S&P Capital IQ

CONTENTS

The Hartford Financial Services Group, Inc. NYSE:HIG

FQ4 2015 Earnings Call Transcripts

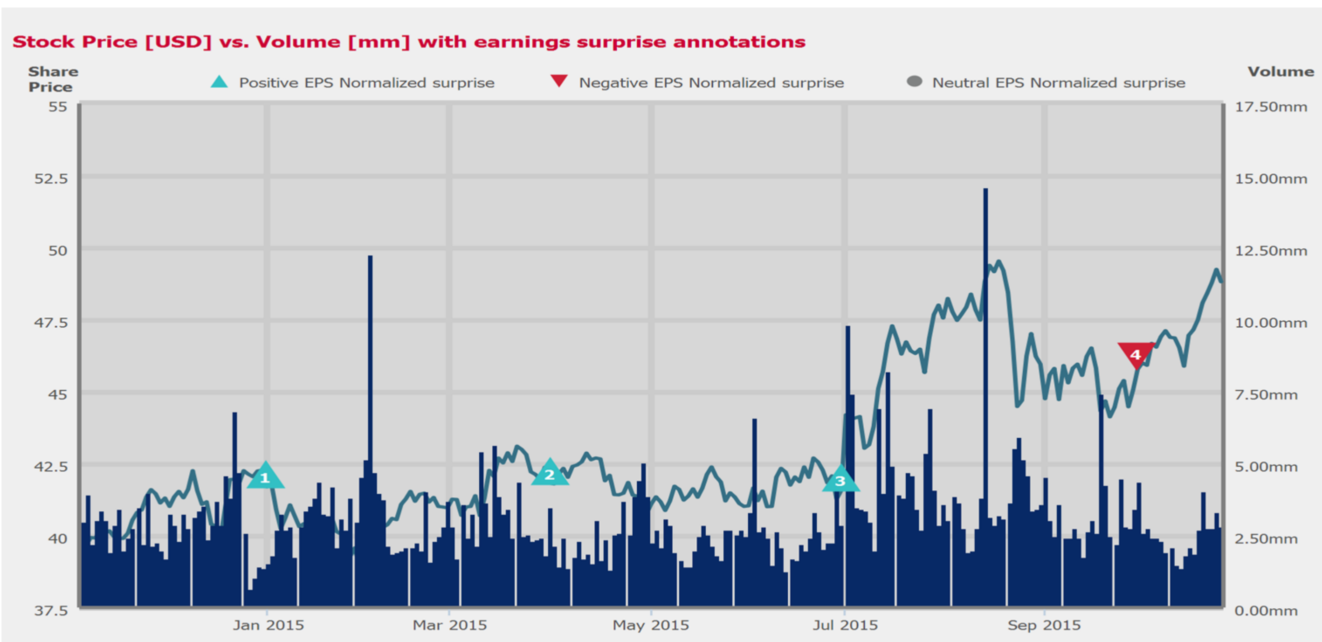
Friday, February 05, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.98	1.07	▲9.18	1.05	3.80	3.88
Revenue (mm)	4702.00	4513.00	▼(4.02 %)	4891.00	18524.50	18377.00

Currency: USD

Consensus as of Feb-05-2016 11:23 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	0.93	0.96	▲1 3.23 %
FQ1 2015	0.97	1.04	▲2 7.22 %
FQ2 2015	0.77	0.91	▲3 18.18 %

FQ3 2015	0.99	0.86	(13.13 %)

Call Participants

EXECUTIVES

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Christopher John Swift
Chairman & CEO

Douglas G. Elliot
President

Sabra R. Purtill
Senior Vice President of Investor Relations

ANALYSTS

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

Erik James Bass
Citigroup Inc, Research Division

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jay H. Gelb
Barclays PLC, Research Division

John Matthew Nadel
Piper Jaffray Companies, Research Division

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Randolph Binner
FBR Capital Markets & Co., Research Division

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Thomas George Gallagher
Crédit Suisse AG, Research Division

Presentation

Operator

Good morning. My name is Jessa, and I will be your conference operator today. At this time, I would like to welcome everyone to The Hartford Fourth Quarter 2015 Financial Results Conference Call. [Operator Instructions].

Sabra Purtill, Head of Investor Relations, you may begin your conference.

Sabra R. Purtill
Senior Vice President of Investor Relations

Thank you. Good morning, and welcome to The Hartford's webcast for 2015 financial results and 2016 outlook. The news release, investor financial supplement, fourth quarters -- and fourth quarter slides were all released yesterday afternoon and are posted on our website. In addition, there is a slide deck for today's webcast that was posted this morning.

I would note that we expect to file the 2015 10-K on February 26. Our speakers today include Chris Swift, Chairman and CEO of The Hartford; Doug Elliott, President; and Beth Bombara, CFO. Following their prepared remarks, we will have about 30 minutes for Q&A.

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

The presentation today also includes several non-GAAP financial measures. Explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings as well as in the news release and the financial supplement.

I will now turn the call over to Chris.

Christopher John Swift
Chairman & CEO

Thanks, Sabra. Good morning, everyone, and thank you for joining the call. 2015 was a successful year for The Hartford. Core earnings per diluted share increased 15% over 2014. Core earnings ROE rose to 9.2% from 8.4%. Book value per diluted share, excluding AOCI, grew by 7%. We reduced debt by $750 million, and we returned $1.6 billion of capital to our shareholders.

Doug and Beth will go into further details of our 2015 performance, but I'd like to touch on a few highlights. First, Property & Casualty had a very strong year. The underlying combined ratio improved 0.5 point to 91, and top line growth continued, reflecting an increase in new business and the benefit of pricing and underwriting actions we have made over the past few years.

Group Benefits had a very strong year. The business generated a 5.6% core earnings margin, exceeding our plan, and pivoted to growth with a 2% increase in fully insured ongoing premiums.

We continue to execute on our strategy at Talcott Resolution. The business is running off steadily, returning capital to the holding company, and our hedge programs are working effectively. Our Mutual Funds business generated $1.5 billion of positive net flows in 2015, increased sales by 15% and delivered solid relative fund performance. And our ratings where upgraded by A.M. Best, Moody's and S&P, an affirmation of our improved balance sheet, operating performance and financial flexibility.

We delivered these strong financial results and increased our top line momentum while investing in the capabilities and talent that are making us a broader and deeper risk player, in a more efficient customer-focused company that can deliver sustainable, profitable growth. For example, the strong talent we attracted to the organization, particularly in underwriting, sales, data and technology, is enabling us to judiciously expand into new market industry verticals. Doug will touch upon this in a moment.

The investments we made in new systems, such as our claim system, our Group Benefits enrollment system, and our Middle Market underwriting desktop, are both reducing cycle times and, importantly, enhancing the experiences we are delivering to agents and customers.

Our understanding of the business implications of accelerating technological change, shifting demographics and evolving customer expectations, is informing the investments we are making in product, distribution and service, and recent marketing investments have increased the visibility of our iconic brand. For example, our sponsorship of Major League Baseball fully rolls out into 2016, and we recently announced the extension of our 20-plus-year relationship with the U.S. Paralympics through 2020.

As all of you know, the market is becoming increasingly competitive, and the investment environment is less favorable. Consolidation amongst carriers as well as agents and brokers has accelerated. Legacy IT platforms are aging and are costly to maintain. We faced disruption from the advent of Big Data, autonomous vehicles and new capital entering the market. Interest rates are low and are expected to be lower for longer. These dynamics are challenging insurance companies to reevaluate their operations and to adapt. We believe that Hartford is well-positioned to address these challenges and to take advantage of the market opportunities they present.

We enter 2016 with a strong portfolio of businesses and capital flexibility. We remain focused on organically growing each of our businesses, and we will explore acquisitions that meet our financial and strategic objectives. We will maintain underwriting discipline and tightly manage expenses to support ongoing investments in the capabilities and talent needed to be a top-of-mind company for the products we offer through our distribution partners. And we will continue to expand our core earnings ROE, excluding Talcott, with business performance and effective capital management that returns excess capital to shareholders.

Our 2016 outlook for core earnings is $1.575 billion to $1.675 billion. Excluding Talcott, this range represents core earnings growth of approximately 5%, adjusted for favorable CATs and other items in 2015. We also intend to complete our capital management plan, including the $1.3 billion of share repurchases.

In closing, let me express how proud I am of what we accomplished in 2015, and my sincere thanks to our leadership team, our employees, agents and customers and our investors for their continued support and confidence. We have a clear strategy, an experienced and stable management team, a powerful national distribution network, differentiated products and a brand that stands for strength and integrity.

As we enter 2016, I am confident in our ability to navigate this dynamic and competitive environment and continue to create shareholder value. Now I'll turn the call over to Doug.

Douglas G. Elliot
President

Thank you, Chris, and good morning, everyone. I'll provide an overview of our 2015 results in Property & Casualty and Group Benefits, and then share some thoughts as we look forward to 2016.

2015 was another year of strong financial performance, with improved results in Commercial Lines and Group Benefits. In Personal Lines, results were below our expectations but we remain pleased with the trends of our AARP Direct business and the progress we've made to reposition agency.

Let me get right into our financial results. In Commercial Lines, we delivered over $1 billion of core earnings for the full year on an all-in combined ratio of 92.6, 0.8 point better than 2014. The underlying combined ratio, excluding CATs and prior-year development was 90 for the year, representing 1.5 points of margin improvement.

Recall that 2014 included a $49 million pretax benefit from New York assessments. Normalizing for this, the underlying combined ratio improved 2.3 points. This was driven primarily by improved results in workers' compensation, general liability and non-CAT property losses. Renewal written pricing in standard Commercial Lines is 2% for both the full year and the fourth quarter. In workers' compensation, our largest and most profitable line of business, loss trends continue to emerge favorably. And as a result, pricing has flattened relative to the prior period.

Conversely, commercial [indiscernible] pricing was in the high single digits, reflecting adverse loss experience throughout the year. On the top line, written premium of $6.6 billion was up 4% from 2014, with growth across Small Commercial, Middle Market and Specialty Commercial. Let me provide some details on each of our commercial business units.

In Small Commercial, the underlying combined ratio of 86.6, was 0.4 points better than 2014. Written premium grew by 4%, driven by strong retentions and $545 million of new business, an increase of $24 million or 5% year-over-year. New business growth in the fourth quarter was the strongest for the year at 9%, capping off another excellent year for this business unit.

In the summer of 2015, many of you were with us at our Charlotte operation, where we demonstrated the core building blocks that form the foundation of our market-leading small business platform. These include our new business submission technology, ICON; our underwriting and service centers that handle over 2 million calls annually from customers and agents; and our sales team that is relentless in partnering with distributors. Hopefully, you're better able to appreciate how these capabilities seamlessly intertwine to deliver the results we posted in 2015.

In Middle Market, we made solid progress with the underlying combined ratio of 91.4, improving 3.1 points from 2014. Written premium growth was 3%, retentions were solid throughout the year, and new business production of $474 million was up for a third consecutive year. The second half of 2015 was certainly more challenging, and we saw that during the fourth quarter with new business premium down 13%.

We're encouraged by the results in construction and marine, both of which posted strong new business growth and profitability in the fourth quarter. In Specialty Commercial, the underlying combined ratio of 98.8, for the full year, improved from 100.2 in 2014. This was driven by strong performance improvement in bond and financial products.

National accounts achieved nearly 90% account retention and posted positive written premium growth. Bond written premium growth was modest, as we have yet to see a pick-up in public construction projects. And financial products gained traction with the growth in Middle Market and technology E&O, 2 strategic priorities for the year.

Overall, Specialty written premiums were up 3%.

Shifting over to Personal Lines, we delivered $185 million in core earnings, down 12% from prior year. The underlying combined ratio of 92 deteriorated 1.4 points from last year, driven mainly by higher auto loss cost and increased non-weather losses in homeowners. In Personal Lines auto, we experienced frequency trends above our expectations in the second half of the year.

Our full year frequency trend is under 2% with the third and fourth quarters running at approximately 3.5% to 4%. We saw an increase in the summer months, largely due to increased miles driven. Trends in September and October were quite benign as was the early read on November. In December, there was another uptick in frequency, mainly a liability. Some of the claim activity in December related to November accidents, causing the November frequency to develop several points higher than our initial indication. And we also had relatively favorable trends in those months of 2014, setting up challenging comparisons for the fourth quarter.

We continue to hone our rate plans and underwriting actions to address these frequency trends as the data matures. But it's clear to us that these patterns are a new norm, and will be addressed in our rate filings.

Now let me turn to Group Benefits. Core earnings for 2015 increased to $195 million, up 8% from 2014. That results in a core earnings margin of 5.6%. The full year group disability loss ratio was favorable compared to prior year, reflecting our ongoing pricing discipline and favorable incidence trends. The group life loss ratio deteriorated due to slightly higher mortality and claims severity.

Looking at the top line, fully insured ongoing premium ex Association-FI increased 4% for the full year. Overall, book persistency on our employer group block of business came in at approximately 90% for the year. And fully insured ongoing sales was $467 million, up $141 million.

2015 was a very strong year for Group Benefits. First quarter sales were outstanding followed by solid activity throughout the year. The overall loss ratio remains steady and at attractive margins, while the expense ratio ex Association-FI decreased 1.1 point. All of these drivers contributed to an increase in the core earnings margin during 2015. We were especially excited to welcome back several large customers as further evidence of our outstanding service and product capabilities.

As we wrap up 2015, we're pleased with our continued financial progress and by the growing market strength of each of our businesses. Before I turn things over to Beth, let me offer a few comments on 2016.

Although we're facing near-term pricing and competitive challenges, we remain committed to our long-term objective of profitable growth. Each of our business units has core initiatives underway for 2016. In Small Commercial, we're adding to our digital capabilities, as customers and distributors demand more access and convenience. And we're expanding our product and underwriting capabilities to accommodate both larger accounts and broader coverage on our platform.

In Middle Market, our priority is competing effectively at the frontline, leveraging our talent with the tools we've introduced over the past several years. Through advanced training and rigorous analytics, our field underwriters are continuously improving our risk selection and pricing decisions. In product development and related areas such as claims and risk engineering, we are extending our capabilities in industry verticals such as construction, auto parts manufacturing and hospitality. Taken together, these actions allow us to effectively become a broader middle market player.

Within Specialty Commercial, we rolled out a new risk management platform for national accounts, allowing customers better access to claim data and other information needed by risk managers. This investment further strengthens our value proposition in this competitive market segment, and will allow us to work more closely with our customers to improve long-term account performance.

We expect our overall Commercial Lines margins to remain generally stable, with an underlying combined ratio of between 89 and 91. We will remain disciplined with our pricing and underwriting actions, managing to both long-term loss cost trends as well as individual account performance.

In Personal Lines, we have 3 overarching goals. The first is to improve the margins of our products, both auto and homeowners. We're investing in capabilities to better harness data and analytics, and thereby refine and manage our underwriting and pricing. Second is to maximize the value of our long-term partnership with AARP. Investments in digital tools, contact service capabilities and direct marketing effectiveness are all designed to attract and retain more AARP members. And third, we will leverage the agency channel to target AARP members and other customer segments that value the expertise of agents, who actively seek the benefits of our product suite and who value our service model. We expect to achieve a Personal Lines underwriting combined ratio of 90 to 92.

In Group Benefits, we're looking to drive growth in our core employer group offerings as well as our voluntary product suite. Our current voluntary lineup includes DisabilityFLEX, critical illness and accident. We will add hospital indemnity in the first quarter 2017. These products, along with our enhanced enrollment and marketing tools, help individual participants make sound decisions for their unique benefit needs. We expect our Group Benefits core earnings margin to be relatively stable between 5.5% and 6%.

First quarter 2016 renewal retention is strong, as is new sales activity. January sales are well above our 5-year average but down versus a year ago. Recall that 2015 was in many years -- was in many ways a unique sales year, recovering from low market activity in 2013 and '14.

Overall, 2016 will be a year of competing in an aggressive and disciplined manner. Competition has intensified versus a year ago. We're putting our investments and enhanced capabilities to work to maintain our margins in Commercial Lines and Group Benefits and improve financial performance in Personal Lines. We will continue to identify opportunities for profitable growth, and we remain committed to smart product and underwriting expansion, building deep partnerships with our distributions and delivering outstanding value to our customers.

In summary, we're very pleased with a successful year in 2015 and are looking forward to continuing our journey in 2016. Let me now turn the call over to Beth.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Thank you, Doug. Today I'm going to cover Talcott Resolution, the investment portfolio and full year results before turning to our 2016 outlook and financial goals.

Talcott's full year core earnings, summarized on Slide 19, rose 9% from the prior year to $472 million, much higher than our original outlook due to a tax reserve release, increased limited partnership income and nonroutine investment income such as make-whole payments.

Excluding these items, Talcott's results were largely in line with the February 2015 outlook of $340 million to $370 million. On a statutory basis, Talcott surplus during 2015 increased by approximately $375 million, before dividends to the holding company. Year-end surplus was $5 billion, which corresponds to an RBC of approximately 550%. In mid-January of this year, the Connecticut Department approved our $500 million dividend request, and it was paid to the holding company last week. This payment completed Talcott's $1.5 billion capital return program that we announced in February last year. In addition, we expect to request a dividend of approximately $250 million in the second half of 2016.

For 2016, we expect Talcott core earnings in the range of $320 million to $340 million. This outlook is based on the continued runoff of the VA and fixed books and does not include items like tax reserve releases or significant nonroutine investment income that we had in 2015. I would note that our outlook does assume market value appreciation from year-end 2015 on VA accounts, and therefore there is some sensitivity to market levels.

Statutory results for 2016 will depend on many factors, such as the level of admitted deferred tax assets, cash flow testing reserves, limited partnership in nonroutine investment income and other items that may create volatility. Based on the underlying assumptions in our outlook, we expect statutory capital generation to be in the $200 million to $300 million level, although, as we experienced during 2015, it can vary a lot between quarters.

Looking forward, our objectives for Talcott have not changed. We expect to maintain Talcott's capital self-sufficiency. Consistent with the past few years, we provided you an update of Talcott's capital margins on slides 30 and 31 in the appendix, which are based on the market scenarios summarized on Slide 32.

Pro forma for the $500 million dividend in January 2016 and the additional $250 million expected in the second half of 2016, Talcott's stress scenario capital margin at year-end 2017 is expected to be approximately $1.6 billion, well above our 200% RBC minimum.

This result gives us confidence that Talcott will continue to return capital to the holding company in 2017, although the actual amount and timing of 2017 dividends will depend on final 2016 results, market conditions, liquidity needs as well as the composition of surplus. And as a reminder, any dividends require regulatory approval.

Given recent capital market volatility, I wanted to touch on our hedging programs for Talcott. First, our hedging programs have been effective against their targets, and due to the sale of Japan we have far less volatility in our reported results. Our hedge programs target the economics of the VA liabilities, which means that gains or losses on the hedges mostly offset the changes in the economic liability to policyholders. Within the VA GMWB liability, we are largely hedged for equity exposure, although not for fees, and we are not entirely hedged for interest rates.

Second, while our hedge programs are a key tool for maintaining Talcott's capital self-sufficiency, we will continue to have capital sensitivity to stress scenarios, including credit risk and interest rate exposures on the fixed and institutional annuity blocks. You can see these impacts on Page 32 of the slide, which shows the key changes in capital margins in the stress and favorable scenarios versus the base case.

Lastly on Talcott, we completed our annual assumption update in the fourth quarter, which takes into consideration recent experience including withdrawals, surrenders, mortality and operating expenses. We adjusted some assumptions, including lowering surrender rates, which had a modest negative impact on fourth quarter net income.

Turning to investments on Slide 20. Total impairments for the quarter were $107 million. 2015 impairments are up from $63 million in 2014, largely due to intent-to-sell impairments on energy and other commodity-related securities.

As for energy-related securities, our holdings totaled $3.7 billion at December 31, 2014, and declined to $2.5 billion at year-end as we actively reduced our exposure during the course of the year. We believe these investments are well positioned for a lower-for-longer oil and commodity price environment, and we will continue to manage these holdings.

During the year, we upgraded the average credit quality of our below-investment-grade portfolio, which totaled $3.2 billion at year-end 2015. As you can see, on Slide 20, we increased our exposure to BB bonds and decreased our exposure to bonds rated B and below during the year, including some below-investment-grade energy exposures.

Turning to Slide 21. Our portfolio yield, excluding limited partnerships, have held up reasonably well, averaging 4.1%, largely consistent with last year. However, excluding non-routine investment items, the yield is down about 10 basis points from 2014.

The P&C portfolio yield, excluding limited partnerships, declined to 3.8% in 2015 from 4% the year before, reflecting the impact of lower reinvestment rates.

As a reminder, the P&C yield is lower than the consolidated portfolio due to its shorter duration. Consistent with the decline in yield, 2015 P&C net investment income, including limited partnerships, declined 4% to $1.17 billion. In total, 2015 core earnings increased 7% to $1.65 billion or $3.88 per diluted share, which you can see on Slide 22. The core ROE rose to 9.2%, an 80 basis point improvement from 2014, and book value per diluted shares, excluding AOCI at December 31, 2015, grew 7% to $43.76, compared to 4% growth in 2014.

Taking together the $0.78 in common dividends per share and the increase in 2015 book value per share ex AOCI equates to total value creation of 9% per share.

Let me provide a quick update on our capital management actions for the last quarter and the year. During the fourth quarter of 2015, we repurchased $450 million of shares, a little higher than the $425 million we indicated at the Goldman Sachs conference in early December.

We also repaid $160 million of debt that matured in the quarter. For the full year, our equity repurchases totaled $1.3 billion, and we used approximately $800 million to reduce debt, while paying more than $300 million in common stock dividends. As of February 3, 2016, we have approximately $1.2 billion remaining out of the $4.375 billion authorization for equity repurchases from 2014 through 2016. For debt management, we have $455 million remaining under our plan.

I'll touch on our 2016 outlook shortly, but wanted to note that our 2016 outlook assumes the completion of this capital management plan by December 31, 2016.

Turning to Slide 24. I draw your attention to expanded disclosures in the IFS for ROEs. As of December 31, 2014, we began providing legal entity balance sheets on Page 4 of the IFS. Beginning this quarter, we are providing additional ROE disclosures, so you can now evaluate net income and core earning ROEs in total as well as excluding Talcott. In addition, we have provided individual ROEs for P&C combined companies, Group Benefits and mutual funds.

As noted on this chart, our core earnings ROE, excluding Talcott, was 10.9%. P&C is the largest driver of this result, with a 2015 P&C core earnings ROE of 13.5%, offset in part by the impact of the corporate segment, which has a lower ROE due to cash and liquid assets at the holding company.

Talcott's core earning ROE was 6.2%, about 2 percentage points higher than its run rate, adjusted for the tax benefit and favorable investment results in 2015. Increasing our core earnings ROE to exceed our cost of equity capital has been an important goal for The Hartford over the past few years. In 2015, we closed that gap by achieving strong financial performance at a lower beta, driven by the reduction in risk and volatility as a result of our strategic and financial transformation over the past several years.

Before covering our 2016 core earnings outlook, which you can see on Slide 25, I wanted to let you know that this will be the last year that we provide a core earnings-based outlook. Between the business sales in 2013 and 2014 and the financial disclosures that we provide in the IFS and our SEC filings, The Hartford is a much simpler company to analyze and model. Given many factors that cause a P&C company's results to vary, including catastrophes, prior-year developments and investment returns, the vast majority of public P&C companies do not provide earnings guidance. However, we expect to continue to provide our outlook for financial metrics and capital management that will help you develop your earnings forecasts.

Turning to 2016, our core earnings outlook is a range of $1.575 billion to $1.675 billion, summarized on Slide 25. At the midpoint of the range, this equates to growth of about 5% over 2015, normalized for favorable CATs and unfavorable prior development, and excluding Talcott. The table on the slide includes several of the financial metrics included in this outlook, which were included in the news released last night. I would note that this year we have an outlook for P&C net investment income, excluding limited partnerships, of just over $1 billion, down 3% at the midpoint from 2015.

As I stated earlier, our outlook assumes the completion of our capital management plan. At December 31, 2015, holding company cash and short-term investments totaled $1.7 billion. In addition, we anticipate about $1.1 billion in dividends from our P&C Group Benefits and Mutual Fund businesses, and $750 million from Talcott in 2016. These amounts are more than sufficient to complete the current capital management plans, while also covering 2016 interest expense and dividends and maintaining holding company liquidity above target levels.

Finally, before turning to Q&A, I want to reiterate that 2015 was a successful year both financially and strategically. Our strategy has not changed, and in 2016, we remain confident in our ability to make progress on our operational and financial objectives, as we have done over the past several years.

While markets are more challenging, our financial strength, capital flexibility and underwriting and expense discipline are important competitive advantages that will help us continue to create shareholder value. Chris and Doug shared many of our operational objectives for 2016. In addition to our 2016 outlook, our financial objectives in 2016 and beyond include the following: continuing to expand our core earnings ROE, excluding Talcott; efficiently manage the runoff and return of capital from Talcott while maintaining its capital self-sufficiency; redeploy the excess capital generated by our business to create greater shareholder value; and generate average total value creation of at least 9% as measured by common dividends paid plus growth in book value per diluted share, ex AOCI. I will now turn the call over to Sabra so we can begin the Q&A session.

Sabra R. Purtill

Senior Vice President of Investor Relations

Just to remind you that we have about 30 minutes for Q&A, which means we might run a little past the 10 A.M. deadline when some other calls begin. If you have to drop off or we don't have time to get to your question, please e-mail or call the IR team, and we'll follow-up with you as soon as possible today. Jessa, could you please repeat the instructions for Q&A.

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of Jay Gelb from Barclays.

Jay H. Gelb
Barclays PLC, Research Division

Thanks for the additional disclosure on return on equity. With regard to, however you want to look at it, on an overall basis or core basis, do you think Hartford has the ability to maintain or even potentially exceed a bit that 9% outcome on return on equity that it delivered this year?

Christopher John Swift
Chairman & CEO

Jay, it's Chris. 9.2% is what we delivered this year on a core basis. And thanks for acknowledging the expanded disclosures that Beth and the team have put out there. We think it's important that you really continue to see the progress that we can make going forward. So as really I sit here today, the 10.9% core earnings ex Talcott, as Beth described, it really does exceed our cost of equity capital today, which we judge probably in the 9% to 9.5% range.

If I look forward, in '16, I do think we could improve that 10.9%. So when I say that, really, what I mean is if you look at the plan that we outlined, including normal CATs, we achieve our NII outlook, we maintain in the margins that Doug and his team are focused on, and we execute the capital management plan, I think that core earnings ROE ex Talcott could increase by 50% by the end of '16 -- basis points, excuse me, 50 basis points.

Jay H. Gelb
Barclays PLC, Research Division

That's great. And then I just have 1 question on the guidance. In the P&C other operations, which includes a drag from legacy liabilities like asbestos, it's been negative for the past few years. And I am just wondering why Hartford isn't including any impact of that in 2016 in the guidance.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

This is Beth, I'll take that question. So we make our best call each year on what we anticipate for our A&E reserves. And to put a bogey out there as far as what we could expect for prior-year development, we don't really have a basis for doing that. The last several years, obviously we have seen charges. Years before that, we didn't. And we'll continue to evaluate the A&E reserves in the second quarter like we've done before.

Also note we don't actually estimate any prior-year development, except for the accretion of workers' comp discount. So it was very consistent with how we look at things overall. But it is something that we obviously take into consideration and think about as we think about our expectations for '16, and we'll make the call on what the reserves need to be at the time we do the study.

Jay H. Gelb
Barclays PLC, Research Division

Right. So if we were -- for our own models, if we were to put something in for prior-year development on issues like asbestos, that would detract from...

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes, yes. We have not included an estimate for prior-year development in our outlook.

Christopher John Swift
Chairman & CEO

Jay, the 50 basis point improvement I talked about obviously does not include that either. So as Beth said, we don't really outlook favorable or unfavorable development at this point.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Just one thing before we take another question, Sabra. I just did want to clarify it in my remarks, I called that our impairments for the quarter were $107 million, that was actually a full year number, not the quarter.

Operator

Your next question comes from the line of Cliff Gallant from Nomura.

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

I want to talk a little bit about workers' comp, and what kind of loss trends you've been seeing there over the last year? And then, in terms of your guidance, what are you assuming going forward?

Douglas G. Elliot
President

This is Doug. Our indications across our frequency and severity triangles these last several years have been very favorable. 2015, our frequency still is small single digits negative across all our markets. Severity is a bit too early to predict on that tail line, but we're seeing favorable symptoms even at 12 months on the 2015 action [ph] year. So we're very pleased about the last 3 to 4 action [ph] year indicators inside our loss triangles, and it has been a driver of our improvement in profitability for sure.

In 2016, moving forward, we don't see a major change in environment, but we're still predicting that we're going to see medical inflation and indemnity severity based on wage and medical, as we expect over the lifetime of these workers' comp claims. And frequency, I think it's a pretty flattish scenario in the frequency world.

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

Okay. All right. When we think about the guidance then at 89 and 91, I mean, obviously those are very good numbers, but you could -- they could be painted as somewhat conservative in terms of how your outlook as well.

Douglas G. Elliot
President

Yes, I'll let you pick the word. What I would say is that we're pleased with the progress, particularly in Middle Market. This line has gone from at the bottom of our profitability curve to near the top. And we're trying to do everything we can to maintain that level of profitably in our book.

Operator

Your next question comes from the line of John Nadel from Piper Jaffray.

John Matthew Nadel
Piper Jaffray Companies, Research Division

One on Personal Lines. I guess, Doug, you had mentioned in your prepared remarks that in auto, that you believe the pattern of higher frequency is the new norm. I guess, the question I have in response to that comment by you, is the 6% level of renewal rate increases, does that appear sufficient as you look forward now based on this expectation that the higher frequency is the new norm?

Douglas G. Elliot
President

John, I guess, I would just say this first about '15. The first 6 months of '15 really were very quiet, vis-à-vis frequency, and then obviously very different patterns back half of the year. And as we move forward, we're reflecting kind of the increased economic activity, which has got a lot of features to it, as you know. We weren't quite sure, and we certainly didn't have that tenor [ph] when we were with you in October, when we talked about the third quarter. But it's more than a blip, and we think it's going to be with us, and therefore, we're building those patterns into our longer-term framework. And I would say there's upward bias on our pricing actions moving forward, yes.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Got it. And then just one quick one on Talcott, Beth. I think you had mentioned that if we had normalized 2015 for some of the unusual items, that the earnings would have been in the range that you guys had originally provided. If you compare that against the 2016, it looks like you're calling for sort of a core or normalized high single-digit pace of earnings decline. Should we think about that as a longer-term trend as well, in that, is there really anything that should change around the case of the runoff of the underlying blocks of business within Talcott?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes, I would say over the near term that is a reasonable estimation of the decline. So again, a large portion of the income that comes in on Talcott is from the VA book and the fees there. So as that continues to see surrender activity there, you'd continue to see decreases in those earnings. So in the near term, I think that's a reasonable expectation.

Operator

Your next question comes from the line of Michael Nannizzi from Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just a couple of questions on maybe Personal Lines again but this time on the homeowner side. I mean, clearly, when we looked at the whole P&C operations, Middle Markets and homeowners were areas for improvement -- for harvesting some improvement at the beginning of the year. You've clearly done that in Middle Markets. Where are we in homeowners? And it would just seem that like now is probably a pretty good time to be fixing that business. Can you just sort of give us an update of where you are and what sort of margin improvement are you anticipating in your outlook for 2016?

Douglas G. Elliot
President

Mike, this is Doug. We're working -- we are working hard, and you know that, across both auto and home. I would say this on the homeowners book. Number one, our ability to price peril and properly underwrite through all those perils is going through a rigorous review. We're looking at our underwriting and risk characteristics. We're looking at agency management actions. So really for both lines, we've made quite a few changes in the past 12 months. We're down about 2,200 agencies that have underperformed for us over a longer period of time. We're going to continue to look at agency actions. In the AARP Agency world, we have deauthorized over 2,300 contracts in the last 6 months. So we're looking at every lever available to us, both on the home and auto side. Encouraged by progress on both, but it's going to take time for those actions to earn their way into the book of business, which is why I think we're trying to be thoughtful and conservative as we play 2016 out.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And did you -- do you have a notion of -- for the year you ran at 77, give or take, for homeowners, to kind of square up with that guidance you provided for Personal Lines. Is that where you're assuming some of that margin expansion comes in?

Douglas G. Elliot
President

Yes, we have hopes for improvement on both auto and home. I would say that if you looked at our CAT performance over a longer than 1 year period, we think that we can be a more thoughtful CAT underwriter in the homeowners arena. Again, we're looking at perils inside our products. So yes, between agency actions and underwriting actions on our own part, we do expect to see improvement in home over the next year to 2.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And just back in Middle Markets for just a minute. With that, the gap there between middle and small is now 400 basis points -- or under 400 basis points. Do you feel like now, kind of taking a step back and looking at the work that you've done and sort of what you've achieved, I mean is that -- is there anything sort of one-timey here in the fourth quarter? Or do you feel like this is a good starting point for you and/or looking at that sort of differential to small commercial, is that kind of drag what you would expect, and potentially could we see that gap close further?

Douglas G. Elliot
President

Mike, I'd like to see that gap close a bit further, but let me just offer a couple of comments. Number one, very pleased with the outstanding performance in Small Commercial. I think across the market place, and historically against our own book of business, we're in a very solid spot and would like to grow and maintain that margin going forward. So that's a thought around Small Commercial.

In the middle arena, a bit more duration-matched year. So this is a book of business that has improved mightily over the past 4 years. We're watching the yield curve, because duration does matter. Workers' comp is a key line here, as it is in small. It's been a while since I've reported a quarter with 89 xx in the middle in my career. So I'm pleased with progress.

I would say that between the pricing environment that we continue to compete in and the yield environment that affects our portfolio, we're going to stay close to those dynamics and be thoughtful in terms of our choices, risk by risk, as we move through time. And also, as Chris has shared with you, we have geography goals, and we think there are other places in the country that we can find and build new relationships and be able to leverage our products that are really very solid in the marketplace. So like the progress, think we can be a much bigger and broader player over time in middle.

Operator

Your next question comes from the line of Jay Cohen.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions. One, you had mentioned, I guess, a pretty notable reduction in the number of agents. Should we be factoring that as having impact on your top line growth in Personal Lines?

Douglas G. Elliot
President

If you look at our fourth quarter performance, Jay, you can see some of that playing out, because that's one of the lines that's down. It's down most substantially relative to the other personal lines. It's not 50% of our agency book, but it has disproportionally impacted our profit inside the book of business, Jay. So I don't think you have to make major top line modifications. I think you're going to probably see more quarters moving forward like what you saw in the fourth quarter. But we do expect to see some positive development inside our triangles from some of these actions.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. Secondly, on the Small Commercial side, one potential major competitor is planning to form a kind of a direct distribution platform with small commercial. 2 questions on this. One, do you think this has a chance of succeeding? Secondly, if yes, is Hartford well-positioned to essentially [ph] explore that channel, if in fact people want to buy that way?

Christopher John Swift
Chairman & CEO

Jay, it's Chris. We're very aware of market developments and activities, whether it be from traditional players or new players into the marketplace. And ultimately, you're probably not going to like this answer, but time will tell. But if you look at what it's going to take to be successful, product, service, brand, reputation, claims, I mean it's, I'll call it an entire business model you have to be good at to keep customers for long term, which we've been particularly very pleased and proud of our retention. So with $3.5 billion of premium and upstarts, they're going to try, and we'll have to have a response, which we'll prepared for at the right time to counteract any other measures in the marketplace. But I like our beginning point. But we're also very watchful as far as developments in the marketplace.

Operator

Your next question comes from the line of Meyer Shields from KBW.

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

I have 2 Personal Lines questions, if I can. One, Doug, can you take us through the mechanics of the policies that are served by the agents that have been terminated? I'm asking really whether that impacts the expense ratios going forward.

Douglas G. Elliot
President

So we have contracts with individual agencies, both Personal Lines and commercial contracts, Meyer. And we obviously have to abide by the provisions. So there are extended contract periods. So some of them have a 6-month, 12-month provision that we will continue to be partners, and then at some point in the future, that business will move elsewhere. They do shift and are not exactly the same throughout the country, but we're adhering to them.

On the expense side, I think we're working hard to manage our expenses appropriately given what may happen to the top line. So I don't think you have to do anything different to your models on the expense side. Chris?

Christopher John Swift
Chairman & CEO

I would just offer, Meyer, just a context here. So agents across our platform are very vital to our success. So when we talk about shrinking agents, particularly in the independent agency side, I think it's important you have the context of market segment.

So our strategy here is to have meaningful relationships with our independent agents, as defined as being a top-3 carrier in their agency plan. That will dictate, I'll call it, long-term success with retention, growth and profitability. Those agencies, particularly in Personal Lines that we don't have that type of relationship with is the targeted area here for shrinking.

On the other side, particularly given our AARP relationship and the importance of agents to certain AARP members that want advice and counsel, we want to continue to support those independent agents that have the ability to attract and retain AARP customers for the long term. So it's very targeted here, our actions. So I don't want you to have the impression that we're getting out of independent agency channel in Personal Lines. We're fine-tuning the definition of success, ultimately from a growth and profitability side.

Douglas G. Elliot
President

Meyer, what I would say, 2 other points that I'd like to add. Number one, our research, which we've worked on now these past couple of years, shows us that many of those AARP members do indeed prefer to work with an agent, so we're excited about the progress we've made there.

And secondly, my comment about the number of agents that have been deauthorized for AARP, those are essentially relationships that had not leveraged the value of what we thought we brought to the table with this enhanced offering. So in the case that they haven't leveraged that, we'd rather be contracted with those that are using it. And we think there's great value there, and working like crazy to build a very, very positive profile of customers that value our brand and our AARP members.

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

Okay. That's very helpful. Second question, when you look at the different channels that you've got, AARP, AARP Agency, et cetera, is there a difference in terms of frequency shift by channel? Are you seeing, I would expect, less uptick in AARP? Is that panning out?

Douglas G. Elliot
President

As we look at our trends across '15, they're essentially very consistent across the channel. So our frequency uptick in third quarter and also fourth quarter, as well as the very flat profile for the first half of the year, were essentially consistent across channels. I think that leads you down the path towards this economic dynamic, with weather in the fourth quarter and a summer month, vacation schedule in July and August, that we felt the impact of, as did many others.

Operator

Your next question comes from the line of Randy Binner from FBR Capital Markets.

Randolph Binner
FBR Capital Markets & Co., Research Division

I got a couple more on Personal Lines. I guess, the first question is, there was a notion, I think, as early or as recently as last conference call that the AARP book was a more mature group of individuals who are safer drivers. And so, I just wanted to check in on that dynamic. Is that overtaken by the, I guess, the miles driven argument that's going on here? And if you quantified this and I missed it, I apologize, but what are you getting on auto pricing, -- price increase-wise, is it the 4%, 5%, 6%? It'd be nice to hear that quantification because we are getting those numbers from other carriers.

Christopher John Swift
Chairman & CEO

Randy, it's Chris. Let me just take just a step back, and then Doug and I will partner on this one here. So I think your point on AARP is still generally true. But if you look at sort of the progression of activity over the last 12 months, Doug said it earlier, first half of the year is relatively benign from a frequency side. And we were experiencing normal severity trends in the 2% to 3%. I think what happened in July and August, we saw a little bit of a pop in frequency. Then September, October, it went back to sort of normal, in that 0, 1% range. And Beth and I had an opportunity to speak at a conference in early December, where then we gave an indication that we thought November would be in that 1% range also, and sort of smooth out the year. But as we got into December, we had another sort of blip in frequency. And that impacted our calls on how we thought ultimately November frequency would develop. So there's a little bit of a lag factor that you have to put on these frequency trends. So when you put the third and fourth quarters together, as Doug said, we're in the 3.5%, 4% range.

I think our thesis still is that economic activity, defined by low employment; miles driven up due to lower gasoline prices; coupled with, particularly in November, December, some weather in the Southeast, Midwest and West, whether it be rain, the torrential rains that California experienced -- and California is our largest Personal Lines state -- or other weather activity; all that contributed to, I'll call it, the increase in frequency incidences.

That said, over a longer period of time, the AARP book is still outperforms a mass-market book, so that when we're talking about 3%, 3.5%, 4% frequency increases, we still think that is a lot lower than a broad mass-market increase in frequency. So as Doug said, we are beginning and have, and particularly with our fourth quarter filing and a couple of our -- one of our large states, we have, in essence, reflected this new level of activity in our filings. We'll continue to do that in '16 and earn that out and manage other actions, such as underwriting or agency management actions, as Doug described. So I think that is the context that I just would have you to keep in mind. So Doug, would you follow-up?

Douglas G. Elliot
President

Chris, I think you hit most of the major points. I think, maybe a few to add. One is I would not underestimate our view of how much the non-rate activity should improve our performance over time, Randy. So these agency actions and really becoming a better underwriter -- I'm thinking about selection and undisclosed drivers and appetite management and geography -- those are all meaningful priorities for us, and [ph] we expect over the next year to 2 years, that's point one.

Point two is, I don't think the dramatic change in our numbers were quite as dramatic as some of the other carriers we competed with. So yes, our frequency was not flat for the second half of the year, but it was mid-single, 3-ish, 3% to 4%. So that's not 8%, 10%, 12%. It's having an impact on our filings. It will be proportional to state. But we wanted to send the message today that we're not just at a point where we're thinking, it was a blip on the radar, and we're not going to adjust our patterns going forward.

Randolph Binner
FBR Capital Markets & Co., Research Division

So the price -- your price would be something like 2% to 3%, is that the right way to think of it?

Douglas G. Elliot
President

Our price filings are still in that mid-single digit range, and probably will increase from there in auto going into '16.

Christopher John Swift
Chairman & CEO

And Randy, it's Chris. All I said is I mentioned, severity is not 0 either, right? So I mean, there are still more expensive cars and bumpers and devices to fix in cars when there are accidents. So I just want to be clear that severity is in that 2%, 3% range also.

Operator

Your next question comes from the line of Erik Bass from Citigroup.

Erik James Bass
Citigroup Inc, Research Division

Can you remind us about the composition of your alternative investment portfolio? And in your guidance, I think you assume a 6% return for the year, but do you have any early read on the first quarter results, just given the market decline that we've seen year-to-date and the lag in reporting for some of the funds?

Christopher John Swift
Chairman & CEO

Erik, Beth can get that to you. But I would just -- and she'll focus on first quarter -- first quarter is going to start out soft here, just given market activities and the lag.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. So a couple of things. And we do provide a breakout of our partnership investments in our 10-Qs and Ks. So you can see the update, obviously, when we file the K at the end of the month. But when you think about our total partnerships where we ended 2015 at about $2.9 billion of assets. About 1.2 -- $1.8 billion of that is in private equity and real estate funds, and the rest would be in hedge funds. And when we think about our returns in total, we plan for a blended sort of 6% return. We anticipate higher returns in the private equity funds and a bit lower in the hedge funds. And as Chris just said, as we think about first quarter, a couple of things to keep in mind, for the private equity funds, those are on a quarter lag. So what we report in first quarter, will really be where they ended '15 at. And for the hedge funds, they are at about a 1-month lag. And looking at what we expect to see for January results, we expect to see a little bit of downtick in the hedge fund performance, and we'll just have to see how February comes in to see where we actually close the quarter.

Erik James Bass
Citigroup Inc, Research Division

Got it. And Beth, if you could just clarify one thing on Talcott. I think you -- for your guidance. I think you mentioned that it's as of on the market at 12/31. Can you give us a sense of how much impact the equity market movements have on earnings for Talcott now, given obviously the shrinking of the VA book?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. So a couple of things. So the rule of thumb, what we typically look at is that for every 1% change in sort of an annualized look at S&P, that's about $2 million to $3 million of core earnings. So when you think about how markets have declined since year-end and sort of extrapolate that, right now, looking at it you'd probably say about $15 million after-tax sort of pressure on the core earnings number.

Operator

Your next question comes from the line of Thomas Gallagher from Crédit Suisse.

Thomas George Gallagher
Crédit Suisse AG, Research Division

A few questions. First is just in terms of your energy exposure, we could start with that. Can you comment on -- it looks to me like you've been one of the more proactive companies in terms of derisking from a credit standpoint on energy. Would you say you're pretty much done with that, with the significant reduction for that portfolio? And also, related to that, how much of a gain did you book on the derivative that was short oil, as an offset against some of these impairments?

Christopher John Swift
Chairman & CEO

Tom, it's Chris. I appreciate the observation of our proactivity regarding risk. So yes, we had been very proactive with our HIMCO, Investment Management Professionals, our Chief Risk Officer, Beth, myself. So we did make some early moves that turned out to be good and wise. Beth can give you the details on the exact percentage decline, but we took out approximately $1 billion of oil holdings in our portfolio. And when we did that, we also decided to put on a more of a catastrophic hedge on oil prices if it crashed for a long period of time. But Beth would you just comment upon some of the details?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. So a couple of things. So as I said, we ended the year with our portfolio at about $2.6 billion, about 91% of that is in investment-grade securities. And then a little, obviously the rest in below-investment-grade, with 74% of that at a BB rating. So as we sit here today, we feel very good about our holdings. And as always, we'll continue to monitor it. And so if there are other actions we need to take, we would take them. But right now we feel very well-positioned with all of the actions that we took over the course of 2015.

As it relates to the oil hedges, as Chris said, we put that on in early 2015. Because as we looked at our portfolio, we knew that we did want to reduce our exposure there. And we wanted some protection so that if prices were to decline significantly before we were able to do that, we had some offset. So they actually -- the hedge position we unwound mid-December, because we were basically done with our activities, and we recorded a modest loss of about $9 million on it before tax. But again, overall, very, very happy with the actions that we took and the position that we find ourselves in today.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Okay. And then next question is, just on the Group Benefits side. Doug, can you comment on -- the results are softer this quarter, it looks like you're assuming margins consistent with the full year. Should we take that to mean the fluctuation you saw in 4Q was just on the adverse side, you don't see any change there? Or do you need some rate there to get to the results that you're predicting for 2016 -- or your forecasting for 2016?

Douglas G. Elliot
President

Good question, Tom. I think that our full year results are more reflective of how we feel about group. There was some fine-tuning at year end, we had a little adverse mortality and severity in our life block and a little bit of activity in LTD, not anything major. And as I look at the full year, I still feel very good about the health of our book of business and our ability to compete in the marketplace. So we move ahead into '16 feeling good about the progress made.

Thomas George Gallagher
Crédit Suisse AG, Research Division

So Doug, no material rate needed in that business from where you're sitting?

Douglas G. Elliot
President

We still want to stay ahead of trend. So we've got medical and other trends in that book of business that will impact our future plans and activities. But I don't see anything out of the ordinary different than how we would have thought about pricing over the last 12 to 18 months.

Christopher John Swift
Chairman & CEO

Tom, our interest rates obviously are -- but I think if you look at our discount rates of how we're going to discount our -- the implied discount rate and our liabilities are appropriate. But as Doug said, this is a -- it's a great business for us. It's a major contributor of our growth orientation and our strategy that's integral. And I'm glad you're recognizing its potential.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Okay. And then just one last one on Talcott. This is sort of a bigger picture question to think about, not so much specific numbers related to beyond '16, but I just want to understand conceptually how you're thinking about this. So you've obviously taken out a combination of extraordinary dividends plus the earnings generation of that business for the last few years here -- or at least in '15 and then the plan in '16. But if I think about the shrinkage of that block, it looks like it is slowing a bit on the VA side. And now the majority of capital is non-VA-related, and those liabilities are -- seem to be stickier. So as we think about a path over the next 2, 3 years, is it fair to say more of the dividends coming out will just be earnings? Or do you still think there's a lot of latitude for taking out the bigger extraordinary dividends as well?

Christopher John Swift
Chairman & CEO

Tom, Beth can comment on our views. But I think generally, you're right with the view. If you look at the capital allocation, we've got a lot of capital tied up, call it, the fixed annuities. But again, the amount of derisking that the book has gone through, the hedge protection, the sensitivities that Beth gave you on capital margin, it still says that we have the ability to extract some excess capital out. As the block shrinks and as we produce earnings, math-wise it's hard for us to predict right now. That's what I would say. Beth?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes, I agree with that. I mean, again, you go back, we took out $1 billion of dividends last year, and we anticipate taking $750 million out this year. When I think about '17 and '18, to your point, I first think about the capital that we generate, sort of in that $200 million to $300 million range, which I would point out still requires extraordinary dividend approval, even though it's earnings, because of the capital position of Talcott.

And then I do see there being the potential for excess capital beyond that. But when I think about going into '17, I don't anticipate the dividends being higher than what they were in '16. And as we go through the course of the year, we'll obviously continue to update that. But you're right, it would be on a downward trajectory, not increasing when we think about the excess capital.

Sabra R. Purtill
Senior Vice President of Investor Relations

Thank you. Jessa, I think we have 1 more question in the queue?

Operator

Your last question comes from the line of Bob Glasspiegel from Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Doug, just a quick question on Personal. Your outlook, midpoint of the range is a 1 point improvement for Personal Lines. And in light of the fact that you're just trying to sort of address Personal Lines, auto pricing for the changed frequency environment and you were growing PIF in the second half, does that suggest that homeowners can offset sort of auto being still in the fixed mode? Or are there some things you can do on the expense side that gives you confidence that you can show an improvement?

Douglas G. Elliot
President

So Bob, you now have the sense that we're working numerous levers on both home and auto. I do think that the first half of the year in auto will be a tough compare relative to frequency, because basically we had none in the first half of last year. But there are underwriting actions, and these agency actions I described, we think will improve our results over time. It's not going to be easy. And as you know, it takes a while for these actions to earn their way in. But Chris and I are committed to making those changes, and we believe we can hit the targets that we have out there. But we've got a lot of work to do in front of us, no question. And I look at headwinds into '16, Personal Lines is probably at the top of that list for the need for us to work through change to get these books in a better financial shape.

Robert Ray Glasspiegel

Janney Montgomery Scott LLC, Research Division

Okay. You don't think the -- having the foot on the gas pedal in the second half contributed at all to the deterioration, it's more macro trends?

Douglas G. Elliot
President

We believe so. We've been very selective about where we've put the gas pedal on. We've talked to you about the fact we've got a new class plan that went in 2 years ago, and it's been rolling in overtime. But Ray Sprague and his team have been very analytical about how we've built in our marketing plans, where we're advertising. AARP, obviously, is at the core of that, Bob. We looked at it by state. So we're very targeted in terms of -- within those states what we're doing. But I will also say to you that the overall answer is still not working. So we have more work to be done. I'm confident that we're on the right path with a renewed team actively engaged to get it done in '16 and '17 as we move forward.

Sabra R. Purtill
Senior Vice President of Investor Relations

Thank you, everyone -- sorry, thank you, everyone, for joining us today. And for your interest in The Hartford. Please note for your calendars, that Chris Swift and Beth Bombara will be at the Merrill Lynch conference on February 10. And in addition, Beth and Brion Johnson, our Chief Investment Officer and Head of Talcott, will be at the AFA Conference in Florida at the end of February and early March. We hope to see you at either or both of those events. Again, we thank you for your interest in The Hartford. And please do not hesitate to follow up with the Investor Relations team if you have any other questions. Thank you.

Operator
This concludes today's conference call. You may now disconnect.