S&P Global
Market Intelligence

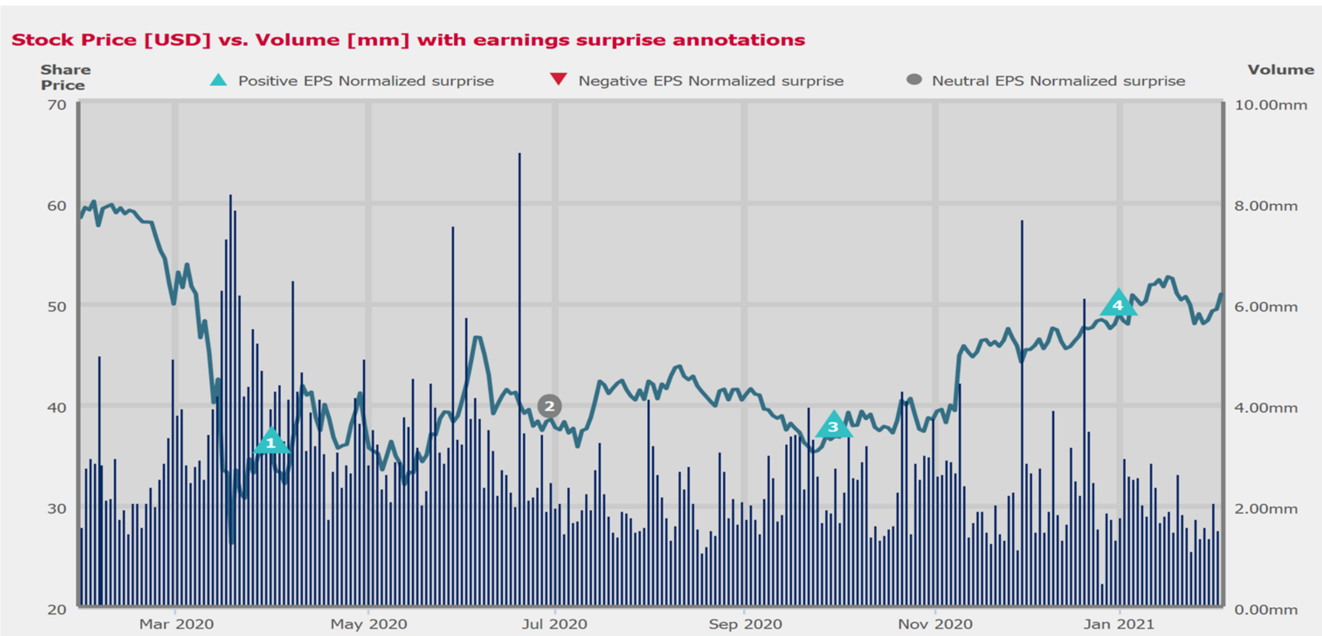
The Hartford Financial Services Group, Inc.
NYSE:HIG
FQ4 2020 Earnings Call Transcripts

Friday, February 05, 2021 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.32	1.76	▲33.33	1.35	5.35	5.78	▲8.04	5.40
Revenue (mm)	NA	5328.00	NA	5187.33	20185.60	20523.00	▲1.67	20870.16

Currency: USD
Consensus as of Feb-05-2021 5:38 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	1.33	1.34	0.75 %
FQ2 2020	1.22	1.22	0.00 %
FQ3 2020	0.91	1.46	60.44 %
FQ4 2020	1.32	1.76	33.33 %

Table of Contents

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Presentation

Operator

Good morning, everyone, and welcome to The Hartford Financial Services Group, Inc. Fourth Quarter 2020 Financial Results Webcast. [Operator Instructions] Please note today's event is being recorded.

At this time, I'd like to turn the conference call over to Ms. Susan Spivak, Senior Vice President of Investor Relations. Ma'am, please go ahead.

Susan Spivak Bernstein
Senior Investor Relations Officer

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

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

Our commentary today includes non-GAAP financial measures. Explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings as well as in the news release and financial 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 call and an official transcript will be available on The Hartford's website for 1 year.

I'll now turn the call over to Chris.

Christopher Jerome Swift
Chairman & CEO

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

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

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

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

In Commercial Lines, pricing and momentum continues across nearly all lines, excluding workers' compensation. And we expect pricing increases to continue as additional rate is needed to offset pressure from social inflation, more frequent catastrophe events and the persistent low interest rate environment. In Commercial Lines, our teams are executing strongly on a number of fronts.

In Global Specialty, the strategic transaction to acquire Navigators is on track. The integration is proceeding well, and it is providing us with expanded product breadth in Middle Market and Global Specialty. In 2020, we have met our goal of improving financial performance in the business compared to the second half of 2019, and the acquisition was well-timed from a market perspective.

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

In Middle & Large Commercial, we completed year 1 of a 3-year plan to transform the underwriting process, provide a differentiated customer experience and grow our specialized verticals. In the fourth quarter, underlying margins improved by 4.4 points compared to prior year, primarily due to lower expense ratio. In addition, our broader and deeper product set and enhanced analytics will drive further growth and improved margins.

Moving to Personal Lines. Underlying margins improved in both the fourth quarter and the year, benefiting from continued favorable auto frequency, lower non-CAT incurred property losses and reduced expenses. In 2020, we extended our AARP relationship with a new contract that runs through the end of 2032, solidifying our unique value proposition for the 50-and-older demographic. We are also investing in a new digital platform to administer and market our products. Doug will provide more detail and I am excited about the new auto and home products we will launch in the next 6 months.

So in summary, for P&C, 2020 performance was strong despite challenges of the pandemic and COVID losses. In 2021, we expect continued modest COVID losses in workers' compensation and financial lines. And while we are encouraged that the vaccine rollout has begun, we are learning it will take more time than initially projected to achieve protection across the broader population.

With this outlook, we are expecting our Commercial Lines' underlying combined ratio, excluding the impact of COVID in both years, to improve by approximately 3 points from 2020 results to a range of 88.5 to 90.5.

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

I am very bullish about our growth potential and expect to increase our top line at a faster rate than we have experienced over the past 5 years. While some of this growth reflects a positive pricing environment, we see the increasing opportunity to utilize our brand, people, enhanced underwriting capabilities and excellence in customer service to capture market share.

Before moving to Group Benefits, I want to briefly comment upon the business interruption lawsuits brought against The Hartford and the industry. While we are extremely sympathetic to the difficulties faced by our insureds and all businesses dealing with the pandemic, the claims against us are outside the scope of our policies. All of our property policies subject to litigation plainly require direct physical loss or damage to trigger coverage, and the COVID-19 virus clearly does not cause such loss or damage.

Although it is still early in the life cycle of some of these cases, we are pleased the overwhelming majority of decisions to date by federal and state courts across the country have held in favor of the insurance carriers and recognized that the presence of the virus does not meet the direct physical loss or damage trigger for coverage.

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

Finally, there has been some commentary about the number of lawsuits filed against The Hartford versus other industry players. We do not believe simply comparing the number of lawsuits is a useful way to assess exposure. There are more appropriate ways to analyze coverage defenses, limit profiles, portfolio mix and other variables.

Since the initial outside wave of lawsuits against the company, the pace of new cases against The Hartford has slowed significantly and is now in line with peers. In the meantime, pending case counts against us have been reduced by approximately 25% to date through a combination of motions and withdrawals.

Turning to Group Benefits. Core earnings were down in both the fourth quarter and full year as we experienced excess mortality rates, which we believe is attributable to the ongoing impacts of the pandemic. Obviously, mortality has been impacted by deaths directly attributable to COVID, but there is also an indirect effect which is most likely the result of patients deferring regular treatments for chronic conditions or individuals tolerating warning signs of a health problem for too long before seeking care.

All-cause excess mortality amounted to $152 million before tax in the quarter and included $22 million of claims related to prior quarters. The full year impact of excess mortality was $239 million, which reduced our full year core earnings margin by 3.1 points to 6.4%.

In disability, our fourth quarter loss ratio was 65.1%, was 3.1 points higher than prior year as the fourth quarter of 2019 results included higher favorable prior year development. For the full year 2020, the loss ratio improved by 1.2 points to 66.1% benefiting from strong recoveries and, to a lesser extent, favorable incidence.

On the top line, the fully insured ongoing premiums were down 2% in the quarter and for the full year, as our clients responded to the pandemic-driven economic pressures by reducing their workforce and associated payrolls. 2020 fully insured ongoing sales driven by strong national accounts were up 11% to $717 million, and persistency was slightly favorable at approximately 89%.

Sales are off to a solid start in 2021, with 1/1 effective dated sales exceeding prior year by more than 10%. Looking into 2021, we expect the Group Benefits marketplace to remain dynamic as digital transformation, product innovation and customer demands accelerate. Our competitive advantages and future investment road map will strengthen our market leadership.

That said, many questions still surround the pandemic and its effect on mortality and the economy. Therefore, we are basing our loss picks heavily on total mortality trends in the near-term rather than trying to isolate COVID-related deaths only. Based on historical mortality expectations, excluding any pandemic-related effects, we expect the core earnings margin to be between 6% and 7%. The decrease in expected margin from 2020 actual ex-COVID results primarily relates to lower expected favorable prior period development on LTD reserves and life waiver claims and lower net investment income.

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

As we close the books on 2020, I am optimistic about the future. At The Hartford, underwriting human achievement is at the heart of what we do. We are committed to making a sustainable and positive impact on society as an essential element of our ongoing success.

Across The Hartford, we are making this happen by always doing the right thing, fostering a workplace where everyone is welcome and respected, using our resources and influence to help mitigate the challenge of changing climate patterns, and helping to make our communities where we live and work be safer and more successful, which has never been as important as it is today.

Heading into 2021, I am confident in our business portfolio, people and our strategy to deliver value for all our stakeholders.

Now I'll turn the call over to Doug.

Douglas Graham Elliot
President

Thank you, Chris, and good morning, everyone. As Chris referenced, 2020 was an unprecedented year for property and casualty industry and The Hartford. The global pandemic and civil unrest losses significantly contributed to the challenges presented to our customers who we serve, along with our broker and agency partners. Our employees deserve a huge thank you for their tireless efforts throughout this difficult year, tackling every obstacle that came their way.

Despite the challenges, I was quite pleased with our overall performance. Property & Casualty underlying margins improved by just over 1 point in 2020 and written premiums grew 3%. During the year, we also made substantial progress on a number of key business initiatives. In Small Commercial, despite COVID charges and expected margin compression from workers' compensation, we continued to outperform with another sub-90 underlying combined ratio. During the last 4 months of the year, new business from Spectrum, The Hartford's industry-leading package product, achieved record levels.

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

In Global Specialty, we're nearing 2 years since the Navigators acquisition closed and are poised to exceed core earnings and new business goals. Underlying financial results are improving, driven by exceptional pricing and book reshaping. Continued progress to deepen relationships with retail distribution partners has delivered an additional -- $134 million of new premium across Commercial Lines that would not have been possible prior to the acquisition.

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

Let me now pivot to summarize our financial performance for 2020, and then I'll conclude with some thoughts about 2021. Property & Casualty core earnings were $1.7 billion for the year, with a combined ratio of 96.4. This includes COVID losses of $278 million or 2.3 points and current accident year catastrophe losses of $606 million or 5.1 points. Excluding COVID losses, each business reported underlying margin improvement for the year and significant improvement in the fourth quarter, much of which was driven by a lower expense ratio.

COVID losses in the quarter were $28 million, including $14 million for both workers' compensation and financial lines. The workers' compensation charge includes the benefit from the pandemic-related favorable frequency.

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

Turning now to our business line results. The Commercial Lines underlying combined ratio was 95.5 for the year, improving 1.6 points from 2019 when COVID losses are excluded. The margin improvement was driven primarily by favorable non-CAT property results and a lower expense ratio, partially offset by continued margin compression in small workers' compensation.

A few words on pricing. U.S. Commercial Lines renewal written pricing, excluding workers' compensation, was approximately 11% for the quarter, an excellent result and consistent with the third quarter. Middle Market renewal written pricing in the U.S., excluding workers' compensation, increased 10.4% for the year, nearly doubling 2019's result. In the fourth quarter, the written price increase was stable at 10.3%. Property and general liability pricing remains firm in the high single digits, while auto held steady in the low double digits.

In Global Specialty, U.S. pricing in the quarter was a robust 19.2%, generally consistent with third quarter. The U.S. wholesale book achieved 25 points, also in line with quarter 3. Excess pricing is in the mid-30s, while property lines are persisting in the low 20s and auto has moved into the mid-teens. Pricing gains in the international portfolio remained solid, with improved results in marine and a very strong professional lines pricing.

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

Let me share a few more details on the businesses, starting with Commercial. Small Commercial had another very strong year. The underlying combined ratio was 89.2 for the year, 1 point better than prior year when COVID losses are excluded. Lower non-CAT property losses and a favorable expense ratio were partially offset by workers' compensation margin compression. Total Small Commercial written premium declined 3% for the year. After a challenging second quarter due to the economic shutdown, written premium in the last 6 months was essentially flat to prior year.

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

Moving to Middle & Large Commercial. We posted an underlying combined ratio of 100.9 for the year, 2.5 points better than prior year after excluding COVID losses. A favorable expense ratio and lower non-CAT property losses drove the margin improvement. Total written premium declined by 3% for the full year. New business in Middle Market was down 18% versus 2019. However, new business premium in the fourth quarter was up 2%.

Quotes, quote ratio and hit ratio in the guaranteed cost book for the fourth quarter were all better than 2019 levels. 2020 premium retention declined 7 points versus 2019, driven by underwriting actions and lower exposures in workers' compensation. Through this underwriting discipline, we start 2021 with much improved financial performance.

In Global Specialty, the underlying combined ratio was 98.3 for the full year, 2.5 points better than prior year after excluding COVID losses. We continue to be pleased with the margin expansion in Global Specialty. Excluding the impact of COVID, we've seen approximately 5 points of improvement from the second half of 2019, almost entirely coming from the Navigators book, with particularly strong results in U.S. wholesale and global reinsurance, combined with a lower expense ratio.

Global Specialty written premium for the fourth quarter was up 9% versus prior year. Top line growth was driven by significant favorable pricing partially offset by slightly lower new business levels and lower retentions, primarily in the international book due to our portfolio reshaping and underwriting actions.

Shifting over to Personal Lines. Written premiums declined 6% for the year, 4% when adjusting for the second quarter refund. Although new business levels were below expectation, auto new business was up slightly versus prior year. Lower responses were offset by a better conversion rate. We're excited about the launch of our new auto product in April, with the countrywide rollout of both auto and home to occur over the next 2 years.

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

Before I turn things over to Beth, I'd like to share a few thoughts about 2021. We project a 2021 Commercial Lines underlying combined ratio between 90 and 92. This includes a COVID loss estimate of 1.5 points. The COVID estimate is approximately 2/3 workers' compensation and 1/3 specialty lines. Ex COVID, we expect our 2021 underlying combined ratio at its midpoint to improve nearly 3 points from 2020.

Renewal written pricing in Middle Market is forecasted to remain strong during 2021 and largely consistent with 2020 across most lines. We foresee Global Specialty renewal written rate increases to remain in the double digits. Workers' compensation pricing is projected to be largely consistent with 2020. In Personal Lines, we expect driving miles to increase as the vaccine rolls out, particularly for our AARP book, contributing to an underlying combined ratio of 87 to 89.

Reflecting back on 2020, in spite of all the challenges we faced, financial results were quite strong for our Property & Casualty business units. We delivered year-over-year ex COVID margin improvement through disciplined underwriting, significant portfolio reshaping and the start of Hartford Next in every business.

Given the incredible challenges of 2020, I'm extremely encouraged by the improving underwriting performance. With underwriting actions largely behind us, we are now well positioned to improve our margins and pivot toward growth. Our team is energized for the future and confident that we have the talent, tools and teamwork to deliver. I look forward to updating you all on progress throughout the year. Let me now turn the call over to Beth.

Beth A. Costello
Executive VP & CFO

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

Net investment income was $556 million for the quarter, up 11% from the prior year quarter. For the year, net investment income was $1.8 billion, down 5% from 2019 due to lower reinvestment rates and lower yields on floating rate securities partially offset by a higher level of invested assets due in part to the acquisition of Navigators. The total portfolio yield for the full year was 3.6% compared to 4.1% in 2019. During the year, the average reinvestment rate was 2.5% compared with a sales and maturity yield of 3.4%.

The annualized limited partnership return was 32% for the fourth quarter, driven by higher private equity valuations and distribution and the sale of 2 underlying real estate properties, resulting in LP income of $152 million before tax in the quarter. For the year, the LP yield was 12.3%.

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

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

Full year core earnings were up 12% due to higher daily average assets and lower expenses, including a first quarter reduction in consideration related to the Lattice transaction of $12 million before tax. Long-term fund performance remained strong with 2/3 of funds beating peers on a 5-year basis.

The Corporate core loss was $51 million for the quarter and $178 million for the year. For the fourth quarter, the core loss was higher than the prior year quarter primarily due to the impact of the company's investment in Talcott Resolution. For the quarter, we recorded a $1 million pretax loss from Talcott compared to a $21 million of income in the fourth quarter of 2019.

On January 20, the consortium that owns Talcott announced it was being sold to a new group of investors. We will receive 9.7% of the proceeds and any pre-closing dividend. We are very pleased with how this investment has performed. And since we have been recording Talcott's results on the equity method, we do not expect significant impacts to net income on closing.

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

As Doug mentioned, we recognized net prior year reserve strengthening of $184 million before tax in the fourth quarter, which included several items. First, we completed our annual asbestos and environmental reserve review. Before cession to the adverse development cover we have in place, net reserves increased by $218 million, comprised of $127 million for asbestos liabilities and $91 million for environmental. The $127 million increase in asbestos reserves was primarily due to an increase in the rate of asbestos claims settlement as well as higher than previously estimated average settlement values and defense costs.

Overall, the number of asbestos claims filings in the period covered by the 2020 study was roughly flat with the 2019 study. The $91 million increase in environmental reserves was primarily due to an increasing number of PFAS claims as well as higher remediation and legal defense costs.

Since the completion of the A&E study brought the cumulative losses ceded to the ADC to an amount in excess of the $650 million of ceded premium paid, the company recognized a noncore earnings charge of $210 million, representing a deferred gain on retroactive reinsurance. The cumulative losses ceded to the A&E ADC are currently $860 million, leaving $640 million of limit remaining. Cessions to the Navigator's adverse development cover were $5 million in the fourth quarter with $91 million of limit remaining.

In the quarter, we increased reserves associated with sexual molestation by $125 million, which is related to claims asserted against the Boy Scouts of America. Offsetting these reserve increases was favorable development for prior year catastrophes of $116 million, primarily related to accident years 2017 to 2019 as well as favorable development in workers' compensation and package business.

Book value per diluted share, excluding AOCI, rose 8% for the year to $47.16, and our 2020 core earnings ROE was 12.7%. We ended 2020 with a debt and preferred stock capitalization ratio ex AOCI of 21.6%. Our goal is to keep debt leverage within the low to mid-20% range.

Turning to capital. As of December 31, holding company resources totaled $1.8 billion. As we look at 2021, we expect dividends from the operating companies to total $850 million to $900 million for P&C, $250 million to $295 million for Group Benefits, and $125 million to $150 million for Hartford Funds.

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

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

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

Susan Spivak Bernstein
Senior Investor Relations Officer
Thank you, Beth. We have about 30 minutes for questions. Operator, could you have the first question?

Question and Answer

Operator

[Operator Instructions] And our first question today comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on your guidance for 2021 for commercial P&C. Within that 3 points of underlying margin improvement ex COVID, could we get a sense of what's embedded in there stemming from a loss versus the expense ratio? And then also, are you assuming that margins will expand within Small, Middle & Large, and also within Specialty in 2021?

Douglas Graham Elliot
President

Elyse, let me tackle that question. The first point relative to the 3 points, roughly 2/3 of that is coming through the loss area. So yes, there's Hartford Next benefit in there. It's about 0.8 point. Second component is that primarily the loss improvement is coming from Middle Market and Global Specialty. So our businesses that have been leveraged by the portfolio reshaping and the heavy pricing are driving disproportionate amounts of that increase year-over-year. Small Commercial is still very, very profitable, but they will feel a challenging workers' comp environment again in '21, and we balance that as we put the complete plan together.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then if you thought about 2020, were there any like -- it seems like there was some non-CAT weather, but for the most part it neutralized. So we're just kind of thinking about the loss ratio improvement that you mentioned, the 2/3, primarily coming from the rate exceeding loss trend within the Middle and Specialty book?

Douglas Graham Elliot
President

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. Great. And then my second question is on the capital side of things. You guys put a $1.5 billion buyback program in December. Obviously, you said you'll be back in the market after earnings, starting to buy back your stock. But how do we think about that between the 2 years? Is it market-dependent? I know you gave us what you dividend up from the subs this year, but would you expect that to be even over the 2 years? Or is there something else that we should think about when you kind of work towards that buyback program?

Christopher Jerome Swift
Chairman & CEO

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

Beth A. Costello
Executive VP & CFO

Yes. I would agree with that. I mean I think to how do you think about it, being half and half between the 2 years is a reasonable expectation. Again, it's dependent on lot of factors and market conditions, but kind of going into how we think about executing a plan like that, that's how I'd have you think about it.

Operator

Our next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Douglas Graham Elliot
President

Well, that's a big question, Brian. First off, on the pricing side, as I mentioned in my script, we expect the 2021 year to look largely consistent with 2020 from a pricing perspective. Yes, we're seeing a bottoming of the workers' comp curve, but I still expect some downward pressure or minus pressure in Small Commercial, and Middle Market flat to maybe up 1 point or 2. So that's the pricing side of it.

The loss trend piece is very complicated, and we're not going to go through a roll-forward for everybody today. But essentially, the 2020 year looks so unlike any year we've ever had before because of the pandemic. So as we complete 2020, obviously, frequency has been in very good shape and you've seen that come through our adjustments. But the flip side is we're watching carefully severity. And so we're watching durations. We're watching medical treatment. We're watching the extended impacts of what may or may not happen with COVID victims. So we're being careful with severity. We've moved our picks up a little bit in the 2020 accident year. We've kept them there for '21. But again, when we look through workers' comp, we look through these 2 years, we're still on our long-term picks. We think over time this alignment should run at 5 on the severity side and flat-ish for frequency based on everything we see in the next few years.

Brian Robert Meredith
UBS Investment Bank, Research Division

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

Christopher Jerome Swift
Chairman & CEO

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. And what about with respect to the Commercial Lines?

Douglas Graham Elliot
President

Yes, heavy first half. It depends on vaccines and rollouts. But yes, I think we expect first quarter to look similar to probably fourth quarter and then our hopes and optimism are shared across the country that second quarter and third quarter improve mightily.

Operator

Our next question comes from Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

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

Christopher Jerome Swift
Chairman & CEO

Ryan, I'll start, and I'll let Beth, again, add her color. Yes, it's -- we feel very fortunate to be sitting on excess capital that, obviously, we're planning to return to shareholders vis-à-vis a dividend increase that you just saw and then obviously our buyback program. Our priorities for capital are really consistent, right? We want to use capital to grow our businesses and we do see good growth opportunities going forward. And then make sure we have a financially solid balance sheet with sufficient margins to absorb any future shocks that obviously we're living through these days. And then we think about returning excess vis-à-vis share buyback to shareholders from there.

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

Beth A. Costello
Executive VP & CFO

No, I think you covered it very well.

Ryan James Tunis
Autonomous Research LLP

And then a follow-up for Beth. It sounds like lower net investment income is captured in the Group Benefits guide. But how are you thinking about the portfolio yield headwind on the P&C side in terms of how we should be thinking about NII next year there?

Beth A. Costello
Executive VP & CFO

Yes. So a couple things. Obviously, one of the things that's included in the Group Benefits margin guidance is a more normal planning assumptions for limited partnerships. And obviously, this year, we were well above that. If you think about the portfolio sort of ex partnerships and you look at where we were Q4 with a portfolio yield of about 3.2% overall, I see about probably 10 points of pressure on that as we look forward into 2021.

Operator

And our next question comes from Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, just had a question on workers' comp pricing. And I think, Doug, you mentioned you're expecting it to be consistent with last year. Are you seeing that in the market actually? Or is that just more of a hold right now? Some more color on what you're seeing.

Douglas Graham Elliot
President

I would separate the markets. As I think about Small Commercial, largely a file with little deviation, and we're seeing flat to negative pricing. I think the file trends across the bureau states next year are off 4 to 5 points. So I think that environment will continue to exist as it has in the last couple years, although slightly improved negative, right? We were probably 8 or 9 off 2 and 3 years ago, and now we're half off. So that's encouraging.

In the Middle Market space, we see a very competitive marketplace. It's remained competitive over the last 12, 15 months. And I think we'll continue to battle it out account by account. We're thoughtful about accounts. We think about our tools.

We look at the accounts straight up and we make decision. So I don't see a lot of change in that Middle Market workers' comp environment going forward, at least in the next year.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

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

Christopher Jerome Swift
Chairman & CEO

Yes, Jimmy, what I would say, as we've talked about in the past, sexual molestation claims, reviver statutes, they all go together here. Particularly in this quarter, as Beth mentioned, related to Boy Scouts. They're in bankruptcy going through -- trying to reorganize and the amount of additional claims that were reported to us this past November far exceeded our initial expectation. So now we're really sympathetic to sort of the real victims here, but there are some serious questions about the validity of all the claims that were reported. Nevertheless, we felt it prudent, again just given the magnitude, to increase our reserve position, and we did.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then just lastly on business interruption losses. Obviously, in the U.S., for the most part, the courts are siding with insurers, less so in the international market. So is your view on your exposure consistent in Europe as well or in the U.K. market? Or do you think you might actually have a little bit more risk there?

Christopher Jerome Swift
Chairman & CEO

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

Operator

And our next question comes from Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

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

Beth A. Costello
Executive VP & CFO

Yes. So I'll take it, obviously, in 2 pieces. So as it relates to the Talcott investment overall, kind of on an ex AOCI basis, it's about $185 million on our balance sheet. And again, it's an investment, so like all of our investments, they're part of our capital base. I wouldn't have you think about this as creating sort of excess capital capacity, there's obviously some risk charges that would go away, but it's all part of our capital base. And then as it relates to DTAs and AMT tax credits, we have monetized all of those through 2020. So we are really in a position now where it's just -- we're a normal taxpayer and very pleased to have been able to recoup all of those balances.

Michael David Zaremski
Crédit Suisse AG, Research Division

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

Christopher Jerome Swift
Chairman & CEO

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

Operator

Our next question comes from David Motemaden from Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

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

Beth A. Costello
Executive VP & CFO

Yes. Great question. I mean, again, I think our philosophy is to be in a position where we're taking steady dividends out of the subsidiaries. You're right, if you look at 2018, but if you also look back to 2016 and 2017, the amount of dividends that we were taking out were far exceeding our statutory earnings. So on balance, I think where we are, 900, is very comfortable. And I think to the extent that we continue to generate earnings at the level that we're at, that there's an opportunity for that to increase. But we tend to be pretty steady as we think about our dividends out of our subsidiaries.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Okay. Got it. That's helpful. And then a question for Chris and Doug, just on the outlook. And I'm thinking a bit more from a top line perspective, just thinking about how you guys are expecting top line in Commercial P&C specifically as we progress throughout the course of 2021, what you guys are thinking for growth there. And maybe, Doug, if you can just talk a little bit more about the Spectrum policy because that seems like that had some really good new business trends this quarter.

Christopher Jerome Swift
Chairman & CEO

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

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

Third, I would say, again, hopefully you could feel it through Doug and myself, that we are optimistic about what we can achieve in the marketplace with our expanded product capabilities, our new industry verticals, any environment where rates are going to continue I think at the pace they are, at least for the next 12 to 18 months. So you put all that together, and I'm refraining from giving you an exact number, so don't ask for an exact number, but I think it points to an increasing top line, Doug, (sic) [Dave] compared to what we've experienced over prior years.

Douglas Graham Elliot
President

Yes. I would just add that on the Spectrum question, we launched a terrific, very contemporary product right at the end of 2019. We're feeling terrific about the prospects of that and we barely get in market and COVID hits in March. So you really got to take that 5- or 6-month period out where we know that sales were off quite substantially in the second quarter.

So I am deeply encouraged by what happened the last 4 months of the year. I think it's a terrific product. I think the ease of use, the reaction from CSRs and customers around the country is exactly what we wanted. I think that holds prospects for growth going forward. Again, in light of the economic turn back on, that will be a big condition for us in Small, but I'm confident that we're headed in a really good direction.

Lastly, relative to Global Specialty and Middle & Large Commercial, we had some significant activities on the underwriting side that needed to happen this year to get back where we wanted to be. A profit turnaround, if you will. And I feel really good about those actions that were taken. So as I pivot into '21, I think largely many of those actions are behind us. Not all, but many, the large block of that. And so I'm encouraged that there's opportunities for growth. I feel really good about our verticals. I love what the Navigators breadth has meant to our franchise, and we're just beginning to explore, I think, the full dynamic of that. So I'm bullish about what we're going to do heading forward.

Operator

And our next question comes from Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

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

Douglas Graham Elliot
President

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

I expect some margin compression in Small just as we battled through in 2020. But the aggregate of what we've been able to achieve in Global Specialty and Middle Market pricing leads me to feel confident that the driver of loss ratio change in those 2 businesses will carry the incremental improvement that we expressed in our guidance for '21.

Personal Lines is a different story, right? We had a very positive, low driving miles year period, 9 months if you will. And we expect those driving miles to return back more to normal. So the Personal Lines margin and loss ratio will come back toward a more normal level, and that's why you see the pick that we've selected here for '21. So if you put Personal and Commercial together overall, we're still encouraged and feel improvement, but there are mixed stories inside that just have to be aware of.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

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

Douglas Graham Elliot
President

Tracy, the -- certainly, in our specialty businesses, as demonstrated by the numbers, terrific progress, near 20 in the quarter. And across certain lines, excellent progress. I do think when I look at property, I'm very pleased about property. We have been working on our property book on a by-peril pricing basis now for a couple years. But I'm encouraged that our E&S property book was in the low 20s. Our large property book, which is not included in the calc in the supplement, within the low 20s. Our core Middle Market, smaller property book high, high single digits. So I'm very encouraged by the progress we're making kind of line-by-line and feel like that sets up for an improving story in '21, which we share with you in our optimistic guidance.

Operator

Our next question comes from Meyer Shields from KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

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

Douglas Graham Elliot
President

Meyer, our portfolio appetite now extends across the segments, right? So we obviously -- strong position in Small, growing strength in Middle with verticals, a really solid National Accounts franchise primarily around workers' compensation, and an assortment of Specialty products that Vince and his team attack both Large accounts, Middle Market accounts, et cetera. Terrific wholesale distribution. That is an added element of the Navigators acquisition. So I feel like we're coming at the market in all phases, all products, all segments, all geographies and I really like that approach. And as I suggested in my remarks, we've had some nice early wins that I think will just be the beginning of how we mature this broad product breadth into our family of what we bring to market.

Christopher Jerome Swift
Chairman & CEO

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

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That was very helpful. I guess a follow-up -- well, not a follow-up, unrelated question for Beth. When you've got really, really strong limited partnership results, do you have the flexibility to say, okay, let's cash out here? Or is the sort of proportionate commitment within the investment portfolio something we should think of as being unchanged?

Beth A. Costello
Executive VP & CFO

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

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

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

Beth A. Costello
Executive VP & CFO

So our expectation over time is that we think that the yields that we outlook to is what one would see, so just the outsized returns on some of the more seasoned portfolios. And then as we're investing in new funds, those would tend to draw in a lower yield originally. So you kind of think about the balance of the 2. But again, you can look at our results over time, our partnerships have performed very strongly. But we typically look at them over the long-term at that sort of 6% level.

Operator

And our next question comes from Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

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

Christopher Jerome Swift
Chairman & CEO

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

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

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Got it. That's helpful color. And then I think we saw very limited utilization of the Navigators' ADC this quarter. So do you think you've kind of gotten reserves there at the conservative levels you want them to be at and we've kind of turned the corner? Any thoughts on that?

Christopher Jerome Swift
Chairman & CEO

Yes. Again, I would go back to what we said before. Glad we purchased it. It was part of our strategy as we thought about financing the overall Navigators transaction. Obviously, it slowed down this quarter. But there are new norm in this business, you can never predict with certainty what's going to happen in the future with some of these claims. But the sufficient -- the excess level that we have or the sufficiency remaining in it gives me a great deal of confidence that it's not going to go through the top, bottom line.

Operator

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

Susan Spivak Bernstein
Senior Investor Relations Officer

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

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