Q1 2021 Earnings Call

Company Participants

- Beth Costello, The Hartford Financial Services Group, Inc.
- Christopher Swift, The Hartford Financial Services Group, Inc.
- Douglas Elliot, The Hartford Financial Services Group, Inc.
- Susan Spivak, The Hartford Financial Services Group, Inc.

Other Participants

- Brian Meredith, UBS Investment Bank, Research Division
- Charles Peters, Raymond James & Associates, Inc.
- David Motemaden, Evercore ISI Institutional Equities
- Elyse Greenspan, Wells Fargo Securities, LLC
- Jamminder Singh Bhullar, JPMorgan Chase & Co
- Joshua Shanker, BofA Securities
- Mark Dwelle, RBC Capital Markets
- Meyer Shields, Keefe, Bruyette, & Woods, Inc.
- Michael Zaremski, Credit Suisse AG
- Tracy Dolin-Benguigui, Barclays Bank PLC

Presentation

Operator

Good day. Welcome to Hartford's First Quarter 2021 Earnings Conference Call. (Operator Instructions) Please note this event is being recorded. I'd now like to turn the conference over to Susan Spivak. Please go ahead.

Susan Spivak {BIO 1514699 <GO>}

Thank you, Ian. Good morning. Thank you for joining us today for our call and webcast on First Quarter 2021 earnings. This morning we reported results and posted all of 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 will have a Q&A period. Just a few final comments before Chris begins.

Today's call will include forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. Please note that no portion of this conference call may be reproduced or rebroadcast in any form without The Hartford's prior written consent.

All of the statements that we make today 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 measures are included in our SEC filings as well as in the news release and financial supplement.

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 webcast and an official transcript will be available on The Hartford's website for one year. I'll now turn the call over to Chris.

Christopher Swift {BIO 3683719 <GO>}

Thank you for joining us this morning. I want to start by saying that I have never been more excited about the future of The Hartford. In the First Quarter, there were infrequent items that impacted reported results.

However, the underlying performance of our business continues to reflect strong execution on key initiatives and improving margins. I am extremely bullish about the prospects of growth and further margin expansion in the second half of 2021 and in 2022.

The current macroeconomic environment and industry outlook favors The Hartford. And combined with the strength of our businesses, we are positioned to deliver accelerated growth and attractive returns for our shareholders.

I'm now going to turn the call over to Doug and Beth so they can provide some more commentary on the quarter. After their remarks, I will provide more details on our financial targets that we disclosed here today. So with that, Beth, I'll turn the call over to you.

Beth Costello {BIO 15349374 <GO>}

Thank you, Chris. Earlier today we reported First Quarter core earnings of $203 million or $0.56 per diluted share. Core earnings were down 58% in the quarter primarily due to the impact of three significant items.

First, we recognized unfavorable prior year development in P&C of $223 million before tax. The largest component of the adverse development was the impact of the settlement agreement with the Boy Scouts of America that we announced last week.

Partially offsetting the unfavorable development was favorable development in other lines, primarily workers' compensation, package business and Personal Lines auto.

Second, our First Quarter results were impacted by catastrophes of $214 million net of reinsurance. This includes $176 million from the February winter storms in Texas and other areas.

Third, the quarter was impacted by COVID-related excess mortality in Group Benefits of $185 million before tax, and losses in workers' compensation and financial lines totaling $24 million.

Aside from these three items, the performance of our businesses in the quarter remained very strong. In P&C, our underlying combined ratio of 89.4% improved 3.5 points from the First Quarter of 2020, including improvements in both the loss and expense ratios.

In Small Commercial, the underlying combined ratio of 88.3% improved by 1 point from First Quarter 2020. Excluding COVID losses, margin improvement was largely driven by lower expenses from our Hartford Next initiatives.

Middle & Large Commercial's underlying combined ratio of 95.3% improved 5.1 points from First Quarter 2020, also benefiting from Hartford Next. In addition, lower non-cat property losses and ex COVID workers' compensation margin expansion contributed to improved results.

In Global Specialty, the underlying combined ratio of 89.9% improved 6.5 points from First Quarter 2020 due to lower expenses and loss ratio improvement as rate increases continue to earn-in across the businesses.

In Personal Lines, the underlying combined ratio improved 3.1 points to 83.5% as the loss ratio improved by 3.4 points, driven by continued low frequency in auto. Expenses in the quarter increased by 40 basis points to 27.1% as the Hartford Next initiatives were more than offset by an increase in AARP direct marketing costs and the effect of lower earned premium.

Now turning to Group Benefits. As expected, results for the First Quarter were significantly impacted by excess mortality related to the direct and indirect effects of COVID-19. Since the end of last year, the number of reported U.S. COVID deaths continued to increase, peaking in January and have since slowly declined.

Results for the quarter include all-cause excess mortality of $185 million, $13 million of which relates to additional prior year losses. The excess mortality resulted in a reported loss of $3 million and adversely impacted the core earnings margin by 9.5 points. Based on current declines in mortality and the impact of increasing vaccination rates, we expect excess mortality in the range of $40 million to $60 million in the Second Quarter.

Disability results for the quarter were favorable. The loss ratio for the quarter was 68.4%, down 3.1 points from prior year and reflected higher claim recoveries and lower disability claim incidences.

Top line results were solid and reflect strong sales and persistencies. And for the first time since Second Quarter of 2019, we reported year-over-year premium growth.

Sales of $512 million for the quarter were greater than the prior year and reflect growth in all market segments. Paid family and medical leave continues to be a focus for us and was a contributor to the increase in sales. Persistency on the combined employers' block of business was approximately 91%.

At Hartford Funds, core earnings for the quarter was $45 million, relatively flat with the prior year as an increase in fee income, reflecting higher market levels, was largely offset by higher operating costs.

Mutual fund net flows were a positive $774 million in the quarter. As a reminder, the prior year quarter included a benefit of $12 million before tax related to the reduction in contingent consideration associated with the acquisition of Lattice.

The corporate core loss was $60 million in First Quarter of 2021 compared to a loss of $64 million in the prior year quarter due to lower interest expense and lower insurance, operating costs and other expenses, partially offset by lower net investment income.

Turning to investments. Net investment income was $509 million for the quarter, up 11% from the prior year quarter, benefiting from strong limited partnership returns. The total annualized portfolio yield before tax was 3.8% compared to 3.7% in the First Quarter of 2020. The annualized limited partnership return was 21.1% for the First Quarter versus 13.2% in the prior year quarter, driven by higher private equity returns.

Net unrealized gains on fixed maturities before tax was $2.3 billion at March 31, down from $3.5 billion at December 31 due to higher interest rates. Book value per diluted share, excluding AOCI, rose 7.4% since March 31, 2020, to $47.31 and our trailing 12-month core earnings ROE was 10.9%.

During the quarter, The Hartford returned $239 million to shareholders, including $123 million of share repurchases and $116 million in common dividends paid.

Today, we announced that the Board has increased the share repurchase authorization by $1 billion, bringing the authorization through 2022 to $2.5 billion. Our expectation is to repurchase approximately $1.5 billion in 2021, subject to market conditions. I'll now turn the call over to Doug.

Douglas Elliot {BIO 3700927 <GO>}

Thanks, Beth. Over the past few years, I've shared a series of priorities, providing updates along the way. To summarize, we have been increasing the breadth and depth of our product offerings, reshaping our portfolio and investing in new capabilities for the benefit of customers, distribution partners and our underwriters.

The success of those efforts, supported by a firm ex workers' compensation pricing environment, is producing consistent ex COVID underlying margin expansion, including 4.3 points in quarter 1.

The global pandemic certainly interrupted the potential for top line momentum in 2020, creating an important inflection point for 2021. First Quarter Property & Casualty written premium grew 2%, driven by a strong Commercial Lines result of 4%. I'm pleased with our underlying First Quarter results and what it portends for the rest of the year. I'll start with a few headlines before diving deeper into the micro story.

The P&C underlying combined ratio of 89.4% was outstanding. Commercial Lines produced a stellar ex COVID underlying combined ratio of 90.1% and Personal Lines contributed with an underlying combined ratio of 83.5%. Small Commercial new business grew 12% during the first three months, contributing to our largest premium quarter ever.

Spectrum's momentum continued with new written premium growth of 32%, a record new business level, beating quarter 4 of 2020. April new business in Small Commercial also look strong, and we are encouraged by the tailwinds of increasing new business formations. According to the U.S. Census, new business applications were up 62% in the First Quarter.

Global Specialty written premium increased 13%, including new business growth of 10%. With underwriting actions largely behind us, retention has improved across the board. In the quarter, the breadth of our growth was very strong, led by 18% in wholesale, 13% in U.S. financial lines and 29% in international. Global Re also had an excellent quarter with gross written premium growth of 12%.

Across the franchise, cross-sell activities have been robust, outperforming our original deal expectations. Cross-sell premium between Global Specialty and Middle Market business drove $23 million of new business in the First Quarter and $157 million of new business since the Navigators acquisition. This success has been fueled by our now broadened specialty capabilities as well as deepened relationships with retail brokers.

Over the last 18 months, we have added nearly 1,200 product lines and over 250 accounts for our customers that span both Middle Market and Global Specialty books. Further, our newly acquired retail excess capabilities have generated over $40 million of cross-sell premium. The results have been remarkable, and we are just getting started.

Although not a part of our original deal expectations, since the acquisition, we have also added nearly $20 million of financial lines premium for our Small Commercial customers.

A few years ago, we set out to develop a broader and deeper product set. With the Navigators team fully integrated, we are delivering a more expansive set of solutions and realizing the benefits in our top line results.

Moving to pricing. I'm pleased with the continued strong performance. After several years of firming prices and underwriting actions, we have materially improved loss performance. As a proof point this quarter, Commercial Line's underlying ex COVID loss ratio was 56.9%, 2.4 points better than quarter 1 of last year. Not surprisingly, rates flattened in certain lines as pricing adequacy has improved measurably.

Global Specialty had another strong pricing quarter of 15% in the U.S. and 28% in international. Middle Market ex workers' compensation rate change of 9% continues to exceed loss cost trend, although down approximately 2 points from quarter 4, reflecting a very competitive market.

Policy count retention is strong in Small Commercial, up 2 points from the First Quarter of last year. In Middle Market, with most of our underwriting initiatives behind us, policy retention was up 4 points over the First Quarter 2020 result.

Turning to Personal Lines. Written premium declined 4% in the quarter, driven in part by endorsements for lower miles driven, decreases in moving violations and lower new vehicle sales. As the economy continues to rebound, all 3 of these factors are expected to provide a lift to top line.

In addition, the 2021 launch of our new Personal Lines auto product, Prevail, is critical to improving new business levels. A contemporary digital experience, flexibility and advanced data analytics are all important and exciting elements of this new cloud-based platform.

Prevail was released in Arizona and Illinois at the beginning of the month. We are very pleased with the early results and look forward to a late summer rollout in several more key states. The new home product will hit the market this summer.

As I wrap up my comments, let me recap. We have been advancing toward this moment for the last five years, improving the depth and breadth of our product set, acquiring and developing talent, and building technological and digital capabilities. The marketplace and our top brokers are taking notice.

Due to the ongoing pandemic, we again postponed our annual broker summit meeting scheduled for this coming June. In its place, over the past 3 weeks, I have joined our leadership team in virtual regional discussions with nearly every VIP broker and agent of The Hartford.

The feedback on our capabilities and frontline execution is exceptional. We led from the front during the pandemic, transparently managing difficult issues ranging from coverage and claim to operational flexibility.

As one broker commented during the call, "The Hartford has transformed itself over these last two years and has become our go-to carrier." We are working hard to earn that position across the marketplace. I'm proud of the player we have become, delighted with the results we have produced, and excited about our future. Let me now turn the call over to Chris.

Christopher Swift {BIO 3683719 <GO>}

Thank you, Doug and Beth. The iconic Hartford brand was created over more than 200 years ago. It is a durable source of competitive advantage and a symbol of strength and confidence.

Almost a decade ago, we initiated a strategic plan which focused on 2 key goals: first, to divest low-ROE, market-sensitive and capital-intensive individual life insurance and variable annuity businesses; second, to focus on businesses where our market leadership position and long-term sustainable competitive advantages would generate profitable growth and superior returns.

The first culminated with the sale of Talcott Resolution in 2018. The second goal was amplified by the 2017 acquisition of Aetna's Group Benefits business, which made us the #2 player based on in-force premium.

Then the 2019 acquisition of Navigators enhanced our product depth and breadth across Commercial Lines and added new wholesale distribution.

Fast-forward to today, The Hartford is an industry leader with a diverse platform of complementary businesses, producing industry-leading results. As we move forward, we will leverage our capabilities and focus as we remain relentless in the pursuit of profitable growth.

As evidence of our success, from 2018 to 2020, EPS grew 16%, book value per diluted share grew 20% and we produced an average return on equity of 13%, more than 300 basis points above the peer average.

As we emerge from the pandemic, we are confident that several macroeconomic factors will provide meaningful tailwinds, positioning our business for accelerated growth and improved returns. First, the emergence from the pandemic is expected to reduce excess mortality in our group life business and worker compensation losses in Commercial Lines.

Secondly, rapidly improving expectations for unemployment, which could be below 5% by the end of this year, and GDP growth in the mid- to high single digits is expected to drive top line growth in our employment-centric workers' compensation and Group Benefits businesses. An improving economy will become an additional catalyst of growth across our Small Commercial segment.

Third, as the underwriting environment remains constructive, P&C commercial renewal pricing is expected to remain strong, thereby expanding margins. Finally, rising interest rates is anticipated to provide an incremental benefit to investment portfolio yields. This is a favorable macroeconomic environment for The Hartford to operate and compete in over the next couple years.

In Commercial Lines, we expect top line growth to benefit from strong pricing, rising exposures due to the economic expansion and investments in digital capabilities. We also anticipate that reduced operating expenses will continue to drive margin expansion across all our businesses. We are the market leader in Small Commercial, a highly sought-after market segment.

We consistently generate sub-90s underlying combined ratios, which benefit from strong distribution, best-in-class products, efficient technology that eases the underwriting process for our agents and customers.

New business sales from the recent launch of next-gen Spectrum product have been building momentum since the Third Quarter of 2020, generating a record level of sales this quarter. We are highly encouraged by our performance in this segment and new business growth potential.

In Middle & Large Commercial, we expect growth to benefit from continued firm pricing, cross-selling from an expanded product set stemming from the Navigators acquisition, positive traction across specialized industry verticals and technology investments. I'm particularly pleased with the cross-sell success that Doug referenced, along with enhanced underwriting tools and capabilities.

In Global Specialty, the business continues to benefit from the robust pricing environment, improving margins and retail cross-selling opportunities across standard Commercial Lines accounts.

This quarter, Global Specialty produced written premium growth of 13% and the underlying combined ratio was below 90%. The Navigators acquisition is and will continue to be pivotal in driving growth and underwriting profits.

In Personal Lines, growth is expected to be driven by the launch of the new auto and homeowners products, improved underwriting efficiencies, and a new cloud-based technology. Personal Lines margins in 2020 were certainly helped by less miles driven during the pandemic. And as driving returns to more normal levels, we expect to deliver profitable growth, enhanced by operating and expense efficiencies.

In our Group Benefits business, we anticipate growth to be driven by higher employment levels, strong new sales, and growth in voluntary and A&H products. This business post pandemic is expected to produce strong core earnings margins with a more stable mortality trend beginning in the second half of 2021.

Across each of our businesses, improving operating efficiencies and a lower expense ratio from the Hartford Next program is a critical driver of margin expansion. In the Second Quarter of 2020, we detailed plans to achieve $500 million of savings by 2022.

To date, the program has delivered $233 million of savings. Based on the program's success to date, we are increasing our pretax savings to approximately $540 million in 2022 and estimating in total $625 million of savings in 2023.

With the expectations for strong financial performance and capital generation driven in part by the improving macroeconomic environment, we have increased our share repurchase authorization by $1 billion. Our expectation for 2021 is to repurchase $1.5 billion and the remaining balance in 2022.

With top line growth across the business, strong earned pricing trends in excess of loss cost, operating efficiencies, a reduced COVID impact and continued capital management, we are targeting a core earnings ROE of approximately 13% to 14% in 2022 and into 2023. This ROE plan positions us to meaningfully outperform our peers.

Before turning the call over to Q&A, let me address the unsolicited bids we have received from Chubb. Chubb delivered 2 additional letters to The Hartford since we announced the rejection of their $65 proposal back on March 23.

The most recent letter outlined an offer of $70 per share in cash and stock. We have disclosed letters in our Form 8-K filing today.

The Board reviewed each letter in consultation with its financial and legal advisers and unanimously rejected each proposal and concluded that engaging in discussions regarding a strategic transaction is not in the best interest of the company and its shareholders.

The Board has reaffirmed its confidence and conviction in the continued execution of The Hartford strategic business plan. As a result, The Hartford is singularly focused on executing against its goals and objectives, and I will not comment further on the Chubb matter.

As I said from the outset of my remarks, I'm extremely excited about the future of The Hartford and incredibly optimistic. We remain highly confident in our stand-alone plan. The Hartford franchise has never been better positioned to succeed and thrive. We expect to continue to deliver industry-leading financial performance while creating value for all our stakeholders. With that, I'll turn the call over to Susan to begin the Q&A.

Susan Spivak {BIO 1514699 <GO>}

Thank you, Chris. We have time now to take your questions. Operator, could you please repeat the instructions for asking a question?

Questions And Answers

Operator

(Operator Instructions) And our first question comes from Greg Peters from Raymond James.

Q - Charles Peters {BIO 4656608 <GO>}

So I guess, aside the Chubb offers, your public posture has shifted. And Chris, you're -- I was watching -- or listening to your comments and reading your presentation. Can you give us some -- give us a sense of maybe what has shifted or what's changed just in the last couple months that give you the confidence to come out with these higher ROE targets as we think about '22 and '23?

A - Christopher Swift {BIO 3683719 <GO>}

Sure, Greg, happy to. I think when we built our plan basically in the Fourth Quarter of 2020, I mean, we were still in the midst of, I thought, the worst of the pandemic. If you look at mortality trends, they were increasing.

If you look at sort of just the macro environment, it just was a time to still be a little cautious. But as we got into 2021, and particularly after we completed the First Quarter, we just felt it was appropriate to rethink the future and disclose what we disclosed today, which I think is very positive news.

It's more of a growth story, obviously. It's a margin expansion story coming out of a continued P&C pricing environment. It's an efficiency and expense story. And you put it all together, particularly with the excess capital that we have, it really turns out to be a very robust ROE story. And we wanted to tell investors here in the First Quarter.

Q - Charles Peters {BIO 4656608 <GO>}

Got it. And it makes sense. Yes, I'd like to pivot to Slide six of your investor slide deck where you talk about the Commercial Lines results. And Doug, I know you were talking a lot about price trends. And I was looking at the rate increase chart.

And one of the comments you made is that some of the lines have approached rate adequacy. Can you give us more color on what's going on in the different segments as it relates to price, especially in the context of loss cost trends?

A - Douglas Elliot {BIO 3700927 <GO>}

Sure. So as I think about our markets, and I know you know this, much of the pricing activity that has occurred in a positive way over the last couple years sits in the Middle Market and the specialty franchises.

So we'll start with specialty. If you think about some of the products that we deliver to the market, we've seen quite strong pricing now moving into a third renewal. And at some point, as you work your way through those pricing trends, even from points that needed quite a bit of pricing, we feel like we're in a much better state.

Loss trends, we're still staying on top of loss trends. But if you think about the specialty lines, we just look across that portfolio, given our pricing and re-underwriting actions, I think you have to look at them in a combination sense. We feel very good about our selections and just see strong ROE and strong margin performance that has improved over the last couple years.

The same is largely true in Middle and Large Commercial. If you go back and look at our trends that we've shared, particularly ex workers' comp pricing, a strong run over 5 or 6 quarters, coupled with our underwriting actions, that book is much more rate-adequate today across sectors, across geographies. And we feel good as we look into the latter half of '21 into '22.

Q - Charles Peters {BIO 4656608 <GO>}

Makes sense. And then the other thing that you announced as part of your earnings release and preannouncement was this -- the litigation settlement relating to Boy Scouts. I know you probably don't really want to comment on specific accounts, but there's still the lingering uncertainty regarding business interruption.

Can you give us some sense about your approach to how you deal with these cases as they come up, whether it's a bankruptcy case or the -- what you're doing from a reserve standpoint for business interruption? Just because we haven't seen a lot of other news from your competitors. Just give us -- an updated perspective would be helpful.

A - Christopher Swift {BIO 3683719 <GO>}

Greg, I would share a couple points with you, one, regarding Boy Scouts and then the second on BI. I would say Boy Scouts obviously is just a very unique situation.

We've been in lengthy and meaningful discussions and intense negotiations with them for a lengthy period of time that ultimately culminated in providing what I thought was a fair settlement for all parties.

And it really sort of puts this behind us. Because when you really looked at the risk of these -- some of these policies going back into the '70s, they were on aggregated risk policies as most of those policies were issued during that time. So if you think in terms of the nature of the industry, being sexual molestation, it just -- there are not good facts there.

Now on the other hand, we felt we had prudent defenses and legal postures to ultimately defend ourselves. But that would have been costly, that would have been lengthy. And as Boy Scouts are trying to emerge from bankruptcy, there was an opportunity and we seized it to work with them to develop the settlement that we did. The settlement ultimately still needs to be approved later this year, but we're optimistic it will get the bankruptcy court approval.

So what I would share with you, I don't see anything else in our portfolio close to resembling what the Boy Scouts exposures are. I feel good about the reserves that we have for any exposures, but particularly the sexual molestation types of reserves that we carry on the books today.

On the BI matter, I think why you're not hearing everything is because, quite honestly, it's going pretty well. I think the vast majority of courts, both state and federal, are interpreting the policy language as we've anticipated. I think you've heard me say that our policy language is clear, unambiguous.

The virus does not cause physical damage to the property. Shutdowns were governments-ordered for safety reasons. And I think it will ultimately continue to play out favorably over time. We haven't changed our reserve posture. We continue to carry expense reserves for litigation. But we do not carry any incurred losses for business interruption exposures.

Operator

Our next question comes from Elyse Greenspan of Wells Fargo.

Q - Elyse Greenspan {BIO 17263315 <GO>}

My first question is on the buyback front. So you guys raised the authorization today and added to what you're going to repurchase in both years. So can you just give us a sense of what changed for you to be more incrementally bullish on the capital return over the next two years?

And then to finance the incremental buyback to the dividends you're expecting from your subs for this year, have those changed? Or is it just coming from excess capital at the holding company?

A - Christopher Swift {BIO 3683719 <GO>}

Yes. Elyse, I'll comment on sort of the why and then Beth could comment on the details. So as I tried to say in our opening, it just -- as we got into this year, just -- we're more encouraged on the economy and the recovery. You could feel our growth orientation.

You could see it in really our First Quarter results, where top line is really moving from a growth side. And when you put it all together, we looked out over the number of years and we just have greater clarity and certainty that the pandemic is in the rearview mirror. And we upped our share authorization that the Board ultimately supported.

A - Beth Costello {BIO 15349374 <GO>}

Yes. Then Elyse, as it relates to funding the share repurchases for this year, it really is a combination of using cash at the holding company as well as increasing slightly the dividend that we'd expect from the P&C subsidiary. So we had said about $850 million to

$900 million. And we're probably going to be more in like the $900 million to $1.1 billion for this year.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And so the $900 million to $1.1 billion for this year, would that also be kind of good expectations as we think about 2022 baseline?

A - Beth Costello {BIO 15349374 <GO>}

Yes. I would definitely see it in that range to maybe even slightly higher. But yes, that's what we're thinking about.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then in terms of the commercial underlying margin, you guys laid out a 2 point improvement target for 2022. Can you help give us a sense of how much of that is loss ratio-driven versus expense ratio-driven from Hartford Next? And what is the pricing -- Commercial Lines pricing assumptions that you have embedded within that underlying margin guidance?

A - Beth Costello {BIO 15349374 <GO>}

So I'll start and then I'll let Doug follow up. But as we think about those -- that 2 points, I would say it's roughly half and half between loss ratio and expense ratio improvement.

A - Douglas Elliot {BIO 3700927 <GO>}

And Elyse, as we think about pricing, although we did not disclose and will not disclose all the specific details, generally, as we work our way through '21, we expect to see more of what we saw in the First Quarter. And as we move into '22, we think pricing probably will come off a little bit but still in shape to deal with loss cost trend in various lines.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Does that 2022 guidance assume an inflection within the workers' comp pricing environment?

A - Douglas Elliot {BIO 3700927 <GO>}

Certainly, in '21 on the written side, it suggests several quarters that look like the First Quarter. And then I think we'll have to see about '22 and '23 as we get there but generally, a stable, slightly improving workers' comp pricing environment.

Operator

And our next question comes from Mark Dwelle of RBC.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yes. Just a further question related to the buyback. And I know buybacks are very popular with investors and usually considered a good use of capital.

But I guess, given the share valuation and the growth options that you seem to have in front of you, why is increasing the buyback the best use of an additional $1 billion to $1.5 billion of funds as compared to pursuing accretive acquisitions or just other internal growth opportunities?

A - Christopher Swift {BIO 3683719 <GO>}

Yes, Mark. I would say we have plenty of capital to fund all our growth ambitions. So it's not a, I'll call it, either-or decision. We have capital to grow. We expect to generate additional capital in the future and -- but I think that the simple fact is we have been, I thought, wise during the pandemic with our capital and making sure that we can absorb any potential shocks that still might be out there.

And then as it relates to M&A, I think I've been pretty consistent. It's just a low priority for us right now. And the reason it's a low priority is I really believe we have everything, as I say colloquially, in the building to compete over the long term.

It's maturing it, it's making sure our agents and brokers fully understand all our capabilities that we've built or added over the years, and that's what we're focused on. And I think that's an appropriate strategy for where we are in our development right now.

Operator

Our next question comes from Tracy Benguigui of Barclays.

Q - Tracy Dolin-Benguigui

Appreciate seeing the written correspondences between The Hartford and Chubb in your 8-K. I mean, letters are one thing, but there's a human side of the story. Wondering, Chris, if you and Evan ever got in a room together to actually engage in a meaningful discussion in your due diligence. Why not hear the guy out?

A - Christopher Swift {BIO 3683719 <GO>}

Yes. I would just share with you, we're still in a pandemic, so that did not happen. And if you really look at our statements and our messages that the Board has put out, I mean it's pretty clear that we had no interest in doing that because of ultimately the conviction and commitment around executing our business plan. So that's what I would say, Tracy.

Q - Tracy Dolin-Benguigui

Okay. So even virtually speaking, you mentioned the pandemic, that didn't happen?

A - Christopher Swift {BIO 3683719 <GO>}

It's been mostly letter correspondence.

Q - Tracy Dolin-Benguigui

Okay. And then something else on Chubb, sorry. We dug up your Boy Scouts Association mediation settlement. And there was a direct mention of Chubb in that report where you would actually get a settlement discount depending on how Chubb's settlement shapes up. What is that all about?

A - Christopher Swift {BIO 3683719 <GO>}

Yes. I would just generally characterize it as a term and condition that Boy Scouts agreed to that ultimately tried to be equitable with all carriers in their exposures and not favor one group versus the other. So it works as a most-favored-nations type clause.

Operator

Our next question comes from Brian Meredith of UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

So two questions here. The first one, I'm just curious, Beth, on the guidance, what is your interest rate assumption on the ROE targets? Are you assuming interest rates are up here? How about kind of rates versus new money yields versus book yields?

A - Beth Costello {BIO 15349374 <GO>}

Yes. So when we make our projections, we really look at sort of just following the forward curve and what we would expect to see there. And again, even though rates are going up, just because they're going up in the near term, we'd expect to see some marginal benefit from that.

But really, that comes out in the outer years, just given the way that our portfolio turns over. And so when I think about investment yield sort of ex limited partnerships over the next two years, I kind of see it sort of consistent with where we are today.

Q - Brian Meredith {BIO 3108204 <GO>}

Terrific. And then my second question, because I'm just curious, I appreciate you don't want to talk about the Chubb situation. But I guess, my question is this, what would it take, you think, for the Board to believe that they've got a fiduciary obligation to talk to a potential acquirer?

A - Christopher Swift {BIO 3683719 <GO>}

Yes, you're right. Yes, Brian, you're right. I'm not going to talk about it because I think our statements are clear and unambiguous as far as our intentions, our views. We know our fiduciary duties. So that's all I'm going to say, Brian.

Operator

And our next question comes from Mike Zaremski of Credit Suisse.

Q - Michael Zaremski {BIO 20606248 <GO>}

Maybe focusing again, I know there's been a lot of questions and good color on the ROE guidance, I think in the past you kind of -- you said the anchor was around -- it was 12%. And now you're saying 12% to 13%. And if I look at...

A - Christopher Swift {BIO 3683719 <GO>}

13% to 14%, Mike.

Q - Michael Zaremski {BIO 20606248 <GO>}

13% to 14%, okay.

A - Christopher Swift {BIO 3683719 <GO>}

13% to 14%, just to make sure.

Q - Michael Zaremski {BIO 20606248 <GO>}

Yes. It's been a busy morning. So if I look at consensus, I think consensus for '22, for example, is high 11s, what I'm looking at. And so there seems to be a big delta. So I'm curious if you have opinions on where -- what the consensus may be underappreciating other than clearly you've upped the buyback guidance versus consensus this morning.

A - Christopher Swift {BIO 3683719 <GO>}

Yes. It's probably the biggest item. So I think you've just got to go back, update your models, put everything that we talked about into your models today, and I think you will be very pleased.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay. And so there's -- I guess there's one element that I get at, which I think it's tougher for us to fully appreciate, and might be kind of on the reserve release side. So you don't think that, that could be an element that The Street is underappreciating?

A - Christopher Swift {BIO 3683719 <GO>}

Obviously, we don't project and guide to reserve releases because we make our best estimates every quarter. But I think some analysts, as you know, do take a view and do their own homework on reserves and potential releases.

And I think those that do their homework and really understand the reserving philosophy and how we've set our picks over the last couple years will come to a point of view that is most likely positive.

A - Beth Costello {BIO 15349374 <GO>}

The only thing I would add to that is I do think given the color that we provided on what we expect for underlying margin improvement in Commercial Lines and -- I think that's another factor to be looked at. And again, I think we've provided some road map there for folks to absorb.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay. And my last question is on the commercial pricing environment. And I guess if you would like to comment on Personal Lines too, feel free. But my question is it feels -- you're the second carrier to kind of talk about rates coming down from very healthy levels.

Kind of curious, is it a function of Hartford kind of being willing to pull off the gas a little bit, too, to enable growth? Or is it more just market conditions are causing pricing to fall? Or is it a mix of both?

I guess one carrier that plays in a little different of a sandbox than Hartford kind of basically was saying that they're willing to pull off the gas because pricing levels are healthy and they feel good about margin improvement. So just kind of curious if any color there on the market dynamics.

A - Douglas Elliot {BIO 3700927 <GO>}

I would say it's a multifaceted answer. There's geography, there's class, there's size. There are all different dynamics in it. And what I tried to say in my opening answer to a question is that generally across our books of business, we are feeling much more rate-adequate today.

So that does change our competitive mode in the marketplace. But it is all driven by line, it's driven by account experience and so -- like it is so hard to just give you one answer that fits everything. There's a different set of priorities we have in Global Specialty and you can see the progress we've made there.

And then I will offer that the power that the re-underwriting, retuning these books of business have, transformed themselves over the past 18 months, is also very much a part of our loss performance today. So I would never use the words, foot off the accelerator. I don't think about it like that.

What I care deeply about is our returns by line, our retentions across key customer segments, our segmentation strategies, et cetera. And I feel right now, when I look across our books, very solid about where we are and how we move into the latter half of '21 as we manage all of those indicators.

Operator

And our next question comes from David Motemaden of Evercore ISI.

Q - David Motemaden {BIO 18818634 <GO>}

I guess just a question first just on the Group Benefits guide, the margin guide to 6% to 7% in 2022. I guess, I'm just wondering why that is still -- it's down versus where your guide was in 2020, consistent with 2021 ex COVID. But it does seem like you have a bit more expense save. So wondering if you could unpack that just a little bit.

A - Christopher Swift {BIO 3683719 <GO>}

Sure, David. I think the simple answer is, we've talked about it in the past, that the year-over-year improvements and incidences being driven down in recoveries and in favorable developments -- favorable prior year developments, all is going to sort of revert back to a mean.

And what that really means is that our current accident year, in essence, accident year loss ratios we established, are going to be closer to ultimate than they were five years ago, when they were quite a bit higher.

So it's still a margin -- a 6% to 7% margin in that business still produces a solid double-digit ROE. IRRs are strong. So it's a healthy margin. But particularly with all the prior year reserve releases, we just don't see that happening going forward just because our current picks are established a lot lower.

Q - David Motemaden {BIO 18818634 <GO>}

Okay, got it. That makes sense. And then Chris, I guess you spoke to, in response to an earlier question, just about how there aren't really any product gaps you feel like at HIG.

I guess one thing I'm wondering is coming at it from a bit -- the other side of it and specifically thinking about the Mutual Funds business, I guess I'm just wondering if you could just remind me what the strategic importance of the Mutual Funds business is in the context of the broader organization of Hartford. I understand it does produce around $100 million to $150 million of cash every year.

So that's obviously an important consideration. But maybe just help me think just how it fits strategically with your other businesses.

A - Christopher Swift {BIO 3683719 <GO>}

Yes, I think you got it right. I mean it is a good business. It's a growing business. It's creating shareholder value. We get nice returns and dividends. It's a high IRR, ROE business. And we view it as an investment. It's sort of a stand-alone business unit in Pennsylvania, Philadelphia.

It doesn't take very much management time. And I think we enjoy the benefits of a business unit that is growing in value, creating value. And as long as they remain relevant, we're happy to own it. It shares the Hartford brand name with us. That means something in sort of the independent investment adviser space, so -- but I view it as an investment totally, David.

Operator

And our next question comes from Jim Bhullar of JPMorgan.

Q - Jamminder Singh Bhullar

So first, I had a question for Chris. On your statement that like a $70 offer is not in the best interest of shareholders, I'm just wondering if you could discuss what the basis for that is.

If you -- like is it based on your earnings power, other offers you could receive or whatever else the basis is for that statement? And then secondly, for Doug, if you could talk about how you think about workers' compensation loss trends. If the economy continues to heat up, do you think there's a likelihood of an uptick in losses in that line?

A - Christopher Swift {BIO 3683719 <GO>}

Jimmy, I'll start. Again, I'm not going to comment. I think our disclosures on this again were crystal clear as far as what the Board went through and why it decided what it did. And beyond that, I'm not going to comment any further, Jimmy.

A - Douglas Elliot {BIO 3700927 <GO>}

On the workers' comp question, Jimmy, I would say this, as we come through the pandemic out the back side of it, we're watching carefully frequency and severity. We've had our eye on severity for the last couple of years, just wondering might we see a little bit of a surge relative to long haulers on COVID or other parts of our platform.

But we have not come off our long-range assumptions for loss trend in either severity -- and yes, we do expect frequency will return to more normal levels as we get out into '21 second half and '22.

Operator

Our next question comes from Josh Shanker of Bank of America.

Q - Joshua Shanker {BIO 5292022 <GO>}

We've talked in the last couple of calls about how AARP is allowing you to non-renew customers who come into the pool if they turn out not to be attractive customer types. I don't really detect any change in the trends in the Personal Lines business. Has that been implemented yet? And is there a way that we'll detect new customer acquisition coming in as an inflection?

A - Douglas Elliot {BIO 3700927 <GO>}

Josh, most of those states, we have now implemented that activity effective 1st of the year. It's going to take a little bit of time for that to work its way in.

And obviously it's a big component of our pricing relative to the new auto product, Prevail, and our homeowners product mid-summer. So we expect in the future you'll see more impact from not only that but a number of changes we've made in the product profile going forward.

Q - Joshua Shanker {BIO 5292022 <GO>}

Okay. And then on -- if I net out the Boy Scouts charge in the disclosure on favorable development by line of business, I'm just -- it looks to me it was a very, very favorable quarter for GL. Can we talk about accident years, how they're maturing and what sort of led to that? And maybe I'm misreading it.

A - Beth Costello {BIO 15349374 <GO>}

Yes. So Josh, I think you're misreading that. We haven't disclosed specifically what component of the general liability piece was Boy Scouts, but I can tell you it was a significant piece of that. So I wouldn't do a significant read-through as it relates to more current years for general liability.

Q - Joshua Shanker {BIO 5292022 <GO>}

But broadly speaking, am I right in saying that it was a very favorable quarter for you? It seems like the math works out that, that's --

A - Beth Costello {BIO 15349374 <GO>}

For general liability?

Q - Joshua Shanker {BIO 5292022 <GO>}

Or broadly in commercial? Maybe it's not all --

A - Beth Costello {BIO 15349374 <GO>}

Yes. No. I think broadly in commercial, I agree. If you back out the general liability piece, and you can see that we continue to have favorable development in workers' compensation and package business. So yes, I think the trends are pretty clearly laid out in our investor financial supplement.

Q - Joshua Shanker {BIO 5292022 <GO>}

So coming back to the question, what years are really causing this? I mean you don't have to be so specific. But is there a way of like sort of thinking about how different years are maturing?

A - Beth Costello {BIO 15349374 <GO>}

Yes. So for the workers' compensation piece, it's really more in the 2017 and prior is where that favorability is coming from. Very limited in the current years because again it takes a little bit for those to season. And I would say the same thing with the package business, it's more 2015 and prior.

A - Douglas Elliot {BIO 3700927 <GO>}

Josh, I would just add this. Maybe this will help a little bit. We were carrying reserves for BSA prior to this quarter, right? So we haven't disclosed all the particulars, but you just need to know that we've been following those activities over the last several quarters, several years, et cetera. That just should be part of your analysis.

Operator

And our last question comes from Meyer Shields of KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

A question for Doug to begin. I guess, if we're heading into an unprecedented economic recovery with the reversal of the pandemic and, I guess, possibly government stimulus, can you talk about the risk of other lines, besides workers' compensation, seeing unanticipated frequency?

A - Douglas Elliot {BIO 3700927 <GO>}

Meyer, we're watching all those signals, obviously. As we've shared this morning, we think we have optimism in our top line approach. But clearly, we're watching loss trends and liability relative to courts becoming more open as dockets fill up and begin to work their way through.

We're watching the automobile market. We expect more cars on the highways, et cetera, so we're watching frequency there. We're watching across all our lines. We're watching our specialty lines, D&O, management liability, employment practices, et cetera.

So yes, we have our eye on the frequency dynamic and the severity component as well. This is an active time. The backside of '21 will look different, we feel, than the first six months of 2020. But we're encouraged and we'll stay vigilant, and we'll adjust pricing and appetite accordingly.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's helpful. Then just a really yes or no question. If we see wages rise, does that translate into severity on the indemnity component of workers' compensation in your book?

A - Douglas Elliot {BIO 3700927 <GO>}

Wage, pure wage, without number of employees?

Q - Meyer Shields {BIO 4281064 <GO>}

Yes.

A - Douglas Elliot {BIO 3700927 <GO>}

Okay. I mean pure wage should be a hedge against loss trend, just pure wage, so whether it's merit of 2.5%, 3%. Now if we talk about wages due to number of workers, that is a different dynamic that we will manage our way through frequency and severity (inaudible).

Operator

This concludes our question and answer session. I would now like to turn the conference back over to Susan Spivak for any closing remarks.

A - Susan Spivak {BIO 1514699 <GO>}

Thank you, Ian. We appreciate all of you joining us this morning on relatively short notice. Please do not hesitate to contact me if you have any follow-up questions. Look forward to speaking next quarter.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.