The Hartford Financial Services Group, Inc. NYSE:HIG

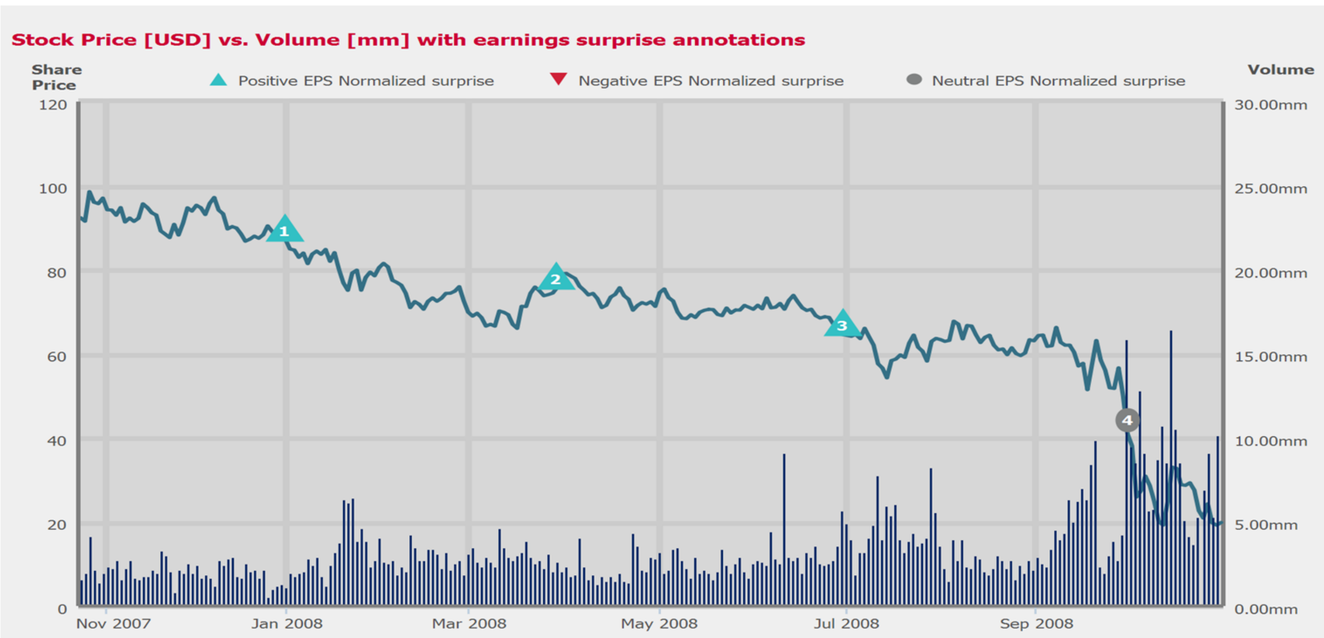
FQ4 2008 Earnings Call Transcripts

Friday, February 06, 2009 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2008-			-FQ1 2009-	-FY 2008-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.30	(0.72)	NM	1.42	4.55	2.74
Revenue	-	-	-	-	-	-
Revenue (mm)	6921.27	-	-	6332.00	14439.64	9219.00

Currency: USD
Consensus as of Feb-06-2009 1:44 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2007	2.49	2.66	6.83 %
FQ1 2008	2.46	2.51	2.03 %
FQ2 2008	2.10	2.22	5.71 %
FQ3 2008	(1.45)	(1.40)	NM

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Call Participants

EXECUTIVES

Gregory McGreevey

Lizabeth H. Zlatkus

Neal S. Wolin

Ramani Ayer

Rick Costello

Thomas Michael Marra
Executive Chairman of the Board

ANALYSTS

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Randy Binner
Friedman, Billings, Ramsey & Co.

Tisha Jackson
Columbia Management

Tom Gallagher
Credit Suisse

Presentation

Operator

My name is Felicia and I will be your conference operator today. At this time I would like to welcome everyone to the Hartford fourth quarter 2008 earnings 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. Rick Costello, you may begin your conference.

Rick Costello

Thank you for joining us for today's fourth quarter 2008 financial results conference call. As you know, our earnings release and financial supplement were issued yesterday. To help you follow our discussion, a slide presentation is available on our website at www.TheHartford.com. Ramani Ayer, Chairman & CEO; Greg McGreevey, our Chief Investment Officer; and Liz Zlatkus, CFO will provide prepared remarks today. We will conclude with a question and answer session.

All participating on today's call are Tom Marra, President and COO; John Walters, President and COO of our Life Company; Neal Wolin, President and COO of the P&C Company 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 risk and uncertainties that may cause actual results to differ including those discussed in our press release issued yesterday, our quarterly report on Form 10Q for the quarter ended September 30, 2008 and other filings we make with the Securities & 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 financial measure is provided in the investor financial supplement for the fourth quarter of 2008, in the press release we issued yesterday and in the investor relations section of the Hartford's website at www.TheHartford.com.

Now, I would ask you to move to Slide Three as I turn the call over to the Hartford's Chairman and CEO Ramani Ayer.

Ramani Ayer

2008 was one of the toughest years in the Hartford's history. We all know that financial markets saw some of the worse declines since the Great Depression and the global slowdown affected virtually every sector of the economy. In this landscape the Hartford finished 2008 well capitalized on solid financial footing.

To achieve this position we undertook a number of important initiatives in the fourth quarter. Early in October we announced a $2.5 billion capital investment from Allianz, we reduced our annual dividend by 40% in October. Throughout the second half of '08 we enhanced our liquidity position and at the end of the year we had almost $14 billion held in cash, short term investments and treasuries.

We began a process to reduce risk in our investment portfolio which Greg McGreevey will address in detail. We initiated a review of our global variable annuity business and lastly, we implemented a corporate wide expense and efficiency program that will yield a reduction in our run rate expenses of at least $250 million by the end of the year.

Turning to the numbers on Slide Three, we're not happy with our fourth quarter or full year results. We recorded a net loss of $806 million or $2.71 a share in the fourth quarter. Contributing to the loss were realized losses of $610 million. Losses on our hedge program and impairments were the primary sources there. We also recorded a $597 million write off of goodwill associated with our annuity businesses.

Core earnings in the fourth quarter were a -$208 million or $0.72 per diluted share. In addition to the goodwill charge, core earnings were hurt by a $152 million charge related to our [three wind] variable annuity products in Japan, negative returns on alternative investments and lower yields on our fixed income portfolio.

As I mentioned earlier, we have intentionally enhanced our liquidity position. One effect of this action has been lower net investment income as we have increased our holdings of lower yielding assets. Our property and casualty operations performed exceptionally well in the fourth quarter as well as the full year. For the quarter our outstanding underwriting results received a boost from net favorable prior period developments.

Please turn to Slide Four. Fourth quarter P&C core earnings were $452 million, 9% above the prior year period. These strong results were driving by a remarkable 77.6 combined ratio. The quarter benefited from current and prior accident year net reserve releases totaling a $187 million after tax. On an ex cat current accident year basis, our ongoing operations combined ratio is 85.3. This is an excellent result and reflects favorable claim frequency and the underwriting discipline we're exercising.

Net investment income in property and casualty was down 62% in the quarter driven by a $167 million pre-tax loss from limited partnerships and alternative investments as well as lower yields on our fixed maturity portfolio. Total net written premiums were $2.5 billion, flat to the 2007 level. As markets remain competitive we continue to balance underwriting profitability with growth.

In personal lines we generated an impressive 79.5 combined ratio in the fourth quarter. This result reflects in part favorable current and prior accident year reserve releases on auto liability claims. On an accident year ex cat basis the combined ratio was 86.8. Although time line challenges persist AARP continues to grow with written premium improving 3% over the prior year quarter.

New business trends are positive as well with fourth quarter new business premium 9% above the prior year as a rollout of our new Dimension product gains traction. Small commercial delivered a phenomenal 75.4 combined ratio for the quarter bolstered in part by favorable current and prior accident year development largely related to workers' compensation. On an accident year basis the ex cat combined ratio was 76.8, the 12th consecutive quarter below 90. Written premium was down 4% for the quarter but pricing trended positive increasing 1%, four points better than prior year quarter and three points better than the third quarter.

Now, please turn to Slide Five for our life results. Our life businesses were heavily impacted by the quarter's market turbulence. Total assets under management ended the year at $298 billion a 20% decline from the end of 2007 primarily driven by the impact of equity market declines on account values. With AUM down, fee based revenues fell, negative returns in alternative investments, lower investment income and the write off of goodwill in our annuity businesses also contributed to a $261 million loss in core earnings.

Sales of our variable annuity products were challenged both in the US and Japan. Market volatility has slowed the pace of industry sales which we have seen both in lower sales and deposits as well as reduced surrender levels. Our mutual funds business slowed in the fourth quarter as you would expect but still generated over $2.5 billion of deposits. We believe that we continue to take market share in the fourth quarter.

Our protection businesses continued to perform quite well. Life insurance in force increased 9% over the past 12 months. Strong growth in term life fueled the year-over-year improvement with modest growth also recorded in variable and universal life. In group benefits we continue to generate positive results in a very competitive market. [Inaudible] insured premiums were up 4% over the fourth quarter of 2007. Strong sales and persistency in both group life and disability contributed to the steady premium growth.

As we pivot from our 2008 results, I'd like to share some of our thinking about 2009. Looking forward, uncertainty about the global economy and the capital markets has increased. In the absence of healthy and functioning credit markets, we are concerned that the recession both in the US and abroad may be deeper and longer than initially expected. In looking at the property and casualty market, we believe 2009 will remain competitive. We expect pricing declines in commercial lines to moderate in 2009.

Loss cost growth should remain controlled. The macroeconomic issues are likely to pressure the top line as our customers seek to shed expenses by reducing payrolls and coverage. We're already seeing some of this has new business formations have dropped and midterm cancellations have ticked up slightly. The Hartford's outlook for 2009 reflects all of these factors. We expect to see modest margin compression with a relatively flat top line.

Contributing to the margin compression will be the overhang of pricing pressures already in the market combined with a modest uptick in loss costs. The outlook for the life industry is heavily tied to the performance of the credit and equity markets. The capital markets are likely to see modest improvements but the timing is uncertain. Global sales of variable annuities and retail mutual funds could be pressured as consumer seek relatively safer investment vehicles for their retirement assets.

Sales and deposits in our equity linked businesses are expected to be challenged. This is reflected in our deposits as well as guidance for our Global VA business in particular. Our guidance also reflects lower ROAs and after tax margins due to lower net investment income and affects the following AUM levels.

Now, this morning Moodys took action on the Hartford's ratings. We're disappointed with their decision. The Hartford is well capitalized and in this environment we've already commenced a number of actions aimed at protecting our statutory capital and reducing risk. As we reported last night, we will propose to the Hartford board that we reduce our dividend to $0.05 per share to enhance our capital flexibility. While we finished the year well capitalized, we believe reducing the dividend is a smart approach in light of the risks around the economy and capital markets.

It's too early to tell you exactly how the VA industry is going to change in terms of pricing and products but the Hartford is moving forward to reduce the risk in its product portfolio. Price increases on our variable annuity guarantees are reflected on new business this month and we are revising our product set from the respective of customer value, capital efficiency and enterprise risk.

Finally, as Liz will discuss in more detail, we're shifting our VA hedging program to better protect statutory capital. With that, I will turn it over to Greg McGreevey who will discuss our investment results.

Gregory McGreevey

I look forward to speaking with you about our investment portfolio. Many of my comments will be similar to those provided at investor day so I'll try to move quickly through my Slides. I wanted to first cover our unrealized loss position at the end of the year. As you can see on Slide Six and as you know, significant spread widening in the fourth quarter across all asset classes caused our net unrealized loss position to grow to $13.2 billion.

The graphic on this slide illustrates the key sources of the unrealized loss. CMBS and Corporate Securities which were further broken out between financials and all other corporate. Our unrealized loss position increased by about $1.6 billion from the end of October which was the position I discussed at our investor day. While we saw improvement in gross unrealized loss across many areas of our portfolio in December, the year end levels still reflected substantial market stress and illiquidity.

Before discussing the specific asset classes, I wanted to first talk about our fourth quarter impairments. Please turn to Slide Seven. We had total pre-tax impairments of $419 million which is at the low end of the guidance provided at investor day. Of this amount and of importance, we only had $73 million of new impairments taken for credit reasons. We also had roughly $100 million of impairments due to mark-to-market changes on previously impaired securities.

The majority of our total impairment, about $250 million where taken on securities where we did not want to rep the hold until recovery. Given current market conditions, we wanted the flexibility to potentially trade these assets at a future date such that such actions would be congruent with our desire to derisk our portfolio in a manner that balances risk, return and capital consistent with our economic view and the expectations of price performance for specific securities.

Now, let discuss some individual asset classes, if you can please turn to Slide Eight. Our CMBS holdings have been a major contributor to our unrealized loss. They represent about 10% of total invested assets but over 40% of the unrealized loss. As you know, fourth quarter pricing was heavily influenced by the continued downturn in the economy, changing fundamentals in commercial real estate and a general lack of liquidity and capital in this asset class. These factors led to significant price declines in our CMBS bond portfolio.

At the end of 2008 the average holding in our portfolio had a market-to-book value ratio of about 60% even though 90% of our holidays are rated AAA or AA. The market pricing on these assets at year end implies cumulative losses over 40% which is five times the worse loss experience in the US commercial real estate market. We continue to stress test the entire CMBS portfolio under a severe recession scenario and have done an extensive bottom up analysis on each security and its underlying collateral to examine loss potential and future performance.

We believe that our impairments to date have reflected both our stress scenario and our bottom up analysis. In the intermediate term we expect that opportunities to sell CMBS assets at reasonable values will be limited giving the current pricing levels are so out of alignment with the likely ultimate value of these assets. That being said, our long term plan is to reduce overall exposure to CMBS relative to our entire portfolio as well as to align our holdings to only the most senior part of the capital structure.

This will take some time to accomplish and in the interim we will continue to explore hedging opportunities at the security, property type and portfolio level. As you know, in the third quarter we further stressed the loss modeling assumptions for the severe recession scenario we used for CMBS and will continue to use these assumptions in modeling our cash flows for determining impairments going forward.

When we ran the cash flows underlying our CMBS holdings through this severe recession model in the fourth quarter, only a few securities failed for the first time. Our impairment testing assumes 20% to 30% plus peak to trough declines in commercial property values depending on geography and type, declines in rental rates and sharp increases in vacancies. In total, the assumptions we're using for defaults and severities are close to the levels experienced in the 1986 [Cohort].

This severe recession scenario is consistent with our view of the commercial real estate market based upon declining valuations and deteriorating market fundamentals, we do not expect prices to recover much over the intermediate term or in government intervention. That said, we still expect to receive principal and interest payments on the majority of holdings going forward.

Now, if you could please turn to Slide Nine. The financial service sector remains in today's headlines on a daily basis, market uncertainty about the future of this sector has reintensified in the past few weeks with speculation ranging from nationalization to the establishment of bad bank government entities. We have remained quite cautious on this sector for some time given the challenging economic backdrop that has resulted in increased losses and reduced capital adequacy for many of these organizations.

Included in our financial exposure of $7.9 billion is about $2.6 billion of market value exposure to tier-1 capital including preferreds. This exposure is diversified among leading worldwide financial institutions including banks, insurers and finance companies. We saw significant price volatility across the hybrid sector globally in January driven by increasing concerns over expected losses and potential restructuring events.

Our tier-1 capital exposure to European banks is about $900 million which is roughly 1% of our total invested asset portfolio. Our European bank exposure is primarily to what large universal banks that are integral to the financial system. Included in this number is around $100 million of European perpetual preferred exposure.

I'd like to reiterate the following points on financials: first, our preferred and hybrid holdings are in large institutions that have strong parent ratings, on average AA and AA-; second, this portfolio was constructed primarily to match longer dated liabilities which allows us to hold these maturities from an

ALM perspective; and finally, while we do not see imminent risk of non-payment or nationalization for the vast majority of our portfolio, we remain concerned about price performance against the economic backdrop.

To that end, we continue to pursue a host of risk mitigation and hedging strategies for specific financial exposures where we have an elevated degree of concern. As part of this analysis we reduced our financial services exposure by over $500 million in the fourth quarter. As you will recall, in the third quarter we spent a fair amount of time discussing the fact that we had recognized about $1.5 billion of impairments on financial holdings where we were not able to assert that they would substantially recover their value within 2 years.

At investor day we said we planned to move away from the two year period based on the evolving guidance on impairments. Beginning in the fourth quarter we began to evaluate the potential for price recovery over a longer period up to and including maturity. We continue to employ what we believe is a conservative impairment process which immediately reflects all credit specific concerns as well as decisions to preserve trading flexibility in order to actively manage portfolio risk.

If you could no please turn to Slide 10. We've included a Slide on non-financial [inaudible] primarily to demonstrate the diversification and defensive positions within our portfolio. This asset class has not come under the pricing pressures we had seen in other sectors. Trading at just under $0.90 on the dollar in aggregate, these holdings have benefited from our underweight to both high yield bonds and consumer cyclical sectors. We hedge certain risk in our portfolio by buying protection on names we believe could have challenges in the current market environment. Some of these would include names in the retail, lodging and a lot of our BBB rated credits.

If you could now turn to Slide 11. As we position our portfolio for 2009 and beyond, it is difficult to predict when and how the global economy will emerge from this significant downturn. However, our current view is that domestic and global economy will remain week for some time despite continued government stimulus packages here in the US and abroad. The potential also exists for government purchases of stressed securities combined with some form of recapitalization and asset protection loss sharing for financial institutions which could be an important first step in the long process of unfreezing the credit markets.

In this back drop, we expect to continue to incrementally reduce our risk exposure in a prudent manner that is focused on value and capital preservation. We will move towards a portfolio that will take both the long term view and short term economic realities in to consideration. Finally, and moving forward, we'll put on new risk only when we reduce risk in other parts of our portfolio. We believe that our very strong liquidity position is critical in these types of market conditions and are employed in a prudent action oriented approach to investing.

With that, I'll turn it over to Liz.

Lizabeth H. Zlatkus

I would like to begin by discussing our yearend capital positions. I'm working from Slide 12. The Hartford enters 2009 well capitalized. Our property and casualty operations, our capital lies above levels that have historically been associated with AA rating. The preliminary yearend 2008 RBC ratio for our life operations stands at 385% and we have $1.9 billion of excess capital at the holding and property casualty company.

Finally, we continue to maintain $2.4 billion of available capital resources in the form of our pre-funded $500 million contingent capital facility and our $1.9 billion credit facility. While we enter the year well capitalized, our preliminary yearend numbers came in lower than our December investor day estimates. I'll take a few minutes to walk you through the differences.

Please move to Slide 13. On December 5th management's best estimate for yearend additional capital resources at the holding company and the P&C company was $1.1 billion. In fact, we ended the year with $1.9. There are a couple of reasons for this difference first, rather than down streaming all of the proceeds from our Allianz capital raise at the life company, we retained $1 billion at the holding company providing us with greater flexibility going forward. Second, the decline in interest rates in December resulted in a smaller benefit than anticipated from the discounting of our long tail P&C reserves and certain rating agency capital models.

This decline reduced our excess capital position by roughly $400 million. Partially offsetting this were other changes to surplus including higher fourth quarter statutory income. All in, we entered 2009 with $1.9 billion of excess capital in the holding company and P&C operations.

Please turn to Slide 14. In December, we provided estimated yearend life RBC rations at different market levels. Given the fact that the market ended the year at 903, I'll focus on the comparison to investor day projections at a 900 S&P. As the Slide shows, our preliminary 2008 yearend RBC ratio is 385. That compares to December projection of 535. Again, the 535 reflected the Allianz capital being contributed to the life company.

Retaining $1 billion at the holding company results in a 70 point reduction in the RBC ratio. So, the apples-to-apples comparison is to 465. That leaves an 80 point difference in the RBC ratios. Generally, the reasons for this decline fall in two categories, what I'll describe as market changes and forecast variance. One important estimate that was impacted by both market changes and forecast variance was [inaudible] testing required under AG39. You may recall that on investor day we AG39 would not impact our yearend reserve requirements.

In preparing our capital projections in late November, we did not perform full blown cash flow testing as this is done annually in the first quarter of the year with actual yearend data. Instead, we made a number of assumptions about our yearend book of business, projected marketing conditions and other reserve valuation inputs. Having now conducted the actual cash flow testing on yearend in force business, using 12/31 capital market input, it resulted in a net reserve increase of about $600 million.

We think this result is unduly conservative. With that perspective we have requested AG39 relief from our yearend reserve calculation from the Connecticut Department of Insurance. If relief is granted, the benefit will be included in our actual yearend RBC ratio but we have not reflected any potential benefit in our preliminary 385 RBC.

A different market change that contributed to the 80 point difference was Yen strengthening in December. This increase required reserves for the Japan annuity business resulting in $150 million reduction in surplus. Finally, other factors netted to a benefit of about $50 million. The sum of these three impacts totals the $700 million which you see on the Slide.

Another market change unrelated to VA was the effective spread widening and certain investment holdings. This reduced surplus by about $450 million and was largely related to the surplus required in the market value adjusted fixed annuity. Again, this amount was more than the amount that we had forecasted. To be clear, these are not impairments but rather the impact of marking to market the assets supporting the fixed annuity liability. To the extent that the credit markets recover, we expect to recapture that capital.

Before we move off the subject of yearend 2008 capital, as I mentioned earlier, we submitted a permitted practice request relating to AG39 with the Connecticut DOI. We have also submitted a permitted practice request related to the admissibility of deferred tax assets. If both requests are approved, they could provide a benefit of as much as 75 RBC points.

So, we finished 2008 well capitalized. Our P&C operations are capitalized above historical AA standards, we have excess capital at the combined P&C holding companies of $1.9 billion and our preliminary life company RBC ratio is 385. Of course, we also maintain the $2.4 billion of capital resources related to our contingent capital and credit facilities.

Please move to Slide 15. Now, I want to make a few comments about 2009 capital. Our P&C operations are expected to generate capital in excess of that required to maintain AA type capital levels and to support the cash requirements of the holding company. As to life, given the significant uncertainty in the markets today, yearned RBC projections are extremely volatile and inherently imprecise. Therefore, we are not providing specific yearend RBC ratio projections.

However, to provide some context, isolating just the impact of equity market declines, we estimate that in an S&P of 700 we have capital within our enterprise today sufficient to maintain and RBC ratio of 325. This assessment does not include a provision for credit or other market effects which of course will occur. That said, a few additional things should be considered when looking in to ’09.

First, while we are disappointed with the impact of AG39 on 2008, having a higher VA reserve starting point actually reduces the expected incremental capital impact of lower equity markets in 2009. Second, we purchased additional equity protection to further mitigate the tail. Third, we are evaluating offshore and capital structures which we believe will allow for better alignment between our hedging program with the reserves we would need to hold.

Finally, we’ve announced our intent to reduce the dividend. We are revamping our VA product and disrisking the investment portfolio and again, we have $2.4 billion in additional resources available from our contingent capital and credit facilities. In summary, given our current capital position and other capital resources, we enter 2009 able to absorb further market deterioration.

Now, please turn to Slide 16 to discuss changes to our hedging program. An important step we took in the fourth quarter was to modify our VA program to better protect statutory capital. We began to reduce volatility and interest rate protection in our program during the quarter. From a GAAP perspective the effects of these changes were roughly offsetting. The changes did however, benefit our yearend capital position. Going forward, we will continue to tune our hedging programs to tilt the balance towards protecting statutory surplus, recognizing that this will increase the potential for GAAP volatility.

In the fourth quarter, the GMWB hedging program managed through the tremendous volatility of the markets reasonably well. We finished with an after tax loss of $384 million. This was driven mostly by our under hedged vega position, basis risk and intraday market volatility.

Finally, I will conclude on Slide 17. I want to quickly hit upon our 2009 guidance. For 2009 our plans imply full year core earnings per share of between $5.80 and $6.20. There are a number of assumptions underlying these estimates including our assumption of the S&P starting at 900 and growing to 965. I’m not going to go through all of them but I would like to draw your attention to the DAC assumptions.

Our 2009 guidance assumes no affect from DAC unlock. As you know, we completed our annual DAC unlock at the end of the third quarter in 2008. The S&P at the end of September was 1165. If the first quarter were to end at an S&P level of 830 or lower, we would likely perform an off cycle DAC unlock at that time. Based on the sensitivities provided in the third quarter 10K, the unlock could be in the range of $670 million to $1.3 billion after tax at that level and I would guide you towards the higher end of the range.

With that, I’ll turn the call over to Ramani.

Ramani Ayer
Operator, I’d like to open the call now for questions and answers.

Question and Answer

Operator

(Operator Instructions) Your first question comes from Jeffery R. Schuman - Keefre, Bruyette & Woods, Inc.

Jeffery R. Schuman
Keefre, Bruyette & Woods, Inc.

A couple of questions, first of all I was wondering, it look like the margin guidance for the annuity business is relatively high for ’09. I was wondering if you could talk a little bit about that. Then secondly, I was wondering given the relatively modest levels of annuity production at this point, what is being done to kind of keep the wholesalers feed and kind of keep the wholesalers and the distribution partners kind of in place and keep the franchise together?

Thomas Michael Marra
Executive Chairman of the Board

I’ll start. Obviously, we’ve taken a lot of expense action on the annuity side already and that’s one aspect. Another fact is the DRD benefit is a relatively stable number so that on a lower asset base is going to obviously lever up the ROA. John’s done a number of things on the wholesaler front and I’ll turn it over to him to cover that part of it.

JJ

As you know, in the fourth quarter we did resize our wholesale force on the variable annuity side. While we’re pleased with that, I think at current sales levels we’re going to have to continue to manage our expenses aggressively. We are making product changes as we’ve described both increase in the fees on our products which go in to effect in February and then other product changes that we’re considering for May.

As we roll those out and assess the competitive environment, if we need to make additional changes to the expense structure, we’re prepared to do that. We’re going to view that in a fluid market as we go forward.

Thomas Michael Marra
Executive Chairman of the Board

But relative to retaining wholesalers, we’ve put in some temporary subsidies to keep them in a good comp perspective.

JJ

Yes.

Operator

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

Jay Cohen
Bank of America Merrill Lynch

I guess a plain old boring question on operations and on the property casualty side. Your accident year loss ratio for the fourth quarter, in fact, for the full year proved to be exceptionally good at a time when prices by everyone’s account are coming down. So clearly, it seems that through the quarter and throughout the year you took a different view of loss cause and I guess it is based partly on your look back and looking how reserves have developed. But, if you could flesh that out, what are you seeing in the numbers that’s allow you to book a lower loss ratio accident year ex cats in ’08 versus ’07?

Neal S. Wolin

We do not look or make any assumption about prior development when we do our picks for ’08 but we obviously look at our book of business, we look at how loss costs are developing in ’08 and make judgments on that. I think what you see in our accident year combined is really what we’ve been talking about for a long time which is disciplined pricing, a product suite where we think we can match price and risk in a very sophisticated way and where we see profitability we’ll dig harder and work on our retentions harder but where we don’t well let it go. All that I think from our perspective contributes to what we feel like our current accident year combines in ’08 that we’re very pleased with.

Ramani Ayer

Two things also that I would like to add Jay is one is the frequency in our business has been very, very favorable. That is something we are naturally reflecting in our loss costs. The second thing I believe that investors should not is that our carried reserves are actually 3.8% higher than the actual real estimates compared to say 2.7% last year. So, from the standpoint of the reserve position we’re in a very good place.

Jay Cohen
Bank of America Merrill Lynch

Then just a follow up, as the economy continues to deteriorate what is your expectation for claims expenses?

Neal S. Wolin

I think there’s a lot of puts and takes in how you think about the effects of the challenging macro economy or real economy on loss cost experience. In the aggregate I think we sort of view loss costs as developing in ’09 in a reasonably moderate fashion. So, for example, probably less frequency in certain ways on account of the real economy and some of the slow downs. So really, I think when you net it all out and there are lots of different pieces of it by line and by segment, moderate loss costs development through ’09 is what we’re calling.

Operator

Your next question comes from Randy Binner - Friedman, Billings, Ramsey & Co.

Randy Binner
Friedman, Billings, Ramsey & Co.

More of question from the holding company perspective, the new RBC ratio that’s been estimated of 385% does not include excess capital particularly $1.5 billion in excess cash that sits at the holding company. Although, I guess I read the 700 level S&P RBC ratios potentially including that cash. So, can you one share why that capital was held at the holding company and not put to the life subsidiary and if I’m correct on the 700 level sensitivity piece?

Lizabeth H. Zlatkus

It was not included in the yearend 2008 number. We wanted to hold it at the holding company because it provides more capital flexibility. As we speak about the 700 levels in 2009, yes we are looking to avail ourselves of that capital.

Randy Binner
Friedman, Billings, Ramsey & Co.

If I may, could you expand please just more on the capital flexibility? Is it because you’re relying on the Connecticut regulator to potentially give you relief so you’re closer to 450? Or was there potentially another reason why you would hold the capital there because obviously optically it makes the life company RBC look low.

Ramani Ayer

Two things right, one is we believe a 385 life RBC is a very good RBC. The second thing is you know better off maintaining capital flexibility at the holding company level and you use it when needed and that is a wise discipline. Those are just the two reasons, there is nothing more than that.

Randy Binner
Friedman, Billings, Ramsey & Co.

So there's no read through to potential debt covenant issues or collateral call issues with rating agencies?

Ramani Ayer

No.

Lizabeth H. Zlatkus

No, not at all. Remember, at any point in time we can downstream that capital if needed.

Randy Binner
Friedman, Billings, Ramsey & Co.

So you feel it is fundable, it is ready for downstream if necessary?

Lizabeth H. Zlatkus

That is correct.

Operator

Your next question comes from Daniel Johnson - Citadel Investment Group.

Daniel Johnson
Citadel Investment Group

In the December presentation there was some discussion about the not taking the full value of the vega hedge although the volatility hedge should definitely help improve the RBC from where we had talked about it in the third quarter earnings release. At the time early December volatility was extremely elevated and came down during the month of December. Can you tell us how we're utilizing that vega hedge today in terms of using the 385 RBC estimate? Then, I've got a couple more.

Lizabeth H. Zlatkus

In terms of how we look at the 385 RBC, after the all we did settle out of some of our vega positions and this did actually help our statutory capital ending reserve valuation. In the reserve calculations for example, it does run a lot of scenarios and assumes that the hedge itself can degrade and so that has a negative impact or an increase in the reserve you have to hold. So, in fact, by selling out of some of our vega position we not only helped preserve the fact that as you said volatilities did come down but, it also helped in terms of the yearend statutory net reserve calculation.

Daniel Johnson
Citadel Investment Group

Are you taking the full benefit of that hedge today?

Lizabeth H. Zlatkus

Well remember the hedge asset itself of course goes in to surplus so it's marked-to-market at the end of the year. That hedge asset was about $4 billion at the end of the year, that goes in to statutory surplus, that's the combination of the hedge asset and the amount we sold so that fully goes in to surplus. The calculation for reserves though actually increases the reserve because it assumes in the future that the hedged asset can come down so that's where you get the negative impact.

Daniel Johnson
Citadel Investment Group

You talked about your tier-1 securities, what's the tier-2 balance look like across the board and for European financials?

Gregory McGreevey

Let me just give you total exposure overall by subordination levels. We've got about let's call it $1 billion in lower and upper tier-2 and that would be in total. The unrealized loss position that we had at the end of the year on that $1 billion is roughly about $100 million in total. Then, you have about 12% of that total would be in European lower and upper tier subordinated debentures.

Daniel Johnson
Citadel Investment Group

You said 12?

Gregory McGreevey

Correct.

Daniel Johnson
Citadel Investment Group

Then finally the last question, in the 8K you walk through a lot of stuff and you've already covered a lot of it but I want to go back to the $450 million component which talked about spread widening. At the beginning of November, CMBS pricing was probably 90ish, at the end of November it was down to70 so we'll call that around the analyst day and then at the end of the year it was higher. Also during the month of December AA and most corporate spreads improved by well over 100 points in line with the decline in the [VICs] which you've already referenced.

What time frame was being used on December 5th to make the observation on spread? Because, it would appear that we were using spreads that were more like from the beginning of November than something that would have been a little more timely as of the beginning of December?

Lizabeth H. Zlatkus

So, on investor day we tried to have as updated assumptions as we could. There are certain securities that we get, particularly in the latter half of November and particularly those that are illiquid that we did not have in our assumptions. So, it was both a spread widening on those certain assets that back our fixed annuity products that occurred at the end of November and some of those asset widened a bit further in December that caused the variance versus our projections.

Daniel Johnson
Citadel Investment Group

Is that mainly commercial real estate investments that you reference here?

Lizabeth H. Zlatkus

That is correct.

Daniel Johnson
Citadel Investment Group

But the CMBS market very publically fell apart in the middle of November so I'm confused as to why we'd be using something that looked like rather stale information?

Lizabeth H. Zlatkus

The one thing I would say is on this fixed annuity product where we have to mark the assets to market, in that particular product, so for assets backing that including whole loan commercial mortgages we had to estimate a market value. So, some of that is just trying to estimate a market value for the whole loans also.

Daniel Johnson
Citadel Investment Group

Then you're carrying those whole loans at what sort of discount?

Ramani Ayer

We don't have the specific numbers on that here Dan.

Lizabeth H. Zlatkus

Typically those are not marked-to-market as you know for statutory -

Daniel Johnson
Citadel Investment Group

Which is why I'm really interested in how you're valuing them on a fair value basis.

Ramani Ayer

Right. Why don't you take that offline with Greg.

Daniel Johnson
Citadel Investment Group

Do you have a rough estimate?

Ramani Ayer

Nope.

Ramani Ayer

I would just request that you keep your questions to two questions because there are several people in queue so I just want to be sure that we give everyone the opportunity to air their questions.

Operator

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

John Nadel
Sterne, Agee & Leach

I guess I have two questions if I could, one is I just wanted to understand and get the specifics behind the release that you guys have contacted the Department of Insurance in Connecticut for. I understand from Liz's comments, 75 RBC points, I'm not sure if that was the DTA, the deferred tax asset only or if that also included the AG39 relief you were requesting?

Lizabeth H. Zlatkus

John, that number is a rough estimate of both of them but they are interrelated. So, the AG39 additional reserves actually causes the DTA benefit to go up. So, if we get both of them that's the right number but if you get one or the other it's hard to give you that unless we know which one we get.

John Nadel
Sterne, Agee & Leach

Then just related to that one before my second question, based on your understanding and your conversations with the rating agencies do you expect them to look at that as incremental capital or are they discounting that? I guess with one state maybe moving one way, another state maybe moving another way or not moving at all I guess I'm sort of confused as whether the rating agencies in your view will view that as incremental or not?

Lizabeth H. Zlatkus

I would say a couple of things, first of all I can't speak for the rating agencies and you know that they are all different. They have their own capital models in addition to looking are RBC so while they may not count this they may also have a different capital model in the first place. We do think this particular added test of cash flow testing that required this reserve is redundant so that is how I would look at it.

John Nadel
Sterne, Agee & Leach

On the 325 RBC ratio for the S&P 700 scenario now, I guess a couple of things there, how much capital does that assume gets injected from the holding company to the life company?

Lizabeth H. Zlatkus

It's important to note I'm not giving an pinpoint estimate. So, it's very variable and what we're really saying is with available capital excluding or not including our contingent capital or bank lines, we have the ability to maintain a 325 for changes in equity markets.

John Nadel
Sterne, Agee & Leach

Then lastly, when you think about that $1.5 billion of excess cash that you guys talk about at the holding company, is that really excess? What are your holding company cash needs during 2009? Is that over and above those cash needs to meet debt service, your lower common dividend number?

Lizabeth H. Zlatkus

Yes, the holding companies cash needs are about $400 million with the reduction of the dividend and when we talk about excess, it means excess of those requirements.

John Nadel
Sterne, Agee & Leach

One more thing, on the 325, just a ballpark figure what does $100 million of capital equal RBC points?

Lizabeth H. Zlatkus

RBC ratio for 2008 denominator is about $1.3 billion. I don't have that number for 2009.

Operator

Your next question comes from Eric Berg - Barclays Capital.

Eric Berg
Barclays Capital

Here are my two questions, first I fully empathize with you folks with respect to this whole issue of the difficulty of balancing the hedging of gap versus stat versus economics, I understand that it is all different. However, it is my opinion that gap is closer to economics that stat is and I'm just wondering why would you be reducing pairing back your vega and row hedge, understanding that's going to improve this accounting thing and I realize it's an important accounting thing but by doing so aren't you exposing the company to real economic risk that in the end should matter above all?

Lizabeth H. Zlatkus

No, I would not say that. First of all we have sold out of some of our vega positions but we've also added protection for further equity market declines so I would look at it as refining the hedge, adding protection for example for other risks like the death benefit in Japan and selling out of some of our vega position. I mean, volatility is at all time highs and at the end of the day what we have to do here is ultimately pay claims if people are in the money and the claim comes due.

So, when we look at balancing economics and gap and stat, we think the actions we have taken have been prudent, they have helped our statutory capital at the end of the year and we'll continue to make those balances and tradeoffs throughout 2009.

Eric Berg
Barclays Capital

Here's my second and final questions and it's for Greg. Greg, you provided a break down in the past and today of your CMBS by ratings category. Yesterday I'm sure you know Moodys said it's going to take a fresh look at the whole world of CMBS and we will be downgrading junior AAA securities, at least that was the strong suggestion. Some work we did yesterday looking at a sample of your bonds from schedule D would suggest that you have quite a bit of exposure to the junior AAA. Is that conclusion that we reached from a sample correct or would you put it differently?

Gregory McGreevey

First of all just to back up, I think we're well aware of at least what the rating agencies and kind of anticipated that the rating agencies would probably be looking at taking action in this case in the CMBS portfolio. So, I don't know exactly what your relative point is but I guess I would say that the things that we're focused on and the things that we're the most concerned about in the portfolio at least as it relates to downgrades would be in certainly those things that are lower down in the capital structure and from a ratings standpoint the [AJs] as you pointed out which we do have a decent amount of exposure to.

So, with that there's a couple of things that we've done in looking at our portfolio. One, is to potentially look at some hedging opportunities specific to that area of the capital structure in [AJs] and we've also looked at if all these things did get downgraded under different stress scenarios what the impact of that capital would be. Now, I'm not prepared to tell you exactly what that capital number is but I can tell you the impact of that we think is not material over the course of 2009 depending on what we expect the severity of those downgrades to be at present.

Operator

Your next question comes from Darin Artia - Deutsche Bank Securities, Inc.

Darin Artia
Deutsche Bank Securities, Inc.

Just two questions here, the first one it seems like it's difficult for many insurance companies to calculate their statutory capital and reserves in real time. With that back drop I'm just wondering how effectively can insurance companies hedge statutory capital for the Vas?

Lizabeth H. Zlatkus

You're right, it is a challenging exercise. I'd say a few things, number one 2008 was particularly challenging because these cash flow tests that typically are used just to determine sufficiency of the reserves actually were utilized to determine excess reserves that you have to hold. So, we had to try to model both reserves plus the impact of these additional cash flow tests. In 2009 we're going to be moving to a new methodology which is called VACARVM that should make it somewhat easier to determine.

But, I think the point really is how do we manage our capital, are we making wise decisions, do we understand how our capital moves? The answer to that is yes, we do. So, we do feel we are making the right decision for those tradeoffs.

Darin Artia
Deutsche Bank Securities, Inc.

The second question, in terms of the variable annuities, if we think about the lower base of assets and so we'll have lower fees in 2009 but we're also having lower sales. I'm just wondering in terms of the actual cash flow or statutory earnings, how does that change? What's the delta there for '09 versus '08?

Ramani Ayer

Darin, on that we're not forecasting or giving you specifics on it but as Liz was giving you an impression of how we think about '09 capital it clearly has expectations around the cash flows in our various businesses. So, to the best of our ability, the modeling from this point to the end of the year is very, very challenging so path dependent but we certainly have made an attempt to give investors an impression of how we think about it.

Operator

Your next question comes from Josh Shanker - Citigroup.

Josh Shanker
Citigroup

One question would be, what is your competitiveness in the life insurance business as a A rated company? Two, how would that affect your desire to see out strategic alternatives with the A?

Thomas Michael Marra
Executive Chairman of the Board

I'll have John comment on specific businesses but as we've watched the last few weeks there's a number of really household name life companies that are now A as well. Not to say that it's going to be easy but I think we will hold up reasonably well. Again, I think there's some good companies that are also in the same category now. John, do you want to talk about specific businesses that might be more affected than others?

JJ

As you look at our portfolio of businesses, I think different ones have different rating sensitivities. Our sense is that in general we have a very good reputation with our distributors and reputation as a company they can count on over time and that everyone is aware that the ratings levels are changing kind of across the industry in this economic environment. So, to some extent we're in with a pack of firms that are getting challenged from a rating standpoint.

That said, it will present a headwind that we'll have to work our way through. I would say that some of our institutional businesses may be most affected by it and then in other businesses, like our mutual fund businesses ratings are not an issue at all and in other businesses I'd say we're more in the middle of the pack relative to ratings. I think it's a very rating specific issue but I do think it will present some top line headwind as we go through the year and we're prepared to work through that and get out and be very active in explaining to the people why they should be completely comfortable putting new business with the Hartford.

Ramani Ayer

One thing that I'd just remind you, we had some real headwinds in the fourth quarter and our people worked very hard and I think we're going to have to work hard. That's how we think about this. So, that's our answer to that.

Operator

Your next question comes from Tom Gallagher - Credit Suisse.

Tom Gallagher
Credit Suisse

My two questions are first, I guess for Liz, how much protection did Hartford purchase to reduce VA tail risk or is that more of a prospective comment? Is that going to materially reduce your RBC sensitivity that you gave out at investor day? For instance, at investor day you showed a move from S&P 900 to 700, moved your RBC by 255. Is that sensitivity or delta going to be meaningfully lower? Then, my follow up is Ramani can you comment on how you're thinking about the VA business longer term? Is this a business that you're committed to or would you consider divesting it given the issues right now?

Lizabeth H. Zlatkus

Tom, to your first question, yes it did reduce some of the convexity. I mean obviously we're starting the year at 900 with less capital than we had projected but some of the protection that we put on did reduce the convexity. In addition to that, because you're starting off with higher reserves in 2009 as you go down in to the lower S&P levels it's not as convex because you're starting off with a higher reserve level. So, all in we think that is probably worth, I'm giving you a wide range here, in the $1 billion range of reduced convexity between 900 and 700.

Ramani Ayer

The question on our annuity business we believe first of all globally that the need for income and retirement is really a customer need that is not going away. One of the things that Tom, and I'll let Tom comment on this is working with John and the team to figure out how to constrain the annuity risk in a way where we are balancing enterprise risk with policyholder benefits as well as value to our distributors. Tom, do you want to comment on how we're thinking about it?

Thomas Michael Marra
Executive Chairman of the Board

I won't get in to the specifics but we'll have a new product coming out in May which will be significantly derisked but we also are coupling it with some other products that we're excited about. The whole notion of payout or life time income. I think as you say our fixed annuity business has really done extremely well, the fourth quarter it was up handily and although somewhat interest rate dependent so we might not be quite as robust in the first part of this year.

We have a number of moves to make but with a derisked variable annuity kind of anchors the whole retirement income for individual space and compliments our other products.

JJ

I would just add a couple of things. I think you're seeing the industry go in kind of a couple of different directions. You're seeing some people keep very robust features and benefits and just push price up more aggressively and you're seeing other folks which is more the camp that we're going to be in trying to constrain the features and benefits to a level that we think is the right balance for us and try to keep cost more in line.

So, I think it's too be determined which way investors and which way advisors feel more comfortable with but, we're going to go down a path of trying to keep cost in line and keeping the product more simple rather than trying to compete on a feature-by-feature basis with some of the other products that are out there that will because of this environment have to go much higher in term of their expense structures. We just think that there's a total expense structure beyond which these products are not as attractive for individuals.

Ramani Ayer

That last point I would make Tom is balancing customer value, enterprise risk and market place behaviors, etc. is top of mind for our management team and we're just constantly working this issue. This will evolve throughout the year so we have to observe and take actions accordingly.

Tom Gallagher
Credit Suisse

Then just one request actually for Liz, if the convexity is dropping that much and that's a material change in the convexity, may be by the time your K comes out, if you can give us an update on the 900 to 700 RBC impact, that would be very helpful.

Ramani Ayer

The key there is that is something I'd be very reluctant to do principally because it is so path dependent Tom. We have debated this a lot about what to do and how you get from here to the end of the year, what happens with many, many variables embedded in this makes it very challenging for us to give you a lot of explicit guidance and that is the reason we wanted to give you some rough impressions of how we think about this rather than get in to a lot of specifics at different levels.

Operator

Your next question comes from Andrew Kligerman - UBS.

Andrew Kligerman
UBS

My first question, the S&P 500 closed around 1164 at the end of the third quarter so where would the S&P need to be in order to avoid another prospective DAC unlocking in the third quarter of ’09. And, if there were an unlocking what kind of a magnitude would we be looking at?

Ramani Ayer

Liz did cover it in her comments but I think it bears repeating so why don’t I have Liz cover that one more time.

Lizabeth H. Zlatkus

In order to not have a DAC unlock you’d technically have to take 1165 and grow it in that 9% range. We gave you the estimate assuming you’re starting at 9 to 965 and certainly you have the sensitivities in the Q. As we sit here today we would expect a DAC unlock.

Andrew Kligerman
UBS

Then with respect to the NAIC, I understand that they’re going to be phasing AG39 cash flow testing out and implementing the new VACARVM rules in 2009. How much could this statutory accounting help Hartford’s results in ’09 when that gets implemented?

Lizabeth H. Zlatkus

Andrew, there’s a lot of moving pieces. That is correct AG39 standalone cash flow testing which is what we think was redundant is going away, the whole system so to speak is getting replaced by VACARVM. It’s hard to try to assume how that would change but what I would say is that there’s a AG34 test that we also had to do at the end of the year and that looks at the total, it kind of requires you to hold reserves for all of your living benefits and death benefits and really looks at your entire contract. That is more consistent with the new VACARVM rules. So, I would just say AG39 is redundant and will go away in ’09.

Operator

Your next question comes from [Pamela Cravic - NW2 Investment Management].

Pamela Cravic
NW2 Investment Management

I have a question and then [John Bose] has a follow up. I just want to touch back on the RBC ratio and make sure that I conceptually understand it. At your December investor day you started at 585 and your stress scenario was down to 330 ex impairment. Now, you’re at 465 and that’s with the full deployment of the Allianz proceeds.

So, I guess in your stress scenario there’s a difference there of 120 points and I’m understanding that you feel comfortable with your downside stress scenario because of the further protection that you’ve purchased and then also there’s the potential capital relief coming. But, I guess on the negative side you could have more credit impairments, there are more asset classes being reviewed by the rating agencies so we could be looking at more downgrades. You talked about that but I just want to make sure I conceptually understand that you feel comfortable that your stress scenario is only 5% lower, down to 325 now at 700 just with the further protection that you purchased. Is that correct?

Lizabeth H. Zlatkus

I'll be frank and say that I didn't quite follow all of that. Let me just say a few things. In investor day when you're seeing a 535 we're saying the best way to look at that is to start with 465 because we did not downstream $1 billion in to the life company. So, the apples-to-apples comparison is 385 to 465 which is an 80 point difference, that's where you should start.

Pamela Cravic
NW2 Investment Management

Okay but it's just getting from 465, I'm assuming that what you laid out, you're going to downstream the proceeds with your stress scenario so I guess when you're getting down to your stress scenario your assumptions actually fall to the same level because I think in both cases you were assuming that those proceeds would be down streamed completely?

Lizabeth H. Zlatkus

That's correct. Here's how I would think about it, we start out less at the beginning of the year as you mentioned and then all we're saying is rather than just kind of taking that and assuming that stays constant throughout the 700 levels, again for equity market declines only, we're saying we've kind of reduced some of that convexity both because the starting level reserves are higher and secondly, because we have purchased additional protection for equity market declines.

To your point, I think you're also saying well what about credit market impacts which we're not including in our estimate. We were trying to isolate equity market levels only. We do see that this market is very turbulent so we would expect to have impacts to our statutory capital because of credit and there I would say first of all we have the contingent capital and bank lines but as importantly we're looking for the permitted practice. We will continue to look at our hedging program. We are looking at captive or offshore solutions which we think could provide some additional relief and at a minimal will help us line up our hedging program better. So, we will continue and are continuing to do things to protect statutory capital.

John Bose
NW2 Investment Management

We spent the entire call on half of your business, could you Ramani articulate what's the synergy between the life and the P&C and your perspective on why or if these companies have to be together?

Ramani Ayer

I think the way to think about this is when it comes to the Hartford brand and the end customer, I believe that the ability to provide protection products as well as investment products under this brand has been very well recognized by our customers and distributors as having extreme value. So, that is the principal reason beside the diversification benefits that we have seen overtime in both sides of the house having a combined platform does help us diversify risk. So, those were the two things.

The Hartford culture and the Hartford management discipline are similar across the board and that is something that is brought to bear in everything we do. Tom, did you want to add something?

Thomas Michael Marra
Executive Chairman of the Board

I did. One thing we rolled out John in '08 that has been going very well is a cross sell program where we're getting property casualty agents to sell 401K and group benefits products and even high end individual life. That's been an exciting development and we plan to extend it in to '09 and beyond.

John Bose
NW2 Investment Management

Just a quick comment, in terms of your mission to protect and enhance shareholder value, you've got one business that's not impaired and based on alternatives it would seem you have an opportunity to utilize that value or capital to have the most bulletproof life company and even use that strength to take advantage of the disarray and opportunities in the market as opposed to holding an asset and then hoping the markets, or working towards a long term solution in these turbulent times. I mean it's pretty unprecedented times and so I think kind of options and really need to be viewed.

Ramani Ayer

Thank you for the suggestion and comment.

Operator

Your final question comes from Tisha Jackson - Columbia Management.

Tisha Jackson
Columbia Management

I guess two quick questions, what is the duration of the protection that you bought in the fourth quarter, i.e is this a short term fix or a permanent fix on the convexity issue? Then, back to being downgraded to a A, does this affect or at what point might it affect your property and casualty businesses? For example, are there any rating triggers in your AARP relationship or does it limit your ability to compete in the specialty commercial business, the professional liability, etc.?

Ramani Ayer

I'll take the second one first and then I'll turn the question on the protection to Liz. Basically on the property casualty issue as far as ratings, one is clearly from a property casualty competitive landscape standpoint there are a lot of good property casualty companies that are rated A or even below. So, I believe that A is an excellent rating. We will compete vigorously. At the same time there will be areas that we're going to have to work hard and in which we will.

The larger end of the business, the financial products end of the business, we're going to have to work and sell the Hartford's benefits and sell the Hartford's strengths. As you think about it, this is one we've grown to understand how to do and we will keep fighting out there in the market place. I'm pretty confident that we will do that. On the AARP business, there are no rating triggers and therefore this will not be a material issue from an AARP standpoint.

At the same time, I'd rather have a AA and that is how I've attempted throughout my life to position the company. Overtime we'll have to work hard through both earnings generation and risk management to try and work our way back. That is something that will take time but we will work very hard to do that. Let me have Liz answer the first half of your question.

Lizabeth H. Zlatkus

Tisha, in terms of the protection that we purchased particularly in December it was shorter dated including some futures. But, I will remind you that 27% of our book is covered by reinsurance of our GMWB book and about 27% is covered by very long dated customized derivatives. So, we have a lot of long dated protection and of course we are going to continue to manage the book looking over the length of the guarantees.

Ramani Ayer

I want to bring this call to a close. I think you all for joining us today. I also want to thank Neal Wolin who will be departing from the Hartford. He's given us many good years and he has really done a very good job of managing our property casualty company focused intensely on strategy and driving for performance which shows in our results. I believe the country gains in his capacity as Deputy Whitehouse Counsel working on economic policy given the times that we are all going through. I wish Neal and the administration great good fortune because this will certainly affect us and our business.

I want to thank Neal for his service and I want to thank all of you for joining us on the call and we will be talking to you.

Operator

This concludes today's conference. You may now disconnect at this time.