S&P Capital IQ

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Assurant, Inc. NYSE:AIZ

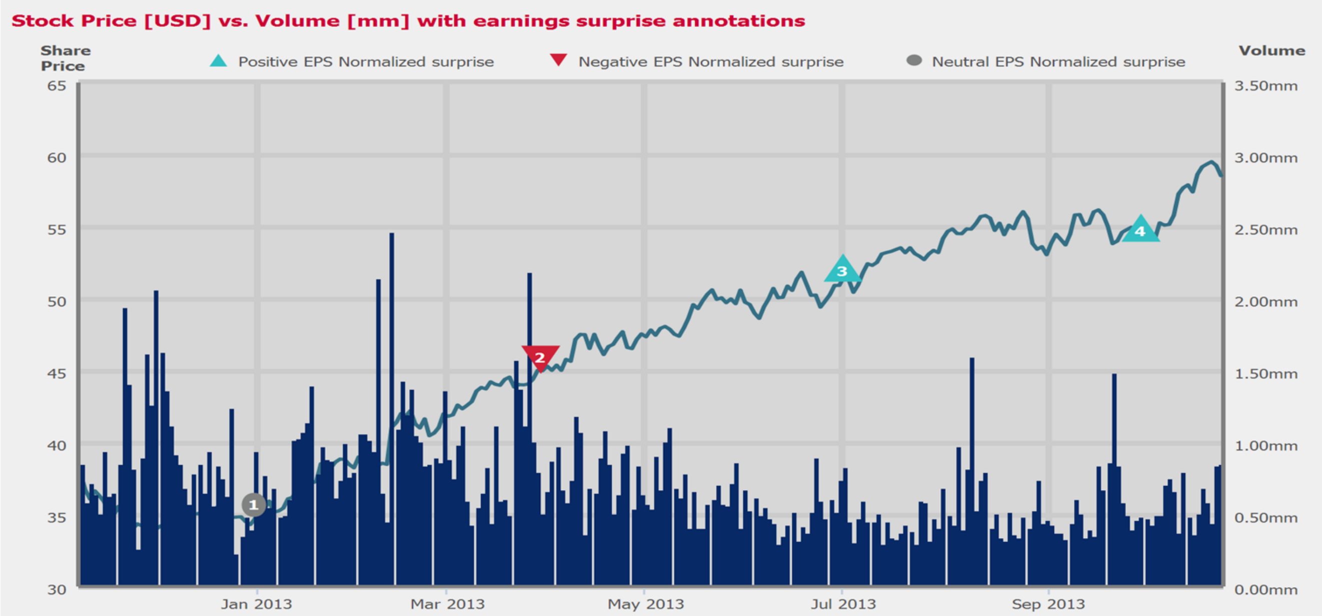
FQ4 2013 Earnings Call Transcripts

Thursday, February 06, 2014 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-			-FQ1 2014-	-FY 2013-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	1.43	1.42	▼(0.70 %)	1.50	6.01	6.01	
Revenue (mm)	2213.14	2400.62	▲8.47	2253.91	8802.83	9047.66	

Currency: USD
Consensus as of Feb-06-2014 9:15 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2012	(0.28)	0.07	NM
FQ1 2013	1.54	1.35	▼1 (12.34 %)
FQ2 2013	1.43	1.53	▲2 6.99 %
FQ3 2013	1.49	1.71	▲3 14.77 %

Call Participants

EXECUTIVES

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Executive VP and Chief Communication & Marketing Officer

Michael John Peninger
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Robert B. Pollock
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Presentation

Operator

Welcome to Assurant's Fourth Quarter 2013 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, and good morning, everyone. We look forward to discussing our fourth quarter and full year 2013 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 fourth quarter and full year 2013 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 participating in 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 2012 Form 10-K and first quarter 2013 10-Q.

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 at 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. We are pleased by our progress in 2013. We took actions on several fronts to diversify and grow earnings for the long term. We strengthened our core specialty businesses as we applied consumer insights to meet customer's needs, accelerated growth in targeted areas and realigned our resources to focus on the best emerging opportunities.

As we look at Assurant's performance, we measure our progress with 3 key financial metrics: operating return on equity, excluding AOCI, was 10.6% for the year; book value per diluted share, excluding AOCI, increased 10.4% in 2013, our third consecutive year of double-digit growth; and revenue, defined as net earned premiums and fees, grew by 8.2% for the year, driven by Specialty Property and Solutions.

Fee income increased by 23%, with much of the growth coming from businesses with lower capital requirements. During the year, our businesses generated strong free cash flow, enabling us to return $470 million to shareholders, deploy $360 million in strategic transactions to diversify our Specialty portfolio, and at the same time, maintain financial flexibility to invest capital in a disciplined manner to benefit shareholders.

Our 2013 acquisitions illustrate several themes which we believe are important for successful M&A. These include proprietary sourcing of opportunities in areas we've targeted for expansion, identifying businesses that allow us to add value by leveraging our core capabilities and focusing on cash returns.

Now I'll provide updates for each of our business segments. Assurant Solutions remain committed to improving net operating income, with a focus on delivering $50 million in the fourth quarter earnings this year. We shifted resources away from nongrowth areas to support opportunities in mobile and expand our market share in Latin America and Europe. We took actions in other areas of the business to improve efficiency and reduce expenses.

In mobile, we're pleased with several recently launched programs that allow us to introduce innovative consumer solutions and boost our franchise. As of year end, we supported more than 15 million mobile devices through our global protection programs.

The acquisition of Lifestyle Services Group, or LSG, transforms our European business into a mobile platform that we will build upon. Integration is progressing ahead of schedule as we consolidate our European operations and management structures.

Last year, we grew our operations in Latin America by leveraging our expertise in the mobile, auto and service contract markets. Our recent investment in EK enables us to build on this success. We expect the customer base created by this partnership to provide a platform to cross sell our complementary products and assistance services to increase revenues in Latin America.

During 2013, Solutions reduced expenses in nongrowth areas, including our domestic credit business and parts of our service contract portfolio in response to market changes. These actions will help Solutions achieve their 2014 goals and continue to increase earnings in the future.

I'll now move to Assurant Specialty Property. 2013 was a year of industry-wide change, with significant movement in consolidation of loan portfolios. We benefited from these shifts and continue to play an important role in support of our clients as they met servicing requirements. Without significant hurricane activity, Specialty Property reported solid results in 2013. Loan growth and reduced ceded premiums were key drivers in lender-placed.

Our continued expansion in the multifamily housing and property preservation niches also contributed to our revenue growth. Multifamily housing is a business we've built organically and then strengthened in 2011 with the SureDeposit acquisition. During the past 5 years, we've increased multifamily housing revenues by an average of 31% per year to more than $190 million in 2013. We believe we can continue to grow this business at a double-digit pace by expanding our service offerings and adding new clients.

As we broaden our role within the mortgage value chain, we can further leverage our capabilities in client relationships. The acquisition of Field Asset Services, or FAS, is a good example. This fee income business further diversifies Specialty Property's revenue stream. By providing inspections and repairs, we're helping clients preserve the value of the homes in their portfolios.

As these actions demonstrate, we're taking steps to strengthen and diversify our property business to maintain attractive returns and help offset expected declines in lender-placed premiums.

Let's now turn to Assurant Health. During 2013, Health responded quickly to consumer needs with a broad and appealing set of products. This demonstrated agility and was affirmed by our fourth quarter sales of $319 million, the best sales quarter in our history.

Sales were driven by significant activity prompted by the first open enrollment period under the Affordable Care Act or ACA. Early in 2013, we decided to defer our participation on the public exchanges. Instead, we focused on helping customers and agents understand how the changes would affect them and providing options to meet their individual needs. This turned out to be the right decision. We believe we captured market share due to our diverse product offerings, robust systems and broad distribution channels.

Individual major medical products, which include the essential health benefits outlined by the ACA, were a significant driver of fourth quarter sales. We're proud of these results which underscore the importance of individual major medical as a core specialty business for Health.

Longer term, we also believe many consumers will seek affordable alternatives to major medical, products we also provide. In 2014, we expect growth in premiums and insured lives. Yet as expected, profits will continue to be modest this year. We believe more attractive returns for shareholders will emerge in 2015 after reform changes are fully implemented. We also expect the risk mitigation mechanisms under the ACA will provide important downside protection in the new guaranteed issue environment.

At Assurant Employee Benefits, we remain focused on growing our voluntary products and services as we shift resources away from traditional employer-paid insurance. Clients and customers cite the ease of enrollment and administration, our broad product suite and expansive demo network as key differentiators. For the year, voluntary sales and net earned premiums were up 25% and 7%, respectively.

Looking ahead, we're adapting our demo product to provide customers multiple options that fit their needs under the ACA. We recently joined the new Bswift Private Exchange. We expect to expand participation on private exchanges in 2014 and are focused on select partners that value our differentiated approach to voluntary.

This week, we marked our 10th anniversary as a publicly traded company. We're proud of all we've accomplished during the past decade and are encouraged by the possibilities of the years ahead. We look forward on our upcoming Investor Day on March 11 when our executive team will share more of our long-term strategy and objectives with you.

And with that, I'll turn to Mike for more detailed comments on our fourth quarter 2013 results and the outlook for the year ahead.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Thanks, Rob. I'll begin with Solutions. Net operating income for the fourth quarter reflected $12.8 million of restructuring charges as we integrated our LSG acquisition in Europe and streamlined other operations.

Excluding disclosed items, net operating income totaled $32.6 million compared to $27.9 million in the fourth quarter of 2012. More favorable service contract results and previous expense management actions drove the improvement.

For the fourth quarter, Solution's net earned premiums and fees increased by 18%, driven primarily by domestic auto and mobile service contracts and growth in Latin America. Fee income increased by 46%, reflecting the market success of the mobile programs launched last year, as well as contributions from LSG.

Excluding disclosed items, our international combined ratio for the quarter was 101.9%, an increase of 70 basis points from the fourth quarter of 2012. For the full year, it improved 90 basis points to 101.5%, driven by expense reductions in Europe, partially offset by about $8 million of M&A fees recorded in the second half of the year.

Absent restructuring charges, our domestic combined ratio for the fourth quarter also improved. This reflected expense efficiencies and more favorable service contract results, including mobile. Last November, we implemented underwriting changes at our domestic mobile client to mitigate high third quarter loss experience. These corrective actions improved our experience in the quarter and will be fully reflected in our first quarter financials.

We continue to be excited about our partnership with T-Mobile. Their JUMP! program generated significant subscriber growth during the last half of 2013. Beginning in late January, the first JUMP! customers became eligible to upgrade their devices. Initial experience is in line with our expectations but it's still early. Under this program, we earned fee income and expense credits for administering the protection program and the JUMP! upgrade.

In 2014, we expect continued growth in Latin America. Despite recent economic volatility there, we believe the region offers attractive market characteristics. Our recent investment in EK allows us to further expand and diversify our footprint across Latin America. We're on track to close the second phase of this initial investment soon.

As minority owners, we'll report results from the EK investment using equity method accounting. This means that our share of the company's earnings will be reported as part of fees and other income in our income statement, and our net equity at EK will be included in the other asset category on the balance sheet.

Overall, we expect Solutions profitability to improve during the second half of 2014, leading to $50 million of net operating income in the fourth quarter. The increase will be driven primarily by better margins from mobile as we scale our new programs and improved European results as we move forward with LSG.

Our European restructuring, in conjunction with expense reductions in other nongrowth areas, will produce $20 million to $25 million of annualized pretax expense savings.

At Specialty Property, fourth quarter results benefited from no reportable catastrophes, compared with $135 million of losses from Superstorm Sandy in the fourth quarter of 2012. Excluding catastrophe losses, net operating income declined due to higher noncat loss experience and additional operating expenses.

Our non-catastrophe loss ratio for the quarter increased 660 basis points compared to the fourth quarter 2012's very favorable levels, driven by higher claims and lower premium rates.

Our fourth quarter expense ratio increased by 830 basis points versus 2012 due to volume growth in our lender-placed business, new services we performed for our clients and higher legal and regulatory expenses, including litigation reserves. We continue to make progress in resolving outstanding matters related to lender-placed insurance.

Fourth quarter results include our Field Asset Services acquisition. Since this is a fee income business, it has a different expense ratio target than our insurance businesses. For the quarter, it increased Specialty Property's expense ratio by 230 basis points or $25 million of expense, which was nearly offset by fee income. We are pleased with the sales pipeline for the business, and we expect it to be modestly profitable in 2014 after amortization of intangible assets and integration-related costs.

Our placement rate at the end of the quarter was 2.77%, a 10 basis point reduction from year-end 2012 reflecting the improving state of the overall housing market. This was partially offset by contributions from recently added loan portfolios, including 200,000 loans onboarded in the fourth quarter.

Our new lender-placed product is now available in 44 states, most recently in Florida. We're working with insurance departments in the remaining states to complete the rollout later this year.

At the federal level, the new FHFA mortgage servicer guidelines, which eliminate commissions and client quota-share arrangements on GSE loans, go into effect on June 1. Our new product can support this and already has been implemented with many of our clients.

For 2014, we expect Specialty Property's revenues to decline slightly from record 2013 levels, reflecting lower premium rates and reductions in placement rates as seriously delinquent loans are resolved. Revenue will also be affected by the overall number of loans tracked.

In 2013, we benefited from several significant loan portfolio transfers. As the mortgage servicing market continues to evolve, we expect additional transfer activity in 2014. One of our clients has informed us that they may move some of their loans to another carrier. A possible transition is being discussed, and we'll provide more information when it becomes available.

Our expense ratio is expected to increase in 2014, largely driven by the fee-based businesses acquired last year, as well as costs to support lender-placed servicing requirements and reductions in lender-placed premiums.

As we previously discussed, Specialty Property launched a broad multiyear initiative in 2013 to standardize our lender-placed platform and enhance our service while lowering our operating costs. This initiative, along with continued growth in our targeted areas, will support attractive returns for the business over the long term.

At Assurant Health, fourth quarter net operating income was in line with our expectations and reflected an elevated tax rate in a previously announced $3 million after-tax severance charge. Excluding this charge, pretax earnings increased by approximately $8 million year-over-year. The improvement was driven by increased revenue, partially offset by higher commission expenses on new sales of individual major medical policies. In addition, fourth quarter 2012 results were reduced by an adjustment to our premium rebate accrual.

As a reminder, Health's commissions reflect a blend of higher first-year rates and lower renewal rates. A higher proportion of first-year policies will lead to increased commission expenses. General expenses excluding commissions continued to decline, benefiting from ongoing expense management efforts.

Revenues grew 7% year-over-year to $417 million, driven by prior sales of affordable choice supplemental and small group products. While we expect our recent strong sales to generate solid revenue growth in 2014, profitability will be -- will continue to be affected by the higher first-year commission expenses.

Our tax rate will remain elevated due to the nondeductibility of certain expenses under the Affordable Care Act.

At Employee Benefits, net operating income declined by $6.3 million to $10.8 million in the fourth quarter of 2013. This reflected weaker year-over-year disability results, although they did improve sequentially from the third quarter. Experience across all other product lines ran as expected.

Net earned premiums and fees increased by 2% from the fourth quarter of 2012. Growth in voluntary was offset by premium declines in our employer-paid business.

Sales were strong in the quarter and for the full year. More than 1/2 of total sales were voluntary products, including dental. We expect sales momentum in voluntary will lead to premium growth in 2014, though overall, earnings will continue to be affected by the low interest rate environment and employment trends.

Employee Benefits is focusing on improving profitability long term. Fourth quarter results include a $1.4 million after-tax severance charge, which should produce approximately $3 million of pretax savings in 2014. Other actions to improve efficiency are underway.

Turning to Corporate. We ended the quarter with $440 million of deployable capital at the holding company, in addition to our $250 million risk buffer and $467 million set aside to repay our 2014 notes, which mature next week.

During the fourth quarter, we paid $115 million for our investment in EK, and we also returned $111 million to shareholders through buybacks and stock dividends.

Operating company dividends for the year exceeded segment operating income. Based on our current assessment, we expect that 2014 operating company dividends will roughly equal segment earnings. Additional capital needs due to growth in some lines of business should be offset by capital releases and others, including lender-placed.

As in prior years, dividends will be weighted toward the second half of the year. We will continue to focus on ways to make more efficient use of our capital while meeting regulatory and rating agency targets.

The fourth quarter Corporate segment operating loss was higher than expected at $25 billion, driven by additional employee-related costs and approximately $3 million of third-party M&A fees. For 2014, we expect the Corporate operating loss to be about $70 million, a 15% decrease versus 2013 due to reduced benefit plan costs and other expense reductions.
We're pleased with our progress in 2013 and are hard at work on the additional steps necessary to support profitable growth in 2014 and beyond. And with that, we'll ask the operator to open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Mark Hughes from SunTrust.

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

In the case of the block of loans that you described that you're in discussion that may move elsewhere, can you talk about the rationale for that kind of move? Do the new FHFA rules lead to perhaps more movement in loans once those are fully implemented?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, we're still in discussions on all of this and we'll let you know as the discussions evolve. But we just wanted to put you on notice that we have this information. We thought it was important that we provide that to you but we don't really have any more specifics, Mark.

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

Okay. And then when you look at the 2014 for your outlook for Specialty Property, looking at your mix of business and the rate changes on a state-by-state basis, how much of a headwind is rate in 2014, and then perhaps again in 2015, as you see it now?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Mike, do you want to...

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Well, sure, Mark, our rates have been going down with the new product and we implemented some of that in 2013. Now in Florida, we've announced a 10% drop effective at the first of this year. And remember, the way these things work as we roll out over the course of the year. So it takes a while for the full impact to be reflected. So I think the rates, we'll continue to put those through. In some cases, we've also had reductions in commissions under the new regs, that's also being passed through. And then the other factors that drive Specialty Property's revenue are the number of loans, which reflect transfers and things like that.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

And then the other one is, of course, is the placement rates. And on the placement rates side, down a little this year. I think that we've mentioned in the past, Mark, that our legacy portfolio, the placement rates have been dropping even a little more, and we benefited from portfolios coming in that had higher placement rates. So yes, those are all factors that are working into the ASP outlook.

Operator

Our next question comes from Jeff Schuman from KBW.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

I guess I just want to follow on Mark's question. I guess I wasn't sure if I heard an answer to the question about what we should expect in terms of rate changes kind of nationally. I guess, we have some visibility obviously in Florida and California. I think we lack visibility maybe on what's kind of happening in other states. Can you give us a little perspective on that, please?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. I think that you can think about it, as Mike pointed out, a couple of different ways. Ultimate effect is probably 18 months out from introduction in the state. We have some states that are fully in there. Others, Florida, we've just introduced full effect in 2015. But if you put it all together, I would say it's probably a low double-digit impact in 2014 from the rates.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Correct. And then you've got the other factors we talked about earlier, Jeff.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. So low double-digit in 2014 and then some additional impact in 2015 just because these things take a while to work?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Correct, yes.

Jeffrey R. Schuman
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, okay, that's helpful. And then because we probably ask about this every quarter, but can you give us any sort of quantification around the placement rates on the legacy business and how that's trending?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. I don't think we have specific numbers for you there, Jeff, but the lender -- excuse me, the legacy portfolio, we are seeing drops in the placement rates. And those have sort of continued to trend down. As we've discussed, our overall placement rate has been increased by the new portfolios that we transferred in over the course of 2013, which have had a bit higher rates. But that legacy trend is down.

Operator

Our next question comes from Sean Dargan from Macquarie.

Sean Robert Dargan
Macquarie Research

Just taking the baton and running with it, maybe I can ask it a different way. When I look at the spread of exposure by region, it seems that some of the portfolios you've brought on, you've increased your northeastern coastal exposure, which tends to line up with judicial foreclosure states where there's still a backlog, and specifically in New Jersey, New York and Connecticut. Am I right to think that some of the portfolios you've brought on have increased your exposure to those states, and that's kept your average placement rates somewhat elevated?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

That's correct. Those changed judicial state is a driver.

Sean Robert Dargan
Macquarie Research

Okay. And I mean, we should think as those judicial states work through their backlogs, that, that will perhaps drive an average lower placement rate?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

That's correct.

Operator

Our next question comes from Mark Finkelstein from Evercore.

A. Mark Finkelstein
Evercore ISI, Research Division

Where do we start? Actually, I'll start with a follow-up to the answer given on Jeff's question. When you talked about low double-digit as kind of a way of thinking about the rate declines in '14, is that gross or net of commission changes?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, that's all in.

A. Mark Finkelstein
Evercore ISI, Research Division

So the low double-digit would be a rate but you also get some offsets from commission, so kind of the true rate decrease would maybe not be quite the low double-digits? Is that the way to think about that?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Not sure quite what you're driving at, but I think that if you look at the gross change, it's going to be a low double-digit number.

A. Mark Finkelstein
Evercore ISI, Research Division

Right. But I'm saying but you should get some offset by not paying commissions...

Robert B. Pollock
Former Chief Executive Officer and Executive Director

That is true. Again, remember, there's all these factors that are in motion. It will depend -- we've introduced things like geographic ratings so it will be a function of where the properties are placed will have an impact. But we know commissions are coming down.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. Moving on to medical. Obviously, huge sales quarter with ACA. How does the underlying risks that you've received kind of compare to what you assumed in your filed rates? And is it better, is it in line, is it worse? Are you getting adverse selection? Just can you walk through the underlying risk pool of what you're guiding?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. So I think the first thing in our sales is to realize we have policies with fourth quarter effective dates which don't fall under the Affordable Care Act, they're prior to that. And you might look at that as people who wanted to buy policies and have a period of time before the ACA provisions were going to take effect. But we have quite a bit of business that came in with 1/1 and later effective dates that fall right into that category. And just a couple of comments I'd make is when we established our strategy in health, it was focused on affordability and choice. A lot of people have felt that in the ACA environment, a metallic plan is a metallic plan. We happen to offer a number of different, say, bronze plans that will appeal differently to different consumer groups. And so we think that choice is still an important component. I think when you look at who's come in, our results are similar to a lot of things you've heard in the press, a little bit older than we expected. So demographic is a consideration. The other one is the morbidity characteristics of the pool. A little early to know what that looks like yet. We can say that it's a little bit older than we expected but manageable. I mean, it's not a huge deviation from what we expected.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. And in your opening remarks, Rob, you talked about '15 and reform changes that should help improve the profitability of the block as you look at '15. Can you walk through what those changes are and how it should affect the '15 profitability of the Health business?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, I'll let Mike comment here as well. But one of the big ones he mentioned, which is first, historically, we've had higher first year commissions, and we've had, because of underwriting we've done, we've had better morbidity in first year business. We don't do any decking of those commissions and aren't going to, but you can think about, in the new pool, we're not going to have necessarily better morbidity, which may mean that first year experience is not going to be quite as good, okay? But then we talked about all the different mechanisms going on for risk mitigation. And they kind of come in over time a little bit. And then I think last, just in our overall results, as we get bigger and Mike mentioned we took some expenses out, we are gaining scale and leverage in the business that will grow over time. So it's really a combination of all those different things.

A. Mark Finkelstein
Evercore ISI, Research Division

Okay. And then one last question if I may, which is should we expect a first quarter sales to look a lot like fourth quarter in terms of a lot of ACA-type bronze, metallic type plans? Or did you really see the activity in the fourth quarter?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

So I kind of think 2 things. I think the ACA is going to change the distribution of sales within medical, and it will be heavily fourth and first quarter-oriented, okay? But life events, which are, gee I left an employer and I need covered somewhere else, those are going to go on across the whole year, and that's a important contributor to our sales activity. I think the real unknown, and we'll know a little bit more about this at the end of the first quarter, is, gee, are we going to see more people who struggle with the affordability issues turning to alternative products?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

The sales activity in the fourth quarter was heavily influenced by this "get it done before the end of the year" kind of mark. Obviously, that's not going to recur in the first quarter.

Operator

Our next question comes from Chris Giovanni from Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

I guess first question in terms of the loans. In the past, when you've onboarded some loans, you've given us some indication about the placement rates on those maybe being above or below kind of the existing placement rate. So wondering if you could give us some indication on the loans that you could potentially lose here, where they are relative to the current placement rate?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes. Really, we're in discussions on all of this, Chris, and we don't really have any cover to offer. When it's available, we're obviously going to provide it.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then I guess on Solutions. You have this $15 million target out for 4Q. Could you potentially give us maybe a breakdown of how that's carved out relative to kind of U.S. versus maybe some of the other developed markets like LatAm, Europe, Canada?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Well, the drivers, Chris, of Solutions lift in earnings this year, there are several areas that we're looking at. The growth in our mobile business and expect -- expand the profit margins there, so we've obviously got the LSG acquisition in Europe. That's going to be a help there. But we expect overall solid growth and contributions from mobile. Then, Europe is going to be a big focus as we integrate that region. We had some obviously expenses, severance of charges, et cetera, that we took in the fourth quarter, so we really expect disproportionate improvement in Europe. And then just the overall expense management, we've got, reducing expenses in nongrowth areas. So we've got mobile, we've got the Europe integration and expense management being kind of the 3 drivers. And then if I look a little bit beyond 2014, our acquisitions of EK and LSG will help drive earnings going forward. They're not going to contribute much in 2014 to earnings because of amortization of intangibles and integration costs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then, Rob, obviously, Argentina is one of your more developed markets, and that country has certainly been in focus here with the emerging market concerns. And I guess probably way too early to think about any impact that this is having on your business, but could you give us some update? And I know you talked back in '08 at the Solutions Day a fair amount about Argentina. But if things were to maybe go down the wrong path there, I mean, how should we think about potential risks that, that could have for your business there, if any?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. So let's start with Latin America. We've been there a long time. We've been through cycles before there. And we like Latin America because of the market characteristics that it offers. We've got a broad footprint. We're in more than just Argentina. We're in a number of countries down there. And if we look internationally, we're even in a broader footprint. So I guess when I look at Argentina, the great thing is we're not -- the business generates all the capital it needs itself. We're not putting more money in there. We've had very strong results there over time. But as part of our overall portfolio, it's a small component of overall international. Chris, maybe you want to comment a little bit on how we look at some things when we size up Latin America.

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, I guess the other point I'd just make around capital deployment and the required hurdle rates for investments in countries outside of the U.S. is we do factor in country risk and currency risk when we set target hurdle rates. The other point I'd make with respect to Argentina is in our capital forecast, and again, operating earnings and dividends coming up to the holding company, we're not forecasting operating earnings out of Argentina to come back into the U.S. So we're factoring in all of these relative exposures.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then, Chris, I guess last just on capital management broadly. Just updated thoughts around kind of what you're thinking, obviously, '13 was active in terms of M&A as well as buybacks. I mean, should we expect kind of a similar story in 2014?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Yes, I think so. I mean, I think the issue for us, the outlook going forward is going to be about flexibility and maintaining our discipline. Again, the flexibility coming from operating earnings and our ability to get those earnings up to the holding company as dividends. We still -- we think this year, although it's early, and we'll continue to update you. We do expect to get aggregate operating earnings to the holding company in the form of dividends. We do think the stock is attractive and a prudent use of deployable capital. But we also think the combination of profitable growth opportunities, either organically or through M&A, and returning capital to shareholders through share repurchase is going to be the combination that will produce the greatest long-term value.

Operator

Our next question is from Steven Schwartz from Raymond James & Company.

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

I want to head back to Health, if I could, and follow up some of Mark's questions. The sales, I think, Rob, as you noted or I think it was you who noted it, that -- or maybe it was Mike, a lot of the sales for this quarter were renew me now, so later in 2014, I don't get stuck with Obamacare and having to pay more and maybe not getting the policy that I wanted, and I gather this as prevalent, particularly in the red states. Now do I understand it correctly when you talk about sales, if I were to buy a policy in July of any year, a 12-month policy from you and then 12 months later, I renew the policy, that's a sale? I mean, there are 2 sales there?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

No, no. So you should think about sales as a first-time buyer or someone who left us and came back, but there's been a period where they've not been insured by us.

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

And that's -- okay, this is important. So that's also true of somebody who came to you and said -- so if somebody already had your policy and then renewed, that's not a sale?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Correct.

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

So but if somebody didn't have your policy, wanted to get your policy before January 1 and did, that's a sale?

Robert B. Pollock

Former Chief Executive Officer and Executive Director

Correct.

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

Now here's something I don't understand. So you've got this large amount -- huge amount of sales, but the membership, it grew, but it grew like it always did. How come the membership doesn't grow faster?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, that's a good question and the answer is the way we count membership is business that is in effect as of the year end. So we've got a lot of first quarter sales that are not reflected in the membership.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

So you'll see it all show up the next quarter we report, Steven.

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

Okay, all right, good. And then, okay, so moving on from that. Just you talked about private exchanges with regards to Employee Benefits. You've always done individual but kind of the private exchanges that are developing for large cases, I don't know. Does your product -- does your IMM product work on that or not really?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Again, private exchanges, I would say, are kind of in their infancy of development. And we're evaluating them both on the benefit side and within our Health business. I'd point out that we decide to not go on the public exchanges. But I'll tell you during the quarter, a lot of people actually bought directly from us by coming to our website, or they came to our website and then were toggled to one of our own counselors to help them sell. So how the private exchange market is going to evolve is still unknown. I'd expect modest activity but we want to get our feet in the water and understand how that market is going to develop.

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

Okay. And then one more, if I may. You're talking about 2015 risk quarters or whatever. I was not aware, you don't participate on the public exchanges now, but do you still benefit from the various risk payments that the government will make if your risk doesn't look like what it's supposed to look like?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Yes, we do, Steven. There's 1 -- there's 3, I think, main risk transfer mechanisms. One of them is only for the -- if you're selling on the exchanges so we wouldn't participate in that, but the other 2, we would. Of course, the impact of those depends on sort of the demographics of our insured population compared to the industry. So it's going to take some time until we get a bead on how we line up with that.

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

Okay. And then one quick last one. What's the rate on the notes that are going to be called?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

The Feb '14 maturing, of 5.625% [ph] coupon.

The way you can think about it is the debt capacity or the expense load associated with the debt prior to our issue in March of last year was roughly $60 million pretax. The new structure which includes $200 million more of debt will be roughly $55 million pretax. So again, the flexibility we had last year, opportunistic debt raise produced some good expense numbers going forward.

Operator

Our next question is from John Nadel from Sterne Agee.

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

A couple of questions on Specialty Property. You guys had done a good job sort of giving us the foreshadowing about the idea that expense levels would increase. You had some additional expenses around onboarding new loans, adding to your call center, some regulatory issues, that sort of thing. I'm just curious, in 4Q's expense load for Specialty Property, are you at that new run rate or do you still have more to do?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I think we've added a lot of people to the service centers, John, so I'd say we're probably about at the levels that we need there. There's still, I think, some ramping up of activity, but I'd say we're getting close to what should be a run rate on the sort of activity for loan.

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

Okay. And then. Sorry, go ahead.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

John, I was just going to say that Gene and his team will now sit down and look at all of our different workflows. And obviously, we're going to look to find ways to improve our expense structure.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

And some of those things that Rob alludes to there involve systems work and things like that too, that takes some period of time. So I think the goal is to automate many of these things that we've had to deal with by adding lots of people. And that's why we alluded to this being sort of a multiyear initiative.

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

Got it, okay. The second question and maybe it's more for Chris. You guys obviously buy reinsurance at different points in the year. That's what you've been doing for the last couple of years. There's no secret that catastrophe or property, catastrophe reinsurance costs are coming down and coming down dramatically. I'm just wondering if you can give us a sense for what your approach is going to be for this year. I think if you -- your exposures have probably changed a bit certainly on a year-over-year basis. But I'm just wondering, do you let some of those savings from lower reinsurance costs drop to the bottom line? Or are you just going to essentially layer on more protection and have about the rip the same spend? I just want to get a sense for how are you going to think about that?

Christopher J. Pagano
Executive VP & Chief Risk Officer

Well, I think obviously, the absence of any significant cats in 2013, and equally importantly, the additional capacity from the capital markets has produced some very favorable reinsurance pricing conditions. We're looking at ballpark roughly 15% drop on a risk-adjusted basis. And I think we're going to -- and we've already placed a portion of the program, we've got some cat bonds in place that are multiyear and some other multiyear, and then we'll go back into the market in June as we do -- as we've done the last several years. I think where we're seeing some additional flexibility is some willingness to provide multiyear coverage on an indemnity basis and then some flexibility around reinstatement premiums. So those are the main factors of what we're seeing as the byproduct of the additional capacity in the reinsurance market. And we're going to factor all that in and we'll update you when we finish the placement in June.

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

Well, I guess I'm just trying to understand. There's so many moving parts when you think about the idea of net earned premium for Specialty Property overall being maybe slightly down, flat, slightly up. Appreciate a lot of this different color, but I think this -- I think the reinsurance costs could easily be part of that as well, right? I mean, if you guys just wanted to grow premiums, your net earned premiums, you could.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

We could. I mean, again, there's lots of choices. What I think about is all you have to do is think back to when RMS 11 was there and everyone was projecting costs would go up. I think our fundamental belief is at some point in time, the market will harden when there are some events and we're trying to get multiyear coverage so that we're protected with favorable rates, John.

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I'd say we always start with obviously the risk protection, John. And then once we're comfortable with that, then that's where you can play at the margin with the trade-offs and the rates or pricing. But that we always start with that risk management focus on our reinsurance side.

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

Yes, no, don't get me wrong. You guys have done a great job with your program of protecting the balance sheet. I'm not trying to attack on that side.

Christopher J. Pagano
Executive VP & Chief Risk Officer

The other thing I'd point out, John, again, this is a kind of a macro trend issue around placement rate. As placement rates -- as the housing crisis continues through its resolution and placement rate's lower, macro events that we've talked about for a number of years, there is going to be some capital release from the property segment. And we do anticipate from lender-placed in particular and we are -- that is something that we expect to start to see during 2014.

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

Okay. And then one last quick follow-up, Field Services. So I think I caught you, Mike, that it's about $25 million in the expense line this quarter. I guess a little bit less than that on the fee revenue line. When do you get to the point where that starts contributing? Can you just remind us when that starts contributing to bottom line?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I think it will be -- I think we said modestly profitable in 2014, John. And then whatever you do these acquisitions, we've set up intangibles on the balance sheet, those are amortized over time. So your contribution to earnings grows over time. So modest contribution in '14 and then growing in '15 and beyond.

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

And on the balance sheet where the goodwill increase quarter-over-quarter, was that all from Field Services or is Lifestyles in there as well?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Lifestyle Services is in there too.

Operator

And we will take our final question from Seth Weiss from Bank of America.

Seth M. Weiss
BofA Merrill Lynch, Research Division

If I could ask just one more on Specialty Property. You're guiding to the non-cat loss ratio to increase on lower premiums and the higher claims frequency. I understand the lower premium rate and that impact. Could you comment a little bit on higher claim frequency and why you're expecting that to go up?

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Sure. I mean, historically, we've seen properties that are moving to foreclosure often have just higher claims incidents associated with them, and that's what we're certainly thinking is going to happen here.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Is there any way you can help sort of quantify that impact over 2013?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

Yes, I don't know that we're quite able to give you an exact quantification there. But certainly, we had mild weather overall. So cat issues aside, just a lower sort of claim costs in 2013. So that's why we're just saying that we think that's going to go up. We think '13 was a bit lower than it will be.

Seth M. Weiss
BofA Merrill Lynch, Research Division

Okay, great. That's helpful. And maybe one final one on Employee Benefits. Voluntary sales seemed to be sort of a tailwind to premiums. It seems from your guidance that we should think of '14 as sort of a buildout year there, where expenses may sort of offset some of the bottom line positives from the sales. Is that the right way to think about it as sort of a net neutral to '14 earnings and going into '15?

Michael John Peninger
Former Chief Financial Officer and Executive Vice President

I think that's a fair way to look at it. I mean, in voluntary, benefits we're excited about voluntary. We think we've got some real traction in our offerings in that small- to medium-size market and they are working hard on expenses. But I think your analysis is quite good.

Robert B. Pollock
Former Chief Executive Officer and Executive Director

Thanks for joining us this morning. We look forward to hosting our 2014 Investor Day on March 11 and 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.