Q4 2020 Earnings Call

Company Participants

- Beth A. Costello, Chief Financial Officer
- Christopher J. Swift, Chairman & Chief Executive Officer
- Douglas G. Elliot, President
- Susan Spivak, Senior Vice President of Investor Relations

Other Participants

- Brian Meredith, Analyst
- David Motemaden, Analyst
- Elyse Greenspan, Analyst
- Jamminder Bhullar, Analyst
- Meyer Shields, Analyst
- Mike Zaremski, Analyst
- Ryan Tunis, Analyst
- Tracy Benguigui, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Good morning everyone and welcome to The Hartford Financial Services Group Incorporated Fourth Quarter 2020 Financial Results Webcast.

All participants will be in listen-only mode. (Operator Instructions)

Please note that, today's event is being recorded. At this time, I'd like to turn the conference call over to Ms. Susan Spivak, Senior Vice President of Investor Relations. Ma'am, please go ahead.

Susan Spivak {BIO 1514699 <GO>}

Thank you, Jamie. Good morning and thank you for joining us today for our call and webcast on fourth quarter and year end 2020 earnings. We reported our results yesterday afternoon and posted all the earnings related materials on our website. For the call today, our speakers are, Chris Swift, Chairman and CEO of The Hartford; Doug Elliot, President; and Beth Costello, Chief Financial Officer. Following their prepared remarks, we'll have a Q&A period.

Just a few final 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. Our commentary today includes 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 financial supplements.

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

I will now turn the call over to Chris.

Christopher J. Swift {BIO 3683719 <GO>}

Good morning and thank you for joining us today. Let me start by saying, we've been through one of the most turbulent years in recent history, which has been shaped by extraordinary set of circumstances, including the worst pandemic in more than 100 years and in its way devastating economic and emotional fallout. A collective reckoning with racial inequality that continues to challenge America, and the increasingly vivid reminders that our climate is changing.

Despite these challenges, The Hartford continued to deliver strong results with core earnings of $636 million or $1.76 per diluted share for the fourth quarter and a trailing 12-month core earnings ROE of 12.7%. For the year, core earnings were $2.1 billion or $5.78 per diluted share and book value per diluted share excluding AOCI was $47.16, up 8% from 2019.

The Hartford's performance reflects the strength of our businesses, our execution on strategic priorities and build a solid foundation for our Company's future sustainable success. I want to thank all my colleagues across The Hartford. I am incredibly proud of the resiliency demonstrated by our employees, and their commitment to our stakeholders during this unusual time, while balancing the demands of work and family.

Now turning to the business and 2021 outlook. Property and Casualty underlying -- underwriting results significantly improved in both the fourth quarter and for the full-year 2020, with strong performances in both commercial and personal lines. Excluding the impact of COVID, commercial lines underlying margins expanded by 6.5 points in the fourth quarter and 1.6 points in 2020, with improvement coming from all businesses. These results were in-line or better than the guidance we provided a year-ago, and were driven by higher pricing, adherence to our underwriting disciplines and operating efficiencies.

In commercial lines, pricing momentum continues across nearly all lines excluding workers' compensation. And we expect pricing increases to continue as additional rate is needed to offset pressure from social inflation, more frequent catastrophe events and the persistent low interest rate environment. In commercial lines, our teams are executing strongly on a number of fronts. In Global Specialty, the strategic transaction to acquire Navigators is on track. The integration is proceeding well and it is providing us with expanded product breadth in Middle-Market and Global Specialty.

In 2020, we've met our goal of improving financial performance in the business compared to the second-half of 2019, and the acquisition was well timed from a market perspective.

Small Commercial results remain excellent, we continue to strengthen our competitive advantages in market leadership position. The launch earlier in the year of our new business owners policy, raised the bar for customer experience in buying and managing coverage. Going forward, we've a robust strategy to grow through product innovation and we will continue to invest to maintain our industry-leading digital experience. I'm excited about what we'll continue to accomplish in this business.

In Middle and Large Commercial, we completed year-one of a three-year plan to transform the underwriting process, provide a differentiated customer experience and grow our specialized verticals. In the fourth quarter, underlying margins improved by 4.4 points, compared to prior-year, primarily due to lower expense ratio. In addition, our broader and deeper product set and enhanced analytics will drive further growth and improved margins.

Moving to Personal Lines, underlying margins improved in both the fourth quarter and the year, benefiting from continued favorable auto frequency, lower non-CAT incurred property losses and reduced expenses. In 2020, we extended our AARP relationship with a new contract that runs through the end of 2032, solidifying our unique value proposition for the 50 and over demographic. We are also investing in a new digital platform to administer and market our products. Doug will provide more detail, and I'm excited about the new auto and home products, we will launch in the next six months.

So in summary for P&C, 2020 performance was strong, despite challenges of the pandemic and COVID losses. In 2021, we expect continued modest COVID losses in workers' compensation and financial lines. And while we are encouraged that the vaccine roll-out has begun, we're learning it will take more time than initially projected to achieve protection across the broader population. With this outlook, we are expecting our Commercial Lines, underlying combined ratio, excluding the impact of COVID in both years to improve by approximately 3 points from 2020 results to a range of 88.5 to 90.5.

The margin expansion alone is significant, when coupled with our business mix, it is an ambitious but achievable outcome. In Personal Lines, our outlook for 2021 incorporates an assumption that driving patterns begin to return to more normal levels and property results are more in-line with historical trends. The result is an expected underlying combined ratio in the range of 87 to 89.

I am very bullish about our growth potential and expect to increase our top-line, at a faster rate than we have experienced over the past five years. While some of this growth reflects a positive pricing environment, we see the increasing opportunity to utilize our brand, people, enhanced underwriting capabilities and excellence in customer service to capture market share.

Before moving to group benefits, I want to briefly comment upon the business interruption lawsuits, brought against The Hartford and the industry. While we're extremely sympathetic to the difficulties faced by our insureds, in all businesses dealing with the pandemic, the claims against us are outside the scope of our policies.

All of our property policy is subject to litigation, plainly require direct physical loss or damage to trigger coverage, and the COVID-19 virus clearly does not cause such loss or damage. Although, it is still early in the lifecycle of some of these cases, we're pleased with the overwhelming majority of decisions to date by federal and state courts across the country has held in favor of the insurance carriers and recognized that the presence of the virus does not meet the direct physical loss or damage trigger for coverage.

Given the number of lawsuits, it is not surprising that some initial rulings have gone against the industry, where appropriate these cases have been or will likely be appealed and I'm confident, Appellate Courts will properly consider the growing body of precedent in favor of the industry. Nevertheless, a few unfavorable trial court rulings does not change our view of this exposure or the strength of our coverage arguments, we remain highly confident in our contract language and coverage positions.

Finally there has been some commentary about the number of lawsuits filed against The Hartford versus other industry players. We do not believe simply comparing the number of lawsuits is a useful way to assess exposure. A more appropriate way is to analyze coverage defenses, eliminate profiles, portfolio mix and other variables. Since the initial outside wave of lawsuits against the Company, the pace of new cases against The Hartford, has slowed significantly and is now in-line with peers.

In the meantime, pending case counts against us have been reduced by approximately 25% to-date, through a combination of motions and withdrawals. Turning to Group Benefits. Core earnings were down in both the fourth quarter and full-year, as we experienced excess mortality rates, which we believe is attributable to the ongoing impacts of the pandemic. Obviously, mortality has been impacted by thus directly attributable to COVID, but there is also an indirect effect which is most likely the result of patients deferring regular treatments for chronic conditions or individuals tolerating warning signs of a health problem for too long before seeking care. All caused excess mortality amounted to $152 million before tax in the quarter and included $22 million of claims related to prior quarters.

The full-year impact of excess mortality was $239 million, which reduced our full year core earnings margin by 3.1 points to 6.4%. In disability, our fourth quarter loss ratio was 65.1%, was 3.1 points higher than prior year, as the fourth quarter of 2019 results included higher favorable prior-year development. For the full-year 2020, the loss ratio improved by 1.2 points to 66.1%, benefiting from strong recoveries into a lesser extent favorable incidents.

On the top-line, the fully insured ongoing premiums were down 2% in the quarter and for the full-year, as our clients responded to the pandemic driven economic pressures by reducing their workforce in associated payrolls. 2020 fully insured ongoing sales driven by strong national accounts were up a 11% to $717 million and persistency was slightly favorable at approximately 89%. Sales are off to a solid start in 2021, with 1, January effective date of sales exceeding prior year by more than 10%.

Looking into 2021, we expect the Group Benefits marketplace to remain dynamic, as digital transformation, product innovation and customer demands accelerate. Our competitive advantages and future investment roadmap will strengthen our market leadership. That said, many questions still surround the pandemic and its effect on mortality and the economy. Therefore, we are basing our loss picks heavily on total mortality trends in the near-term, rather than trying to isolate COVID-related deaths only. Based on historical mortality expectations, excluding any pandemic related effects, we expect the core earnings margin to be between 6% and 7%. The decrease in expected margin from 2020, actual ex-COVID results, primarily relates to lower expected favorable prior period development on LTD reserves and life waiver claims and lower net investment income.

Taking into account the uncertainties surrounding the mortality impacts of the pandemic, we expect core earnings margins to be reduced by 2.3 points given the continued higher rates of all cause excess mortality. Actual mortality rates will be impacted by the vaccine roll-out pace, mutations of the virus in the broader population, returning to more routine medical care. In addition, we expect to a much smaller degree, elevated short-term disability claims compared to historic norms. Lastly, we expect these higher mortality in short-term disability claims to impact our results predominantly in the first-half of 2021.

As we close the books on 2020, I'm optimistic about the future. At The Hartford, underwriting human achievement is at the heart of what we do. We are committed to making a sustainable and positive impact on society, as an essential element of our ongoing success. Across The Hartford, we're making this happen by always doing the right thing, fostering a workplace where everyone is welcome and respected, using our resources and influence to help mitigate the challenge of changing climate patterns and helping to make our communities, where we live and work be safer and more successful, which has never been as important as it is today. Heading into 2021, I am confident in our business portfolio, people and our strategy to deliver value for all our stakeholders.

Now I'll turn the call over to Doug.

Douglas G. Elliot {BIO 3700927 <GO>}

Thank you, Chris and good morning everyone. As Chris referenced, 2020 was an unprecedented year for Property and Casualty industry, and The Hartford. The global pandemic and civil unrest losses, significantly contributed to the challenges presented to our customers we serve, along with our broker and agency partners.

Our employees deserve a huge thank you for their tireless efforts throughout this difficult year, tackling every obstacle that came their way. Despite the challenges, I was quite pleased with our overall performance. Property and Casualty underlying margins improved by just over 1 point in 2020, and written premiums grew 3%.

During the year we also made substantial progress on a number of key business initiatives. In Small Commercial, despite COVID charges and expected margin compression from workers' compensation, we continue to outperform with another sub-90 underlying combined ratio. During the last four months of the year, new business from Spectrum, The Hartford's industry-leading package product achieved record levels.

In Middle and Large Commercial, 2020 was the first-year of our underwriting transformation journey, intended to address profitability, efficiency and customer experience. Strong pricing and underwriting actions have driven improved profitability in the core book. In addition, investments in technology and data, are paying-off for underwriters and distribution partners. Our pace has accelerated, quote turnaround time by 5 days, which equates to about 25%, while simultaneously improving the underwriting experience and effectiveness.

In Global Specialty, we are nearing two years, since the Navigators acquisition closed, and are poised to exceed core earnings and new business goals. Underlying financial results are improving, driven by exceptional pricing and book reshaping. Continued progress to deepen relationships with retail distribution partners, has delivered an additional $134 million of new premium, across Commercial Lines that would not have been possible prior to the acquisition.

Finally in Personal Lines, we renewed the AARP contract to 2032 and we will be launching a brand new auto product with improved digital capabilities by April. Homeowners will be launched in the summer, with both products in a number of states by year-end. Underlying results were extremely strong, driven largely by the pandemics impact on driving miles, while new business remains below expectations.

Let me now pivot to summarize our financial performance for 2020 and then I will conclude with some thoughts about 2021. Property and Casualty core earnings were $1.7 billion for the year, with a combined ratio of 96.4. This includes COVID-losses of $278 million or 2.3 points and current accident year catastrophe losses of $606 million or 5.1 points.

Excluding COVID losses, each business reported underlying margin improvement for the year and significant improvement in the fourth quarter, much of which was driven by a lower expense ratio. COVID losses in the quarter were $28 million, including $14 million for both workers' compensation and financial lines. The workers' compensation charge includes the benefit from the pandemic related favorable frequency.

Turning to CATs. We incurred $55 million in the quarter, primarily from hurricanes and convective storms, well within our expectations. Net favorable prior year development for the year was $136 million or 1.1 points. In the fourth quarter, we reported $184 million or 6.1 points of net unfavorable prior year development which Beth will cover in her remarks.

Turning now to our business line results. The Commercial Lines underlying combined ratio was 95.5 for the year, improving 1.6 points from 2019, when COVID losses are excluded. The margin improvement was driven primarily by favorable non-CAT property results, and a lower expense ratio, partially offset by continued margin compression in small workers' compensation. A few words on pricing. US commercial lines, renewal written pricing excluding workers' compensation was approximately 11% for the quarter, an excellent result and consistent with the third quarter.

Middle Market renewal written pricing in the US, excluding workers' compensation increased 10.4% for the year, nearly doubling 2019s result. In the fourth quarter, the written price increase was stable at 10.3%. Property and general liability pricing remains firm in the high single-digits, while auto held steady in the low double-digits. In Global Specially, US pricing in the quarter was a robust 19.2%, generally consistent with third-quarter.

The US wholesale book achieved 25 points also in-line with quarter three. Excess pricing is in the mid 30s, while Property Lines are persisting in the low 20s and auto has moved into the mid-teens. Pricing gains in the international portfolio remains solid, with improved results in marine and a very strong professional lines pricing.

Small and middle market workers' compensation pricing in the quarter, while still negative increased 60 basis points from the third quarter, driven by favorable ratings in a few states. Overall, I am very pleased with how effectively our team has balanced the impact of the pandemic, account pricing and profitability improvements in 2020.

Let me share a few more details on the businesses starting with Commercial. Small Commercial had another very strong year. The underlying combined ratio was 89.2% for the year, 1 point better than prior year when COVID losses are excluded. Lower non-CAT property losses and a favorable expense ratio were partially offset by workers' compensation margin compression. Total Small, Commercial written premium declined 3% for the year. After a challenging second quarter due to the economic shutdown, written premium in the last six months was essentially flat to prior year.

In the fourth quarter, new business results were strong and policy retention return to historical levels. Our premium retention in the second half of the year was unfavorably impacted by lower premium audits and endorsements of approximately 4 points to 5 points, due to lower payrolls. Fourth quarter new business of $153 million was up 11% versus prior year. Our Spectrum product is driving this growth and I am very encouraged by the improved business momentum.

Moving to Middle and Large Commercial, we posted an underlying combined ratio of 100.9% for the year, 2.5 points better than prior year after excluding COVID losses. A favorable expense ratio and lower non-CAT property losses, drove the margin improvement. Total written premium declined by 3% for the full year. New business in Middle Market was down 18% versus 2019. However, new business premium in the fourth quarter was up 2%. Quotes, quote ratio and hit ratio in the guaranteed cost book for the fourth quarter were all better than 2019 levels. 2020 premium retention declined 7 points versus 2019, driven by underwriting actions and lower exposures in workers' compensation. Through this underwriting discipline, we start 2021 with much improved financial performance.

In Global Specially, the underlying combined ratio was 98.3% for the full year, 2.5 points better than prior year after excluding COVID losses. We continue to be pleased with the margin expansion in Global Specialty. Excluding the impact of COVID, we have seen approximately 5 points of improvement from the second half of 2019, almost entirely coming from the Navigators book with particularly strong results in US wholesale and Global Reinsurance, combined with a lower expense ratio. Global Specialty written premium for the fourth quarter was up 9% versus prior year. Top-line growth was driven by significant favorable pricing, partially offset by slightly lower new business levels and lower retentions, primarily in the international book due to our portfolio reshaping and underwriting actions.

Shifting over to Personal Lines. Written premiums declined 6% for the year, 4% when adjusting for the second quarter refund. Although new business levels were below expectation, auto new business was up slightly versus prior year. Lower responses were offset by a better conversion rate. We are excited about the launch of our new auto product in April, with the countrywide rollout of both auto and home to occur over the next two years.

Despite lower growth, underwriting results in 2020 were particularly strong. In Personal Lines auto, the underlying combined ratio of 88%, was 9.9 points better than 2019. Consistent with the industry, frequency ran well below prior year. During the fourth quarter reduced frequency remain fairly stable with third quarter results. In home, the underlying combined ratio for the year of 72.5%, was 5.8 points better than prior year, driven predominantly by favorable non-CAT weather.

Before I turn things over to Beth, I would like to share a few thoughts about 2021. We project the 2021 Commercial Lines underlying combined ratio between 90% and 92%. This includes the COVID loss estimate of 1.5 points. The COVID estimate is approximately two-thirds workers' compensation and one-thirds speciality lines.

Ex-COVID, we expect our 2021 underlying combined ratio at its midpoint to improve nearly 3 points from 2020. Renewal written pricing and middle market is forecasted to remain strong during 2021 and largely consistent with 2020 across most lines. We foresee Global Specially renewal written rate increases to remain in the double-digits. Workers' compensation pricing is projected to be largely consistent with 2020. In Personal Lines, we expect driving miles to increase, as the vaccine rolls-out, particularly for our AARP book, contributing to an underlying combined ratio of 87% to 89%.

Reflecting back on 2020 in spite of all the challenges we faced, financial results were quite strong for our Property and Casualty business units. We delivered year-over-year ex-COVID margin improvement through disciplined underwriting, significant portfolio reshaping and the start of Hartford Next, in every business. Given the incredible challenges of 2020, I am extremely encouraged by the improving underwriting performance. With underwriting actions largely behind us, we're now well-positioned to improve our margins and pivot toward growth.

Our team is energized for the future and confident that we have the talent, tools and teamwork to deliver. I look forward to updating you all on progress throughout the year.

Let me now turn the call over to Beth.

Beth A. Costello {BIO 15349374 <GO>}

Thank you, Doug. I am going to cover results for the investment portfolio, Hartford Funds and corporate, provide an update on our capital management plans and discuss P&C prior accident-year development, including the results of our Annual A&E study.

Net investment income was $556 million for the quarter, up 11% from the prior-year quarter. For the year, net investment income was $1.8 billion, down 5% from 2019, due to lower reinvestment rates and lower yields on floating rate securities partially offset by a higher level of invested assets, due in part to the acquisition of Navigators.

The total portfolio yield for the full year was 3.6% compared to 4.1% in 2019. During the year, the average reinvestment rate was 2.5% compared with the sales and maturity yield of 3.4%. The annualized limited partnership return was 32% for the fourth quarter, driven by higher private equity valuations and distributions and the sale of two underlying real estate properties, resulting in an LP income of $152 million before tax in the quarter.

For the year, the LP yield was 12.3%. Overall, the credit performance of our investment portfolio remains very strong. Net unrealized gains on fixed maturities after tax increased to $2.8 billion at December 31, from $2.4 billion at September 30th. Unrealized and realized gains on equity securities was a gain of $55 million before tax in the quarter.

Turning to Hartford Funds. Core earnings for the quarter was $46 million, up 15% from the prior year quarter. This is primarily due to an increase in fee income and lower administrative expenses, including a reduction in state income taxes and travel expenses. The increase in fee income, which is largely attributable to higher daily average Hartford Funds AUM, was partially offset by a continued shift to lower fee generating funds.

Full year core earnings were up 12%, due to higher daily average assets and lower expenses, including a first quarter reduction in consideration related to the latest transaction of $12 million before tax. Long-term fund performance remains strong with two-thirds of funds, beating peers on a five year basis. The Corporate core loss was $51 million for the quarter and $178 million for the year.

For the fourth quarter, the core loss is higher than the prior-year quarter, primarily due to the impact of the Company's investment in Talcott Resolution. For the quarter, we recorded $1 million pre-tax loss from Talcott compared to $21 million of income in the fourth quarter of 2019. On January 20th, the consortium that owns Talcott announced, it was being sold to a new group of investors. We will receive 9.7% of the proceeds in any pre-closing dividends. We are very pleased with how this investment has performed, and since we have been recording Talcott's results on the equity method, we do not expect significant impacts to net income on closing.

In the quarter, we continue to execute on our Hartford next initiative. For the second half of 2020, we recognized savings, before program costs at $106 million and we have increased our estimate of 2021 savings to $350 million as we have been able to accelerate some of our initiatives. Overall, we are on track to achieve annual operating expense savings of approximately $500 million by 2022, reducing the P&C expense ratio by 2 points to 2.5 points, the Group Benefits expense ratio by 1.5 to 2 points and the claim expense ratio by approximately 0.5 points as compared to 2019 results.

As Doug mentioned, we recognized net prior year reserve strengthening of $184 million before tax in the fourth quarter, which included several items. First, we completed our annual asbestos and environmental reserve review. Before session to the adverse development cover, we have in place, net reserves increased by $218 million comprised of $127 million for asbestos liabilities and $91 million for environmental.

The $127 million increase in the asbestos reserves was primarily due to an increase in the rate of asbestos claim settlements, as well as higher than previously estimated average settlement values and defense cost. Overall, the number of asbestos claim filings in the period covered by the 2020 study was roughly flat with the 2019 study. The $91 million increase in environmental reserves was primarily due to an increasing number of DFAS [ph] claims as well as higher remediation and legal defense costs.

Since the completion of the A&E study brought the cumulative losses ceded to the ADC, to an amount in excess of the $650 million of ceded premium paid, the company recognized a non-core earnings charge of $210 million representing a deferred gain on retroactive reinsurance. The cumulative losses ceded to A&E -- ADC are currently $860 million, leaving $640 million of limit remaining.

Session [ph] to the Navigators adverse development cover were $5 million in the fourth quarter, with $91 million of limit remaining. In the quarter, we increased reserves associated with sexual molestation by $125 million, which is related to claims asserted against the Boy Scouts of America. Offsetting these reserve increases, with favorable development for prior year catastrophes of $116 million, primarily related to accident years 2017 to 2019, as well as favorable development in workers' compensation and package business.

Book value per diluted share excluding AOCI, rose 8% for the year to $47.16 and our 2020 core earnings ROE was 12.7%. We ended 2020 with a debt and preferred stock capitalization ratio, ex AOCI of 21.6%. Our goal is to keep debt leverage within the low to mid 20% range. Turning to capital. As of December 31st, holding company resources totaled $1.8 billion. As we look at 2021, we expect dividends from the operating companies to total $850 million to $900 million for P&C, $250 million to $295 million for Group Benefits and a $125 million to $150 million for Hartford Funds.

Yesterday we announced an 8% increase in our common quarterly dividend to $0.35 per share. In December, we announced a new share repurchase authorization of $1.5 billion, effective January 1, 2021 to December 31, 2022. Although we have not had any repurchase activity to-date, our expectation is to resume repurchases over the remaining weeks of this quarter.

To wrap up, our businesses performed strongly in a challenging year. We are pleased to see the benefit of our initiatives coming through in our results. As we managed the pandemic and continue to execute across all of our businesses, we will generate further improvement in our results and enhance value for all of our stakeholders.

I'll now turn the call over to Susan, so we can begin the Q&A session.

Susan Spivak {BIO 1514699 <GO>}

Thank you Beth. We have about 30 minutes for questions, operator, could you have the first question.

Questions And Answers

Operator

Ladies and gentlemen, at this time, we'll begin the question-and-answer session.

(Operator Instructions) And our first question today comes from Elyse Greenspan from Wells Fargo. Please go ahead with your question.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thanks, good morning. My first question is on your guidance for 2021, for commercial P&C. Within that 3 points of underlying margin improvement ex-Covid could we get a sense of what's embedded in their stemming from a loss versus the expense ratio. And then also, are you assuming that margins will expand within small, middle, large and also within specialty in 2021?

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

Elyse, let me tackle that question. The first point relative to the 3 points, roughly two-thirds of that is coming through the loss area. So yes there is Hartford Next benefit in there, it's about eight-tenths of a point. Second component, is that primarily the loss improvement is coming from Middle Market and Global Specialty, so our businesses that have been leveraged by the portfolio reshaping and the heavy pricing are driving disproportionate amounts of that increase year-over-year.

Small Commercial still very, very profitable, but they will feel a challenging workers' comp environment again in '21, and we balance that as we put the complete plan together.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then if you thought about 2020, are there any like -- it seems like there was some non-CAT weather, but for the most part it neutralize. So we're just kind of thinking about the loss ratio improvement, that you mentioned the two-thirds, primarily coming from the rate exceeding loss trend within the Middle & Specialty Book.

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

That's correct. Yeah, it was a pretty good property, non-CAT year for us. And I would say that some of the compares had higher levels of that non-CAT weather activity in 2019. So that drives some of the quarter-to-quarter and year-over-year change Elyse.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, great. And then my second question is on the capital side of things. You guys put, it's a $1.5 billion buyback program in December. Obviously, you said you'll be back in the market after earnings starting to buy back your stock. But how do we think about that between the two years, is it market dependent, I know you gave us what [ph] dividend up from the sub this year, but would you expect that to be even over the two years or is there something else that we should out when you kind of work towards that buyback program?

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

Yeah, Elyse. It's Chris. I'll let Beth to add her point of view. But generally, we've been proportional pro rata, with a lot of our buyback programs over a multiple-year period of time. So philosophically, I don't see much different Beth, but what would you add?

A - Beth A. Costello {BIO 15349374 <GO>}

Yeah, I would agree with that. I mean we -- I think to -- how do you think about it on being half and half, between the two years is a reasonable expectation. Again it's dependent on a lot of factors and market conditions, but kind of going into how we think about executing a plan like that. How I thought [ph] you think about it.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks for the color.

Operator

Our next question comes from Brian Meredith from UBS. Please go ahead with your question.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes, thanks. So first question here for Christian, Doug, I'm just curious. As I look at your guidance for Commercial Lines underlying, what is your assumption with respect to the headwind from workers' comp margins in 2021. And on that topic, to what do you think is going to happen with loss cost trends for workers' comp, as the economy reopens?

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

Well, it's a big question, Brian. First off, on the pricing side, as I mentioned in my script, we expect the 2021 year to look largely consistent with 2020 from a pricing perspective. We're seeing a bottoming of the workers' comp curve, but I still expect some downward pressure, minus pressure in Small Commercial and Middle Market flat to maybe up a point or two. So that's the pricing side of it. The loss trend piece is very complicated and we're not going to go through a roll forward for everybody today. But essentially, the 2020-year look so unlike any year, we've ever had before because of the pandemic.

So as we complete 2020, obviously frequency has been very good shape and you're seeing that come through our adjustments. But the flip side is we're watching carefully severity. And so, we're watching durations or watching medical treatment, we're watching the extended impacts of what may or may not happen with COVID victims. So we're being careful with severity. We've moved our picks up a little bit in the 2020 accident year, we've kept in there for '21.

But again, when we look through workers' comp, we look through these two years, we're still on our long-term picks. We think over time this is the line it should run at 5 on the severity side and flattish for frequency based on everything we see in the next few years.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thanks. And then the second question is, I'm just curious on your guidance with respect to COVID-losses, particularly on the GB side. How should we think about the timing of that coming through, I would think that first quarter, much higher, particularly for the GB. And then just anticipating during the course of the year, it's like kind of the way, we should think about things.

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

Yeah, Brian, I tried to say that in my prepared remarks, maybe it wasn't clear. But yeah, of the $160 million of life COVID losses, I'd say 75% would be a good number for first quarter.

Q - Brian Meredith {BIO 3108204 <GO>}

And what about with respect to the commercial lines?

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

Yeah. Heavy first half depends on vaccines and rollouts. But yeah, I think we expect first quarter to look similar to probably fourth quarter and then our hopes and optimism are shared across the country, the second quarter and third quarter improved mildly.

Q - Brian Meredith {BIO 3108204 <GO>}

Terrific, thank you.

Operator

Our next question comes from Ryan Tunis from Autonomous Research. Please go ahead with your question.

Q - Ryan Tunis {BIO 16502263 <GO>}

Yeah. Thanks. I guess just a follow-up on the capital management. I mean, it [ph] seem like given the fact you didn't manage much capital in 2020 and the dividend capabilities with businesses over the next couple of years. That you'll be generating, I guess, well in excess of or you have -- available a lot more than what's in place for the buyback income and common [ph]. So I guess, if maybe you could comment on -- are you thinking about doing any M&A or what you might be using other excess capital for.

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

Ryan, I'll start and I'll let Beth again her add color. Yeah, it's, we feel very fortunate to be sitting on excess capital. Obviously, we're planning to return to shareholders, vis-a-vis a dividend increase that you just saw, and then obviously our buyback program. Our priorities for capital are really consistent right.

We want to use capital to grow our businesses, and we do see good growth opportunities going forward and then make sure we have a financially solid balance sheet with sufficient margins to absorb any future shocks that obviously we're living through these days. And then if we think about returning excess vis-a-vis share buyback to shareholders from there.

I think I've said before M&A is a lower priority for us right now. I think, in my language, we have everything we need to compete in the building these days and it's maturing, and it's growing, it's working with our distribution partners that to make sure they know all our capability. So M&A is a low priority right now.

Beth, would you add anything.

A - Beth A. Costello {BIO 15349374 <GO>}

No, I think you covered it very, very well.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thanks. Then follow-up for Beth, it sounds like lower net investment income captured in the group Benefits guide, but how are you thinking about the portfolio yield headwind on the P&C side, in terms of how we should be thinking about NII next year there.

A - Beth A. Costello {BIO 15349374 <GO>}

Yeah. So a couple of things. Obviously, one of the things that's included in the group benefits margin guidance is a more normal or more normal planning assumption for limited partnerships and obviously this year, we were well above that. If you think about the portfolio, sort of ex-partnerships and you look at where we were Q4 with the portfolio yield of about 3.2% overall.

I see about probably 10 points of pressure on that, as we look forward into 2021.

Operator

And our next question comes from in the Jim Bhullar from JPMorgan.. Please go ahead with your question.

Q - Jamminder Bhullar

Hi, good morning. So First -- just had a question on workers' comp pricing and I think. Doug, you mentioned you're expecting it to be consistent with last year. Are you seeing that in the market actually or is that just more of a, as a whole, right now. Some more color on what you're seeing.

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

I would separate the markets as I think about Small Commercial largely a file with little deviation. And we are seeing flat to negative pricing. I think the final trends across the Bureau States next year are off four to five points. So I think that environment will continue to exist as it has in the last couple of years although slightly improved negative. Right. We were probably eight or nine off, two and three years ago and how we are [ph]. So that's encouraging.

In the middle market space, we see very competitive marketplace. It's remaining competitive over the last 12, 15 months. And I think we will continue to battle it out, by account by account, we're thoughtful about accounts. We think about our tools, we look at the account straight up and we make decision. So I don't see a lot of change in that middle market workers' comp environment going forward, at least in the next year.

Q - Jamminder Bhullar

Okay. And what was the impetus for the reserve increase for molestation claims?

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

Yeah Jimmy, what I would say is, as we've talked about in the past, sexual molestation claims revival statues, they all go together here. Particularly in this quarter, as Beth mentioned it related to Boy Scout. They are in bankruptcy going through, trying to reorganize and the amount of additional claims that were reported to us this past November far exceeded our initial expectations.

So now we're really sympathetic to sort of the real victims here, but there are some serious questions about the validity of all the claims that were reported. Nevertheless, we felt it prudent, again just given the magnitude to increase our reserve position, and we did--.

Q - Jamminder Bhullar

Okay and then just lastly on business interruption losses, obviously in the US for the most part the courts residing with insurers, less so in international market. So is your view on your exposures consistent then Europe as well or is in the UK market or do you think you might actually have a little bit more risk there.

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

Yeah, I would say in the US. First, you heard my prepared remarks, it's -- we're debating and finding out in the courts and litigating so, nothing fundamentally has changed our views on BI exposures. We have not put up any reserves, other than for our policies that did not have direct physical loss requirement. Our expense reserves remain the same, I mean we're spending money to defend ourselves which is why we put it up. And then I would say the UK judgment doesn't affect us at off here in the US as you know, and it does not impact us in any way in our Lloyd's Syndicate, we just -- we didn't participate in those types of policies.

Q - Jamminder Bhullar

Okay, thanks.

Operator

And our next question comes from Mike Zaremski from Credit Suisse. Please go ahead with your question.

Q - Mike Zaremski {BIO 20606248 <GO>}

Hi, good morning. Thanks. Thinking about probably for Beth. We saw the sale of Talcott was announced. Can you remind us how much capital Hartford has remaining. And also maybe can you remind us, do you expect -- Hartford expect to get any kind of cash tax benefits from, I mean remaining DTAs or AMTs?

A - Beth A. Costello {BIO 15349374 <GO>}

Yeah. So I'll take it, and obviously in two pieces. So as it relates to the Talcott investment overall, kind of an ex-AOCI basis, it's about $185 million on our balance sheet. And again, it's an investment. So, like all of our investments are part of our capital base, it wouldn't, how do you think about this is creating sort of excess capital capacity. There is obviously some risk charges that would go away, but it's all part of our capital base.

And then as it relates to DTAs and AMT tax credits, we have monetized all of those through 2020. So we are really in a position now where it's just not where a normal tax payer and very pleased to -- have been able to recoup all of those balances.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay, excellent. And one follow-up question. In the prepared remarks, I think there was a greater [ph] statistic about approximately 25% decline in business interruption related case counts. I'm just kind of curious, since we get a lot of questions on this -- is kind of tail risk topic, do you think directionally that's also the trend for the industry and that's kind of point as far as seeing that the policy wording is strong?

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

Yeah, I can't speak to 25% for the rest of the industry. Obviously, that's our statistics. But I think anecdotally, I mean you can tell, many of the judgments coming out of federal and state court are aligned with the industries position on interpreting the language of direct physical loss or damage. So I think, as we sit here today, I feel pretty good about where all the judgments are coming out. So that's what I would share. Mike.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thank you.

Operator

And our next question comes from David Motemaden from Evercore ISI. Please go ahead with your question.

Q - David Motemaden {BIO 18818634 <GO>}

Hi, good morning. I had a follow-up question for Beth. Just on the capital side and remittance guidance that you gave just on the P&C side, it seems that stable with prior years. But if I look at the earnings power of the P&C business and it looks like it's up 40% since you last changed it. So I'm wondering why the remittances haven't moved much since 2018?

A - Beth A. Costello {BIO 15349374 <GO>}

Yeah, great question. I mean, again, I think you know our philosophy is to be in a position where we're taking steady dividends out of the subsidiaries, you're right. If you look at 2018, but if you also look back to 2016 and 2017, the amount of dividends that we were taking out were far exceeding our statutory earnings.

So on balance I think, where we are $900 million is very comfortable and I think to the extent that we continue to generate earnings at the level that we're at that there is, that opportunity for that to increase. But we tend to be pretty steady as we think about our dividends out of our subsidiaries.

Q - David Motemaden {BIO 18818634 <GO>}

Okay, got it. That's helpful. And then a question for Christian and Doug, just on the outlook. And I'm thinking a bit more from a topline perspective. Just thinking about how you guys are expecting top-line in commercial P&C specifically as we progress throughout the course of 2021.

What you guys are thinking for growth there and maybe Doug, if you can just talk a little bit more about the spectrum policy, because that seems like that had some really good new business trends this quarter?

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

Yeah. David. I'll start and then Doug will provide his color. So I think, the first starting point is just macro that we're still living in a pandemic. All right. And we've only vaccinated what 10% of our population, so the first half of '21 and the second half of '21 could look, I would say dramatically different.

Second point is, I think you've always heard us talk that -- we're a fairly employment centric firm, with our large comp both in our large disability book, so as employment levels rise and we are encouraged to see the employment numbers this morning obviously come down. We'll have to digest really what that means from a absolute number of workers, but again heading in the right direction to sort of rebuild payrolls, which obviously then provides a lift from there.

Third, I would say, again, hopefully you could feel it through Doug and myself that we are optimistic about what we can achieve in the marketplace with our expanded product capabilities, our new industry verticals, in a environment, where rates are going to continue. I think at the pace they are. At least for the next 12 months to 18 months.

So you put all that together and I am refraining from giving you an exact number. So don't ask for an exact number. But I think it points to an increasing topline Doug [ph] compared to what we've experienced over prior years.

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

Yeah, I would just add that on the spectrum question, we launched a terrific very contemporary product right at the end of 2019. We're feeling terrific about the prospects of that and we barely getting market and COVID hits in March. So you really got to take that five month or six month period out where we know that sales were off quite substantially in second quarter. So I am deeply encouraged by what happened in the last four months of the year. I think it's a terrific product, I think the ease of use, the reaction from CSRs and customers around the country is exactly what we wanted. I think that holds prospects for growth going forward.

Again, in light of the economic turn back on -- that will be a big condition for us in small, but I'm confident that we're headed in a really good direction. Lastly relative to Global Specialty, Middle & Large Commercial, we had some significant activities on the underwriting side that needed to happen this year to get back where we want to be profit turnaround, if you will. And I feel really good about those actions that were taken.

So as I pivot [ph] into '21, I think largely many of those actions are behind us. Not all, but many of the large block of that. And so I'm encouraged that there is opportunities for growth. I feel really good about our verticals like a level what the Navigator breadth has meant to our franchise and we're just beginning to explore, I think the full dynamic of that. So I'm bullish about what we're going to do heading forward.

Operator

And our next question comes from Tracy Benguigui from Barclays. Please go ahead with your question.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Thank you. Good morning. If you could unpack a bit your underlying combined ratio improvement expectations are included in your 2021 outlook, I mean, based on your commentary and other, the driver of rate increases to get ahead of loss trends, a new sided social inflation. Could you provide some color of the direction of your current year loss picks and couple that with the rate increases you're expecting to achieve?

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

Let's start with what we said in the past which is with the exception of workers' compensation, all of the rest of our lines in Commercial are exceeding our loss cost trends. I think that still holds. Right. And as such, the work and the pricing activity on a written basis that we achieve this year, plus what we expect next year, leads us to believe on an earned basis, we're going to see earned improvement in our loss ratios across Commercial for all lines, ex workers' comp.

I expect some margin compression in Small, just as we battled through in 2020, but the aggregate of what we've been able to achieve in Global Specialty and Middle Market pricing leads me to feel confident that the driver of loss ratio change in those two businesses, will carry the incremental improvement that we express in our guidance for '21.

Personal Lines is a different story. Right. We had a very positive low driving miles year period, nine months, if you will, and we expect those driving miles to return back more to normal. So the Personal Lines margin and loss ratio will come back toward a more normal level. And that's why you see the pick that we've selected here for '21. So if you put Personal and Commercial together overall, we're still encouraged and feel improvement, but there are mixed stories inside that just to have to be aware of.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Okay. I think you've already provided some good color on workers' comp and by segment. I'm wondering if you could highlight any other business line or you're seeing more rate increases.

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

Tracy, the, certainly in our specialty businesses, as demonstrated by the numbers terrific progress near 20 on the quarter and across certain lines excellent progress. I do think when I look at property, I'm very pleased o our property. We have been working on our property book on a by-parallel [ph] pricing basis now for a couple of years. But I'm encouraged that our E&S property book was in the low '20s, our large property book, which is not included in the supplement, was in the low '20s.

Our core middle-market, smaller property book, high, high single-digits. So I'm very encouraged by the progress we're making kind of line by line and feel like that sets up for an improving story in '21 which we share with you in our optimistic guidance.

Q - Tracy Benguigui {BIO 21808177 <GO>}

Thank you for taking my question.

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

Thank you.

Operator

Our next question comes from Meyer Shields from KBW. Please go ahead with your question.

Q - Meyer Shields {BIO 4281064 <GO>}

Great, thanks. A question for Doug. I was hoping you could share share within, I guess, Navigator, your appetite for really, really large accounts, we're hearing, obviously that's where pricing is most dramatic. I just wanted to get a sense of how much of that you're interested in or willing to underwrite?

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

My, our portfolio appetite now extends across the segments. Right. So we obviously strong position in small growing strength in Middle with verticals, a really solid national account franchise, primarily around workers' compensation and assortment of specialty products that Vince and his team attach [ph] both large accounts, middle market accounts, et cetera.

Terrific wholesale distribution, that is an added element of the Navigators acquisition. So I feel like we're coming at the market in all phases, all products, all segments all geographies and I really like that approach. And as I suggested in my remarks, we've had some nice early wins. But I think we'll just be the beginning of how we mature this broad product breadth into our family of what we bring to market.

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

I would say, again, like a lot of things we do around here. I mean we're centered on small, middle market enterprises. That doesn't mean, we don't service and find opportunities in the largest segment of the market. But I would -- have you leave with that most of our property capabilities are geared towards the middle and upper middle market and the multi-billion dollar property schedules we might have opportunities to participate. But again, I think in terms of core middle market to upper middle market is where we like to focus and try to win business.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's very helpful. I guess, well -- not a follow up, unrelated question for Beth, when you got really, really strong limited partnerships results, do you have possibility to say okay let's -- cash out here or is this sort of proportionate commitments, within the investment portfolio, something we should think of it being unchanged?

A - Beth A. Costello {BIO 15349374 <GO>}

Yeah. So as we invest in these partnerships, we do obviously still have outstanding commitments that are there and we see this as an asset class that we want to continue to participate in. So we've been very pleased with the overall returns there and how our investment team has managed that, so I wouldn't -- how you think about us trying to cash out in many instances, pretty limited in your ability to do that based on how these partnerships are structured.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. But it's fair to assume, let me take at the other side that the expected returns were still buying the higher value at year-end?

A - Beth A. Costello {BIO 15349374 <GO>}

So our expectation over time is that we think that the yields that were -- outlook to is -- what one would see -- starts to see outsized returns on some of the more seasoned portfolios. And then -- and we are investing in new funds those would tend to draw in a lower yield I -- originally. So you kind of think about the balance of the two. But again, you can look at our results over time, our partnerships have performed very strongly. But we typically look at them over the long term, at that sort of 6% level.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, got it. Thank you very much.

Operator

And our next question comes from Yaron Kinar from Goldman Sachs. Please go ahead with your question.

Q - Yaron Kinar {BIO 17146197 <GO>}

Hi, good morning everybody. My first question just goes back to the Group Benefits and the mortality there. I assume [ph] that it's a younger block of -- but -- by an age -- from an age perspective. Can you maybe talk a little bit about what concentration, you may be seeing there, either by age cohort, by region, by maybe line of industry from where you're seeing these elevated mortality rates. I guess I was just little surprised to see this level of mortality from an active employee force?

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

Yeah, I would share with you, Yaron, that mortality increases is fairly consistent amongst all age cohorts, obviously the rate of mortality is different by age cohort. But the increase is fairly consistent. I would also share with you again about 6% or 7% of our insured population is 60 and older. So we don't have a big concentration in -- I'll call it the mature segment of the marketplace.

So, I mean the direct and indirect effects the COVID is pretty spread across all cohorts, all regions. The country, we're not seen any particular trend at this point in time other than the indirect costs, as we try to analyze it. We just think it's people deferring and not taking care of themselves during the pandemic, and we see heart disease, stroke and cancer. That's up, again it's not directly related to COVID but indirectly related.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. Okay, that's helpful color. And then I think we saw very limited utilization of the Navigators ADC this quarter. So do you think it's time going [ph] reserves there to the conservative level you want them to be. And you kind of turn the corner, any thoughts on that?

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

Yeah. I just go back to what we've said before, glad we purchased it. It was part of our strategy as we thought about financing the overall Navigators transaction. Obviously, it's slowed down this quarter, but that [ph] you know in this business, you can never predict with certainty. What's going to happen in the future, with some of these claims, but the sufficient the -- access level that we have or the sufficiency remaining in it, it gives me a great feel of confidence that it's not going to go through this half, bottom-line.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. Thank you.

Operator

And ladies and gentlemen with that, we'll conclude today's conference call. I'd like to turn the conference call back over to Ms. Susan Bernstein for any closing remarks.

A - Susan Spivak {BIO 1514699 <GO>}

Thank you. We really appreciate all of you joining us today. If we did not get to your question, please don't hesitate to contact us and we'll be happy to answer any follow-up questions. Thank you.

Operator

Ladies and gentlemen, with that, we'll conclude today's conference call. We do thank you for attending. You may now disconnect your lines.