S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

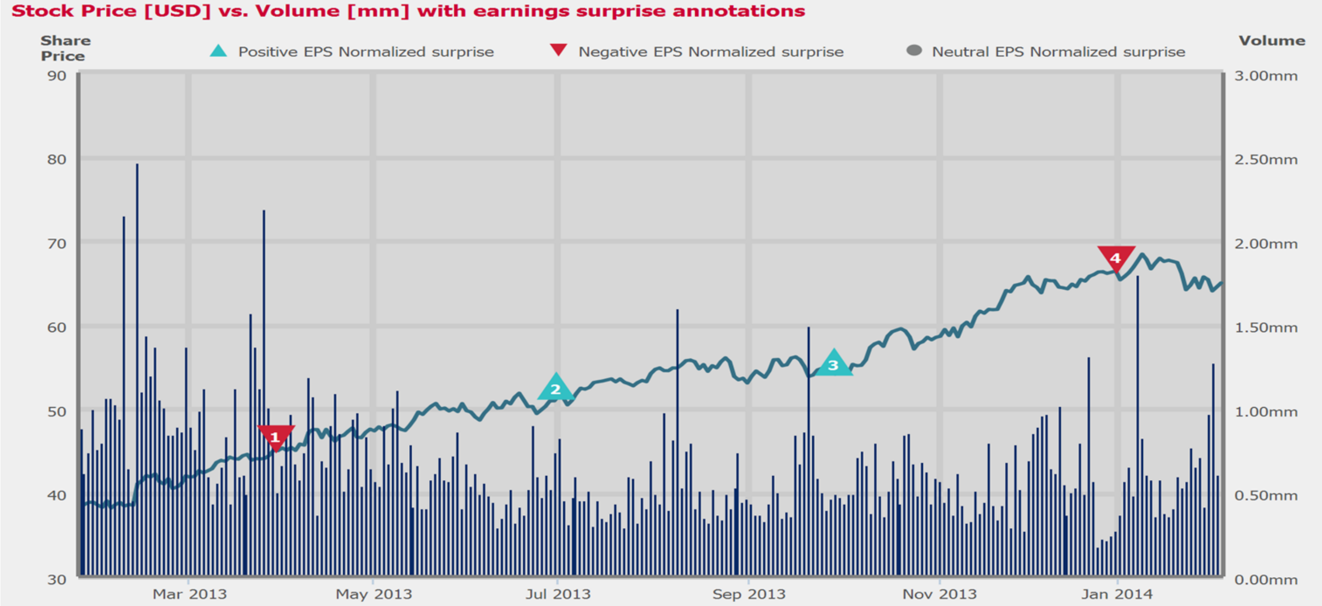
FQ1 2014 Earnings Call Transcripts

Thursday, April 24, 2014 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.55	1.68	▲8.39	1.56	6.27	6.54
Revenue (mm)	2390.29	2448.37	▲2.43	2374.17	9473.07	9601.23

Currency: USD
Consensus as of Apr-24-2014 9:13 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2013	1.54	1.35	▼(12.34 %)
FQ2 2013	1.43	1.53	▲6.99 %
FQ3 2013	1.49	1.71	▲14.77 %
FQ4 2013	1.43	1.42	▼(0.70 %)

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Call Participants

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Executive VP & Chief Risk Officer

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Robert B. Pollock
Former Chief Executive Officer and Executive Director

ANALYSTS

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Presentation

Operator

Welcome to Assurant's First Quarter 2014 Earnings Conference Call and Webcast. [Operator Instructions]

It is now my pleasure to turn the floor over to Francesca Luthi, Senior Vice President, Investor Relations. You may begin.

Francesca Luthi
Executive VP and Chief Communication & Marketing Officer

Thank you, Leo, and good morning, everyone. We look forward to discussing our first quarter 2014 results with you today.

Joining me for Assurant's conference call are: Rob Pollock, our President and Chief Executive Officer; Mike Peninger, our Chief Financial Officer; and Chris Pagano, our Chief Investment Officer and Treasurer.

Yesterday afternoon, we issued a news release announcing our first quarter 2014 results. Both the release and corresponding financial supplement are available at assurant.com.

We'll start today's call with brief remarks from Rob and Mike, with Chris joining the Q&A session.

Some of the statements we make on today's call may be forward-looking, and actual results may differ materially from those projected in these statements. Additional information on factors that could cause actual results to differ materially from those projected can be found in yesterday's news release, as well as in our SEC reports, including our 2013 Form 10-K.

Today's call will also contain non-GAAP financial measures, which we believe are meaningful in evaluating the company's performance. For more details on these measures, the most comparable GAAP measures, and a reconciliation of the 2, please refer to the news release and financial supplement posted on assurant.com.

Now I'll turn the call over to Rob.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Thanks, Francesca, and good morning, everyone. Our first quarter results were strong and consistent with the strategic objectives affirmed at our recent Investor Day. During the quarter, we accelerated actions to adapt our business and strengthen our competitive advantage to grow earnings long term.

Let me update you on our key performance metrics for the quarter. Annualized operating return on equity, excluding AOCI, was 11.2%. Book value per diluted share, excluding AOCI, increased 2.6% since year end. And revenue, defined as net earned premiums and fees, grew by 14.7% year-over-year, as each of our business segments expanded in areas targeted for long-term profitable growth.

Our balance sheet remains strong. We ended the quarter with approximately $540 million of capital at the holding company, including our $250 million risk buffer. This gives us flexibility to make investments in our businesses, pursue select acquisitions to support our strategy, and return capital to shareholders.

Now I'll provide updates for each of our business segments. Assurant Solutions' first quarter results were better than anticipated. The significant year-over-year increase in net operating income reflects strong results in mobile and expense savings from prior restructuring actions. Our integrated mobile solutions are gaining traction with clients and consumers. Since year end, we expanded the number of covered devices we support in the U.S. by more than 20%, and helped our clients implement successful marketing programs.

In Europe, the integration of Lifestyle Services Group, or LSG, is progressing on-schedule. We are generating the expense savings we anticipated, while at the same time building our mobile platform. Last

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month, LSG renewed a 5-year agreement with their largest client, further cementing their leadership position in the U.K. mobile protection market.

In Latin America, our investment in Iké is providing new opportunities to grow our business. As an example, we've had early successes in Mexico, selling our credit products to an Iké client. We're excited about the opportunities as we expand the range of products and services we provide across the region.

Overall, while quarterly results may vary, we expect solutions to deliver significant full year earnings improvement compared to 2013. Growth for mobile, along with continued expense control, will be the key drivers.

I'll now move to Assurant's Specialty Property, where we continue to take actions to generate long-term profitable growth, as placement rates normalize in our lender-placed insurance business. In particular, we're focusing resources on multifamily housing and opportunities within the mortgage value chain, where we can leverage our strong service capabilities and client relationships.

In our multifamily housing business, we now serve more than 1 million policyholders, up 15% from last year. As many consumers continue to choose renting over home ownership, we're broadening our national footprint with both existing and new property managers.

In property preservation, we integrated Field Asset Services into our existing business. We expect this acquisition to deliver about $80 million of fee income this year as we expand through existing clients and new prospects.

Last week, we announced the acquisition of StreetLinks, a leading provider of appraisal management and valuation services. StreetLinks' robust technology platform and large vendor network are recognized by mortgage companies for their value-added services. We are confident that the addition of our collateral risk expertise and extensive client relationships will allow us to gain share as this market consolidates.

StreetLinks and Field Asset Services further diversify our revenue stream into fee income businesses that are less capital intensive than lender-placed insurance. They also position us more broadly within the mortgage value chain and will help sustain attractive returns at Specialty Property.

Let's now turn to Assurant Health. The Affordable Care Act's open enrollment period that ended March 31 prompted significant sales activity in the quarter. First quarter sales totaled $410 million, exceeding the fourth quarter's record by $90 million. We believe this performance demonstrates that our suite of products, extensive provider network and broad distribution channels remain key differentiators for consumers. The demographic mix of the business sold, including the age distribution, was in line with our pricing assumptions.

As expected, lapses increased as consumers used open enrollment to review their health plan choices. With open enrollment now closed, sales activity will moderate during the next 2 quarters, driven by life events such as marriage, or the loss of employer coverage.

We also expect persistency to improve. In advance of the next enrollment period that begins in November, we're considering participation on a select number of public exchanges and will make final decisions during the next few months.

We've adapted our business to the changing market. As we grow revenues and maintain strict expense discipline, we continue to believe more attractive returns will start to emerge next year.

At Assurant Employee Benefits, we continue to focus on our voluntary business. Sales and net earned premiums in voluntary grew by 40% and 11%, respectively, compared to the first quarter of last year. This growth more than offset the declines in traditional employer paid group insurance.

Our strategic focus on key brokers continues to drive an increasing percentage of our sales. In addition, Employee Benefits is preparing to participate on several private exchanges. While we do not expect these exchanges to be a material source of near-term sales, they will further expand our distribution and provide important insights as the benefits landscape evolves.

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Overall, we're pleased with the progress on all fronts during the quarter.

Now I'll turn to Mike for more detailed comments on our first quarter results and outlook for the full year.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Thanks, Rob. I'll begin with Solutions. Net operating income for the quarter totaled $49.5 million, up $14.6 million from the same period last year. Results benefited from continued growth in covered mobile devices, prior expense reduction efforts and about $1.4 million of additional after-tax income from real estate joint venture partnerships.

In addition, short-term client marketing programs implemented in the quarter accounted for about $4 million of the increase. These programs demonstrate our ability to partner with clients to provide innovative offerings for consumers and generate new profit streams outside of traditional mobile insurance.

Mobile loss experience was very favorable this quarter and benefited from underwriting changes we implemented with a client late last year. Experience on our mobile inventory support programs continue to be in line with our expectations, but it is still early. As new mobile devices are introduced in the marketplace, we anticipate greater volumes of upgrades and trade-ins, which may cause variability in our results.

Solutions' net earned premiums increased by 9%, and fees by 79% compared with last year, due to the market success of our mobile protection programs and contributions from LSG.

We also saw modest growth in Latin America despite foreign exchange volatility. Our international combined ratio for the quarter was 101.7%, a 60 basis point improvement from the first quarter of last year. Excluding disclosed items, the combined ratio improved 160 basis points versus the fourth quarter, as we start to realize benefits from the LSG acquisition and the European restructuring actions we announced last December.

Solutions is on track to deliver significant earnings growth in 2014, but we also believe the dynamics of the mobile market will create greater variability in our quarterly results. We expect carriers to introduce innovative programs more frequently and accelerate the pace of marketing efforts to attract new subscribers. New phone introductions may also cause fluctuations in loss experience above and beyond the normal seasonal variability.

We expect to deliver $50 million of net operating income in the fourth quarter, as we realize our targeted expense savings from the European restructuring and expand our mobile franchise. Looking beyond 2014, we continue to believe that an average annual earnings growth rate for Solutions of 10% is reasonable, as contributions from targeted growth areas and acquisitions offset declines in nongrowth areas during the next 3 years.

Specialty Property continues to generate solid results, with net operating income up slightly year-over-year. After adjusting for disclosed items however, first quarter income declined by $15 million versus 2013, as growth in lender-placed and other targeted areas was offset by higher loss ratios. The loss ratio increased by 700 basis points year-over-year, despite lower reportable catastrophe losses. This was driven by the harsh winter weather in a large part of the country, as well as lower premium rates from the implementation of our new lender-placed product.

Excluding disclosed items, our first quarter expense ratio increased by 80 basis points versus 2013. This was due to growth in fee-based businesses, which have higher expense ratios, as well as additional service costs in our lender-placed insurance business.

Net earned premiums and fees increased by nearly 20% versus 2013, driven by continued growth in lender-placed insurance and multifamily housing. Lender-placed premiums benefited from the previously disclosed discontinuation of a quota share arrangement and loan portfolio additions in 2013.

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Consistent with prior years, gross written premiums decreased in the first quarter. As a reminder, seasonality and timing of loan portfolio transfers can cause quarterly fluctuations, particularly when loans are flat canceled. Gross earned premiums, which grew by 4%, are a more meaningful measure of performance.

Looking at our lender-placed growth drivers, we on-boarded 300,000 new loans in the quarter with placement at renewal, bringing our total loans tracked to 35 million. The placement rate at the end of the quarter declined on both a sequential and year-over-year basis, to 2.74%.

We noted on our fourth quarter earnings call that we were in discussions with a client regarding a possible transfer of loans to another carrier. Those discussions continue, and we'll provide more information when it becomes available.

For 2014, we now expect Specialty Property's revenues to be approximately level with 2013. Continued growth in targeted areas, including fee income from our StreetLinks acquisition, will offset declines in lender-placed insurance.

At Assurant Health, the first quarter net operating loss reflected the continued impact of health care reform. We increased our estimate of compensation expenses that are nondeductible under the Affordable Care Act, resulting in a $5.7 million addition to our income tax expense in the quarter. Pretax profits, which we believe are a better gauge of Health's underlying performance, totaled $7.6 million in the quarter, compared with $14.5 million last year. The decline was due to higher loss experience and higher first year commission expenses.

Starting this year, insurance companies are required to pay a nondeductible annual health insurer fee to fund the public exchanges. The fee increased our reported expenses by $4.7 million in the quarter. Excluding commissions and the insurer fee, expenses continue to decline, illustrating Health's ongoing discipline.

Our loss ratio was 73.5%, level with the fourth quarter, but up 90 basis points from the first quarter of 2013. The loss ratio reflects very early claim submissions under ACA policies, partially offset by an estimated contribution from the risk mitigation programs that went into effect this year. Based on our current assumptions, we expect program benefits to increase during the year, but our estimates may change materially as experience develops.

We are encouraged by continued sales momentum and strong revenue growth at Health. While higher commissions on these new sales and the revised tax estimate will lead to a modest operating loss in 2014, we continue to expect improved profitability next year as we benefit from increased scale and ongoing expense discipline.

At Employee Benefits, net operating income increased from $6.1 million in the first quarter of 2013 to $13.9 million, driven by favorable dental and life experience. Disability results were in line with expectations. They benefited from a 50 basis point increase in the discount rate on new long-term disability claim reserves which added nearly $1 million to operating income. Results also included an additional $1.7 million of after-tax income from real estate partnerships.

Employee benefits like Health is required to contribute to our nondeductible ACA insurer fee. This fee added $1.4 million to first quarter expenses. Employee Benefits remains focused on reducing expenses. First quarter results include a small severance charge to streamline operations. We expect additional expense management actions throughout the year, as we work to reduce our expense ratio for the long term.

Turning to Corporate matters, we retired our 2014 notes in February. This reduced our debt-to-capital ratio to about 21%, and will reduce after-tax interest expense for the full year by approximately $12 million versus 2013.

As we said at Investor Day, we expect to continue investing in profitable growth opportunities and return capital to shareholders. In the first quarter, buybacks and common stock dividends totaled $39

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million. This level of activity reflected the seasonality of our cash flows and the anticipated acquisition of StreetLinks, which closed in April.

In the second quarter through April 18, we bought an additional $12 million worth of stock and remained committed to returning excess capital to shareholders over time. For the full year, we expect net operating company dividends to be roughly equal to segment earnings. As in prior years, dividends will be weighted toward the second half of the year.

The first quarter Corporate segment operating loss was $21 million versus $13 million last year. Expenses accounted for about $1 million of the change. The rest was driven by the effective tax rate, which can vary substantially in the Corporate segment from quarter-to-quarter. For the full year, we expect the Corporate loss to be roughly $70 million, as we benefit from lower benefit plan costs and other operating efficiencies. We're pleased with our start to 2014, and look forward to updating you as the year progresses. And with that, we'll ask the operator to open the call for questions.

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Question and Answer

Operator

[Operator Instructions] Our first question is coming from Mark Finkelstein, Evercore.

A. Mark Finkelstein
Evercore ISI, Research Division

Firstly just back to Solutions. Just the $49 million plus of earnings this quarter, I think you framed it out as $1.4 million related to real estate JVs, an additional $4 million related to some of these programs, but then you suggested mobile loss experience was very favorable. How favorable was this relative to your expectations in trying to think about kind of ongoing earnings in that segment?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, go ahead Rob.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, I was going to say, we have directed a lot of resource toward the mobile business and talked about there are lots of different places we make money within the business. One of them is certainly, you know on-the-hand protection insurance. But I'd also say there are other sources of profit there, so I would not focus in that the handheld insurance is the majority of where we make the earnings necessarily, Mark. So it's good and we're pleased with that loss experience which will vary but the other sources are big contributors as well. Mike?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I think that we just generally see seasonality -- seasonal fluctuations in the mobile loss experience, Mark, and it can be a variety of things. For example, new phones, new handsets introduced into the marketplace, sometimes in their early durations have worse experience than as the manufacturing process matures and things like that. So the things, just we've seen them bounce around a bit and we just wanted to note that they were really favorable in the first quarter.

A. Mark Finkelstein
Evercore ISI, Research Division

But above and beyond the 2 items you specifically talked about, there was favorable experience in the quarter that we should not kind of run rate. Is that a fair statement?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes. That's a fair statement.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. I guess just thinking about solutions earnings, no change to -- I mean, subtle change to the language, but still kept the 50 bogey at '14. I mean, given the strength in this quarter, is there any -- why not raise that a little?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

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Again, I think we're executing on our strategy within mobile. We've pointed out that the results were more favorable than we expected. We certainly, before we made -- were to make a change, we'd want to see several quarters of that, Mark.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes. And I think there's also -- we've got FX volatility that we sort of flagged, that could -- may continue, and we've also got run-off of some of the existing Solutions businesses. For example, some terminated service contract clients that's going to go down. Credit insurance, we've talked about before, domestic credit being sort of a run-off business. And then you've got going the other way, you've got some growing impact of expense saves from the actions that we've taken there. So you've got a lot of things going on. We put them all together and say, $50 million in the fourth quarter still seems like a reasonable place.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

And I think we've also pointed out, we think we can grow earnings at a 10% clip for the next several years.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. And then just thinking about subsidiary dividends being back-end weighted, I mean you're actually a net contributor to the subs this quarter. How do we -- I guess, how do we think about capital generation, vis-à-vis M&A versus buybacks for the remainder of the year? How does the pipeline in M&A look?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. So again, I think our first quarter pattern is consistent with where we always are. We don't take a lot of dividends out of the business early in the year. I think we've pointed out, we think we can get the segment earnings out as dividends over the course of the year, we'll do that. And I think that we're also in the process of -- we've got some organic growth. We want to make sure, as we meet with the rating agencies, we've got things properly funded to maintain our ratings with A.M. Best. And I'll let Chris just talk a little bit about the M&A pipeline and some other things.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes. Maybe just one other comment around segment operating earnings versus dividends. So round numbers, segment operating earnings this quarter were $150 million. We took about $25 million worth of dividends out of the operating companies. Did actually infuse back into about $35 million, roughly, about $25 million of which went into Health to support the organic growth that they are seeing there. But you can think about still having some operating earnings at the segments that are available for dividends later in the year. And as Rob pointed out, again, if you think about our -- what we did in the way of deploying capital this quarter, the net -- the cash flow needs of the holding company were an influence, but again, look for that to normalize during the rest of the year. Now the other question is, segment dividends are a function of operating earnings, which is also a function of cat season, so that will also play into our decision-making around deployment. Now, on the M&A side, we think about -- I think broadly about deploying capital, and that includes organic growth, growth via M&A. And then of course, returning capital to shareholders, which we still think is share repurchases, the best use of any capital we want to go back. And that again will be -- when I think about the last several years, in particular 2010 to 2012, share repurchase was really the only alternative. Last year, we saw profitable growth opportunities that provided a comparable risk return profile to repurchase. And you saw that in our activity. Now we did also return significant capital to shareholders and deployed $350 million in M&A. So I think this year, we'll look, on a mixed basis, more like last year than certainly 2010 to 2012, but the order of magnitude of the deployment will be a function of earnings and our ability to get that earnings up to the holding company in the form of dividends.

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A. Mark Finkelstein
Evercore ISI, Research Division

And just one last quick one, should we be thinking about buybacks as more back-end weighted than historically?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Well, I think the deployment of capital will be consistent with the generation of operating company dividends. So to the extent that, that is back-end weighted, you could make that link, however, our goal is to be in the market consistently. If possible, also through cat season. But we're going to be conservative about how we do that and also a function of what the go forward M&A pipeline looks like. So matching up with the ins and outs, and then also the mix related to what we see in the way of both M&A growth and organic growth.

Operator

Our next question is coming from Chris Giovanni of Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

A few on Property and then one on M&A as well. I guess, first on Property, the change in the top line outlook from sort of a slight decrease to flat, is that purely driven by the StreetLinks acquisition? Or is there some change as well in the underlying kind of in-force business there?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

No, you've picked up on it, it's the StreetLinks acquisition, and other areas we've targeted for growth.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then specific to New York. So last year's settlement requires you to price for kind of that 7 -- or, sorry, 62% loss ratio and then refile, I guess, every 3 years unless a specific year's loss ratio falls below 40%. And I guess given the weather we saw in the region this quarter, curious if that really eliminates the risk of needing to refile in 2015 and kind of keeps you on that 3-year path?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, I haven't looked at our experience by state. I'm sure that some of the weather-related claims relate to the Northeast. So -- but we have a filing in with the department and we're in regular dialogues with them as we are with many other insurance departments.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then lastly, just on M&A, you've really been focused, as you talked about, in 2 areas: The mobile space and then within the mortgage value chain. So I wanted to see if you could give some perspective around where -- you maybe underappreciated the opportunities there or some of the synergies you see in those 2 areas. And then also maybe on the other side, maybe where things are moving a bit slower than you would have liked.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Okay, sure. So on the acquisition side, I think we're very pleased with the progress we've made on all the different deals. LSG was kind of a transformational deal for Europe, and it also really fit in to playing in the mobile space, which we like a lot. So we got both a chance to resize our platform in Europe and

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get expense saves, as well as invest in mobile, which we like a lot. Mike, you want to comment a little on some of the things in the mortgage value chain?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, we like the opportunity. Obviously, we really like Field Asset Services. We essentially completed the integration of that. Early indications are right on track there. StreetLinks, we're very excited about. We've got a strong platform there. It went through our M&A process, which Chris has talked about before. We feel like we paid a fair price for it. We think we got -- I mean, all of our acquisitions, another important component is the quality of the management teams we're seeing, and that's really -- we've really been happy with that. So we feel really good about -- the pipeline and I think that we still see opportunities out there. Chris, I don't know if you want to amplify it.

Christopher J. Pagano
Executive VP & Chief Risk Officer

No. I guess the only other point I'd make is the key and the importance of integration and execution and the focus by the individual segments and the teams within those segments around maximizing of the synergies that were valued in the deal. Each of these deals in our process has a series of assumptions that the segments own. And obviously, their goal is to outperform or do better than the assumption that we made, which is what's going to allow us to deliver value on the M&A activity.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Right. And then last, the Iké acquisition, we're pleased with that. That's a little bit different acquisition because we've taken a position in the company and it will report through on an equity method there, but we're quite excited about opportunities we're seeing there to expand across the region.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay, great. And if I could just sneak one last in -- one last one in on Health. You obviously shown a ton of sales momentum and scale, certainly important there in terms of trying to reduce the tax burden, but wondering if you could give us some thoughts on how we should be thinking about how long this type of quarterly volatility could last and if there's anything you guys could potentially look to do to help smooth some of the bottom-line results?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. So, again, I think a good place to start on the Health side is when the Affordable Care Act was passed and we evaluated what is the best course of action for shareholders. We embarked on a strategy built on those pillars of affordability and choice. We're quite pleased with the results that we're delivering in that arena, combined with the great reduction in expenses we've been able to achieve as we've taken money out of the -- out of our expense structure to be more competitive. The taxes are a bit of a complicated issue. As Mike mentioned, we're very focused on the pretax side of things. And we know that if we can continue to grow pretax income, the tax volatility will reduce.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I think that's right. And I do think though, Chris, the other reality is that the impact of the risk mitigation programs is very new. And we and all companies in the business are working with a world now that's quite a bit different than there was in the past. And we're making estimates, and in some cases, based on very limited experience, and that will play out over the course of the year. So you can't sort of avoid that. But I really think, as Rob said, when we look at this, we've got the focus on the pretax results. We've got the sales momentum. We think that our agents' distribution channel has resonated, consumers still want their

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agents. We still like long-term value -- the long-term potential of the market. But this sort of transition period is going to create a certain amount of volatility, I think almost regardless of what we do.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Exactly, and that's why when we set up the strategy, we said, 18 to 24 months after full implementation of the ACA, we're going to have a good line of sight on things. And we're getting closer to that.

Operator

Our next question comes from John Nadel of Sterne Agee.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

A couple of questions for you in Solutions, and then maybe one, if we could sort of reconcile the holding company's sort of available capital. But if I start -- if I look at Solutions, if I look at the balance sheet, your equity in Solutions increased pretty significantly versus year end. I think it's up about $170 million. That's clearly more than the $49 million or $50 million of operating income in the quarter. I just was wondering if you could help us understand what drove that. And then also if you think about your $50 million of earnings targeted for 4Q, that was anticipated to get you sort of around that 14% ROE. If equity doesn't come out of this business, it looks more like 12%. So can you sort of help us there?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Mike, you want to take the...

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes. Well, there's actually lots of adjustments in Solutions. You got earnings -- the earnings you pointed out to. We also paid the contingent payment to LSG when that was completed. And then it just takes a certain amount of time in our process to get -- we have several shared entities and we get the allocations sort of to each of the businesses calibrated, that just introduces a certain amount of noise until you see some of that corporate sort of true-up action that went on and added to the equity this quarter. So, yes. When you look at the $50 million in the fourth quarter, I think about that as if you look at our acquisitions, John, we have evaluated the acquisitions on a cash basis. We feel very good about how they will report through. But we've also pointed out that on GAAP, because of the amortization of intangibles, we're not to going to see that GAAP profits right away, so that's what's causing a bit of that differential between the GAAP ROE and how we've evaluated the deal for the acquisition, which has been on a cash basis.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay. So I guess if -- I don't want to put words in your mouth, but should we expect that, that $50 million of earnings by 4Q is not going to quite get us to the 14% ROE then?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, yes, we set up earnings as the metric for creation of long-term value, okay? And I think if you go to what -- and I'll let Chris comment, but I think he tried to explain how the deals are evaluated, when we look at them at Investor Day, Chris?

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Yes, no, I understood that. I get the cash IRR versus GAAP ROE emergence. I'm just trying to understand if we should expect the equity in this segment to come back down a little bit.

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Robert B. Pollock
Former Chief Executive Officer and Executive Director

So think about the amortization of those intangibles. And as they amortize, the equity will come down, okay?

Christopher J. Pagano
Executive VP & Chief Risk Officer

And we certainly, as we have always done, John, we are always looking to fine tune the legal entity structure. And if there are opportunities, we're certainly not saying we'll never be able to get any equity out or anything, we keep working that issue.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay. And then if I look at -- looking at StreetLinks, and Novation reports a segment or has historically reported a segment that looks like it's entirely the StreetLinks' business and it produced about $7 million of pretax income in '13, and about $9 million of EBITDA, but the revenues did decline 20% in 2013 year-over-year. So I'm just wondering, as you price this deal and you look at the next few years, what kind of trends are you expecting from that business? And can we think about that $7 million of pretax income as comparable to what you're expecting the business to contribute as part of Assurant?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Chris, you want to comment there?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Sure, let me just make a couple of comments. I think our view and the way we value the deal was that the market was going to trend lower in '14, but then bottom. I think we're not -- the investment thesis is not about growth in market, but growth in market share, where we expand our product offerings across the value chain. We also feel like we can leverage that platform and some of the other platforms and generate operating efficiencies. So really market share gain, combined with improving operating margins, is really where we think that this deal is going to add value.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay. And is that $7 million, is there any reason why your GAAP financials, would treat any of their numbers any differently than they did?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well you'll have intangibles on this one, too, John, we'll start to amortize.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay, all right, that's helpful. And then if I could just -- one more on Solutions. You've got this big unearned premium on the balance sheet. I think, my sense is that the pace at which you would earn that premium is probably accelerating, given most of the growth in that unearned premium balance has probably been coming from mobile. But can you give us a sense for maybe how the pace of earning that premium may be shifting?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

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Yes. So if you think about the components of the unearned premium, John, most of it actually comes from extended service contracts and vehicle service contracts. Extended service contracts typically will start earning after the manufacturer's warranty expires, which can be anywhere from 1 to 2 years. On vehicle service contracts, particularly new ones, that's a little more extended and can be in that 3-year range. That mix of business will vary. So mobile, really not a lot of UPR coming from mobile because we tend to earn that monthly.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Okay, understood. And then just back to the holding company capital, I think if my numbers are right, you ended 2013 with about $440 million of capital, excluding the prefunded debt maturity and excluding your buffer?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

And that number looks like the $290 million at 1Q. So $150 million reduction, and I think Chris mentioned $125 million of dividends up during the quarter. So can you just sort of reconcile where all the cash went? I mean, I know the buybacks, I know the dividend. So what else was it spent on?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Sorry, John, let me -- so we're trying to solve for $150 million, is what we're doing. And if I misspoke earlier, it was $25 million.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

Got it. Okay, $25 million of dividends?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Maybe that's the miscommunication here. But this has -- again, in the first quarter, and this has historically been the pattern, is a typically heavy cash outflow quarter for the operating company. And this quarter was no exception. We paid an interest payment, which included the last payment of our February '14's, which is about $40 million. We had Corporate cash outlays of about $60 million. We then deployed in dividends and share repurchase roughly $40 million. And then the $10 million -- in general, the $10 million of net infusions into the operating companies was a $25 million coming up from operating companies, and then $35 million going back down, $25 million of which was into the Health segment to fund what has been a significant growth in that -- in the premiums.

John Matthew Nadel
Sterne Agee & Leach Inc., Research Division

And Chris, just real quick. The $60 million of other Corporate outlays, as you mentioned, is that StreetLinks? Or do we think about StreetLinks as coming out of this -- out of the $290 million in 2Q?

Christopher J. Pagano
Executive VP & Chief Risk Officer

No, the StreetLinks -- again, back to some of my comments earlier, we were aware that the StreetLinks acquisition was pending. It did move out into Q2 so was not part of the calculation. The $60 million of Corporate is really around some compensation expenses, some tax cash outflows, which is the

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difference between cash and accrual that tends to come back over the course of the year. So again, it's not something that I would suggest run rating by any means, because again, this is just the seasonality of the operating company cash flow needs.

Operator

Our next question comes from Seth Weiss of Bank of America.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Bob, you're talking about the complexity of the health taxes. I think the fixed tax, the ongoing fixed tax liability from ACA has gone up from what your expectations were going into the year more than just that $5.7 million increase in the liability that hit this quarter. Can you just help us, for modeling purposes, think about what that fixed tax liability is in Health that's impacting the overall tax rate?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, it's about $20 million plus the $6 million or so true up that I mentioned this -- in the first quarter. So $25 million, $26 million for the year is sort of that nut that we're talking about.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay. And that $20 million seems to have gone up from last year, which I think was about $15 million. Just in terms of thinking about the visibility of that, I know it's a difficult question, but this is -- seems to be the #1 thing that's impacting the after-tax returns. And what's your confidence on the long-term 15% to 20% ROE target in Health, given that uncertainty on tax? Do you think that this tax burden sort of flattens out at this point?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

We do. Again, we think that the pretax is the better measure. We think that we're going to see an improvement in earnings next year on a pretax basis, and that we'll build toward those attractive returns we've talked about.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

And we're -- I think, each year, you learn a bit more. The methodology for estimating gets better. And so we think we've got a reasonable estimate out there now, Seth. Things can change as we do M&A or something like that. But I think we're getting now able to calibrate the impact of this.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay, great. And if I could follow up one on Solutions, in terms of the -- maybe a little bit more color on the fee income and the client marketing programs that caused that spike and that $4 million number that you highlighted in your prepared remarks. Just to clarify, that $4 million, is that above and beyond what you would normally expect? Or is that a total contribution? And maybe how do we think about these marketing programs going forward, which I assume are lumpy, but I would think would be somewhat ongoing in nature?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Well, I think you start with that mobile market, very dynamic, lot's going on. And you can see the competition for subscribers that's going on amongst different carriers. You've got phone -- phone producers producing new phones. I think that the key in all that, Seth, is it's just creating a very dynamic

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marketplace. We don't really have a tremendous amount of experience and I think, on exactly how these programs are going to work out, and we just want all investors to be aware that these aren't going to be smooth. They're going to come and they will be a little bit lumpy and we'll learn more as we move forward and see new devices introduced and see additional programs offered to consumers. What we feel good about is we have been able to support our partners as these programs have rolled out and they've been successful.

Operator

Our next question comes from Sean Dargan of Macquarie.

Sean Robert Dargan
Macquarie Research

Just going back to StreetLinks. Maybe, would it make sense to frame it in terms of EBITDA what that business earned last year?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. I think it -- I'm guessing it made close to $10 million, $9.5 million last year.

Sean Robert Dargan
Macquarie Research

Okay, and just looking at...

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sorry, I was just going to add, now, important what Mike pointed out or Chris, is that number has been coming down over time as this market has been bottoming out.

Sean Robert Dargan
Macquarie Research

Yes, I was going to say, I mean the MBA mortgage origination forecast is down 37% year-over-year this year. So you would have to make up significant market share to, I guess, earn that same level of EBITDA this year. No?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Correct, and I think that's one -- remember we're taking things we think we're quite good at, and we think we can leverage. And we think there's going to be consolidation in the industry, and we think, if you think about who the clients are for these services, they're people we're dealing with on a regular basis for other things, and we think we're going to be able to leverage that successfully.

Sean Robert Dargan
Macquarie Research

Okay. And given the guidance of flat revenues in Specialty Property, that doesn't assume the loss of a portfolio. Have you sized what that portfolio would mean in terms of earned premiums?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, we look at a lot of factors in providing our outlook, Sean, and we've got all the normal drivers and we make assumptions for portfolio activity, but these discussions are still ongoing so we really aren't in a position to size that now. As more information becomes available, we'll certainty provide it.

Robert B. Pollock

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Former Chief Executive Officer and Executive Director

I would say, again, looking at placement rate, that's going to be the biggest driver of our revenues. And if you go back and look at our Investor Day, I think Gene tried to lay out what the path would look like for the normalization of those placement rates.

Sean Robert Dargan
Macquarie Research

Okay. And just one on Solutions. I guess, is the bulk [ph] case around mobile that the carriers are not subsidizing phones to the degree which they traditionally have, and therefore, your subscribers would hold on to their handsets for a longer period of time and be more inclined to purchase the insurance?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

To me, the bulk [ph] case is more connected, everybody, right? More dependence on devices for that whole interconnected world. So I think that there's just going to be a lot of dynamism in this market and we feel very good that we can bring more solutions than just insurance to our partners.

Operator

Our next question comes from Steven Schwartz of Raymond James.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Just on StreetLinks, and following up on John's question, the StreetLinks had total assets of about $13 million at year end. I mean, are we -- is the way to think about this is that the difference between the price you're paying, $60 million, and $13 million, that's going to be amortized over time into earnings?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Not all of it, because you'll have a portion that's intangibles, which get amortized over time and then a portion is goodwill, which doesn't get amortized.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. So you're going to have goodwill. And then just for -- I don't know if Adam was there or not, I don't remember if you said so, but as we move -- well 2 questions I guess. One is lapsation was obviously very, very high associated with the very, very high sales and ObamaCare and what have you, membership increased -- actually didn't increase a whole bunch. How should we think about membership increasing in the first quarter or when you report next time?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes. Well, there's several things going on. Lapse activity was up in the first quarter. Now that we're past open enrollment, I'd make a couple of points. One, is some of our sales haven't sort of been processed through and added into our in-force total, so we'd expect to see some of that coming through in the second quarter. Could also have some amount of lapse activity that would go the other way, too. But that sales growth is going through there. And now that open enrollment is out, the activity is really going to slow down. We're going to get sales -- we expect to get sales, but they will be driven around life events. Lapse activity would sort of stabilize. So I think you should see less sort of volatility going forward.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, I think that what's changed is the paradigm of when people buy used to be kind of uniform over the course of the year, it's now going to be heavily weighted towards the open enrollment periods. When we

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think about when people lapse, remember, our #1 source of lapse is people going back to work, okay? That was in the old model. In the new model, it's been changed to being around when they buy, during the open enrollment periods.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

I have a couple more, if I could. I understand that the risk mitigation, I think, benefited your -- that the risk modification adjustment, the assumption, has benefited your earnings in the quarter, which seem to me to imply that you think your book of business is somewhat more risky than the market? Why would that be?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, I think a little different. Remember, the basis of a lot of the risk mitigation is everyone pays in to deal with the people who are going to be buying individual health insurances. Not just the individual health players, but everybody is making a contribution there. So since we're only in the individual health market, we're going to be a recipient of some of those dollars through these programs, okay? So I don't think it's a matter -- I think the pool of all of individual health is it's recognized because of the rules that have been put in place, going to be different and a little riskier, yes. No underwriting, all the add benefits, all these things, and they've asked everybody to make a contribution to that, all the health insurers.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. So it's not riskier than other individual health insurers, it's that individual health insurance is going to be riskier than group?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Correct.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I also think, there's -- you talked about the 3 Rs, the risk mitigation, one of them doesn't apply to us, the risk quarters, because we haven't been selling on the exchanges. So when you think about the reinsurance program, that's really your estimating -- that has nothing to do with the riskiness of your block, that's really just estimating how many of your claims are likely to be -- reach the reinsurance threshold. And that's the larger impact for us compared to the risk adjuster that you're sort of talking about, Steven. And for both of these programs, they're new and there's a lot of assumptions. And experience is really early, as I said in my prepared remarks, we're just going to see this play out and we'll be able to give you a much better feel for this stuff as the year goes on.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay. And then just one more on Health. Clearly, sales will decline now that the enrollment period is over. Life events will come into play, obviously, but there's also the potential to continue to sell the excess health plans that you have, and that you've talked about for years in preparation for the ACA, what's the outlook there?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, again, we believe that there is a great need for the other type of products around affordability. We're optimistic because we saw them pick up a little in the first quarter, and we've sold a lot of supplemental products along with our major medical. So we're going to see that play out. Just like Mike said on the

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risk mitigation, hey, let's get a couple of quarters and we'll be able to provide some actual information as opposed to what we've assumed.

Operator

Our next and final question comes from Mark Hughes of SunTrust.

Mark Douglas Hughes
SunTrust Robinson Humphrey, Inc., Research Division

The impact on the loss ratio at Specialty Property, you said weather -- also the change in the plan design, a little lower premium. Did you make a stab at how much was weather? I know you gave us the catastrophe number.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, weather was definitely the primary driver, Mark. This -- a lot of the winter frozen pipes, those kind of things that went along with all the really cold weather across a lot of the country.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Thanks for joining us this morning. We look forward to updating you on key milestones in the months ahead. Please reach out to Francesca and Suzanne with any additional questions.

Operator
Thank you. This does conclude today's teleconference. Please disconnect your lines at this time, and have a wonderful day.

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