S&P Capital IQ

CONTENTS

The Hartford Financial Services Group, Inc. NYSE:HIG

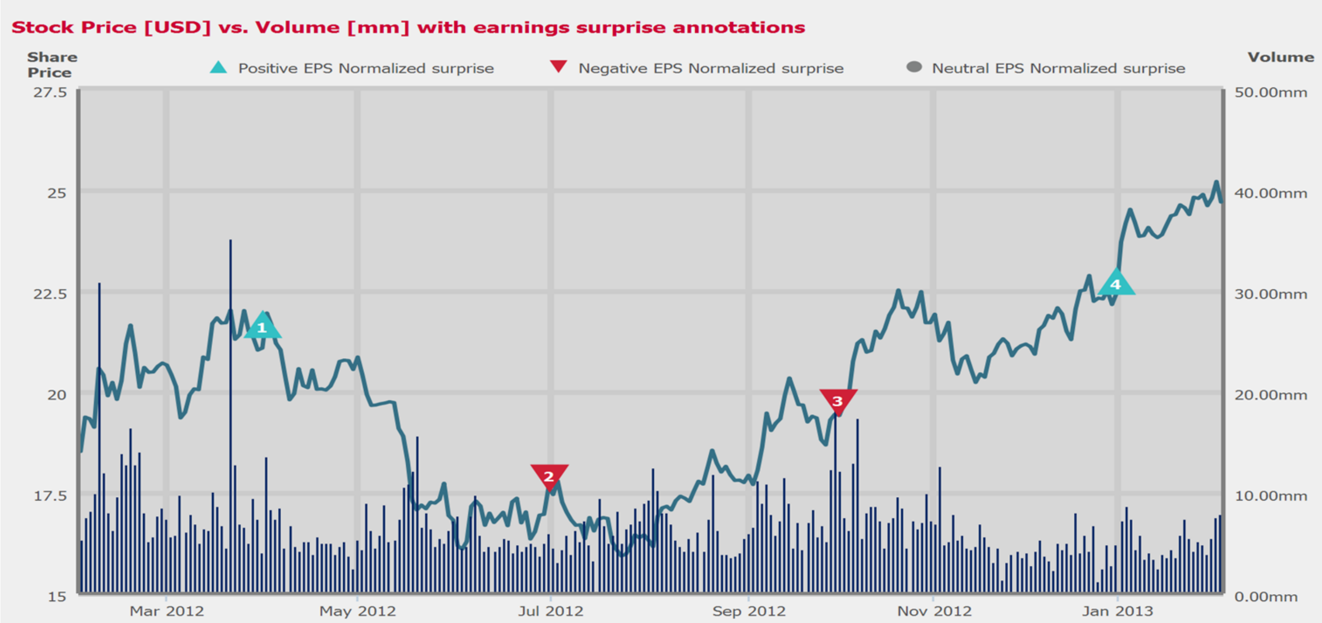
FQ1 2013 Earnings Call Transcripts

Tuesday, April 30, 2013 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.83	0.92	▲10.84	0.77	3.25	3.52
Revenue (mm)	5047.00	9178.00	▲81.85	4569.18	19174.73	17285.82

Currency: USD
Consensus as of Apr-30-2013 12:04 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	1.06	1.25	▲ 17.92 %
FQ2 2012	0.47	0.23	▼ (51.06 %)
FQ3 2012	0.82	0.78	▼ (4.88 %)

FQ4 2012	0.35	0.54	▲54.29 %

Call Participants

EXECUTIVES

Andre A. Napoli
Former Executive Vice President and President of Consumer Markets & Enterprise Business Services

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Christopher John Swift
Chairman & CEO

Douglas G. Elliot
President

Liam E. McGee
Former Chairman

Sabra R. Purtill
Senior Vice President of Investor Relations

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Erik James Bass
Citigroup Inc, Research Division

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Jay Adam Cohen
BofA Merrill Lynch, Research Division

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

Nigel Phillip Dally
Morgan Stanley, Research Division

Randolph Binner
FBR Capital Markets & Co., Research Division

Thomas George Gallagher
Crédit Suisse AG, Research Division

Presentation

Operator

Good morning. My name is Steve, and I will be your conference operator today. At this time, I would like to welcome everyone to The Hartford First Quarter 2013 Earnings Conference Call. [Operator Instructions] Thank you. I'll now turn the conference over to Sabra Purtill, Head of Investor Relations. Please go ahead.

Sabra R. Purtill
Senior Vice President of Investor Relations

Thank you, Steve. Good morning, everyone, and welcome. Our speakers today include Liam McGee, Chairman, President and CEO; Doug Elliot, President of Commercial Markets; Andy Napoli, President of Consumer Markets; and Chris Swift, Chief Financial Officer. Other members of our executive management team are also present today and available for the Q&A session, including Beth Bombara, President of Talcott Resolution; Jim Davey, EVP of Mutual Funds; and Bob Rupp, Chief Risk Officer.

As detailed on Page 2 of the presentation, today's statements concerning future results or actions are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance, and actual results may differ in a material manner from these statements. In addition, we do not assume any obligation to update the forward-looking statements.

Investors should consider the risks and uncertainties that may cause actual results to differ. Our press release, 10-K, 2012 -- or excuse me, 10-Q, 2012 10-K and other filings with the SEC contain a more detailed description of those risks and uncertainties.

Finally, please note that our presentation today includes financial measures that are not derived from GAAP. Definitions and reconciliations to the most directly comparable GAAP measures are provided in the Financial Supplement press release and 10-Q.

I'll now turn the call over to Liam.

Liam E. McGee
Former Chairman

Thank you, Sabra. Good morning, everyone. Thank you for joining us today, and I also want to give a special thanks to those of you who participated in our investor meeting. And on behalf of the entire team, we hope you found the information valuable.

As you know, The Hartford delivered strong first quarter results. Core earnings were $456 million, up 7% over first quarter 2012, and we were particularly pleased that core earnings for the go-forward businesses, property and casualty, group benefits and mutual funds, were up 19% over the prior year. The significant improvement is a result of the initiatives that Doug, Andy and Jim and their teams have launched over the past 2 years. We've been successfully executing our plans, and I do want to take a moment to highlight some key accomplishments.

We're making good progress expanding margins in P&C Commercial. Market conditions have been conducive to our pricing and risk management actions, and our day-to-day execution is showing up in the results. I'm also encouraged by our early success in driving greater product diversification. Now Doug will talk about this shortly as we are seeing stronger new business production in general liability and property, and I believe we will ultimately achieve a better balance among all our commercial P&C lines of business.

I am pleased that Group Benefits core earnings are beginning to recover and optimistic that operating trends are improving. The benefits of our pricing and underwriting initiatives are clearly paying off with improving margins, and we are continuing to make the right decisions to balance new sales, persistency and pricing. We still have another round of multi-year contract renewals in early 2014 to bring the overall profitability of the book in line with our targets. Going forward, we see opportunities for growth in new sales but will do so only with appropriate pricing and profitability.

Consumer Markets also continued to make strides improving profitability while returning to written premium growth for the first time since 2009. The actions Andy and his team have taken over the last 2 years to reposition the book are bearing fruit, and I'm pleased with the results, including sequential growth in policies enforced, a result we have not seen since 2008.

Finally, we're adding profitable new business by leveraging our valuable partnership with AARP.

Jim Davey and his team have reenergized the Mutual Funds business and drove sales up 34% this quarter. The business expanded product offerings and restructured its distribution team. Fund performance also improved, which helped increase sales and net flows were the best they have been since the first quarter of 2011.

As we shared with you at our investor meeting, the go-forward businesses have attractive returns, with ROEs expected to be around 9.5% to 10% this year, with our outlook for 2014 for these businesses at 10% to 10.5%.

Over the last 4 months, we accomplished a great deal in the company's transformation, and I am pleased that this team is establishing a successful track record of executing on our commitments to deliver greater value to shareholders. First, in January, we closed the sales of Individual Life and Retirement Plans. Second, we completed a major portion of our capital management plan with the debt tender offers and senior note issuance. We do not expect to repurchase any additional debt through 2014 beyond the '13 and '14 debt maturities. We also started buying back shares under the existing share repurchase authorization. Third, we've significantly reduced the risk of the variable annuity block. The expanded hedging program has effectively eliminated the currency and equity market risk in Japan. The run-off of the block is continuing to accelerate. The Enhanced Surrender Value or ESV offering take rate is higher than our original expectations and has continued to increase into April. With improving market conditions, the Japan VA surrender rate has significantly increased, a trend that continued into the second quarter.

With our Talcott operations capital self-sufficient, excess capital generated by the go-forward businesses will be used for potential capital management actions and reinvestment in our businesses to drive profitable growth. Our capital flexibility has significantly improved, and we are developing the next phase of our 2013 and 2014 capital management plans.

Thanks again for joining us, and I'll now turn the call over to Doug for a discussion on Commercial Markets. Doug?

Douglas G. Elliot
President

Thank you, Liam, and good morning, everyone. I will cover our P&C Commercial and Group Benefits results for the first quarter of '13. I'll also provide some commentary on the marketplace and several of our key business objectives. At the top of that list of objectives is our focus on margin improvement, which is clearly evident this quarter.

Before I dive into the mechanics of our quarter, let me share a few overarching thoughts. I'm very pleased with the sustained rate increases we're seeing broadly across our book. Our written rate increases are exceeding loss cost trends in essentially every line of business, in some cases, significantly. With the extended extreme weather pattern we seem to be in, coupled with the sustained low interest rates for the foreseeable future, I see the continued need to drive for further rate gains.

This month marks my second anniversary here at The Hartford. I'm more excited than ever about our progress that the team is making in every area of commercial markets. We are becoming a more balanced player across our product portfolio and more results-driven in our execution. Our speed, focus and intensity has increased significantly as we respond to macroeconomic forces, as well as the ongoing shifts that regularly affect local markets around the country. In short, we're executing on the exact strategy I shared with you all at our December 2011 Investor Day.

With that as a backdrop, let me review our first quarter results. The P&C Commercial segment continued a strong pricing momentum during the first quarter of 2013. Our underwriting actions are driving improvement in margin performance, and while these actions put pressure on our new business and retentions, we're confident that we're making the right trade-offs on a risk-by-risk basis. Our all-in combined ratio for the quarter was 94, a decrease of 5.7 points from the 99.7 in the first quarter of 2012. This margin improvement reflects our focus on pricing and targeted underwriting actions, as well as lower cats and prior year development versus 2012. Our first quarter results further highlight the significant improvements we're seeing and the depth and speed of our actions since 1 year ago. The x cat, x prior year combined ratio for the quarter was 93.1 versus 96.4 for the prior year period, a solid improvement. Our cumulative rate change in the Middle Market over the last 6 quarters positions us for continued improvement in '13.

We achieved margin improvement across both our Small Commercial and Middle Market businesses. Small Commercial combined ratios, x cat, x prior year, improved to 89.2 from 91.8. Our production measures were also solid in the quarter, as policy retention remained steady at 82%. Pricing in the quarter was strong at 8%, consistent with the fourth quarter of 2012 and nearly double the same period 1 year ago. We also wrote $134 million of new business in the quarter, contributing to total written premium growth of 3%. We're satisfied with this level of growth given the market conditions we see but expect to grow this segment more significantly over the mid- to long-term time horizon. We have just initiated the rollout of our new spectrum or BOP quoting platform, which now will complement our workers' compensation model rolled out last year. The early reviews from agents are impressive and extremely encouraging. The tool was built with speed and efficiency in mind, and we're excited about what this will mean for increased flow from the thousands of agents we conduct business with every day.

The Middle Market also had a solid start to 2013, with a combined ratio of 95.8, x cat, x prior year development. This 95.8 was 3.4 points lower than the first quarter of '12. Our pricing increases remain strong with first quarter pricing at 11%, including workers' compensation and property in the low teens. Although premium retentions are lower than historical levels, they're driven primarily by workers' compensation, which is running roughly 10 points lower than property, general liability and auto. The latter 3 lines are all running retentions in the high 70s, not far from historical levels. We continue to aggressively manage this positive shift in our risk profile, and our margins are showing the benefit of these actions.

One further point for our discussion this morning. At our Investor Day in December of 2011, I shared my outlook for a much more balanced product approach in our Middle Market. Here are a few key snapshots that will demonstrate our progress on the objectives we set out to achieve. In the first quarter of 2011, workers' compensation represented 60% of our Middle Market new business writings of $125 million. In the first quarter of 2013, workers' compensation represented 31% of our new business writings of $97 million. This outcome is a result of a plan designed in the second half of 2011 and executed every day since. We like this balance and are very pleased with our progress across our packaged lines of business in the Middle Market, recognizing that there's still work ahead for us.

Let me now shift over to provide some color on the results of our Specialty business, which is comprised of 3 distinct units: National Accounts, Financial Products and Programs. Our combined ratio for the segment, x cat and x prior year development, was 98.9, 4 points better than 2012. However, we did have reserve strengthening of 13 points in the quarter, driving an unacceptable all-in combined ratio of 112.6. National Accounts has been a great story throughout 2012, and this continued in the first quarter of 2013. We focused on loss-sensitive accounts with premium and equivalents in the $1 million to $5 million range. Here, we're seeing very nice account growth in target industries with 15 new accounts in the first quarter of '13. Our pricing models have been solid, which coupled with our underwriting and claim capabilities, have produced attractive returns.

Financial Products has undergone a significant retooling after emerging from the effects of the financial crisis. We have successfully pulled back from the publicly traded financial institution space, and we're selective with our approach in the large commercial D&O sector and tightly controlling the risks where we offer full coverage. We achieved a 6th consecutive quarter of positive rate gains with pricing of 4% in the quarter. These actions have produced substantial improvement in our loss outcomes, a major contributor to the improvement seen in the overall Specialty results.

The Programs unit is comprised of over 50 different group and agency captive and specialty programs. Approximately 2/3 of these programs have performed consistently well over the years, and current underwriting actions are in the normal course of managing this book of business. The other 1/3 are undergoing more intensive reunderwriting or in a few cases, shutting down. Two of these programs account for the adverse development we posted in the first quarter of '13, representing $28 million of prior year strengthening, $18 million and $10 million for workers' compensation and auto, respectively.

Overall, we believe we have excellent franchise value in the go-forward aspects of our Specialty business. Aggressive actions have been taken to position these businesses for success, and we're committed to the underwriting, pricing and claim performance standards that we know drive results.

Let me now turn to our Group Benefits segment, which started the year on a high note. Core earnings of $30 million in the quarter, $25 million more than 1 year ago, are the result of after-tax margin improvement to 3.2% from 0.5% last year. We're off to a solid start in '13. As you know, we've been focused on improving the margins of this business for about 2 years, now through rate increases, underwriting discipline and overall book management. The total Group Benefits loss ratio was 77.4 in the quarter, a 5.6-point reduction from 1 year ago, with disability improved by 8.3 points. Our long-term disability pricing in the mid-teens for the quarter continued to be very strong.

As expected and outlooked previously, our first quarter premium was down compared to last year. Three key drivers of this result include: first, our continued commitment to pricing discipline on new and renewal business; second, as I shared with you last quarter, we were unable to agree on renewal terms with our largest account; and three, a slight decline in our association business as we take action on certain segments of that book. Again, I think we're making appropriate trade-off decisions based on solid metrics and a balanced view of both the economy and the interest rate environment.

During the quarter, we continued to strengthen our leadership team by hiring a very respected and seasoned Group Benefits player to lead our sales effort. We're aggressively pursuing new business opportunities and the retention of existing accounts at appropriate economic terms. We continue to retain well-priced accounts and generate new sales. We believe that our discipline under the current market dynamics will position us most effectively for success as conditions evolve.

In summary, we're confident we're turning the corner based on the actions we've driven in our book of business, and our core margin improvement reflects that effort. As I step back on the first quarter, every commercial business had a solid start to 2013. The momentum that started over 6 quarters ago continues to build, and I'm pleased by the returns that our books are now generating. There's plenty of work left, but our forward momentum continues to grow every day.

Let me now turn the call over to Andy Napoli.

Andre A. Napoli
Former Executive Vice President and President of Consumer Markets & Enterprise Business Services

Thanks, Doug. Good morning. The first quarter of 2013 marked an important milestone for consumer markets, with a return to positive year-over-year written premium growth and a sequential increase in policies enforced for both auto and homeowners since the fourth quarter of 2012. After improving profitability over the past 2 years, we're in a great position to grow top line going forward. We're pleased with our underwriting result in the first quarter, as earned pricing has kept pace with loss cost in both auto and home and we benefited from lower expenses. The return to top line growth with improving margins demonstrates the effective execution of our strategy. The actions we took over the past couple of years to reposition consumer benefited results in 2012 and now carry forward into 2013, and we're pleased with the new business we're adding to our in-force book.

Since the moderation of written pricing increases in 2012, we continue to see a rebound in policy retention and sustained new business growth. Importantly, premium retention improved in the first quarter of 2013 when compared to the fourth quarter of 2012, demonstrating our ability to achieve needed rate increases without adversely impacting policy retention.

Now I'll address the specifics of our first quarter results, starting with our results in aggregate. Excluding cats and prior development, our combined ratio improved slightly to 88.6 in the first quarter, driven largely by greater expense efficiency. Auto margins benefited from lower expenses, while x cat current accident year loss costs for auto were relatively flat year-over-year. Earned pricing increases and favorable liability frequency have offset moderately higher liability and physical damage severity. We're pleased to see that physical damage severity has moderated significantly since the first half of 2012, but we'll continue to stay on top of expected loss trends.

In homeowners, we benefited from favorable weather in the first quarter. Current accident year catastrophes were $26 million in the quarter, about half our budget and down from $39 million in the first quarter of 2012. Likewise, x cat homeowners losses benefited from favorable weather frequency, especially as wind and hail events were suppressed by the colder temperatures in March. Partially offsetting this favorability was an increase in water-related claims like frozen pipes, which have higher severity.

While consumer markets core earnings for the quarter were strong at $73 million, they were down year-over-year as we recognized $55 million of favorable prior year reserve development in the first quarter of 2012.

Now let's transition to growth. First quarter written premium was up 2% over the prior year, and we're pleased with this progress. The growth was driven by a significant increase in premium retention, 4 points in auto and 3 points in home since the first quarter of 2012. New business grew 1% in auto and 20% in homeowners, driven by higher conversion rates in AARP Direct and 67% growth in AARP Agency. After last year's highly successful rollout of our new Home Advantage product, growth in homeowners is beginning to moderate, down sequentially from 30% in the fourth quarter.

A few comments regarding AARP Agency. This initiative continues to be a valuable differentiator for us within the agency channel. Our ability to bring AARP-branded marketing to agents has helped them grow by improving their ability to target a highly preferred personal lines customer segment. Our issue rates for AARP member business significantly outperformed that of our non-AARP business, and our strategy is all about helping our agents generate very productive leads and maximize this program.

We're seeing strong new business growth in a couple of larger states where we're comfortable with our returns, including California and Illinois. The rollout of our Home Advantage product in California and the introduction of a new agency channel pricing model in Illinois and other states have helped drive profitable growth. Enhancements to agency auto pricing have improved our issue rates for individuals in the 35 to 55 age bracket, helping us expand our underwriting sweet spot to include younger preferred segments. On the other hand, we have states where we're contracting new business, most notably in Florida and New York, where margins are challenged.

While we'd like to be growing and achieving our profit targets in all states, there's a spectrum of results at the local level, and we're being disciplined about achieving our combined ratio targets in all states and products. Over the past few months, several of you expressed interest in our telematics usage-based insurance program called TrueLane. While still very new, we're pleased with early results. We have approximately 1,600 TrueLane policies in force across 12 states in all channels and expect the product to be in 15 states by the end of 2013. TrueLane customers average a 10% discount, and early loss experience results show that they are earning their discount. We have a range of customers enrolled in the program across all age and market segments. While we'll have to prove this out, our hypothesis is that we'll achieve higher retention of TrueLane customers as they realize the benefits of the program.

Some final comments regarding profitability. At a countrywide level, AARP auto continues to perform near its combined ratio target, reflecting favorable loss experience inherent with this preferred segment. We're making progress towards improving margins in other channels as profitability in non-AARP agency improved 2 points since the first quarter of 2012.

In closing, we're very pleased with results in consumer markets for the first quarter and our ability to return to top line growth while improving profitability. We will continue to build on this momentum going forward.

I'll now turn the call over to Chris.

Christopher John Swift
Chairman & CEO

Thank you, Andy. Good morning, everyone. This morning, I have 3 items to cover: first, I'll summarize first quarter results; second, I'll provide an update on capital resources; and third, I'll provide a core earnings outlook for the second quarter. Let's begin on Slide 15.

First quarter 2013 core earnings were up 7% to $456 million or $0.92 per diluted share. The first quarter of 2012 included $38 million of core earnings from the Individual Life and Retirement Plans businesses, which were sold in January of 2013. Core earnings grew principally because of strong results from our P&C, Group Benefits and Mutual Fund businesses, which had a 19% increase in core earnings. In addition, lower interest expense helped reduce corporate losses by $29 million.

Doug and Andy covered the P&C and Group Benefit results. Let me briefly touch upon Mutual Funds and Talcott. You can find details on these segments in the appendix for today's slides and in the IFS. Mutual Funds continues to build momentum in key areas of the business, including sales, net flows and fund performance. Core earnings were $20 million in the quarter, up from the fourth quarter of 2012 and flat the prior year. As Liam mentioned, the business is regaining sales momentum, and we are encouraged by their results over the past few quarters.

Talcott results were down 26% due to the impact of the business sales and the cost of the ESP program, which reduced first quarter core earnings by $25 million after-tax and DAC. Excluding the impact of the businesses sold, Talcott's earnings were down 11%.

We continue to be pleased with the metrics on the VA block. In April, surrenders on the Japan block continued to increase from the March levels. With improving markets, the net amount at risk in Japan has also improved. As of April 26, the GMIB NAR was $600 million, a $700 million improvement since March. Driven by the ESP program, full surrenders in the U.S. remain elevated in April. Our ESV offers continues to do well, with acceptance rates of 25% in the first phase and 20% in the second phase. The acceptance rate for the third phase, which launched on April 1, is 7%.

Turning to Slide 16. First quarter core earnings included about $0.05 net for favorable cats and unfavorable prior year development. Cats were lower than forecast, slightly offset by $9 million of after-tax unfavorable prior year development, principally due to the 2 specialty programs that Doug just discussed. Excluding these items, core earnings per diluted share of $0.87 were above February's outlook of $0.75 to $0.80 due to better underwriting results in P&C and Group Benefits. The net loss for the quarter was $241 million, principally due to 2 charges that we previously announced: first, a DAC charge of $541 million, primarily due to the expanded Japan VA hedging; second, $138 million charge for the March debt tender offer.

Turning to Slide 17. The Hartford's book value per diluted share, excluding AOCI, was $39.09, down 4% from 1 year ago. Let me walk through the major items affecting the book value over the past year. We generated core earnings of $1.4 billion, which was offset by charges associated with our strategic initiatives. These charges included: first, $730 million in after-tax charges for the early extinguishment of debt from the Allianz refinancing in April of 2012 and a debt tender this quarter. Including the conversion of the preferred stock in April 1 and the upcoming 2013 and 2014 debt maturities, we will have reduced annualized pre-tax interest and dividends by $140 million an. almost 20% reduction from 2011; second, we sold Individual Life and Retirement Plans, which generated a material statutory capital benefit but resulted in a $413 million GAAP loss; third, we incurred a cumulative DAC unlock charge of $724 million, principally due to the expanded hedging for Japan VA. Also during the quarter, we began repurchasing shares under our current $500 million authorization and have repurchased a total of $68 million through April 29. We expect to repurchase about $100 million per quarter under the current authorization.

At current share prices, our buyback program is accretive to book value and earnings per share. We are focused on improving ROEs and expect a core earnings ROE of 7.5% to 8% for 2013. We remain on target to meet that goal with an annualized core earnings ROE of 9.3% this quarter, which tends to be seasonally high because of lower catastrophe and weather losses.

Our capital resources are summarized on Slide 18. As you can see on this slide, Hartford's capital resources totaled $18.7 billion at March 31, after approximately $1 billion for the debt tender program. Our capital resources rose by $2.1 billion, a significant improvement due to the business sales, earnings and favorable markets. The principal driver of the improvement in capital resources is the $1.5 billion increase in U.S. statutory surplus, of which $1.2 billion was in the Life Operations and $300 million in P&C. This net increase in statutory surplus is after $1.7 billion of dividends paid by the insurance companies during the quarter. Holding company resources totaled $2.1 billion at the end of March. These resources will be used for dividend and interest payments, maturing debt in 2013 and '14, as well as the balance of our $500 million share repurchase program.

Slide 19 shows the components of the increase in U.S. statutory surplus. The $1.2 billion net increase in Life statutory surplus was due in part to a $500 million gain in variable annuities, reflecting higher market levels and yen weakening. In addition, a $100 million gain was generated in other Life operating income, including Group Benefits. We also had a statutory surplus gain of about $2 billion on the businesses sold during the quarter, which was slightly higher than our original estimate. The Life Operations paid a $1.5 billion dividend to the holding company during the quarter.

Within our P&C companies, surplus increased by approximately $300 million, reflecting strong operating results after $200 million of dividends paid during the quarter. With strong capital resources and capital flexibility, we are developing the next phase of our capital management plans. As we discussed on April 11, the next phase will be focused on shareholders as we do not expect to tender for any additional debt in 2013 and 2014. We look forward to updating you on those plans.

I'd now like to cover our second quarter outlook. Our second quarter outlook projects core earnings of approximately $315 million to $345 million or $0.65 to $0.70 per diluted share, assuming a weighted average share count of $489.5 million. Included in this outlook are the following: first, a catastrophe loss estimate of $121 million after-tax or $0.25 per share. As discussed in February, we increased our cat load assumptions as we experienced heavy second quarter losses for the last 2 years; second, $100 million of share and warrant repurchases during the quarter; third, this outlook does not include prior year development, except for the accretion of discount on workers' compensation reserves. As you know, we will complete our annual asbestos environmental reserve studies during the second quarter; finally, as a reminder, core earnings does not include DAC unlock or restructuring charges, which are included in net income.

To wrap up, 2013 has been a busy year, and we are pleased with the progress we have made. We are focused on continuing our transformation of The Hartford by strengthening profit margins on the go-forward businesses and improving our capital and financial flexibility. We are encouraged by the trends we see at Talcott, and we remain focused on reducing the size and risk of the VA block. We are executing on our current capital management plans. Finally, we are developing the next phase of our 2013 and 2014 capital management program. All of these activities are focused on creating greater shareholder value.

Now I'll turn the call over to Sabra so we can begin our Q&A session.

Sabra R. Purtill
Senior Vice President of Investor Relations
Thank you, Chris. We have about 25 minutes before the next company's call begins. So in consideration of others who want to be on that call, please limit yourself to 1 question and a follow-up. Steve, could you please give the Q&A instructions?

Question and Answer

Operator

[Operator Instructions] And your first question comes from the line of John Nadel from Sterne Agee.

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

I have a couple of just real quick ones. Given the higher level of Life Insurance company, U.S. Life company statutory capital, I was hoping you could just give us an update on your estimated risk-based capital ratio and timing for when you might be able to take a dividend to the holding company out of the Life company. And then I have a follow-up.

Christopher John Swift
Chairman & CEO

John, it's Chris. So thanks for your question. I think the way we think about the RBC at the end of the first quarter in an approximate basis, I mean, it's north of 450% at HLA, but we have approximately $800-plus million of statutory capital at White River Re. And as we discussed on Investor Day, I mean, we're very encouraged by the capital flexibility that we're generating. While we don't have current plans to take out Life company dividends, I think we are putting ourselves in a position to do that by the end of 2014 or early '15.

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

Okay. And then I was hoping on the second quarter outlook, if you could just give us some estimate on what you're including in terms of the after-tax costs associated with the enhanced surrender program. It sounds like that's even more successful or at least, so far, it's very early in 2Q, but it sounds like it's more successful than it was in 1Q.

Christopher John Swift
Chairman & CEO

Well, Beth might be able to provide more color on that program. But from the cost side, I think about it as -- it's about $25 million after-tax in both the first quarter and the second quarter, John.

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

And we should think about capital freeing up related to that cost at about a rate of 2 to 1?

Christopher John Swift
Chairman & CEO

I think Beth described that in Investor Day fairly clearly, so I think that's a good point of view.

Operator

Your next question comes from the line of Chris Giovanni with Goldman Sachs.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Just, I guess, 1 question, just on kind of this next phase of the capital plan for '13 or '14. Obviously, you highlighted you're done with the debt reductions beyond what you outlined and pointed to the $100 million of buybacks, but I guess you continue to kind of include 2013 within this next phase. So, I guess, how should we be thinking about potential for either acceleration of buybacks this year or dividends in terms of the shareholder-friendly activities?

Liam E. McGee
Former Chairman

Thanks, Chris. At a high level, I would say, first of all, we're very gratified and pleased with the amount of enhanced capital generation that Chris and Beth talked about at our Investor Day, as well as the increased capital flexibility that we have. And we've made a lot of progress, as you know, in making that happen in the last 4 months, reducing the size and risk of the variable annuity book, as you saw this quarter, improving trends in our go-forward businesses. The fact that Talcott is capital self-sufficient enables us now to take excess capital that will be generated by our go-forward businesses and use that for capital management activities and/or to invest in the business for future profitable growth. As Chris and I said repeatedly, because of -- and we said it, I think, at the Investor Day as well. Because we've got increased capital flexibility, we are developing the next phase of, as you say, the '13 and '14 capital management plans. As Chris pointed out, and I'll reiterate, those plans will be focused on shareholders. We would expect to communicate those to investors in the near term. And anything we do communicate, we would anticipate coming from holding company resources. So I think that's a greater context that we'd give you.

Christopher Giovanni
Goldman Sachs Group Inc., Research Division

Okay. And then just 1 quick follow-up for Doug in terms of a lot of good color on the P&C business. Within Group Benefits, 1Q is historically the weakest, obviously, results certainly better there than what we were looking for. So would you kind of expect 1Q to kind of keep that pattern as seasonally weakest, and therefore, maybe we turn the corner on profitability here? How should we be thinking about kind of the improvement there going forward?

Douglas G. Elliot
President

I would say this, Chris, that in the prior first quarters, we've had some non-quarterly adjustments. I know in the first quarter '12, we had some adjusting for our '11 year. So that was a quarter that was really a bit out of sequence. I look at the first quarter '13 as largely symbolic of what we're doing. I think it's roughly a run rate-type quarter for us and very pleased with the progress we're making and look forward to the backside of this year.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

The question is on the expenses, in the P&C businesses. I guess we had assumed that the expense ratio would be somewhat elevated this year because of some of the orphaned expenses for the businesses that you had sold, and yet you didn't seem to see it. It feels as if you've done some other -- taken some other actions to make sure that didn't happen. If you could talk more about that. And then, I guess, related to that, as we look into next year, should we see further improvement as those kind of orphaned expenses do, in fact, go away?

Christopher John Swift
Chairman & CEO

Jay, it's Chris. So I'll provide maybe a comment or 2, and then Doug could also provide a comment. So thanks for noticing. We are committed, as we've been talking about, to becoming much more of an efficient organization. We have our $850 million goal for 2013. We believe we're going to achieve 90% of that this year. We have components of that goal that already focused in on enhancements and efficiencies, just besides taking out the orphaned costs, as you explained. So '13's activities are focused both on the orphaned activities, your words, and our own expense initiatives and activities. So they are beginning to show up in the run rate, and thanks for noticing. Doug, would you add any color?

Douglas G. Elliot

President

Maybe just the only other piece I would add, Chris, is that these quarters do tend to bounce around a little bit. We're on top of our expenses and obviously working hard to make sure that our run rate is moving ahead, are competitive in all our markets. First quarter tends to have some adjustment from prior year. So there were some adjustments to prior growth, particularly in the compensation area for agent accruals, but nothing that I would say would be way out of pattern. And we're pleased with progress here.

Operator

Your next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions here. The first one, I'm just curious, there was a question about dividends out of the Life Operation. I'm just curious, what's your thoughts about the dividend out of the P&C operation this year? You did $200 million this quarter. It looks like you've got the ability to do well over $1 billion.

Christopher John Swift
Chairman & CEO

Brian, it's Chris. We're going to continue with our current plan of $800 million annualized.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. Second question. Andy, just curious. It's the first quarter I've seen a long time where you actually had a sequential increase in PIF in the auto space. Do you think that's a continuing trend here going forward?

Andre A. Napoli
Former Executive Vice President and President of Consumer Markets & Enterprise Business Services

Yes, Brian. Thanks for the question. I do believe that's a sustainable trend going forward. I guess I'll break it down by new and renewal business performance. First of all, new business. We talked a lot about AARP Agency and how that's a strong growth engine. It's a great way for us to connect with AARP members that prefer to shop in this channel. But the division doesn't grow premium and policies without really nailing our AARP Direct program. That's where the bulk of the premiums are. And I'll just remind you that, that is a direct model. It starts with really effective and efficient execution of our direct marketing program, that's direct mail, publications, print and digital media. It's also important to note that more than 90% of those responses end up in our call centers on the phones as potential sales. And so our phone execution has just been terrific over the past 12 months -- 12, 18 months. And you couple strong execution around sales in the call centers with a competitive rate level and you're going to see some pretty nice new business growth. On the renewal side, really, it's the moderation of the rate increases that we had to take a couple of years ago to correct some profitability issues is the biggest driver. But we're also much better at understanding the price sensitivity of our renewal book, particularly at the individual account level, something that we can't possibly know enough about. And I think this is really going to help us going forward with policy and premium retention.

Operator

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

Erik James Bass
Citigroup Inc, Research Division

One question on sort of the Phase 2 of the capital plan. I guess, should we think about that including both capital being generated by the ongoing business, as well as potentially reducing the buffer for a stress scenario given the actions that you've taken to reduce VA risk? And then related to that, if you could just talk about, of that sort of stress buffer, how much of that capital is currently at the holding company?

Christopher John Swift
Chairman & CEO

Eric, it's Chris. I'll take the last one first. I think we talked about this at the Investor Day. Of our stress capital in the 900 scenario of $2.2 billion, we'd say the majority of it is at the holding company already. As far as the '13 and '14 plan, when -- as Liam said, when we communicate that, you ought to think about us using existing resources and considering capital generation capabilities for the remainder of '13 and '14 for our businesses. And that's what we'll communicate.

Operator

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

Thomas George Gallagher
Crédit Suisse AG, Research Division

Just a follow-up on that last question. So -- and Chris, if I understood you correctly, when I think pro forma, the debt issuance in April, you're going to be sitting on $2.4 billion of holdco resources. And if we consider that, what you're going to earn during the year is enough to service debt and pay common dividends. What is the appropriate holdco buffer? I presume 2 years worth of interest expenses would be considered overly conservative, so I'm assuming that would be enough. That would leave, of the $2.4 billion, probably north of $1 billion as presumably something that you could use. Am I in the right ballpark in terms of at least the building blocks here?

Christopher John Swift
Chairman & CEO

I think, Tom, you are in the building blocks. I think you just need to keep in mind that you do have debt maturities coming due of $520 million. So if I understood your math, you added in the $300 million for the April debt issuance, but you didn't take out $520 million for '13 and '14 debt maturity. So with that minor point, I think you're thinking about it generally right. And we've said in prior settings that 2x interest and dividends feels good for us during this current period of time. So I would still have that in mind as a general rule of thumb.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Got it. That's helpful. So yes, that would take the $2.4 billion down to $1.9 billion, but considering 2 years' worth of interest coverage, I got you. The other question I had, and I think this is pretty important, considering how people are thinking about Talcott and valuing it at I would say, pretty steep discount to statutory surplus. The $500 million of variable annuity capital generation this quarter, I just want to understand what's behind that because I know, the way you guys had been hedged, leading up to this point, had been -- where a lot of the upside on market movement, whether it was the yen weakening or equity markets being driven higher was offset by hedge losses. But obviously, you've hit a new inflection point here. I just want to understand the way the hedge is constructed and what happens from this point forward if yen continues to weaken and equity markets generally move higher. Will you continue to have a pretty significant amount of capital generation, at least just the market, based on market movements here?

Christopher John Swift
Chairman & CEO

Tom, it's Chris. It's a great question. I would say, generally, no, just to be clear. So what we experienced in the past, particularly this quarter, would not be repeatable going forward, particularly as Bob and Beth described, the new complete hedge program for equity and currency risk. So we took advantage of the market recovery both in FX and equity. We did participate in the upside, but that upside now of further yen weakening or equity market improvements in Japan has been basically curtailed. So as we think about it, any improvements there in the net economics will be offset by hedge losses going forward.

Thomas George Gallagher

Crédit Suisse AG, Research Division

Got it. So we shouldn't expect any further -- this was sort of a onetime bump-up that you can -- that we got ahead of this transition.

Christopher John Swift
Chairman & CEO

Exactly. I would say it's -- we're in a new phase. I've used the terms. If you've heard me before, we're market-neutral to Japan, equity and currency exposure.

Operator

Your next question comes from the line of Nigel Dally with Morgan Stanley.

Nigel Phillip Dally
Morgan Stanley, Research Division

Just a quick follow-up on the Enhanced Surrender Value. I understand the cost is going to be continue to be elevated in the second quarter. But I'm guessing, as those programs play out, that cost should be dissipating in the back half of the year. So should we be expecting sort of the after-tax margin for the variable annuity business to kind of expand in the back half of the year? I just wanted some clarity there.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes, this is Beth. As it relates to what we're assuming for the Enhanced Surrender Value and the numbers that Chris gave is, we're really thinking about that as a second quarter number. And then because of the way the program works, we wouldn't really expect to see continued surrenders at this level as we go into third and fourth quarter. So we would expect the costs that we're seeing in the second quarter to decline once we get into the third and fourth quarter.

Operator

Your next question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Just first on the Japan surrenders, I understand they went up as the quarter went on. So would you expect them to go up further in the second quarter given what the markets have done? And then secondly, on your guidance, you obviously had very good results in the first quarter. And you're assuming higher cats, I think, about $0.25 or so of cats in the second quarter. But the second quarter guidance relative to first quarter results seems a little light. It seems like you're assuming lower P&C margins, but just want to get an idea on what else is affecting your second quarter results versus what you reported in the first quarter.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

This is Beth. I'll start with the first question on the Japan surrender rates. So as we've gone into April and have continued to see market improvements, the surrender rates that we're seeing continue to be elevated. For the month of April we're seeing about 18%, 19% on an annualized basis. Whether that will persist into May and June, I think, is very dependent on market levels. So it has been now several months where we've seen this elevated activity with these types of markets. And so we are expecting that if markets stay where they are, that we'll continue to see higher surrender rates.

Christopher John Swift
Chairman & CEO

Jimmy, it's Chris. On the guidance, I would just say there's probably 2 other items that are just going to affect comparability a little bit, is -- besides cat, there's always non-cat weather that has some seasonal impacts, particularly in the Indianapolis business. So we're probably picking up just higher normalized, seasonal non-cat weather. And then lastly, if you look at our partnership yield this quarter, we're about 9%. We do assume 6% going forward. So that might be just a slight little delta from the first quarter.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And then just a clarification. When you were talking about holding company cushion, I think you mentioned 2x interest costs. You didn't say anything about holding company expenses. So should we include that with it as well? Or as you think about the cushion, you're not including anything for expenses?

Christopher John Swift
Chairman & CEO

The holding company interest and dividends would be the way I would think about it, Jimmy. And we have roughly $20 million, $25 million of unallocated holding companies expenses, so I would include that also.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Like 1 to 2x that?

Christopher John Swift
Chairman & CEO

Yes.

Sabra R. Purtill
Senior Vice President of Investor Relations

Steve, I think we have time for 1 more question.

Operator

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

Randolph Binner
FBR Capital Markets & Co., Research Division

Just one for Doug Elliot. There's been a lot of commentary kind of on the pricing and rate being pushed into the market, but I'd be curious on your kind of perspective of how sustainable it is to see the price increases you were able to push into the market this quarter, both in Commercial and Standard and as well as Middle Markets. I mean, it's a high level. You're kind of -- high single digits, low double digits is running kind of right with the best companies that are pushing rate into the market. So wondering how sustainable that level of rate increase is in your opinion as we go through 2013.

Douglas G. Elliot
President

Good morning, Randy. This is Doug. Really good question. Pleased with our progress through first quarter. And as I look -- we share in our supplement our combined ratios, x, x and straight up in the middle. There's still more work to be done. And as we have commented several times, a quiet cat quarter, rather talk to you 90 days after we kind of move through Q2. But I see action sustaining. I know that our approach in the marketplace is not going to shift at all. We're pleased with progress. But we still have more work to do to get in the territory of combined ratios that will produce the ROE that these businesses demand. And so I look at this as the middle of the game but pleased with where we're performing right now.

Randolph Binner
FBR Capital Markets & Co., Research Division

Are you getting pushback from your distribution or from the end users on the price increases? Because it is kind of an extra business cost for your target market, mostly in Commercial, I'm talking about. Is there any kind of hesitation or pushback you're getting from the channel or the end users on this?

Christopher John Swift
Chairman & CEO

I guess I wouldn't use the word pushback, but I would say this, we hope and expect that our retentions over the next several quarters will improve. I think that will happen. Again, this is a territory-by-territory discussion. So we can have a different discussion about the West Coast than I would with Southeast or a Northeast. But in general, as I look at our overall performance, that's 1 area that I hope will improve in the coming quarters, and we're going to focus there. And particularly, where rate adequacy is at play, we'll be a bit more aggressive.

Sabra R. Purtill
Senior Vice President of Investor Relations

Thanks, Randy. And thank you, all, for joining us today. We certainly appreciate your interest in The Hartford. And if you have any follow-up questions, please reach out to the IR team, and we'll be happy to help you. Thanks a lot, and have a great day.

Operator
Ladies and gentlemen, this concludes today's conference call. You may now disconnect.