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Market Intelligence

# The Hartford Financial Services Group, Inc. NYSE:HIG

# FQ4 2009 Earnings Call Transcripts

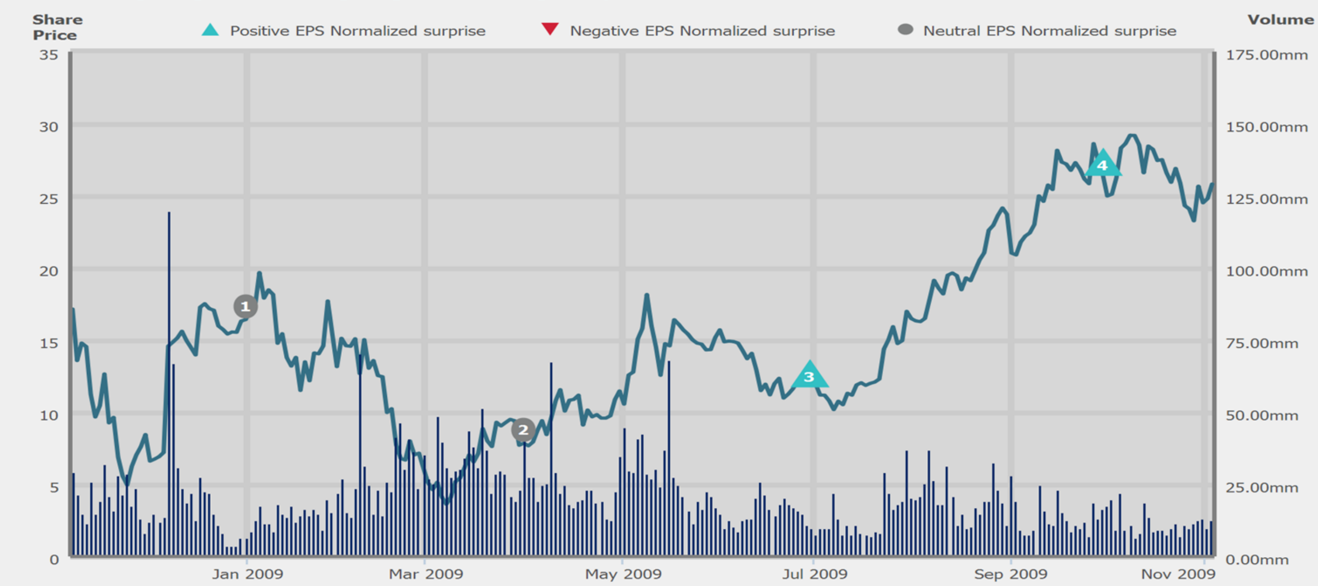
## Tuesday, February 09, 2010 2:00 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ4 2009- | | | -FQ1 2010- | -FY 2009- | |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | ACTUAL |
| **EPS Normalized** | 1.51 | 1.51 | ▲0.00 | 0.98 | 1.80 | 1.85 |
| **Revenue** | - | - | ▲24.31 | - | - | - |
| **Revenue (mm)** | 5180.67 | 6440.00 | - | 6197.00 | 21332.33 | 24701.00 |

Currency: USD
Consensus as of Feb-09-2010 12:56 PM GMT

**Stock Price [USD] vs. Volume [mm] with earnings surprise annotations**




**- EPS NORMALIZED -**

| | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ4 2008** | 1.30 | (0.72) | NM |
| **FQ1 2009** | (3.14) | (3.66) | NM |
| **FQ2 2009** | 1.16 | 1.90 | ▲1 63.79 % |
| **FQ3 2009** | 1.42 | 1.56 | ▲2 9.86 % |

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# Call Participants

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**John Walters**

**Juan Andrade**

**Liam McGee**

**Liz Zlatkus**

**Rick Costello**

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# Presentation

**Operator**

Good morning. My name is Angel and I will be your conference operator today. At this time, I would like to welcome everyone to The Hartford fourth quarter 2009 earnings conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (Operator Instructions)

Mr. Costello, you may begin your conference.

**Rick Costello**

Thank you, Angel. Good morning and thank you for joining us for The Hartford's fourth quarter 2009 financial results conference call. The earnings release and financial supplement were issued yesterday. The slide presentation for today's call is available on the company's website at www.thehartford.com.

Liam McGee, Chairman, President and CEO; and Liz Zlatkus, CFO will provide prepared remarks this morning and we will conclude with Q-and-A. Also participating on today's call are Juan Andrade, President and COO of the Property & Casualty Company; John Walters, President and COO of the Life Company; Greg McGreevey, Chief Investment Officer; and Alan Kreczko, General Counsel.

Turning to the presentation on slide two, please note that we will make certain statements during the call that should be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These include statements about The Hartford's future results of operations. We caution investors that these forward-looking statements are not guarantees of future performance and actual results may differ materially.

Investors should consider the important risks and uncertainties that may cause actual results to differ, including those discussed in our press release issued yesterday, our Quarterly Reports on Form 10-Q, 2008 Annual Report on Form 10-K and other filings we make with the Securities and Exchange Commission. We assume no obligation to update this presentation, which speaks as of today's date.

Today's discussion of The Hartford's financial performance includes financial measures that are not derived from Generally Accepted Accounting Principles or GAAP. Information regarding these non-GAAP and other financial measures, including reconciliations to the most directly comparable GAAP measures, is provided in the Investor Financial Supplement for the fourth quarter of 2009, in the press release we issued yesterday and in the Investor Relations section of The Hartford's website, at www.thehartford.com.

Now I will hand the call over to The Hartford's Chairman, President and CEO, Liam McGee.

**Liam McGee**

Thanks Rick. Good morning everyone and thank you for joining The Hartford's fourth quarter earnings call. The fourth quarter represents returned profitability for The Hartford. As we reported last evening, net income for the quarter was $557 million or $1.19 per diluted share. Life and Property & Casualty both recorded net income.

Fourth quarter net income resulted from strong core earnings and lower realized capital losses, due in part to the gain on Verisk IPO. Now the fourth quarter was the third consecutive quarter of improving core earnings. Strong execution form The Hartford team and a rebounded investment income with primary drivers.

In Property & Casualty solid underwriting income coupled with prior year reserve releases and very light cat losses, drove over 54% sequential improvement in core earnings. At these results demonstrated, our continued philosophy of discipline underwriting is fundamental to the success of P&C.

In Life, margin recovery in a favorable back unlocks push core earnings to nearly $400 million. Assuming normal market conditions, our Life operations are on track to generate more than $1 billion of core

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earnings in 2010. Now these results reinforce the observations I shared with you in the third quarter earnings call.

Our franchisee is stable with growing momentum. The Hartford has a strong capital foundation. We are decisively facing our challenges and our team is focused on delivering superior returns, through sustained profitable growth. We continued to see signs of stability across the company.

The P&C policy counts increased as retention improved and new business levels grew. The Life persistency has remained strong. In 2009 persistency was 87% in group benefits and 95% in retirement plans and we expect these trends to continue in 2010. We also saw indication in the fourth quarter that sales momentum is building.

Businesses, distributors and consumers continue to view The Hartford as a preferred option for their P&C insurance needs, which, along with solid execution and new products, resulted in strong fourth quarter new business levels, with small commercial and middle market recording year-over-year increases of 21% and 7%, respectively.

Now, though year-over-year sales and in Life were down in some businesses, there was momentum in Retirement Plans sales and mutual fund deposits. Retirement Plans' quarterly sales set a record of $1.2 billion. Meanwhile, strong fund performance in wholesaling drove over $3 billion of deposits in Retail Mutual Funds; and this was the third consecutive quarter with deposits over $3 billion and represents a 22% increase over the fourth quarter of 2008.

We were also very pleased to be named one of Barron's Top 10 Mutual Fund Families for 2009, in recognition of our outstanding fund performance. We expect our top tier performance to drive even higher deposit levels in 2010. The fourth quarter benefited from good execution by The Hartford team. The company completed the expense reduction initiatives announced in late 2008. In the last 12 months, we have reduced the total number of employee positions by 10%, or approximately 3,000.

We also consolidated our real estate footprint by about 15%. The benefit of these actions in 2009 is most clearly reflected in the margin recovery in many of our Life businesses. In Property & Casualty, we continued to expand distribution of our AARP product through independent agents. We now have the product in 20 states and will be in 41 states by the end of the year. The benefits of the AARP through agents program have been significant.

In those states, where the product is available, flows from the AARP program accounted for roughly 20% of agency new business premium. Small commercial is benefiting from the rollout of growing Spectrum, our new business owner policy. At the end of 2009, Growing Spectrum was in 30 states, and the product was driving meaningful growth in new business. We will roll out the product in an additional 13 states by the spring and will then be active in 80% of the target market.

In the fourth quarter, we've reduced our excess liquidity by about $2.2 billion. Most of that was put to work in investment-grade corporate bonds. You should expect a similar approach in the first quarter of 2010. We also continued to de-risk the investment portfolio. This is a security-by-security process, where we seek to maximize economic value while balancing the impacts on capital and yields.

In the fourth quarter, as spreads tightened in the riskier assets classes, we found more opportunities to sell securities at or above our estimate of fair value and these sales reduced the company's aggregate real estate exposures. Now looking ahead, we expect the economy and the market to remain uncertain. Our outlook contemplates a slow gradual economic recovery.

However, there are indications that the impact of the economy on exposures may have bottomed in late 2009. Our midterm cancellations and the decline in policy endorsements have stabilized. If these trends hold, we believe exposure increases will provide a modest top line benefit in 2010.

In the Group Benefits industry, fully insured premium continues to fall from prior year levels, due in part to higher unemployment. Future growth in industry-wide premium will likely be correlated to improvements in unemployment and in this tough environment, we remain focused on pricing and

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underwriting discipline across all of our insurance businesses and we are taking rate where necessary to make our target returns.

In our wealth management businesses, we are optimistic that strong equity market performance and solid execution in the second half of 2009 will provide a positive lift to our mutual funds and retirement plan businesses in '10. The Hartford enters the year with a strong capital foundation. In 2009, surplus in the Property & Casualty operations increased by $1.4 billion to $7.4 billion and we ended the year capitalized well above levels historically associated with AA ratings.

On the Life side, the year end RBC ratio was estimated to be between 375% and 390%. Even after moving capital to the Life Company in the fourth quarter, we have significant holding company resources, with over $2 billion at year end. Now as you know, last night, we announced our investor event in New York in early April, and we as a team look forward to sharing with investors how we plan to deliver sustainable, profitable growth.

The investor event will also include a discussion of The Hartford's capital strategy and a key element of this strategy is the eventual repayment of CPP. We recognize that the government's preferred stock is not permanent capital, and we will repay it, but as I have said previously, we will be prudent in repaying CPP.

In our view, prudence requires that we balance a number of factors, including the company's capital resources, potential dilution to shareholders, the perceived future impact of CPP on our business and of course, the views of our regulators.

Finally, our CFO search is going well. I am very pleased with the process and the caliber of the candidates, and I am optimistic that we will announce a new CFO in the near term. As a note, Liz and her team have made definite progress in improving risk management, and I look forward to her assuming the Chief Risk Officer role full time.

So in summary, the fourth quarter of 2009 reflects good execution by The Hartford team and a return to profitability. We also saw growing sales momentum and improvements in the investment portfolio. The company has a strong capital foundation and we continue to position the company for the future and are optimistic about opportunities to deliver superior returns through sustained profitable growth and we look forward to discussing the future of The Hartford with investors in New York.

With that, I will turn the call over to Liz.

**Liz Zlatkus**

Thank you, Liam. Good morning, everyone. Please turn to slide four. Our Property & Casualty businesses continued to execute very well. P&C earnings for the fourth quarter were strong, as disciplined underwriting, light catastrophes and favorable reserve developments drove profitability. In the fourth quarter, core earnings were $378 million. This represents more than a 50% increase over the third quarter of 2009.

The fourth quarter benefited from prior year releases as reserves in a number of lines continued to develop favorably. Even with favorable development in 2009, our year end carried reserves are 3.8% higher than the actuarial indication, a level unchanged from year end 2008, this compares to an estimated industry level of 2.9%.

If you want more detail on the P&C reserve activity, you can find it in the 8-K we filed yesterday. The fourth quarter current accident year combined ratio, excluding tax, was a solid 92.6%. For the full year, that ratio was 91.7%, a very good result.

In general, loss costs remain within expectations, with the exception of personal auto frequency, which has risen faster than expected to more normal pre 2008 levels. Written premiums for the fourth quarter were $2.4 billion, or 5% lower than in the prior year period. The recession continues to take its toll on commercial lines premium, as insurance exposures remain depressed.

However, strong new business growth and improving retention offset some of the economic top line pressure in the fourth quarter. Small commercial saw at 21% increase in new business on a year-over-

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year basis, as the rollout of our new business owners policy has been well-received by agents and customers alike.

In middle market, new business increased 7%, due to growth in both Property and Workers Compensation, growth driven in part by the strong performance of our technology practice group and the success of our Property Choice product enhancements.

Looking into 2010, we are cautiously optimistic about the opportunities for growth. A leveling off of the economic decline is likely to result in improved premium retention. In addition, we are focusing on expanding market share by cross-selling existing accounts, extending our new business owner products, expanding the AARP through agents program and capitalizing on our expertise in existing and new industry verticals.

As we seek to grow market share, we remain committed to underwriting discipline, developing and enhancing our product and service offerings and positioning the company to take advantage of the opportunities that will arise when the market and the economy turn.

Now let's turn to our fourth quarter Life results on slide five. Margins have improved across many of the Life companies businesses. This is the result of lower expenses and rising account values in the equity sensitive businesses. With that backdrop, core earnings for the quarter were $385 million, including a $78 million DAC unlock benefit. The quarter also saw some noise from one-timers, with a $35 million favorable tax adjustment, partially offset by a $17 million restructuring charge.

In mutual funds, ROAs have recovered nicely, reaching almost 16 basis points in the fourth quarter. We have seen a rebound in scale benefits in the second half of 2009, and the fourth quarter included a favorable true-up in 2009 fee income, which added a bit less than two basis points to the ROA.

Turning to Group Benefits, we had another solid quarter, with core earnings of $79 million. In the fourth quarter, we observed some unfavorable disability resulting from higher new incurrals. We believe the higher loss ratio in the fourth quarter is a reflection of normal volatility, but we are monitoring this issue closely.

We continued to be disciplined in pricing. That discipline, shrinking payrolls and the carryover effects from last year's challenges weighed on sales in the fourth quarter, as well as the key January 1 date. That said we anticipate a gradual sales recovery over the course of 2010. In summary, in the fourth quarter, we saw continued stabilization of sales and deposits, and improved margins, which contributed to strong core earnings in our Life operations.

I would now like to take a few minutes and review our fourth quarter investment results. Please turn to slide six. As the slide shows, the unrealized loss position continued to improve in the fourth quarter, spread tightening and de-risking actions drove the improvement.

In the fourth quarter, realized capital losses totaled $194 million pre-tax. The main driver was credit related impairments on structured, commercial and residential securities, as we saw moderate collateral deterioration in specific market areas and property types. In the fourth quarter, we also took advantage of spread tightening and opportunistically sold real estate related assets. These losses were offset by the gain we realized by exiting our position in the successful Verisk IPO.

Finally, we increased the mortgage loan reserve in the fourth quarter by $210 million. The mortgage reserve increase was concentrated in loan participations. About $100 million of the increase reflects our intent to sell a number of these loans in the first quarter of 2010, as part of our continued de-risking efforts. We expect these sales to reduce the carrying value of this asset class by an additional $150 million in the first quarter.

Now, please turn to slide seven for a review of The Hartford's capital position. As Liam said, The Hartford enters 2010 with a strong capital foundation. Our Property & Casualty Company ended the year with $7.4 billion of statutory surplus, up $1.4 billion from the prior year. The primary contributor was statutory income. At this level, we are very well capitalized, approximately $1.8 billion above historical AA levels.

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On the Life side, estimated U.S. stat surplus, including surplus held at captive reinsurance, ended the year at $7.3 billion. In the fourth quarter, the holding company moved a total of $1.8 billion to the Life operations to fund the capital requirements of the global VA business and investment related capital impacts.

Hartford Life and Accident, the parent U.S. writing company ended the year with stat surplus of $6 billion, which translates to an estimated risk based capital ratio between 375% and 390%. All in, taking into account Hartford Life and Accident as well as the captives, we finished the year with an estimated margin of about $1.1 billion in the Life U.S. operations.

The holding company ended 2009 with $2.2 billion of capital. This reflects the $1.8 billion of fourth quarter contributions to the Life Company, as well as the Allianz payment of $200 million and interest and dividend payments. Holding company capital remains very liquid, and we like the flexibility it affords us as we enter 2010.

In summary, The Hartford's capital foundation is strong. Our P&C and Life companies have significant capital in excess of levels consistent with AA requirements, and we have over $2 billion of additional capital at the holding company.

Now please turn to slide eight for a look at our guidance. As we announced last evening, our core earnings per share guidance for 2010 is between $3.70 and $4 per share. There are a number of technical assumptions embedded in the guidance that we have listed on slide eight for your benefit. As you know, our guidance does not incorporate prior year reserve development in our ongoing P&C operations. We also do not include a DAC unlocks benefit or charge.

Another important assumption is the yield on partnerships and other alternative investments in 2010. Our guidance simply assumes a zero return from this asset class. We expect alternatives to perform much better than they did in 2009, but quarter-to-quarter returns may be volatile.

With that, I'll turn the call over to Rick, as we move to the Q-and-A session.

**Rick Costello**
Thank you, Liz. Before we begin the Q-and-A, I would ask each caller to limit himself or herself to two questions. This will allow us to get to as many callers as possible in the time permitted. Angel, you may now open the call to questions.

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# Question and Answer

**Operator**

(Operator Instructions) Your first question comes from Jeff Schuman - KBW.

**Jeff Schuman**
*KBW*

There's a couple of questions on capital; first of all, when we look at the capital margin in the Life Company, I'm wondering what sort of hurdles we should reference. In other words, I think I can reproduce your $1.1 billion of margin by comparing the estimated RBC to a historical target like 325. I guess in this current year, whether that's still an appropriate hurdle, and whether or not the existence of the captive should shade our thinking about the hurdle.

Then on the P&C side, you've cited on the nice capital build there. I'm wondering what the 2010 dividend capacity is, both from a regulatory perspective and from kind of a practical perspective?

**Liz Zlatkus**

So, in reference to your first point, we still do target the 325 as we think about levels consistent with AA. As you know, we are not AA right now, so we think that's the right target for us. You have to add in some of what we consider some excess capital with the captives to get to your $1.1 billion. It's definitely was something that we had talked about and is incorporated in terms of how we think about our overall capital flexibility.

In terms of the P&C Company, we have significant capital flexibility, probably in a range of $1 billion kind of dividend capacity for 2010, but we can take that offline and get you a more specific number.

**Operator**

Your next question comes from Andrew Kligerman - UBS.

**Andrew Kligerman**
*UBS*

Quick one, first, just on the alternative investment income assuming a 0% return; what kind of return would you expect under more normal conditions in that portfolio?

**Greg McGreevey**

I think under normal market conditions, we would probably expect somewhere in the 7% to 10% range. I think as you know, and as Liz talked about, given the uncertainty and difficult to predict, especially on a quarter-to-quarter basis, even though we are seeing improvement clearly in both private equity and hedge funds, there has been some challenges on the real estate side that we elected for 2010 to use the 0% yield number that Liz had indicated.

**Andrew Kligerman**
*UBS*

Then just in your Life division, just two parts. The Personal Retirement Manager variable annuity product, just maybe a little color on how that product. The sales didn't look like they had jumped up much in the fourth quarter, but maybe just a little color on whether you see it gaining any traction? How it is being received? Then on the Retirement net flow components, you did about $59 million in negative flows. That was an improvement from negative $500 million in the third quarter. Yet you're guiding for net flows of a positive $1 billion to $1.5 billion in '10, so I'm kind of curious as to how you plan to achieve those net flow targets this year?

**John Walters**

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Relative to the Personal Retirement Manager, we did launch that in the fourth quarter, near the middle of the fourth quarter. We are still getting state approvals and we are still getting up to run rate at key firms. There are a number of firms where there were some operational issues that we needed to work through, because the product is somewhat different. So I would say in the fourth quarter, the sales were largely from the previous product set.

We have seen improving sales numbers week-to-week throughout the period, and we anticipate that they'll continue to build as we go through the year, but we do anticipate that the first quarter will be softer than fourth quarter levels as we make the transition to the new product. We are getting a positive response in the marketplace, and we think this product will work very well for our customers. So we expect sales to build throughout the year.

On retirement net flow, we did have some losses of some large plans in the second and third quarters of 2009, which was reflected in the net flow negatives that you saw there. As we came into year end, we had strong growth in sales momentum in year end, which will result in higher deposits in 2010 and we anticipate that sales momentum will stay in effect and will improve deposits throughout the year, which is what results in our positive net flow outlook for the year.

**Operator**

Your next question comes from Randy Binner - FBR Capital Markets.

**Randy Binner**
*FBR Capital Markets*

Just jumping back to excess capital, is there any sort of S&P 500 sensitivity that you can provide?

**Liz Zlatkus**

I think you probably are thinking about if the S&P drops to that 700 level type issue. So if you think about 2010, I would put that in the range of about $1.9 billion to $2 billion and that is a bit higher than what you would have seen on the third quarter call.

But first of all the markets are higher, and secondly, we had some additional macro protection in 2009 because we had the 2009 protection and we had fully purchased all the 2010 protection and obviously the 2009 has now run off. So, it is in that $1.9 billion range.

**Randy Binner**
*FBR Capital Markets*

The $1.9 billion depleted if we went down to 700, and just another one. In the opening comments, I think Liam said that the excess liquidity went down by $2 billion in the fourth quarter and happen again in the first quarter. I just wanted to clarify that we heard that correctly, and just to clarify exactly where that excess liquidity came from and how it fits into the other margin numbers that you laid out.

**Liam McGee**

Randy, this is Liam. To be clear, the comment about the first quarter was the investment philosophy, not necessarily the number and Greg may want to give you more detail on that.

**Greg McGreevey**

Randy, thanks a lot for your question. We did in the fourth quarter have our excess liquidity position decline by about $2.2 billion and if you think about it, we are investing right now excess liquidity in the $750 million to $1 billion range each month and in terms of your second question, the majority of where we are putting that money to work, as Liam indicated, is primarily in investment grade for corporate securities, prudent investments, high quality, that are both public securities as well as private.

**Operator**

Your next question comes from Jay Cohen - Bank of America/Merrill Lynch.

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**Jay Cohen**
*Bank of America/Merrill Lynch*

I have one question, and then Ed Spehar will have a question as well on the Life side. I guess on the Property & Casualty side, I wanted to ask about casualty reserves. I didn't get a chance to read through all of your comments from the 8-K on the reserves, but as I recall, in the third quarter, in the general liability area, there was some increase in paid claims or with late emerging exposures, maybe that's what it was.

I'm wondering what you saw in the fourth quarter related to that, and in general what are you seeing on the casualty side. We just heard from one other company that had seen an increase in reported claims from the '07, '08 year. Just trying to get a sense of what you guys are seeing?

**Juan Andrade**

This is Juan Andrade. So just to recap, we had about $166 million worth of releases in the fourth quarter of 2009 and the vast majority of them came from the liability lines. Specifically to your question, as we look at general liability, we had about $27 million of releases in this quarter from accident years 2004 through 2006 and I think that is similar to the releases that we've had in the other liability lines as well across the other segments. So basically, our portfolio continues to perform very well. Those reserves are maturing very favorably. So we're very pleased with those accident years and that performance.

**Jay Cohen**
*Bank of America/Merrill Lynch*

What about the more recent action in years, the '07, '08?

**Juan Andrade**

Sure. So if you look at our release for the quarter, we had about $53 million worth of favorable development, particularly in the '07 and '08 years, specifically in the financial lines of business. If we look at auto liability as well in small commercial, that's also coming from those years as well. So again, we feel pretty good about the performance of those accident years.

**Jay Cohen**
*Bank of America/Merrill Lynch*

At this point, I'll turn it over to Ed in a second. You're not seeing anything disturbing from a claims standpoint, claims inflation, severity or frequency? It is all as or better than expected, it sounds like?

**Juan Andrade**

That is correct. I would say in the commercial lines of business, our loss costs continue to be very much within expectations. So at this point, there's nothing that I'm looking at that concerns me.

**Ed Spehar**
*Bank of America/Merrill Lynch*

It's Ed. I had a question just on the Life earnings. I think if you look at the fourth quarter numbers and you adjust for the unusual items, you'd come up with a run rate for earnings in the $1.1 billion to $1.2 billion range.

I guess, I wanted to get a little bit more color from Liam on the comment that the Life Company is positioned for more than $1 billion of earnings in 2010. Should we be interpreting that comment and the run rate versus the fourth quarter to say, you're looking at flat to down Life earnings from the suggested level if we look at 2010?

**Liam McGee**

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My comment was that we've always said that with normal market conditions that the Life Company should produce at least $1 billion of core earnings. I think my statement was clearly intended to communicate that should and will happen. John, do you want to give any other flavor?

**John Walters**

No, I think, Ed, as you look at Q4, clearly you annualize that, you get to a number that's a couple hundred above $1 billion and that's why we've said, we're comfortable it will be north of $1 billion; but as you know, there are a lot of things that can move during the year. So we've got a range around that, because we have certain market assumptions, etc.

**Ed Spehar**
*Bank of America/Merrill Lynch*

I guess the follow-up, though is it; you have a market assumption of 9%. So you have a normal market assumption, yet it doesn't look like you're looking for the earnings level to increase. So is there something else going on here? I mean I know the ROA in Japan is a little lower than what I would have thought. Is there anything that you would point to that is offsetting, what should be some normal appreciation from the market?

**Liz Zlatkus**

I would say that, your math is about right and obviously you're going to take something down if you wanted to start the S&P starting today, but there are some puts and takes, and we can take any reconciliation offline, but I would say you're in the general ballpark.

**Operator**

Your next question comes from Eric Berg - Barclays Capital.

**Eric Berg**
*Barclays Capital*

My two questions relate to Japan and to the variable annuity business domestically. In Japan, do you face any sort of potential ongoing fresh additional charges, liabilities, and reduction therefore in your equity related to the 3 WIN products, or I do recall reading in one of the footnotes of the Supplement that it should not produce any profit at this point. My first question of two is really could there be additional charges?

**Liz Zlatkus**

No, we don't anticipate any more charges from 3 WIN.

**Eric Berg**
*Barclays Capital*

Second, I would just love to get from John, just a sense of sort of competitive conditions in the variable annuity business right now and by that, I was too general. I don't mean, whether it is competitive. Obviously, it has always been and probably always will be a competitive business, but what I'm really interested in is sort of John's sense of what the customers are going for now?

What types of features seem to be appealing still based on December quarter sales? Are they going for simple and cheap? Are they going for expensive and complex, rich benefits, less rich benefits? I'd love to get some perspective on what the customers and distributors are finding appealing?

**John Walters**

I would start off by saying that, when you look at the VA marketplace today, there tends to be a strong bifurcation of what companies are doing and what individuals and distributors are looking for. The common theme is that, guaranteed retirement income is still a big theme and we believe that that's going to continue to be the case for as far as we can see with the demographic trends.

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That said, people are solving that differently, and there are different appetites in the marketplace. The traditional heavy VA sellers from a broker standpoint, and a firm standpoint, still like the more expensive heavily guaranteed equity products; and I think that's why certain firms are getting a very concentrated market share there.

At the same time, there's a significant demand building, we believe, for products that are less expensive, because the expense really is very high if you consider what the expected returns are on those portfolios and for a return for more simplicity.

So, the key themes that we've has as we've thought about the VA business, is for simplicity, better consumer value, without giving up the guaranteed income. We believe that will work overtime, but it may be a different group of sellers who do most of the volume there, so not by firm, but by broker. As you know, broker penetration in most firms is relatively low, like under 25%, doing VA on an active basis.

So we think there's a lot of opportunity to reach out to brokers who're doing other types of business and bring them in for the guaranteed income that we provide, but there is a bifurcation going on where a lot of firms, a lots of our peers, are pulling away from the more expensive, heavy equity market guarantees. A few are sticking with them, and so that's concentrating the business of those that are still interested in the heavy equity market guarantees.

**Operator**

Your next question comes from Tom Gallagher - Credit Suisse.

**Tom Gallagher**
*Credit Suisse*

First question a quick one for Liam. In terms of the CFO search, can you talk about kind of the breadth of experience of candidates? Are you looking an Insurance Executive to more broadly add financial services executives?

Second question for Liz, just on the captive; can you expand a bit more in terms of what you said already, the $1.3 billion that you funded it with, is that over funded relative to required capital, or is that just adequate? Give us a sense for how it works technically? Did you move all of the variable annuity reserves globally into that, or is there only a portion of it? Just a little bit of background in terms of how the mechanics work?

**Liam McGee**

From the beginning, my view was that obviously we'd be looking for someone with superior talent, significant depth of experience, and ideally, insurance industry experience. As my comments suggest, I think we've been very pleased with the candidates. For the most part, they've met those thresholds and as I said, we're optimistic that we'll announce a new CFO in the near term.

**Liz Zlatkus**

Tom, relative to the captive, I would say it's in the 100 to 200 plus or minus range in terms of the excess capital that we did fund it with, when you are trying to estimate at the end of the year, we always want to have a little bit extra and it's about 75% of the VA reserves and kind of the VA risk that's in the U.S., we sent over to the captive.

**Tom Gallagher**
*Credit Suisse*

Liz, no Japan, just U.S.?

**Liz Zlatkus**

Well, as you know, we send a fair amount of the risk from Japan, right. We reinsure it to the U.S. So think of that as one bucket then of all U.S. VA risk, plus a portion of Japan and then you take that and you take

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about 75% of it and then you send it off to captive. So yes, by definition, it would take some of the Japan risk and move it off.

Again, I'll make another point. There's risk remaining in Japan, but as we've said before, we have more than ample capital over there, which doesn't get counted in any of the margin discussions, to be able to withstand what we would call an equivalent kind of market decline that would be associated with a 700 S&P.

So we would have more than sufficient capital in Japan covering that business. The rest of Japan comes to the U.S. and all of our numbers when we talk about global VA impact is included there and then of course we use the captive to help manage our capital volatility and move 75% of the total into the captive.

**Tom Gallagher**
*Credit Suisse*

Liz, did this help blunt any of the VA CARVM hit, or did that still hit you for the $1 billion or so?

**Liz Zlatkus**

So I would say at the end of the year, again, I wouldn't spike out just VA CARVM because that relates to the reserve. So it's really the intersection of how the reserves work with C3 Phase II, which is the capital requirement, but yes, the captive did help reduce the overall levering effect of the capital at year-end.

**Operator**

Your next question comes from John Nadel - Sterne, Agee.

**John Nadel**
*Sterne, Agee*

Two quick ones; just wanted to confirm if my math is reasonable here. Just using your guidance for the risk based capital for year end '09 of 375% to 390%, and the $1.1 billion above 325%, I'm sort of getting backing into about $18 million of capital per RBC point. Is that about right?

**Liz Zlatkus**

I think of it as in the $1.6 billion range for risk based capital for Hartford Life and Accident and then you have some excess at the captive.

**John Nadel**
*Sterne, Agee*

The $1.9 billion estimate on the capital hit if the S&P goes to 700, what's the equivalent if the S&P goes to, let's say, just 900?

**Liz Zlatkus**

Obviously, it is less than that. You have a little bit more convexity as you go down lower. I don't have that number off the top of my head, but I would say it gets more convex as the markets go down. So we have tempered the convexity a bit versus to say, year end 2008.

**John Nadel**
*Sterne, Agee*

The last one for me is just a 1% S&P move relative to the impact on GAAP earnings…?

**Liz Zlatkus**

It's about $8 million.

**John Nadel**
*Sterne, Agee*

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I was just going to say, I know it's something you disclose in your K typically, so I'm just wondering.

**Liz Zlatkus**

Yes, it's just about $8 million after tax, after DAC.

**John Nadel**
*Sterne, Agee*

Same thing on the Nikkei or a little bit less?

**Liz Zlatkus**

I wouldn't even use the Nikkei as that much of an indicator, because we have a lot in bond funds and global funds. So there, we just look at overall separate account returns in Japan.

**Operator**

Your next question comes from Darin Arita - Deutsche Bank.

**Darin Arita**
*Deutsche Bank*

On the P&C segment, as we think about the capital there, with the margin of $1.8 billion above the AA ratings level, and given that it is generating more than $1 billion of annual statutory operating earnings. I guess how are you guys thinking about managing the capital in that business in 2010?

**Liz Zlatkus**

Darin, this is Liz. Again for the flexibility, so we always want to make sure that we have enough capital that's more than sufficient to maintain AA rating in the P&C Company. It is very important, but anything in excess of that, you'll see us routinely kind of move that up to the holding company, just so we maintain maximum flexibility on that. So obviously, we see it as a source of capital and as the source of strength.

**Darin Arita**
*Deutsche Bank*

I do imagine, though with just an outlook of premium growth being flat to up 4%, you would be generating more excess capital in 2010?

**Liz Zlatkus**

There's a lot of puts and takes, but clearly that $1 billion plus range is in the ballpark.

**Darin Arita**
*Deutsche Bank*

Just on the Personal Lines segment, looking at the combined ratio outlook for 2010, 90.5% to 93.5%. How do we think about that, given as we look at the second half of '09, we were kind of running in the mid 90s?

**Juan Andrade**

This is Juan Andrade. As I've mentioned, we have been focusing on taking very proactive action both in rate as well as in underwriting, to ensure that our pricing is inline with loss costs going forward. Our pricing has improved sequentially to a plus 4% in the fourth quarter from the third quarter, and we have done some strengthening of calendar year reserves as well in auto. So, as a look at the guidance for 2010, I feel very good about being able to be in that range given the actions that we are taking.

**Operator**

Your next question comes from Colin Devine - Citi.

**Colin Devine**

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*Citi*

Two questions, Liz, I was wondering if you could just expand perhaps a bit on how the rating agencies view the captive within your whole sort of capital structure and then secondly for John, this is not the first time Hartford has tried to de-risk the products, the VA products to your credit and of course, before, it really didn't workout.

What makes you think it is going to be different this time, and particularly because it is certainly my understanding and what I am hearing from the, field is the wholesaler force is considerably smaller than it was, do you still have the horsepower to get sales going again?

**Liz Zlatkus**

So, Colin this is Liz, I'll start with your first question, as we look to implement the captive, and even as we were evaluating either an onshore or offshore, we worked very closely with the rating agency that was very important and they definitely understand and, support how we are thinking about that.

As you know, this is very consistent with industry practice of many VA writers have offshore captives; we happen to have an onshore captive, but again, the rating agencies, I think when I talk about margin, it would be consistent with how we would view their view.

**Colin Devine**
*Citi*

When you are giving RBC ratio, is that including the captive, or not?

**Liz Zlatkus**

No, that risk based capital ratio is just for Hartford Life and Accident. It does not include the captive.

**Colin Devine**
*Citi*

What do you think RBC is on the captive?

**Liz Zlatkus**

The captive works a little bit differently, and so we just look at it all in, and say, as I said for Hartford Life and Accident, it is about $1.6 billion of risk based capital and that's how you get the 375% to 390% and then the way we look at and worked with the Vermont regulators and Connecticut, we think we still have some extra in our captive. With that, I'll turn it over to John.

**Colin Devine**
*Citi*

The captive I thought you just said it didn't I'm sorry, you lost me there?

**Liz Zlatkus**

The RBC ratio does not include the captive. It's specifically related to just Hartford Life and Accident in terms of when we said 375% to 390%. As we think in terms of sort of excess capital above fall that which we would consider consistent with AA levels, we would consider that we have some excess at the captive also. That, coupled with some excess at Hartford Life and Accident, gets you that $1.1 billion rough number.

**John Walters**

So, Colin, on your question on the de-risked product, I think a number of things are different than when we started down this path five or six years ago. First of all, I would say the market environment is different and so the competition in many respects is also de-risked to some degree, but more importantly, as you think about our sales force, yes, it is a smaller sales force today.

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We've got about 60 wholesalers in the field that's enough to easily cover the whole country, but we have access at all of our key distribution firms and frankly, I think we continue to have one of the best wholesaling forces in the industry in terms of talent, experience and the ability to carry the story.

I was with them last week where we had our national sales meeting, and they were universally enthusiastic about the new product, which is probably my best indicator, that I think we will make this work.

It will take some time because it's different, and I've been very clear about that, but we believe it offers tremendous consumer value and a differentiated story, which is good to have from a sales perspective in the marketplace and as we go through the year, we should see sales momentum build.

**Liam McGee**

Colin this is Liam. I having spent time with the sales forces I would wholeheartedly concur with John description we have the coverage, we have the enthusiasm, and we have the talent for the throughput that is necessary to see this strategy that John described.

**Colin Devine**
*Citi*

Liam, you are saying you are still as committed to the VA business as The Hartford ever was?

**Liam McGee**

I think those are your words, Colin, not mine. I think the VA business is an important part of the wealth management business and as John has described two things. I think the actions that The Hartford took historically to change the risk reward equation more appropriate; and going forward, we don't want the VA business to be as big a concentration for us as it was at its peak, clearly.

Secondly, the philosophies that John has outlined, around low cost, simplicity and guaranteed income, are the way we are going to run the business and we do think there is a market for that, as John has described.

We do think we have the distribution to get to the distribution partners and so it will be an important part of our business, and I think we have the right steps in place to make it be a product that performs well for customers and also has the appropriate risk reward for The Hartford.

**Operator**

Your next question comes from Mark Finkelstein - Macquarie.

**Mark Finkelstein**
*Macquarie*

I actually want to go back to capital as well. I'm just trying to reconcile some numbers. Firstly, just to confirm, $1.3 billion went into the captive. The other $500 million went straight into the stat Life Company?

**Liz Zlatkus**

That is correct.

**Mark Finkelstein**
*Macquarie*

Okay. I guess here is how I would ask the question. You shifted exposure from the stat company into the captive with $1.3 billion of capitalization. You said that you overcapitalized it $100 million to $200 million. So you essentially took $1 billion plus of exposure, moved it into the captive.

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In addition, you contributed downstream about $500 million into the statutory company, but I guess when I look at RBC at 375% to 390%, given the capital contribution, given the shifting of exposure over to the captive.

I guess I am still a little bit unclear what makes up for the pieces that you discussed back at the second quarter? I understand you've got VA CARVM. I understand there's realized losses, but I feel like I am missing a couple pieces, and I was hoping that maybe if we need to do this offline, that's okay, but I was just hoping that maybe you could help fill in the gaps?

**Liz Zlatkus**

Mark, yes, I think when we get into specific reconciliation, we will take that offline. What I will say is, for the year, we did come in more favorable than we had anticipated at third quarter. We had lower credit impacts. We had higher DPA benefits. We actually had a little bit higher VA, but we can take it offline and get you to get there.

**Mark Finkelstein**
*Macquarie*

I guess secondly, actually kind of I had the same thought that Ed had on Japan. I guess if you kind of normalize, you came in at about 61, 62 basis points of ROAs. Guidance for next year or for this year is 51 to 59. Can you just help explain the deterioration in ROAs in Japan?

**John Walters**

This is John. There really wasn't anything unusual in the fourth quarter, but as we look forward to next year, you do have some outflow that's occurring. You have a lot of expense that we took out this year. We're not predicting an additional expense decrease for next year.

So you're going to get some compression over time, but it's not significant in our view and depending on what markets do, we could outperform this or if we get a lot better at taking expense actions in country, we could also potentially improve it, but that is our best guidance at the moment, is that 51 to 59.

**Operator**

Your final question comes from Suneet Kamath - Sanford Bernstein.

**Suneet Kamath**
*Sanford Bernstein*

My two questions are as follows. First, on the CPP repayment, Liam, you'd mentioned that you're going to be prudent there. I think we would all agree that's the sensible thing, but the question is, is there any pressure out of Washington as more and more financial services companies that have taken TARP money or were given TARP money have repaid it? Is there any pressure to just kind of get this thing behind you or the government and move on to other issues? I'm just wondering about that.

Then second is, as we think about the new VA product, how do we think about the return that product is priced for? I understand it's sort of a hybrid fixed annuity, variable annuity. What sort of return level should be assumed? Is it more mid teens that we would expect on a traditional VA, or is it closer to 10% to 12%, that might be fixed annuities, or somewhere in between? Just wondering how we should think about that.

**Liam McGee**

I'll let John take the second part, but let me address the first part. We're not feeling any pressure from Washington around CPP or its eventual repayment. We're really looking at the issue, as I described, from The Hartford's perspective. To reiterate what I said, we know it is not permanent capital.

We intend to repay it, but we will do it prudently and prudence, as I elaborated in the remarks, will be balancing, among other factors, our capital resources and our continued flexibility, potential dilution to

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shareholders, the perceived future impact and the changing environment to our business, and of course very importantly, the views of our regulators.

**John Walters**

On the question on VA pricing, the new product has pricing that's similar to existing VA product. We have intentionally made it, so that we can get returns that we're familiar with relative to the VA business that we've had historically.

**Suneet Kamath**
*Sanford Bernstein*

So would that be mid teens, is that what you're saying, in terms of the VA product?

**John Walters**

We've historically priced to get 13% to 15% on the business overtime, and we are confident this product will achieve that pricing target.

**Suneet Kamath**
*Sanford Bernstein*

Just one quick follow-up for Liam, in terms of the CPP, anything from the rating agencies, is there an expectation, based on your conversations with them that you'd get out of this by some point in time? I know other companies have talked about that with respect to the rating agencies. Just wondering how your conversations have gone.

**Liam McGee**

Obviously, can't really discuss the conversation we are having with rating agencies, but I would just go back and say that, we continue to look at the issue and we will be sensitive to all of our constituents, but most importantly, as I said before, we're going to balance the issues that I described around our eventual repayment of the TARP money.

**Rick Costello**

Operator, I'm going to bring this call to a close now. Thank you so much for joining us today. If you have follow-up questions, we will of course be available all day, and we look forward to seeing you in April.

**Operator**
This concludes the conference. You may all disconnect.

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