth Ann Bombara

Yes. So again the way I think about tax reform, that impact is going to be there regardless if we do a transaction or we don't do a transaction. It's not as if this transaction is impacted uniquely that way.

And so, again, when we look at just the underlying economics, the ability to transact in a way that was always our desired goal of full legal entity sale, in our words, clean break and the value we were getting, we believed it was the appropriate time and did not see that waiting for a tax reform would really materially change our view as to the attractiveness of this transaction.

Q - Yaron J. Kinar {BIO 17146197 <GO>}

Okay. And then the second question I had was around the equity interest that you have in the new company. Is there a lockup period associated with that?

A - Beth Ann Bombara

So our investment is just like every other investor in the group, and the various agreements dictate when individuals can sell and so forth. So, we would expect to be a holder of this interest for the foreseeable future.

Q - Yaron J. Kinar {BIO 17146197 <GO>}

Great. Thank you for taking my questions.

Operator

Your next question comes from Tom Gallagher with ISI. Your line is open.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Thanks. Just a question on HIMCO and any expected earnings impact for HIMCO. I saw you have the five-year asset management contract going forward. But curious if you could tell us what percent of their revenues are associated with Talcott versus what remains left at Hartford and any other third party?

A - Beth Ann Bombara

Yeah. So, Tom, I would just say when you think about sort of the bottom line, you wouldn't see a significant change in how we've been earning investment income off of the invested assets and how HIMCO performs. So the way I kind of think about it is the fees that we're generating from this business versus the costs that we spend and kind of across the place are very consistent and so you really wouldn't - you shouldn't be thinking about sort of a net lift in our earnings because of that. And the way why we see this as so positive is that it really does allow us to maintain the scale at HIMCO and to benefit from their continued management of our assets we're retaining in the P&C and group business at a very attractive rate. So that's way we see is it so positive.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Got it. And Beth, will the majority of revenues from HIMCO be associated with the business you're selling? I just want to understand like go forward the earnings contribution.

A - Beth Ann Bombara

Yeah. And so I guess what I'm saying is I look at the earnings contribution going forward of the returns that are generated on the assets that remain. So again, the fees that we are charging for the assets that HIMCO will be managing of the Talcott going forward which is about, call it, like $40 billion of AUM. That will be - it will cover the expenses that would also be allocated with that. So I don't really see it as sort of an incremental sort of margin that you should build into your models that you didn't or have there before.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Okay. Thanks.

Operator

Your last question comes from Jay Gelb with Barclays. Your line is open.

Q - Jay Gelb {BIO 21247396 <GO>}

Thanks very much. Just to close the loop, Beth, is there anything else we should be keeping in mind for the fourth quarter on a core basis whether that's catastrophe losses? I know on the third quarter call, you already talked about $175 million of California wildfire exposure. Any reserve reviews coming up that we should be aware of, anything else?

A - Beth Ann Bombara

Sure. So, a couple of things, so yes, as it relates to catastrophes of the quarter, what I said on the third quarter call is that the losses from the wildfires, we expect it would be at or above what Harvey was, which was the $175 million. And sitting here today as we continue to assess and work with our policyholders to understand their losses, we would put that estimate at about $240 million to 250 million pre-tax.

The other thing to take into consideration, though, is as we continue to work through the losses from the hurricanes, we're actually seeing those estimates come down a bit. And then when you couple that with just how our aggregate cat loss treaty works for fourth quarter in total, kind of putting all those pieces together, I'd expect cat losses in the, like, $180 million to $200 million pre-tax range.

As far as other reserve studies, we are in the process of completing our asbestos and environmental reserve study. But as you know, we entered into a reinsurance agreement last year, so we do not expect any earnings impact to come through for that study.

And then we just have our normal other reserve reviews that are ongoing which are still just under way, and again, I would say nothing significant coming from that. There's always some true-ups either way. But overall, we've been very pleased with how our underlying reserve estimates have been holding throughout the year.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay. So, total cat losses in the $180 million to $200 million pre-tax in 4Q net of all those factors you outlined?

A - Beth Ann Bombara

Yes. Yep.

Q - Jay Gelb {BIO 21247396 <GO>}

All right. And, Doug, anything on the personal auto side we should keep in mind? I know fourth quarter historically has shown some variability.

A - Douglas G. Elliot {BIO 3700927 <GO>}

Continued progress. Obviously, the next 30 days will be important from a weather perspective, and I don't think anything else significant to say, Jay, at this moment.

Q - Jay Gelb {BIO 21247396 <GO>}

Appreciate it. Thank you.

Operator

There are no further questions queued up at this time. I'll turn the call back over to Sabra Purtill for closing remarks.

A - Sabra Rose Purtill, CFA

Thank you and thank you all for joining us today at short notice. If you have any additional questions, please do not hesitate to follow up with the Investor Relations team. We wish you a good week and hope to see many of you on Wednesday in New York. Thank you.

Operator

This concludes today's conference call. You may now disconnect.