Company Name: Hartford Financial
Company Ticker: HIG US
Date: 2017-10-23
Event Description: Acquisition of Aetna's U.S. Group Life And Disability Business by The Hartford Financial Services Gr

Market Cap: 20,445.33
Current PX: 57.315
YTD Change($): +9.665
YTD Change(%): +20.283

Bloomberg Estimates - EPS
Current Quarter: 0.985
Current Year: 3.646
Bloomberg Estimates - Sales
Current Quarter: 4851.333
Current Year: 18942.000

Acquisition of Aetna's U.S. Group Life And Disability Business by The Hartford Financial Services Gr

Company Participants

- Sabra Rose Purtill, CFA
- Christopher J. Swift
- Douglas G. Elliot
- Beth Ann Bombara

Other Participants

- Brian Meredith
- Kai Pan
- Josh D. Shanker
- Ryan J. Tunis
- Jay A. Cohen
- Elyse B. Greenspan
- Thomas Gallagher
- Randy Binner
- Jamminder Singh Bhullar
- Mark Dwelle
- John Heagerty
- Ian J. Gutterman
- Meyer Shields

MANAGEMENT DISCUSSION SECTION

Sabra Rose Purtill, CFA

GAAP and Non-GAAP Financial Measures

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 supplement, which are also available on our website

Christopher J. Swift

Business Highlights

Core Underwriting Business

- I am very excited about today's announcement of our acquisition of Aetna's Group Benefits business

- Group Benefits is a core underwriting business for us with a stable risk profile, strong returns and good growth opportunities
- Combined, we will have about $5B in annual premium, making us one of the top two companies in the market
- We are pleased about the opportunity to deploy capital in a business that we know well and can efficiently integrate and grow
  - We thoroughly understand the fundamentals of this business, the customer expectations, and distribution channel dynamics
- Together, the strategic and financial benefits of this acquisition will create long-term shareholder value and strengthen our leadership in Group Benefits and P&C.

Group Benefits

- The combination of these businesses is compelling
- Combining our two organizations, which together insure about 20mm individuals is a unique opportunity to accelerate The Hartford's strategic objectives for Group Benefits, namely growing our voluntary premium base and increasing our presence in the middle-market segment
  - This deal positions us to achieve these goals but also achieves our customer digital enablement objectives and provides a superior claims leave management platform that we will be able to leverage to achieve better claim outcomes
- Additionally, we will be able to leverage our data and analytical capabilities across our workers' compensation and group disability claims, which will enhance our competitive advantages in cross product capabilities

Core Earnings

- Financially, it is accretive to core earnings and in 2018 is accretive by more than $100mm before amortization of intangibles
- The acquisition also provides a long-term return on investment in the double-digit range
- Once we have completed the integration and achieved expense savings, we expect to generate incremental core earnings before amortization of intangibles of approximately $150mm annually by year three on a run rate basis
- Beth will provide a deeper review of the financials, but I would highlight that we do anticipate meaningful expense savings
- In total, we anticipate $100mm run rate savings that will build over three years
- That estimate is focused on the integration of the two operations in the near-term and not what we aspire to achieve longer-term as we leverage the power of technology, digital capabilities, and data and analytics

Underwriting Initiatives

- I would also note that the book is profitable today
- It does not require fixing or underwriting initiatives
- As a result, it will contribute to our bottom-line in the first full year

- It's also important to note that the financial assumptions around this transaction have been prudently established and are realistic to achieve
  - In addition, we expect tax benefits from the transaction of about $325mm on a net present value basis

Operating Model

- Finally, I am confident that the integration will go smoothly and efficiently, both from a people perspective and developing the future operating model, as well as with our relationships with distributors, employers, and individual customers
- The Hartford and Aetna have complementary cultures, providing high quality products and excellent customer service to distributors and policyholders alike

Hurricanes Harvey and Irma

- Turning to the quarter, let me provide you with a brief overview of our third quarter results, which Doug and Beth will cover in more detail
- The significant level of losses related to Hurricanes Harvey and Irma, which were consistent with the range we preannounced, were the primary driver of our decline in core earnings
- Our thoughts and prayers are with all those impacted by these storms as well as by the recent California wildfires
- The Hartford's employees have worked tirelessly to help our customers recover from the devastation caused by these events
  - We're about restoring lives when customers have had their worst possible day
- And I'm proud, but not surprised, at the phenomenal job our claim has done
- Aside from the cat losses, this quarter results were strong and at each segment, were either in line or better than our outlook

Commercial Lines Results

- Underlying Commercial Lines results were consistent with our expectations, with some pressure on margins from the competitive environment and loss cost trends
- Personal Lines underlying results continue to improve, reflecting our multiple profitability initiatives for personal auto
  - We expect continued Personal Lines improvement in 2018
- Group Benefits results have been exceptionally good this year, continuing an overall trend of growth and margin improvements
- In addition, Mutual Funds has been delivering strong sales, good investment performance, and overall positive net flows
- Finally, continued strong limited partnership returns have supported net investment income across all segments

Summary

In summary, I'm very excited about today's acquisition announcement and the future potential in Group Benefits, and I'm equally pleased with our underlying financial results, both this quarter and for the year

Aside from catastrophe losses, our 2017 results will show a solid improvement from 2016

Looking forward, we are optimistic about continued growth and profitability in 2018 through additional progress in Personal Lines, the financial and strategic benefits of the acquisition of Group Benefits, and the potential for an improved rate environment in Commercial Lines, particularly in property, as the industry comes to terms with pricing, risk selection and catastrophe exposures

Douglas G. Elliot

Highlights

Acquisition of Aetna's Group Life and Disability Business

- Before I provide an overview of our third quarter results, I'd also like to comment on our acquisition of Aetna's Group Life and Disability business
- We are very excited about the potential of our complementary organizations
- I've been impressed with the Aetna leaders we've met and the products, services and technology they have developed
  - This is an opportunity to create a more distinctive value proposition for our customers and distribution partners, and I look forward to working with our new combined team

Catastrophe Loss

- Turning back to third quarter performance, of course, the most significant driver of our overall results was catastrophe losses of $352mm, primarily from Harvey and Irma
- These storms, along with Maria, Nate and the California wildfires, have had devastating consequences for thousands of Americans
- Our thoughts and prayers are with all of them

Claims Team

- For our claims team, it has been eight weeks of nonstop action across the country in response to these disasters
- Almost a year ago, many of you joined us at our Investor Day where we highlighted our claim capabilities, including our mobile response unit
- The performance of our team has been outstanding, moving as rapidly as circumstances on the ground will allow to meet with customers and help them begin the journey of rebuilding their homes, businesses and lives
- Neither Harvey nor Irma resulted in losses that exceeded our property cat retention
- We are pleased with the risk aggregation procedures and desk underwriting execution of our team in effectively managing our exposure to events such as Harvey, Irma, and Maria
  - There is always room for refinement, and I'm sure we'll do some of that, but overall, I'm pleased with our performance

Earnings

- Let me get into the details of our third quarter earnings, where we're very pleased with our underlying results across Property-Casualty and Group Benefits
- The Commercial Lines combined ratio was 108.6, deteriorating 14.7 points vs. prior year, primarily due to higher catastrophe losses
- The underlying combined ratio was 93.2, deteriorating 3.2 points vs. prior year, largely driven by increased expenses, primarily higher variable compensation and technology costs

Workers' Compensation and General Liability

- There was also modest margin compression in Workers' Compensation and General Liability, as market conditions continued to be competitive
- Small Commercial continued its strong performance with an underlying combined ratio of 89.2
  - Written premium was up 4.5% as retention remained very solid
- New business of $140mm was down slightly from prior year
- Over the last four quarters, our Small Commercial business has generated $586mm in new business, including Maxum, demonstrating the strength of our capabilities in a competitive market
- In Middle Market, the underlying combined ratio was 97, deteriorating 3.9 points from 2016, primarily due to higher expenses and slight margin compression

Written Premium

- Written premium decreased 1%
- Solid retention, slightly positive renewal written pricing, and new business production of $112mm, up from a year ago, was offset by lower audit premiums and other one-time premium adjustments
- The market continues to be very competitive and we're balancing growth aspirations with the need to maintain adequate pricing and sound underwriting quality standards

Specialty Commercial

- Moving to Specialty Commercial, the underlying combined ratio of 98.6 deteriorated 4.9 points, mainly due to higher expenses and a slightly higher auto liability loss ratio, as we have reported throughout 2017
- Financial products and bond continue to contribute to the strong results in Specialty

Personal Lines

- In Personal Lines, Q3 combined ratio was 104, deteriorating 3.8 points from a year ago
- Catastrophe losses were up 5.1 points, offset by improvement in the underlying loss ratio
- The underlying combined ratio of 94.9 improved 1.2 points

Auto

- In Auto, after adjusting third quarter 2016 for net development affecting the quarter, the 2017 Auto loss ratio has improved approximately 2.5 points
- Our progress remains in line with our expectations
- The YTD Auto combined ratio was 101.5 including 2.8 points of catastrophes
- The full year Auto combined ratio outlook of 101 to 103, which we provided at the start of 2017, included approximately one point for catastrophes
- We expect to be above this range for the full year due to higher cat losses
    - However, we remain on track to achieve 2 to 3 points of improvement in the underlying Auto loss ratio for the full year

AARP Direct Channel

- Personal Lines written premium for third quarter 2017 was down 8%, largely driven by profit improvement initiatives and agency
- Within the AARP direct channel, written premium was down 3.5%
- With improved rate adequacy, our increased marketing efforts are in full motion, and we expect to see positive y-over-y new business growth in early 2018

Group Benefits

- Turning to Group Benefits, we posted another excellent quarter with core earnings of $66mm and a core earnings margin of 7.2%
- Loss trends in 2017 continue to run better than expected with improved Group Life results and favorable incidents and recovery trends in group disability

Pricing and Claims Management

- Our execution in underwriting, pricing and claims management as well as favorable market trends relative to historical experience are contributing 4.4 points of total loss ratio improvement for the quarter
- On the top line, fully insured ongoing premiums for Q3 increased 1%
- Overall book persistency on our employer group block of business remained strong at approximately 90% and fully insured ongoing sales were $68mm, up $7mm vs. prior year
- Group benefits is on a very solid track, and with today's acquisition announcement has an exciting future ahead

Summary

I look forward to updating you in this journey over the months to come

In summary, our Property and Casualty and Group Benefits businesses delivered excellent underlying results for third quarter 2017

I'm extremely pleased with the consistent execution of our entire team and the performance of our businesses

We will continue to maintain our disciplined and balanced approach to deliver profitable growth, and we're especially proud of our colleagues on the front line who are responding to the needs of our customers faced with rebuilding their lives in the aftermath of catastrophic storms and wildfires

Beth Ann Bombara

Financial Highlights

Mutual Funds

- I'm going to briefly cover third quarter results from the other segments and some of the key financial impacts of the acquisition of Aetna's Group Life and Disability business before taking your questions
- Turning to mutual funds
- Strong net flows and market appreciation as well as the addition of the Schroders funds drove total segment AUM, up 18% to $111.7B and core earnings up 24% to $26mm
  - We continue to benefit from strong investment performance with 79% of our funds beating their peers on a five-year basis
- Sales remain robust helping generate net inflow of $3.4B in 2017 through September 30
- Talcott's performance was in line with our outlook with core earnings of $83mm, down from $104mm in Q3 2016 due to lower, but still quite strong, limited partnership income

Investment Portfolio

- Over the past four quarters VA contract counts decreased 9% and fixed annuity contracts decreased 7%
- Total statutory surplus was $4.1B at quarter-end reflecting the impact of the $300mm in dividends paid in September
- The investment portfolio continues to perform well with generally stable portfolio yield, strong LP returns and modest impairments
- Total LP investment income was $71mm before tax for an annualized yield of 12% compared with $93mm or 15% in Q3 2016
- Excluding LPs, the total before tax annualized portfolio yield was 4% this quarter, down slightly from Q3 2016

P&C Portfolio

- For the P&C portfolio, the annualized yield excluding LPs was 3.7%, also down slightly from Q3 2016
- To summarize, third quarter 2017 core earnings were $222mm or $0.60 per diluted share, down from third quarter 2016 due to the high level of catastrophe losses from Hurricanes Harvey and Irma

Core Earnings ROE

- Our core earnings ROE for the past 12 months was 8.2%, up 0.6 points from a year ago and our core earnings ROE excluding Talcott was 9.7%

- Group Benefits core earnings ROE was 12.1%, while P&C core earnings ROE was 10.7%, a good result in light of elevated catastrophe losses
- Through Q3 we have reported $657mm of current accident year catastrophes
- As we head into Q4, I would note that in addition to our per-occurrence property cat treaty, we have a property catastrophe aggregate treaty the provides coverage of up to $200mm above the attachment point of $850mm of aggregate cat losses

Shareholders' Equity

- Turning to shareholders' equity, book value per diluted share was $47.33, down 2% from a year ago, largely due to a reduction in AOCI
- Excluding AOCI, book value per diluted share was $45.72, essentially the same as September 30, 2016
- The y-over-y comparison on an ex-AOCI basis was impacted by Q4 2016 charge related to our agreement to reinsure our A&E exposures, higher catastrophe losses, and Q2 2017 charge related to the settlement of a portion of our pension obligation
- During Q3, we repurchased $325mm of stock and through October 12, we repurchased an additional 900,000 shares for $52mm

Group Disability and Life Premium

- Before taking questions, I wanted to provide an overview of the financial and capital impacts of the purchase of Aetna's Group Life and Disability business
- We are paying $1.45B cash consideration, which is principally comprised of a ceding commission in exchange for reinsuring to Hartford Life & Accident, our Group Benefits insurance subsidiary
- The acquired business has approximately $2B of Group Disability and Life premium, along with GAAP reserves of approximately $3.3B and invested assets with a fair value of approximately $3.4B

Tax Benefit

- The purchase price is tax-deductible over-time, and together with the impact the transaction will have on the timing of the utilization of our current tax attributes, we estimate the federal tax benefit to be approximately $325mm on a present value basis
- The cash consideration will be funded through existing capital resources including increased P&C and Talcott dividends in Q4
- The purchase price does not include statutory capital to support the business, which will be provided by existing resources within Hartford Life & Accident as well as $200mm capital contribution from the holding company
- As a result of the transaction, the estimated Company Action Level risk-based capital at Hartford Life & Accident will decrease to about 330% at year-end 2017 and we expect it to increase in 2018 to about 380% due to forecasted statutory net income

Hartford Life & Accident

- In addition, we do not expect dividends from Hartford Life & Accident through 2018
- We will not issue debt or equity to fund the cash consideration for the deal and there is no financing contingency

- We will fund the cash consideration and $200mm capital contribution from existing corporate resources, including dividends of $600mm from P&C, dividends of $800mm from Talcott, and $250mm of existing holding company resources
- Both the P&C and Talcott dividends are extraordinary and required regulatory approval, which we received last week
  - Additionally, we have discontinued equity repurchases under our current program, which has $273mm left under the authorization
- Given the additional dividends from P&C and Talcott this year to fund the transaction, 2018 subsidiary dividends will be significantly below prior years and we do not currently expect to authorize a 2018 repurchase plan

P&C Group Benefits and Mutual Funds Business

- However, based on the growing profitability of our P&C Group Benefits and Mutual Funds businesses, we have declared an increase in our quarterly dividend to $0.25 per share
- This is the fifth consecutive year we have increased our quarterly dividend
- As previously communicated, we also plan to call our $500mm junior subordinated bond when it becomes redeemable at par in June 2018
- As the acquisition is expected to close in early November, and based on our current outlook for persistency and earnings margins of the Aetna business, we expect the transaction to be accretive to net income and core earnings beginning in 2018
- Net income accretion is estimated at $60mm to $80mm, including the impact of about $15mm after-tax of restructuring and integration cost not included in core earnings
- Over the integration period, we expect restructuring and integration costs to total $50mm after-tax

Integration

- By the completion of the integration, we expect to decrease annual run rate operating expenses by about $100mm before tax, $60mm of which we expect to achieve in 2018
- We expect core earnings accretion to be in a range of $80mm to $100mm in 2018
  - This includes the expense savings as well as about $20mm to $30mm after-tax of amortization of intangibles

Balance Sheet Perspective

- From a balance sheet perspective, about half of the purchase price assigned to intangibles is classified as value of business acquired, which will be amortized through earnings over approximately 15 years
- The remainder is classified as goodwill and does not amortize
- As a result, there is no impact of book value per share, but a reduction in tangible book value per share of about 8% on a pro forma basis as of September 30

Conclusion

To conclude, aside from the impact of catastrophes, this quarter's results were consistent with our expectations for 2017 and demonstrate continued growth and strong margins in Group Benefits and Mutual Funds and ongoing improvement in Personal Lines profitability as well as industry-leading Commercial Lines performance

As Chris and Doug reviewed, we are excited about the opportunity to acquire Aetna's Group Life and Disability business and are focused on a smooth and timely integration of the two companies' operations

Sabra Rose Purtill, CFA

Closing Remarks

Before beginning Q&A I would like to remind you that since this call is public it would be helpful to everyone listening live or reading the transcript if we are able to address as many of your material questions as possible, as we do not expect to have any public investor conferences or webcasts until early December at the Goldman Sachs conference

After this call, the Investor Relations team would be happy to explain any financial disclosures or technical tax or accounting questions that can be addressed with the information provided in our news release, IFS, or slide deck

QUESTION AND ANSWER SECTION

<Q - Brian Meredith>: A couple of quick questions here. Just first question, aside from obviously the reduction in statutory surplus you'll have at the [indiscernible] (27:57), does this transaction would have any impact or implications on your ability to ultimately dispose of that?

<A - Christopher J. Swift>: Brian, it's Chris. I didn't hear the last part. Dispose of...?

<Q - Brian Meredith>: Of the remaining kind of the variable annuity, and the fixed annuity institutional block, and your run-off business. Any implications that that will have?

<A - Christopher J. Swift>: No, none.

<Q - Brian Meredith>: Got you. That's what I figured. Second question is, could you talk a little bit more about what happened with the underlying kind of combined ratio in Commercial, particularly the expense side? Are these one-off type costs with the technology and variable comp? Or is there something we should kind of expect here going forward?

<A - Douglas G. Elliot>: Brian, this is Doug. There were some one-offs in the quarter that were important. So two-thirds of that changed, roughly, in the quarter related to expense. We had a little bit of amortization, depreciation of IT, and then also we did some true-up of our variable comp plans. And I would note that there was a little bit of a swing in the quarter because last year during third quarter the adjustments went the other way. So this year, when we bumped up the accruals we had a bit of a swing and I would look towards the YTD to get a more normalized view. Relative to the loss margin compression. Just a bit across our market in comp and GL but nothing that I'm concerned with, and I think it's more the normal that we've been talking to the last couple of quarters.

<Q - Kai Pan>: First question. Could you discuss the strategic direction for the company? Because since the Financial Crisis, you've been downsizing your Life business to focus on P&C, and now you've almost doubled your Group Life business. Just wonder, what do you think about the pro and the cons as a multi-line carrier vs. a pure play P&C carrier in the current marketplace?

<A - Christopher J. Swift>: Yeah, Kai, it's Chris. I would recharacterize your statement a little bit. It's Life and Disability, which we'd say Disability is very similar to our P&C business. We see the linkage and alignment particularly on adjudicating claims in comp and long-term disability very similar. So I don't think we're trying to re-create a multi-line. We're focused on our three businesses, as we've said since our restructuring: P&C Commercial, P&C Personal Lines, Group Benefits and Mutual Funds. And we're going to continue to try to grow all three. Our historic focus has been on organic growth, building capabilities, adding product lines. This is the first opportunity we had that made financial and strategic sense to acquire a business that we considered core all along.

<Q - Kai Pan>: Okay. So my second question on pricing, and one of your competitors last week are pushing for sort of a more cross-based – like pricing increases. What's your pricing outlook? How do you position yourself?

<A - Douglas G. Elliot>: Kai, this is Doug. Let me address different parts of that question, and I'll end up with property, which is on everybody's mind. Obviously, you know we've been working the Auto pricing component hard these last several years, not just in Personal Lines, but also in Commercial. That work will continue, as evidenced by some of the disclosures we made in the supplement.

Also, I've mentioned in prior calls that we have turned our attention up quite a bit in the General Liability space. We have been concerned with a couple of trends inside particular sectors of our middle-market and small commercial book, and have been addressing those with pricing last couple of quarters. But there's no question the last 60 days of catastrophic events, flood, winds, wildfire, et cetera, make us go back and think about all of our property pricing. We've been working on our by-peril and geographic pricing elements the last two to three years; feel good about that progress. But obviously, the severity and the frequency of what we've seen in the last 60 days makes us go back and think even harder about property. And I expect our property prices will go up in the ensuing months.

<Q - Josh D. Shanker>: I wanted to talk a little about where you are in terms of goals and margins on the group block that you guys currently have? And where would you think that you would get to a targeted sort of steady-state on the new combined businesses?

<A - Christopher J. Swift>: Yeah. Josh, thank you. I would share with you, as we said in our prepared remarks, we're most pleased with our book of benefits and how it's performed on a YTD basis. And the margins have been healthy. We've always talked about 5.5% to 6% as sort of a normalized range. I don't see any update to that right now for our book. So when we combine it with Aetna, it'll probably take a good 24 to 34 months to get to that 5.5% to 6% on a combined basis. But we're focused on integration, focused on the appropriate structure, but I have no reason not to believe that 5.5% to 6% on a combined basis should be the target for the entire portfolio.

<Q - Josh D. Shanker>: And do you expect the group disability market to look notably different in 5 or 10 years in terms of consolidation following this transaction? Or in general, do have a long-term view on the shape of it?

<A - Christopher J. Swift>: I'd say first, from, I'll call it, the product set and the needs, we're very bullish on it, right? We continue to believe benefits, including our voluntary and additional A&H capabilities, will have a place in the marketplace. We see long-term steady stable economic conditions, employment. So, I don't see any shocks on the horizon.

So it's hard to say what happens from a consolidation side, and I would say that the industry is already fairly tight around the top 10, probably controlling 80% of the premium. So, I don't see any, per se, radical consolidation, but our aim, obviously, with this transaction is to be one of the top industry players that will continue to improve our offerings, our skill sets, our digital capabilities, and really build a best-in-class platform to serve the benefits marketplace.

<Q - Ryan J. Tunis>: I was just hoping maybe you guys could give us some idea of what the earnings are from the Aetna transaction, like in a baseline year? So if you're just thinking about what the company's earning, or what that unit's earning in 2017 without thinking about any of the cost saves?

<A - Christopher J. Swift>: Ryan, obviously, we don't have Aetna's forecasted 2017 earnings for the division. I think what we are trying to do to help you is we tried to provide a core earnings number with and without amortization of intangibles in 2018. And I tried to lead you to think that three years henceforth on a run rate basis, we're about $150mm of after-tax earnings, ex-intangible and amortization. So those are the points I would triangulate for your model.

<Q - Ryan J. Tunis>: Got you. And, I guess for those cost saves, is there going to be reinvestment of any of that? Or are you thinking about, I guess, all of that flowing to the bottom line in getting to the $150mm?

<A - Christopher J. Swift>: I think most of it, we think for the bottom line, I think one of the real features that we're, Doug and I and Mike Concannon, who is with us here, our business leader, is they really do have some good digital capabilities, particularly embedded in their claims system and their recovery management capabilities. So that is actually a big cost avoidance for us to spend upwards of $100 million-plus to build a more modern claim platform for this business. So, that's a great benefit, but it'll probably take 12 to 18 months to fully integrate into our platforms.

So, otherwise, what I would say, it's a typical back-office consolidation of activities. I think our vision is to really create an integrated leadership team here because the Aetna men and women run a good business, have proven their capabilities in this space as a good competitor. So we want to leverage as much of that talent as possible within our organization going forward.

<Q - Ryan J. Tunis>: That's helpful. And then, I guess, just a point of clarification. It's kind of difficult looking at the legacy, I guess, the way Aetna presented it, to really tell what's been going on, but it does look like profitability of the group business in general has gotten a little bit worse, which it seems like we've see the opposite on Hartford's block. First of all, is that a fair assessment in terms of what you're looking at? And second of all, I guess if it is, can you talk a little bit about what you think has been driving performance there over the past few years and how you think you might be able to reverse that or improve it?

<A - Christopher J. Swift>: It's probably not fair to comment on their trends. I mean, obviously, it's their trends. I can tell you, what we did from a diligence side, is look at the block in totality. I think we were very comfortable with the pricing assumptions, the reserving assumptions. We won't have to harmonize into our environment as far as discount rates and the like, but I tried to say in my commentary, Josh, that – excuse me – Ryan. I didn't see the need to view this as a fixer upper. I think the block is performing fairly well and we'll integrate it and as business comes up for renewal [ph] at a regained (38:57) rate guarantee – compete effectively to retain that business going forward. That's probably the highest party of the integration, and Doug and I talk about it with Mike and the leadership team is, we have to have a high retention of customers coming out of rate guarantees.

<A - Douglas G. Elliot>: Ryan, one other thing. This is Doug, that Chris and I and Mike just spent a lot of time talking about – we are strong in the national accounts space and actually across the board. There's an exhibit in the prepared PowerPoint slides that gives you a sense of their mix. We're excited. Yes, they have a strong national franchise, but they also have a very solid middle-market franchise that, when combined with ours, really enables us to be a different player the middle-market. So excited about their digital capabilities, excited about their absence-management system, and very excited that we're going to be leaning into the middle-market in addition to all of our voluntary suite of products that we will bring to market and have been over the past couple of quarters.

<Q - Ryan J. Tunis>: Thanks. That's helpful. And then I guess just lastly, maybe for Beth, just thinking about how big is Group Benefits now, as a percentage of total allocated equity at the company. I mean, I guess obviously it seems like doing the coinsurance deal, you'll have to – I think you're committing $200mm of statutory equity, but do you have any idea, I guess, pro forma this transaction, what percentage your allocated GAAP capital will be supporting Group Benefits? Thanks.

<A - Beth Ann Bombara>: Yeah, and actually, included in our materials, we showed some of the balance sheet impacts relative to Group Benefits, but when you look at kind of all-in equity, and I'm looking at more on a GAAP basis, Group Benefits' pro forma for this transaction will be about 17%.

<Q - Jay A. Cohen>: Yes, two questions. I guess first one on the Aetna deal. From what I understand, this one has been floating out there for about a year. So, obviously others had a chance to look at this. Is there something that makes you kind of the better buyer for this business vs. others out there?

<A - Christopher J. Swift>: Yes. Jay, I would say we're very complementary, besides being a half a mile apart. I mean their business profile and ours, equally weighted, Life and Disability, good national account presence, good middle-market presence. I think our voluntary suite of products we've built out over the last three or four years and is really coming from a sales and revenue side. So I think the natural synergies, as I said, their claims system in some of digital capabilities we think are best-in-class and how we integrate it and then use that insights, particularly as it relates to workers comp and share the benefits across multiple product lines, I think makes us the natural buyer. There are more synergies, and I know we've discussed this in the past, Jay, but Disability and Comp, there are more and more synergies all the time, whether it be from a distribution side, a claims outcome side, a cross-sell opportunity side. It is really integrated these days.

<Q - Jay A. Cohen>: Got it. Okay. That's helpful. And then the second question is on the California fires. I know it's early. Can you give us, at least qualitatively, what you're seeing out there as far as your exposure, personal vs. commercial, at this point?

<A - Beth Ann Bombara>: Sure, Jay. It's Beth. So a couple of things. It is early to provide an estimate. We're obviously – our claims folks are working very closely and responding to our customers. What I would say is, as we sit here and look at it, we see the exposure could be at or above what we incurred for Harvey which, again, on a pre-tax basis is $175mm, and we really see it primarily as a Personal Lines event with relatively small exposure on the Commercial side.

<Q - Elyse B. Greenspan>: I have a few questions. First, can you guys – can you tell us what equity Aetna had supporting their Group Benefits business?

<A - Christopher J. Swift>: Elyse, I don't have that data. So the equity that Aetna had supporting it?

<Q - Elyse B. Greenspan>: Yeah.

<A - Christopher J. Swift>: Yeah. That wouldn't be relevant for us.

<Q - Elyse B. Greenspan>: Okay. And then my second question, on the Auto side, in terms of the disclosures in the quarter, the expense ratio was relatively stable, y-over-y. I know you guys alluded to potentially seeing the expense ratio rise as you kind of looked to reinvigorate growth there. Is that something you're expecting in Q4? And then the rate increases got up to 12% this quarter. In your minds, is that as high as it's going to get? How do you kind of see rate as well as expenses in that business as we think about Q4 and onward?

<A - Douglas G. Elliot>: Two good questions, Elyse. This is Doug. On the expense question, yes, we were about even for the quarter after a couple of quarters of out-performing 2016. In Q4, I expect it to swing the other way. So I think our expense numbers will be up a couple of points vs. 2016 and that's, as we lean into marketing, we'll be spending there. So that's the expense side. On the pricing side, I do think we are about at our high watermark for written pricing. So, obviously that written will earn its way in but as we think about our curves, our filings, our needed rate, we are at a high watermark that will be tapering into 2018.

<Q - Elyse B. Greenspan>: Okay, great. And then one more question, in terms of the acquisition. Chris, I think in the past you had mentioned maybe your sweet spot would be deals about $500mm to $1B in premiums and maybe that was just kind of some commentary off the cuff in terms of potential acquisitions, I guess. This is, obviously, double that target. Is it just, obviously, the strategic rationale that you mentioned earlier on the call? Is that what you'll view, I guess, to pursue a deal that just in terms of that metric seems a bit bigger than what you had been looking for?

<A - Christopher J. Swift>: Yeah, I generally agree. I mean, it was an opportunity. Obviously, it's a little bigger, it's benefits. So a lot of that commentary we talked about on this acquisition side related to P&C and that $500mm to $1B, which would still be a sweet spot. This one was in the Benefits space, just a little bit bigger but very, again, financially and strategically compelling.

<Q - Thomas Gallagher>: A couple of questions on the deal. Chris, if I'm understanding the math correctly, you're saying $150mm of annualized earnings power three years out, right? And is the way to interpret that, and part of that's going to come from the $100mm of expense saves. So, the math I'm doing would suggest you're paying about 20 times current run rate earnings but then eventually, with the benefit of cost saves, you'd be paying 10 times when you think about what you fully expect this to earn three years out. Is that a fair way to think about the multiples and the valuation here?

<A - Christopher J. Swift>: I don't want to fact check your math but I think, generally, the $150mm ex-amortization of intangibles would be a key. Yeah, and I thought about it more from an 2018 side, forward 2018 earnings with a little expense savings. We're probably paying 16, 17 times forward earnings. So I wouldn't quibble with your math too much.

<Q - Thomas Gallagher>: Okay. And then just related to the detail deal, also, I think, as I've looked at the block, it had some deterioration in group disability over the last few years from a loss ratio standpoint, and I know they lost a large national account business recently. To what extent have you factored those things in? Do you think there needs to be significant repricing? Or is there material integration risk as you think about the transaction?

<A - Christopher J. Swift>: Tom, I try to describe it as – it will require a lot of hard work. No doubt about it. But I think we see it as relatively smooth and straightforward. And from the block's performance in totality, I think we're comfortable where they priced it and where results have been. That's not to say that we're not going to tweak things as we go forward but you should not think in terms of a fundamental repricing initiative, sort of a fixer-upper in my colloquial language. So I think we feel very comfortable that they've been prudent over the years but we'll have to integrate it and run it through our pricing models long-term.

<Q - Thomas Gallagher>: Got it. And then just one final one. The 330% RBC, is that a number that you expect to build back up? Or is that a good run rate? Can you talk about what your RBC target would be? Where you want that to be sort of steady-state?

<A - Beth Ann Bombara>: Yes. Tom, it's Beth. So when we think about the RBC to support this business, we think about it long-term in the 350% to 400% range. And so, as I said in my prepared remarks, when we look out at the income we'll generate in 2018, and don't anticipate dividends from Hartford Life & Accident 2018, we'll get back up into that range. We anticipate being at about 380%, and we feel very comfortable running that business at those levels.

<Q - Randy Binner>: I want go back to distribution, and this – it's just become a very large market to a number of distributors out there. And that it's a question of one plus one equals what here, and I've heard answers that you're going to be better in the middle market, and that your digital services that you're getting from Aetna, I think are a material improvement. But can you just walk us through a little bit more how you kind of overcome that typical issue you have from a distribution perspective when you become such a large market together for a lot of the folks who move this product?

<A - Christopher J. Swift>: Yeah. I'll start and then I'll ask Doug to comment. I mean, that is traditional thinking. But I would say that this market is already highly concentrated, and I think the capabilities that our combined group have particularly in Disability and the insights and our proven track record of helping clients recover more quickly. It just sort of speaks for itself from a capability side. I would say also from the broker side, we have meaningful relationships with a lot of these men and women on the P&C side, and I think it's just an additional connection point, opportunity point, profit point for them as we can do more business to the others. So, I don't see a one plus one equals anything less than two at this point in time, but we've got to work hard to earn their trust. And again, as I said when business comes out of rate guarantees to really work hard to retain those accounts and relationships. Doug, what would you add?

<A - Douglas G. Elliot>: I guess the only other thing I would add is that as part of this relationship, we have entered a multi-year agreement with Aetna to work with their medical reps on selling business together, so they will have the ability to work with our folks and this distribution agreement multi-year, I think is very exciting. They have done a nice job in the past at working together, both Medical and their Group business. And we look forward to seeing how we can win together going forward. So Chris, I'm excited, I think our reputation is well earned in the Group Benefits space amongst the top brokers. Yes, I think there's opportunity for us to be broader and deeper in the next 200 outside of that top 10. And I think this capability and group of talented executives coming over from Aetna allow us to jointly enter that space more aggressively.

<A - Beth Ann Bombara>: And another thing...

<Q - Randy Binner>: A quick follow-up. Sorry go ahead.

<A - Beth Ann Bombara>: No, Randy, the only thing I was going to add is that obviously as we assessed this business and as we built our projections over the next couple of years, we did take into consideration that sometimes you can have a little bit, for lack of a better word, shock lapse that can enter the book. So we've taken that into consideration in building our projections. But as Doug and Chris said, we do believe that we're in a good position to compete in this space going forward.

<A - Christopher J. Swift>: Randy, just one final point. With 20mm combined customers, again, I really think the opportunity here is voluntary products to be able to offer again through our distribution partners a full product suite of voluntary capabilities, and maybe additional A&H capabilities down the road, that again, I think will be attractive to our distribution partners going forward.

<Q - Jamminder Singh Bhullar>: Some of my questions were answered, but can you discuss what you view your capacity, your appetite for buybacks beyond 2018? I think, like – would you anticipate returning to the market in 2019?

<A - Christopher J. Swift>: Jimmy, it's Chris. I'd say, I mean, you know our historical pattern. We'd like to obviously close this transaction, integrate it, get a good way through 2018, see how we're performing, but the capital generation of the firm is still strong. So as we get into 2019, there are possibilities of returning additional capital to shareholders, but that would be premature to really speculate and forecast right now, and we'll keep you posted as we go along.

<Q - Jamminder Singh Bhullar>: Okay. And then on the loss ratio in the Personal Lines business, it's inched higher in the past couple of quarters, I guess, and mostly because of the Auto business. I guess some of that could be seasonality, but could you discuss what's driving that, despite the fact that you've been implementing price hikes as well?

<A - Douglas G. Elliot>: Yeah. Jimmy, this is Doug. It is all seasonality. Our underlying fundamentals are very solid, and we feel very good about the progress we've made, very much in line with our expectations and what we shared with you last January.

<Q - Jamminder Singh Bhullar>: And then lastly as you look at your Group Benefits franchise, do you feel like you're going to need to grow it? Obviously, you've made a big bet on the group benefits market with this deal because it seems like you paid maybe a fair price, certainly not a very low price for this acquisition. You've also suspended buybacks and taken your business mix away from being more of a pure P&C company. So do you feel like, as you're looking at the Group Benefits business further, that you're going to continue to expand through acquisitions? Or what's your view of just how this business fits within your overall franchise, and whether you need to add additional capabilities in this market over time?

<A - Christopher J. Swift>: Just to be clear, I think we have all the capabilities we need to compete here for the long term: full product set, core disability, core life, voluntary A&H, particularly, business travel accident coming online. So I don't see the need to go out and think in terms of what's the next deal that we're going to do in this space, Jimmy. It's really about execution. It's about managing our distribution relationships and ultimately taking care of the customers that we have today. So, that's our focus.

<Q - Mark Dwelle>: A couple of questions related to the transaction and the guidance. Why was this structured as a reinsurance transaction? Is the tax benefits that you're going to be able to ultimately benefit from, was that really sort of the secret sauce that kind of make the math work on this?

<A - Christopher J. Swift>: No, I wouldn't say that. I mean, remember, there are certain blocks of business that Aetna has in their legal entities that is not coming over, as we disclosed in our slide deck, principally Long-term Care and Dental and Vision. So they didn't offer us to sell us a legal entity, and I think it was structured vis-à-vis reinsurance to dispose of the business they wanted to sell us.

<Q - Mark Dwelle>: I see. Okay. So that structure was really more motivated by their interests and motivations than necessarily The Hartford's?

<A - Christopher J. Swift>: Yes. It was their legal structure. And I would say the tax benefits, there's ways of replicating an asset sale vis-à-vis tax code election, so I don't want to get into a detailed tax debate, but there were tax benefits that we enjoyed in this transaction.

<Q - Mark Dwelle>: Okay. The second question, there's sort of two sub-questions related to just the guidance figures, the core earnings after-tax of $80mm to $100mm. Just to clarify, is that the core – the earnings after-tax as it relates to the Group Benefits portion? Which is to say, is that number take into account the less investment income that you would have out of the P&C and Talcott as a result of the way the deal is funded?

<A - Beth Ann Bombara>: Yes. This is Beth. So the $80mm to $100mm is reflective of the increase we see in the Group Benefits side. Again, from a timing perspective, yes, the net investment income in P&C and Talcott would be slightly impacted by the acceleration of the dividends that we're taking out, but really not in a very meaningful amount.

<Q - Mark Dwelle>: Okay. And then in that same vein, the tax benefits that The Hartford overall will realize, are those taken into account within the $80mm to $100mm? Or would that be kind of over top of that, spread across the group?

<A - Beth Ann Bombara>: Yeah. So that gets a little complicated. Again, we think about the tax benefit, really think about that from a cash flow perspective, how it will impact the P&L, again, since a lot of the tax benefit is coming from the purchase price and the intangibles that are going to be amortized into income. There's a piece of it that would come through the tax benefit associated with the amortization on the intangibles. And there is a portion of it that relates to goodwill which, obviously, stays on the balance sheet. So, the way I think about it is it really is more of a cash flow item that will impact the statutory capital of the subsidiaries, which ultimately will provide capital to the holding company.

<Q - John Heagerty>: Just a couple of points of clarification, if I could. On the $150mm, is there any sort of revenue synergies included in that? Or is that all expected to be expense synergies coming through?

<A - Christopher J. Swift>: What I would say is that we have a revenue model. I wouldn't say that it is, I'll call it, aggressive in terms of what we think we could do from a revenue growth side. I think it's somewhat we think we could do with our business, and, as Beth pointed out, too, we've been a little cautious in forecasting just what is the lapse rate renewal – retention going forward. So we've probably been a little conservative there, John. So I wouldn't say that there is a lot of revenue synergies, other than I do think we could increase our run rate sales [ph] in voluntary (01:00:40) with this larger customer base.

<Q - John Heagerty>: Thanks. And then just on the timing of the integration costs, can you tell us which year they're going to phased in and how much in each year?

<A - Beth Ann Bombara>: Yeah. So, John, we've actually included that in some of the slide materials that are on our website. But, as we said, we expect about $15mm after-tax to come in, in 2018. There'll be a little bit that will come through in 2017 and then the remainder, we'll see in 2019. So if you go to page 14 in our slide deck, we give you the run rate of those costs over the period.

<Q - John Heagerty>: Great. Thanks. And then finally, just more philosophically, how do you evaluate making this acquisition from a shareholder value creation perspective just compared to simply buying back more stock?

<A - Christopher J. Swift>: Yeah, John, we've talked about this extensively. We are very sensitive to, I'll call it, the short-term metrics of buying back shares. But in this particular one, we thought in terms of the long-term IRRs were just more attractive than buying in shares today. I think we've been focused on a growth orientation that creates new revenue streams, whether we build them or acquire them. And we balance that, I think, pretty well here with a return on investment that will approach double digits. And that's what we wanted to focus on, is having the recurring revenue and earnings stream in our profile going forward than just the short-term benefits of share buybacks.

<Q - Ian J. Gutterman>: First, Beth, can I go back to the tax? I guess I'm struggling to understand with that $325mm is? Is that just like they had a NOL that you were able to keep on the acquisition? Or is this something that has to do with how you use your own tax benefits fast? Or what exactly is that?

<A - Beth Ann Bombara>: Right. So there's two pieces. The bulk of it relates to the fact that the amount that we're paying, the $1.45B, nearly all of that is tax-deductible over time. So we will amortize that, get a tax deduction, typically averages around 15 years. And so that – what we did is we looked at that tax benefit impacting us over that period of time and what that value is on a present value basis. And that's probably about $260mm of the amount that we discussed. The other portion is the fact that with the increase in earnings that we will have coming from this acquisition, we will be able to utilize our current tax attributes, our NOLs and AMT credits faster than we otherwise would have. And so again, PVing out the cash flows associated with that is where we get the remainder of the benefit.

<Q - Ian J. Gutterman>: Okay. That makes sense. So, is it fair to think of the consideration paid is really closer to $1.1B?

<A - Beth Ann Bombara>: Yeah, the way we think about it is, the amount that we paid less the present value benefit that we'll get from these tax attributes over time.

<Q - Ian J. Gutterman>: Got it. Okay. And then, Doug, I want go back to Josh's question about – if I think two or three years out, once you've had a chance to reprice the book. Is there any reason this shouldn't – is there something fundamentally different about where they play or their mix of business that it shouldn't be in that 5.5% to 6% range on profitability?

<A - Douglas G. Elliot>: Ian, I don't think so. I think – we know them as a competitor, we've done our diligence, we expect coming together the fundamentals of how we compete in the marketplace to be consistent with our prior approach. And those goals that Chris outlined are absolutely doable and we expect to achieve them.

<Q - Ian J. Gutterman>: Okay. So, a leading question here. But if I take the $100mm of savings, so after-tax, $65mm on a pro forma $5-plus-billion earned premium base, that's an extra point to margins. Does that suggest the goal over time can become 6.5% to 7%?

<A - Christopher J. Swift>: Ian, you're really stretching us here. Again, all I would share with you right now is there are potential upsides, but I'd rather have you focus on what is ultimately realistic. And what we talked about is realistic.

<Q - Ian J. Gutterman>: Okay.

<A - Christopher J. Swift>: And if there's upside, we'll talk about it. You'll see it coming through the top line and cross sell opportunities, however you want to describe it. But let's just focus on what's realistic as opposed to anything that really pushes the bounds.

<Q - Ian J. Gutterman>: No, that's right. I just wondered – I was sort of trying to reverse engineer your $150mm you commented on earlier. If I take out the $65mm after-tax of savings, that's $85mm; on $2B, that's only 4%. So I just want to make sure that – it sounds like you should hopefully be able to do better than that $150mm as that 4% goes up to 5% or 6%.

<A - Christopher J. Swift>: From your mouth to God's ears.

<Q - Ian J. Gutterman>: Yeah, okay. And then just quickly, any – yeah, I know you commented on it a little bit, but any further detail you want to add to – obviously there's been a lot of speculation from some of the other callers. I'm guessing you've heard about pricing opportunities, and one of your large competitors talked about – pricing outside, not being driven just by what they're seeing in cat but just based on the pressures, Doug, I think you've talked about before, about some of the pricings not really being attractive on a return basis. Does it feel like there's opportunities beyond just property that you can get rate on package if you will? Which implies you're getting rate on comp too? Or is it really going to be more narrow, I guess?

<A - Douglas G. Elliot>: I guess I'll take that apart in a few different ways. Clearly, we've been working on the package area – we will come back to comp, because I would separate liability GL from worker's compensation. And we have been addressing our needs in the General Liability area over the last couple of years, and you see that in the fact that we're pleased with our pricing performance in the quarter, but I do think there is potential for us to lean into both our liability and our property pricing a little harder over the coming months. And clearly the events in the last 60 days give us reason to go back and reassess our cat loads, and our tornado-hail loads, et cetera, in our property book. Worker's compensation is a little bit different story. So, we are managing our way through a bit more of a regulated climate in commercial lines. We really are very pleased about our current book performance and are trying to balance that book performance with pricing trends as we go forward. So, Ian, I think we'll continue to manage comps separately. But yes, I see some upside in the pricing in our Property and GL area.

<**Q - Ryan J. Tunis**>: I just had one last follow-up. So if we were to have any sales from here of non-core assets, just curious of how we should think about the prioritization of the use of proceeds. Should we think about capital first being used to get the capital levels higher in HLA, et cetera, et cetera, et cetera? Should we think about buyback next and then M&A? Or does that not sound like kind of the right way to think about it? Thanks.

<**A - Christopher J. Swift**>: Hey, Ryan, it's Chris. We've talked about this before. I think if, through any additional sales of non-core assets, we would first look to always right-side our debt and equity ratios as we would monetize a unit. I think from there, we've always talked about wanting to deploy capital into growth opportunities, whether it'd be organic or obviously M&A like we did here today. And then finally, if there aren't, I'll call It, adequate uses for that capital that earn a hurdle rate of above our costs-of-equity capital, we would consider returning excess capital over time to shareholders, but we demonstrated the priorities of using excess capital here in recurring revenue streams, and I would have that mind-set going forward.

<**A - Beth Ann Bombara**>: And Ryan, the only thing I'll add to that, again, as we look at the capitalization of HLA, we're very comfortable with the level that it's at and the fact that, just through the normal course of the earnings generation that will be there next year, that will be within our RBC targets.

<**Q - Meyer Shields**>: Okay. One question on operations and one on the deals. Doug, you talked about a true-up for variable comp affecting the expense ratio this quarter. I was hoping you could dig a little deeper in terms of what underpinned that decision?

<**A - Beth Ann Bombara**>: Yeah. Meyer, I'll take that. It's Beth. And I think it's important to also point out the comment that Doug made on just a y-over-y compare. So, when we look at our variable compensation plans, which are tied to what our underlying performance in our businesses are, if you looked at 2016, obviously, our underlying performance was not where it needed to be, and we took down a lot of incentive accruals in the third and fourth quarter. When you look at our underlying performance for this year, we feel it has been very strong and so we saw increases in that. So there's a little bit of a delta. And that last year, we were taking things down, and this year we are modestly increasing them, that shows up in the expense ratio.

<**Q - Meyer Shields**>: Okay. So the deal is being structured as reinsurance. Is there going to be any need for a new corporate [ph] SC (01:11:50) or something like that at Hartford? Or can all of this business be handled within your current core operating structure?

<**A - Christopher J. Swift**>: No. It could be handled by HLA. HLA is the – again, it's the assuming companies which is our entity devoted towards the Group Benefit business. If you recall, we restructured that years ago, and there's no additional legal entities required, Meyer.

<**Q - Meyer Shields**>: Okay. Fantastic. And then just finally, the $325mm present value tax benefit, that's all at 35%, right?

<**A - Beth Ann Bombara**>: Yes. So, we did that based on current tax rates. I would point out that obviously, if tax rates go down, that benefit would go down, but the value of the business and the earnings on that business being taxed at a lower rate would far exceed any decrease to that value.

<**Q - Jamminder Singh Bhullar**>: Beth, I just wanted to follow up on the components of the tax benefit, and if I understood your comments right, I think the two components are, one, the purchase price being deductible in the future and then the second is just the acceleration in the use of your existing tax attributes. And I guess I understand how the acceleration and the use of your existing tax attributes creates extra value because of this deal but the purchase price being deductible, if you were to grow your business organically most of those sort of the consideration and expenses

involved in that would've been deductible anyways. So I'm just trying to understand how that is sort of extra value that's being created just through the deal?

<A - Beth Ann Bombara>: Well, based on the price that we're paying, the fact that it is deductible over time, we will get a tax benefit associated with that, and we think that's an important consideration as you think about the total cash flows associated with acquiring this business today.

<Q - Jamminder Singh Bhullar>: No, that I understand. But if you were – it's not – my point is wouldn't – in anytime, if you had to built the business organically, any consideration that you hold the cash that you would've had to outlay because of – for that would've been deductible anyway, right? You're just pointing out like how cash flows will work in the future because you'll get a tax benefit. But most of the time, if you're building a business in-house vs. doing any deals, any cash that you have that's an outlay would be deductible anyway, right?

<A - Beth Ann Bombara>: That's true and I think that would be an important consideration in looking at what's being spent but, again, the fact that we are getting a tax benefit on what we're paying, when you think about the cash flows associated with the entire businesses, I still see it as a relevant point.