S&P Global
Market Intelligence

Assurant, Inc. NYSE:AIZ

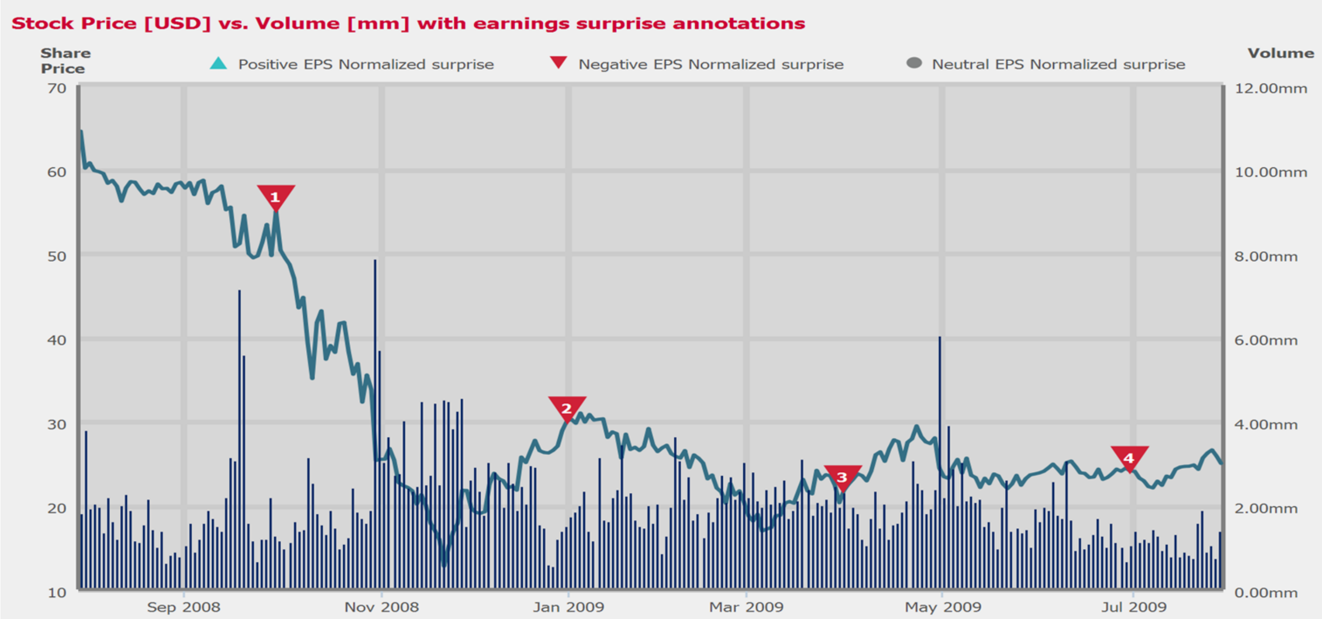
FQ3 2009 Earnings Call Transcripts

Thursday, October 29, 2009 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2009-			-FQ4 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.93	1.07	▲15.05	0.98	3.93	4.17
Revenue	-	-	▲2.14	-	-	-
Revenue (mm)	2111.60	2156.87	-	2112.92	8565.60	8165.67

Currency: USD
Consensus as of Oct-29-2009 12:28 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2008	0.87	0.70	▼1 (19.54 %)
FQ4 2008	1.53	1.31	▼2 (14.38 %)
FQ1 2009	1.43	1.17	▼3 (18.18 %)
FQ2 2009	1.19	0.84	▼4 (29.41 %)

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Call Participants

EXECUTIVES

Christopher J. Pagano

Melissa Kivett

Michael J. Peninger

Robert B. Pollack

ANALYSTS

Adam Klauber
Fox-Pitt Kelton

Edward Spehar
Bank of America Merrill Lynch

Jeffrey Schuman
Keefe, Bruyette & Woods

John Nadel
Sterne, Agee & Leach

Mark Hughes
SunTrust Robinson Humphrey

Steven Schwartz
Raymond James

Presentation

Operator

Welcome to the Assurant third quarter 2009 financial results conference call. At this time all participants are in a listen only mode. A question and answer session will take place at the conclusion of the prepared remarks. Also, today's call is being recorded. I would now like to turn the call over to Ms. Melissa Kivett, Senior Vice President Investor Relations.

Melissa Kivett

Welcome to Assurant's 200 third quarter earnings conference call. Joining me with prepared remarks are Rob Pollack, President and Chief Executive Officer of Assurant and Mike Peninger, our Chief Financial Officer. Prepared remarks will last about 25 minutes and then we'll open the call to questions. Chris Pagano, our Chief Investment Officer and Treasurer is also here for questions.

Yesterday we issued a news release announcing our third quarter 2009 financial results. The news release as well as corresponding supplementary financial information are also available on our website at www.Assurant.com. Some of the statements that we make during today's call may contain forward-looking information. Our actual results may differ materially from those projected in the forward-looking statements.

We caution you about relying on these forward-looking statements and direct you to consider the discussions of risks and uncertainties associated with our business and results of operations contained in our 2008 Form 10K and subsequently filed forms 10Q and 8K which can be accessed from our website. The company undertakes no obligation to update or revise any forward-looking statements.

Additionally, the presentation will contain non-GAAP financial measures which we believe are meaningful in evaluating the company's performance. For more detailed disclosures on these non-GAAP measures, the most comparable GAAP measures and a reconciliation of the two, please refer to yesterday's earnings release and the supplementary financial information that is on our website. Now, I'd like to turn the call over to Rob Pollack.

Robert B. Pollack

The third quarter of 2009 was good for Assurant on several fronts. Actions we have taken to strengthen performance, reduce expenses and improve loss ratios are paying off but clearly a benign hurricane season factored in to our results. Operating results for the quarter increased both year-over-year and sequential comparisons. We are continuing to explore other avenues to grow our business and improve operating performance in a challenging economic environment.

Our financial position at Assurant remains strong and our balance sheet strengthened due to improved asset valuations. We grew our holding company capital position by $110 million in the third quarter to $360 million, our book value per share by about 3% excluding AOCI and we generated an annualized operating return on equity of 10.7%. We also returned approximately $50 million of capital to shareholders including $18 million in dividend and $32 million in share repurchases during the third quarter.

At Assurant Specialty Property, results benefited from the lack of storm activity. We added a new client which increased our track loan portfolio and we also saw portfolios of some of our clients grow because of consolidation. However, over the next few years we expect property revenues will decline as the market inventory of subprime loans declines. We also expect the ongoing consolidation of loan servicers will create margin pressures. We continue to execute on the operating efficiencies to deal with these trends. Finally, we've already received about $250 million in dividends from this business. We are on track to dividend all of this year's earnings.

Turning to Assurant Solutions, operating results continued to show improvement both sequentially and quarter-over-quarter. We've added new clients and distribution channels to deal with the slowdown in consumer spending as well as the bankruptcies with several of our clients. We're pleased that both our Signal and GE's Warranty management group acquisitions are producing results consistent with our assumptions.

Our pre-need business is building steady moment and is providing results consistent with our target returns. Internationally results continue to be negatively impacted by high unemployment in the UK. However, we are pleased with progress we are making in Canada and Latin American on both revenues and combined ratios. Domestically, the results have improved from our continued risk management efforts with existing clients.

At Assurant Health we continue to manage through an especially challenging landscape. Although utilization trends continued at historically high levels, they stabilized in the third quarter. The rating and plan design actions we are taking should be sufficient to reflect the utilization we began to experience in the fourth quarter of last year. We expect profitability will be back in the range of a 4% after tax margin by the fourth quarter of 2010.

The overall outcome of healthcare reform discussion will not be known for some time. We cannot speculate on what might develop but we can say we support healthcare reform and believe all Americans must have access to quality affordable healthcare. We're still working to provide input towards a solution. We're preparing for various possibilities and believe Assurant Health expertise allow us to adapt to changes in the individual market.

At Assurant Employee Benefits, while we can't know when the economy will improve, we are focused on what we can do to generate growth today. The small fold in acquisition of Shenandoah Life along with a new client from the alternative distribution channel Disability RMS, will begin to grow our business in the near term.

Next, I'd like to offer some comments on the investment portfolio and the balance sheet. As part of our enterprise risk management efforts, we completed a stress test or tail event analysis of our business. We determined it is prudent to maintain a minimum capital position at the holding company. The events of the last 12 months underscore the importance of having access to capital in situations when it may not be available from external sources.

Based on our analysis we believe that our holding company capital position should be at least $250 million before we look to deploy capital. This is consistent with amounts we have held at year end last several years. As I mentioned, we ended the third quarter with $360 million in holding company capital. Looking towards yearend we expect that position will be between $550 and $650 million. This means we have between $300 and $400 million of capital available for deployment.

We're committed to building shareholder value by growing our businesses and executing our specialty insurance strategy. However, we believe our stock is undervalued and we view share repurchase as an attractive use of our available capital. Before I turn it over to Mike, let me summarize some of the trends and actions that will influence future results. In property, we face the headwinds of margin pressures from servicer consolidation. In addition, top line will decline from reducing loan inventory in the near term and reduced placement rates over the longer term.

On the positive side, our model continues to win clients in the RFP process. Loans are growing slightly from consolidation by our clients and we've found ways to reduce expenses going forward. In solutions, we continue to experience elevated claims related to unemployment in the UK and a general slowdown in consumer spending in the current economy. But, we are pleased with the improvement in our domestic combined ratios, the new clients in distribution models we are adding, and our integration of acquisitions that position us for an improving economy.

In health, higher utilization of medical services will continue to influence claims experience in the near term and our pricing and plan design changes may hinder sales. But, we are pleased that third quarter activity tracked consistent with our expectations and we are finding ways to reach consumers with our broad product portfolio. In benefits we are seeing an increase in the utilization of dental services which we believe is related to the economic slowdown and small employers are struggling more than in prior recessions due to a lack of available credit to expand their businesses.

This has led to fewer new jobs with small employers but we do feel that small employers will lead the recovery when the economy returns. We've take action to reduce expenses and we've completed a small acquisition and landing a new client through our alternative distribution channel which should allow us to see growth in the near future. Now, I'd like to turn things over to Mike to talk more about the business level performance and financial results.

Michael J. Peninger

A drill down in to the businesses affirms the strength of our financial position and that the actions we are making a difference. Let's start with Assurance Specialty Property; after tax, net operating income increased for the quarter and first nine months of 2009. The absence of reportable catastrophe losses drove the improvement. During the third quarter and nine months of last year we had $94.8 million of reportable catastrophe losses on reinstatement premiums.

Third quarter results included a $5.9 million after tax benefit from a subrogation recovery related to the 2007 California wildfires. Net earned premiums decreased 7% in the quarter and 5% for the nine months. These declines were driven by loans lost due to servicer consolidation, drops in premiums from real estate owned policies as fewer subprime loans enter foreclosure, increased sales of foreclosed homes and higher catastrophe reinsurance costs.

During the next 12 to 24 months we expect premium levels to continue to decline driven by a reduction in the number of REO policies, lower policy placement rates and possible reductions in average insured values. We also expect services consolidation trends to continue which will cause some variability in our quarterly results. This quarter we added 600,000 new loans, 300,000 of these were subprime loans from a previously mentioned new client that was added for tracking in the third quarter. Another 300,000 came from portfolios that our clients added through market consolidation.

These additions were partially offset by other portfolio declines including the previously disclosed 230,000 Merrill Lynch subprime loans that we will lose in the first quarter of 2010. In response to the declining revenue trends, we continue to drive expenses out of our operations through increased automation and disciplined expense management. Overall, we were pleased with another very solid quarter at Assurant Specialty Property.

Let's move now to Assurant Solutions; net operating income at solutions was up 55% for the quarter versus the same quarter last year. Third quarter 2008 results did include a onetime charge of $7.7 million. For the year, operating income is down 10% versus 2008. The increase for the quarter was driven by improved underwriting experience in our domestic service contract business and solid contributions from pre-need. The domestic combined ration continued to track within our targeted range for the third consecutive quarter which we expect to continue.

Loss experience in the UK credit business is worse in 2008 but did improve slightly in the third quarter versus the second quarter 2009 due to our exit from the problematic Internet channel we have previously discussed. In addition, investment income has declined significantly versus 2008 levels. International combined ratios in 2010 will benefit from cost reduction efforts throughout our operations, the continued moratorium on international expansion and continued improvement in the UK.

Turning to revenue in the United States, the absence of Circuit City production in 2009 has caused a $250 million decline in gross written premiums for the nine months. While the overall environment remains difficult, we did see some growth from existing and new clients in the OEM space in the third quarter. The sequential decline in gross written premiums was partially attributable to the Ford Motor Company program which ran between April and May. That program added about $30 million of gross written premiums in the second quarter. About $12 million of those premiums were earned in the third quarter.

Business sold in the past including Circuit City production continues in increase net earned premiums in 2009. After adjusting for the change in pre-need accounting and the impact of foreign exchange, net earned premiums are up 4% for the quarter and 5% for the nine months compared to the prior year. Our pre-need business had a very solid quarter. Same funeral home sales grew 5.8% for nine months versus 2008 as we continue to work effectively with our sales partner SCI.

SCI's increased utilization of different distribution channels, new outside sales offices and general agents that helped us begin to attract younger customers. The business will also grow due to the acquisition by SCI of Keystone, the fifth largest funeral home chain in the United States which we expect to add an additional 200 funeral homes that will see our pre-need policies.

In the wireless space, the integration of the Signal Holdings operations has gone extremely well. We believe that we now have a compelling offering for the large wireless carriers and our strength is our ability to provide our client with integrated full service solutions. Our integration of GE's Warranty Management Group has provide us with specialized direct marketing capabilities. These capabilities and the win of the Whirlpool account has helped us build a strong position in the OEM appliance market in North America.

While our acquisitions of mortgage distribution channels in the UK are current not meeting top line targets due to the economic slowdown in that Country, we believe that we are well positioned to recover once the economy improves. We've also been able to take expenses out of the operation which has helped offset part of the top line short fall.

Overall, we believe that the acquisitions that we've made over the past few years have strengthened solutions in several key markets. With the formal integration processes for the most part complete we should see them begin to impact our results more significantly in 2010. In summary, with the exception of the UK, we were pleased with solutions results for the quarter and look forward to further improvements.

Now, let's turn to Assurant Health. Despite a net operating loss for the third quarter, the underlying business results for Assurant Health improved marginally from the second quarter and consistent with our expectations. June 30th reserves proved to be adequate and no additional reserves strengthening was required in the third quarter. Results for the quarter include a charge of $8.1 million after tax for an adverse ruling in a claim related law suit.

Medical utilization rates continue to run at high levels consistent with trends beginning in the fourth quarter last year but considerably higher than past years. We did see a modest slow down in the number of large claims. Sales of both individual medical and small group plans were up for both the quarter and nine months due to our broad distribution, varied product portfolio and increases in the number of employees leaving employer provided plans. Direct sales and sales of lower priced plans were particularly strong however, the pricing actions we are taken to return our block to profitability may decrease future sales.

Net earned premiums at health were down 3% for the quarter and were down 4% for the year. The decreases were driven by high lapses of both individual and small group policies and lower average premiums per member as consumers chose more affordable plans. While we have not yet seen a discernable impact of H1N1 on our business, we do expect it to cause increased utilization and costs.

We are pleased to announce that through a new partnership with Walgreens we plan to cover the cost of administering the H1N1 vaccine for our insured customers who get their shots at any of the more than 7,000 Take Care Clinics located in Walgreens drug stores. We estimate that the cost of administering the vaccines and H1N1 related medical services will increase our claim expenses by $8 to $10 million after tax during the next six to eight months which we see as a great investment in our customers' health.

We expect that our pricing and plan changes combined with the expense reduction efforts will return the health business to target profitability by late in 2010. We remain optimistic that by leveraging our expertise, product breadth and distribution reach we will find numerous growth opportunities in the individual medical market place.

Now, let's move to Assurant Employee Benefits. Net operating income was down 47% and 46% for the quarter and nine month periods respectively. The declines reflect less favorable loss experience across all product lines. This is not an unusual trend during tough economic times. Net earned premiums for the quarter and the year are down as small businesses continue to reduce headcount, curtail salary increases and scale back their benefit offerings.

In these difficult times, we are increasing our focus on voluntary or employee paid coverages. Sales of voluntary coverage were up 35% to $18 million in the third quarter. In addition, we are encouraged by the sales pipeline in our disability RMS channel and we are pleased to announced the acquisition of the majority of the group business of Shenandoah Life which will add approximately $15 million of annual premium next year.

I'll turn next to our investment portfolio, which as Rob mentioned, benefited from improvements in the credit markets and government efforts to engineer a lower interest rate environment. AOCI improved by $793 million versus December 31st primarily due to the improvement in the portfolio market values. Lower interest rates have put downward pressures on investment income however we have reduced our cash position which has helped stabilize quarterly investment income albeit at lower levels versus 2008. Longer term we expect interest rates to move higher and provide better overall risk adjusted yields.

Our commercial mortgage portfolio which is about 11% of total investments continues to perform well and we have no delinquencies as of quarter end. During the third quarter we completed our annual appraisal process in which we effectively underwrite every loan in the portfolio using current market metrics. The portfolio's loan to value ratio increased to 62% versus 53% last year due primarily to an increase in market capitalization rates.

Our debt service ratio improved slight to 1.87 compared to 1.85 the prior year. While we are quite pleased with the portfolio's performance, we are mindful of the potential effects of sustained high levels of unemployment on the commercial property market.

Our balance sheet remains solid stock holders equity excluding AOCI increased to $4.8 billion in the quarter. We have no debt maturing until 2014 and overall asset leverage of 2.7 to 1 and a 17% debt to equity ratio. Book value per diluted share excluding AOCI increased to $40.57, up 9% from year end and 3% from the second quarter.

Before I finish my prepared remarks I'd like to comment on two other corporate matters. The first pertains to the goodwill asset carried on our balance sheet. Our policy is to perform our annual impairment testing in the fourth quarter of each year. Due to the significant increases in unrealized gains in our investment portfolio, we performed an interim review of the goodwill ascribed to the solutions and employee benefit segments in the third quarter. We conclude that the asset was not impaired as of September 30th. It is possible that our fourth quarter test will indicate that an impairment charge is necessary.

Finally, we wanted to provide an update on the previously disclosed SEC investigation. After a period of inactivity, we have had recent discussion with the SEC staff about the investigation. Beyond the fact that contact has resumed, we have nothing new to announce at this time. I should note that because of the discussions with the SEC we did not renew our share repurchase program. As Rob noted, we continue to our shares to be attractively be priced at current levels so we look forward to buying new shares as soon as we can.

In summary, third quarter results reflect our continuing efforts to strengthen the company despite macroeconomic challenges and we believe that Assurant remains fundamentally sound at its core. Now, I'll turn things back to Rob to open the floor for questions.

Robert B. Pollack
Operator, we're ready for questions.

Question and Answer

Operator

(Operator Instructions) Your first question comes from Jeffrey Schuman - Keefe, Bruyette & Woods.

Jeffrey Schuman
Keefe, Bruyette & Woods

I had a question about specialty property, I was curious about the placement rate sequentially. Subprime placement rates continued to increase whereas prime sort of flattened out and I guess I was kind of thinking that maybe the reverse would be more likely. Do you think prime placement has flattened out here or was that kind of a one quarter flattening out do you think?

Robert B. Pollack

I believe in any particular quarter Jeff things like that can happen. We brought, as Mike mentioned, some new loans in to the portfolio. I wouldn't read anything in to the one quarter number.

Jeffrey Schuman
Keefe, Bruyette & Woods

Obviously it's extremely difficult to kind of think about scenarios for the health business but it's also difficult to ignore the situation as well. Certainly, one of the concepts kicking out there would sort of move you off of a sort of underwritten model. If you can't really underwrite for pre-existing conditions, potentially how dramatic is that scenario, does that mean the existing book of business would go away and you would kind of half to start over with a new product and new underwriting model or could it potentially be less dramatic than that?

Robert B. Pollack

Well, a couple of different things I'll comment on. First, Don Hammond and the team at Assurant Health have put together a variety of different scenarios including the one you talked about Jeff and said, "In that environment how would we play and win?" We believe we have strategies that could operate there. Remember that the reform that is talked about takes place and is effective 2013 so we're looking several years out in the future before that comes in to effect.

I think another important point to consider in all that is existing people will be allowed to maintain or in much of legislation keep the plans that they have meaning you're going to kind of have a different set of risks after the 2013 compared to ones that are underwritten prior to. So, maintaining that block of business of what you have on the books prior to reform will be a consideration as well. But again, until things are finalized we're guessing and our goal is to make sure we understand how we can effectively plan in the new environment.

Michael J. Peninger

I was just going to mention to that the size of the market is a factor too because we expect the market to be a lot bigger under the scenarios particularly as we think is right there's a coverage mandate.

Jeffrey Schuman
Keefe, Bruyette & Woods

Lastly, on the SEC discussion and I guess kind of the suspension again of the share repurchase, if those discussions continue are there other ways for you to manage capital other than share repurchase directly? Acquisitions? I'm just kind of trying to think how that would go if that was sort of protracted?

Michael J. Peninger

Well there's dividends. I mean, there are some other options and at the end of the day we make a judgment about whether we have material inside information. That's what precludes from instituting a share repurchase. The fact that there's ongoing discussion may or may not lead us to draw that conclusion Jeff.

Robert B. Pollack

I'd also point out that our goal Jeff is to consistently return capital to shareholders and I think we have a track record of doing that both through dividends and regular increases to the dividends as well as repurchase. Those are two ways we look at things.

Operator

Your next question comes from Steven Schwartz - Raymond James.

Steven Schwartz
Raymond James

Just following up on the SEC investigation, I saw a piece that you guys put out about Adam Lamnin, is he back now or was he already back?

Robert B. Pollack

He has been back Steven and as we recently announced he joined Assurant Health as the Chief Operating Officer.

Steven Schwartz
Raymond James

Vis-à-vis the SEC investigation and the rating agencies, I guess you've done your tail model, you came up with what you think you need at the holding company. I guess the question is given the SEC have you bothered to show that and discuss potential share repurchases with the rating agencies?

Robert B. Pollack

Yes, we've continued to have regular dialogs with all the rating agencies and we've shared a lot of detail tail event analysis with them. Chris, I don't know if you would want to amplify on that?

Christopher J. Pagano

Again, the decision about holding company capital was really the result of the enterprise risk management efforts we've undertaken during the course of the year. The enterprise risk management is a focal point for the rating agencies and we have shared both the process and the conclusions with them. They are aware of how we go about doing this and the conclusions that we've reached.

Steven Schwartz
Raymond James

Just two more fasts ones, Mike the potential for goodwill impairment in the fourth quarter vis-à-vis which you've kind of done preliminary in the third quarter, what could change that could make that happen? What would have the biggest effect I guess?

Michael J. Peninger

Well, you go through a process of looking at the value of each of the businesses and then you take that value and kind of subtract off other assets in each of the businesses and then your balancing item is goodwill. So, you determine a value of that. So, the things that go in to it are your projections of future earnings of the business, you also look at changes in the market values at a point in time of the tangible assets that you have on the balance sheets, your estimates of intangible values. You're going through a lot of different assumptions. You're looking at current events at any point in time along with future projections and so as things change in the environment that affect any of those things it can cause to reach a different conclusion.

Robert B. Pollack

But I think one of the important things for investors to take away is whatever goes on with goodwill has no impact on our holding company capital, okay. That amount of money we're talking about a year end will be there regardless of anything that happens here.

Michael J. Peninger

Right.

Steven Schwartz
Raymond James

Finally, Mike you mentioned that TIV might come down in specialty property. Would that just reflect a mix shift?

Michael J. Peninger

I think so, yes pretty much.

Operator

Your next question comes from Edward Spehar - Bank of America Merrill Lynch.

Edward Spehar
Bank of America Merrill Lynch

I wanted to talk a little bit more about the capital and share buyback. You don't have any authorization outstanding now, is that correct?

Michael J. Peninger

No, we do have authorization outstanding Ed. I believe it's $170 million.

Edward Spehar
Bank of America Merrill Lynch

What was the comment about didn't renew share repurchase program because of the discussions.

Robert B. Pollack

We had a 10B51 program in operation Ed and when this came up we believed it was prudent to not renew that program.

Edward Spehar
Bank of America Merrill Lynch

But then if we're talking about the share buyback from here, I think what you're saying is that discussions with the SEC do not necessarily preclude you from buying back stock and the fact that you have now disclosed to us that you're having discussions that at least is not a material non-public piece of information.

Robert B. Pollack

It think two things Ed, first we're a conservative company, we don't want to do anything that could have unintended consequences and so we're just being prudent as we consider all the things that are going on related to the investigation.

Edward Spehar
Bank of America Merrill Lynch

Then just on the capital numbers, if I heard you correctly Rob you said that you thought that the holding company capital was going to build from $360 to $550 to $650 by year end?

Robert B. Pollack

Correct.

Edward Spehar
Bank of America Merrill Lynch

What is leading to the $200 to $300 million increase in one quarter?

Robert B. Pollack

Just dividends. We've pointed out before Ed that we tend to have our dividends focused towards end of the year after cap season because we have a line of sight then on our earnings a little better particularly in property so we've just set things up that way. It also allows us to have that feedback and dialog with the rating agencies. It's kind of our normal process and Chris maybe you want to amplify a little bit about ordinary versus extraordinary.

Christopher J. Pagano

Again, just a couple of things, Rob's point that we tend to back end load the dividend from the various operating subsidiaries, a couple of things that changed from last year again, the portfolio results are not going to be the drag that they were last year. Property, we've taken about $250 or $260 of property's profit which is left in the full profitability through the three quarter and we're going to get all of property's profits up to the holding company. The idea is we capitalized to the AM Best ratings and to maximize financial flexibility we take every extra dollar up and put it at the holding company. You add up a variety of factors and we feel like the $550 to $650 number is a good range for year end.

Edward Spehar
Bank of America Merrill Lynch

I guess then if we're thinking about free cash flow from here, it doesn't seem like there's any reason to think that your ability to take up 100% of specialty property earnings is going to change any time soon given top line trends, isn't that fair?

Michael J. Peninger

I think that's a fair statement. It's the earnings and then of course moderating and potentially declining top line growth making additional capital available.

Edward Spehar
Bank of America Merrill Lynch

I think you use to talk about the other segments providing you somewhere in the neighborhood of $200 million a year of dividend capacity, is that still a reasonable expectation

Robert B. Pollack

Again, lots of factors that come in to play, not the least of which is how AM Best modifies their [inaudible] measures on an annual basis. When I think about it you think about earnings adjusted for any kind of additional growth to be held back and then net of portfolio affects. That's a probably better rule of thumb rather than putting a set dollar amount on the numbers.

Michael J. Peninger

At least in the near term, obviously we've had difficult in the health business so at least in the near term that's affecting it too.

Edward Spehar
Bank of America Merrill Lynch

I guess the point is that the free cash flow generation seems to be running at I guess even a higher level than people had been assuming. I guess the final thing that I would like to ask, you gave us I think a good comment here at least in terms of optimism on the health business of a target of getting back to a 4% after tax margin by the fourth quarter of 2010. There's a lot of uncertainty in health and you guys are willing to give a target, a forward-looking statement at least on a margin number on that business. I'm wondering if there's any reason you can potentially, not that I don't want to work but just potentially give us a little bit of a helping hand on a couple of these other segments at least on a margin standpoint? I'm not sure you would argue that there's any less uncertainty in health than there is in any of the other businesses in terms of margins?

Robert B. Pollack

Sure, if we go to solutions, we've tried to combined ratio domestically. We think we're operating at those Ed. We know we need to ultimately improve things internationally. We'll have a little better line of sight on that as we get a little more clarity on the economy. We're trying to do that. The other side of thing sis obviously just the investment portfolio and Chris and Mike both mentioned that new money yields are down. We don't think that's going to last forever but right now you can see the dampening impact it's had on investment income this year versus last. We're trying to give more qualitative color related to that and we'll continue to work to do that as we move forward.

Operator

Your next question comes from Mark Hughes - SunTrust Robinson Humphrey.

Mark Hughes
SunTrust Robinson Humphrey

Just to be clear, since you're speaking with the SEC you're going to be retrained or you're going to be hesitant to buy back shares or are you opening to buying back shares now?

Robert B. Pollack

We have to make an evaluation Mark of whether we have material inside information and if we do then we can't institute a new 10B5 plan which is the way we buy back shares. It's an automatic plan.

Mark Hughes
SunTrust Robinson Humphrey

Practically speaking you could be buying back shares at any time if you make that determination?

Robert B. Pollack

If a plan was put in place then we could buy under the terms of that plan.

Mark Hughes
SunTrust Robinson Humphrey

Then in the health business have you adjusted the price yet and what do you anticipate the magnitude will be of any rate changes?

Robert B. Pollack

Two things Mark, I think first that our normal trend in this business we've pointed out has run in the mid teens depending on where we're talking bout in the country. Then obviously we've had to put in additional price or plan change to deal with the higher utilization we've seen. We're doing that, we're doing it on renewals, we've started it on new business as well and again, this is something, part of our history having been in this business for such a long time we believe we have good line of sight on how those changes work their way through a block of business.

Mark Hughes
SunTrust Robinson Humphrey

Then this question may have been asked before but the flexibility in cutting costs in the property business, a question of fixed versus variable, if you've been running at expense ratios in the low 40s, with the circumstances you anticipate, how should we think about where that ratio will be a couple of years down the road?

Robert B. Pollack

I think we can look back at run rates on expenses over time. We obviously prior to the increase in penetration rates we had a run rate, we know we got some benefits related to the Safeco acquisition and I think that is a good starting point. On top of that however is Gene and his team are working very hard to find additional operating efficiencies. We mentioned last quarter some of the ones we found. We're looking to take actions to improve results. They're looking at that, they're trying to come up with additional ones and I'm confident over time they'll find some.

Michael J. Peninger

I guess I'd just point out too that we have a bit of a balancing act in working with our clients because the clients are struggling themselves with workloads and inundated with new work that they've asked us to help them with. Some of that, that greats expense for us but then enters in to part of the discussion with them about how to price and all that sort of stuff too.

Operator

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

John Nadel
Sterne, Agee & Leach

I know we're all targeting this SEC issue and the buyback but maybe a couple of different questions about it for you. It appears to me based on the average price that you guys paid buying back your stock during the quarter that you were sort of mid to late August early September so is it far to say the SEC sort of reinitiated contact with you sometime in September?

Michael J. Peninger

I think that's about when it happened John.

John Nadel
Sterne, Agee & Leach

My question is, if you feel like discussions with them just simply reengaging in discussions is that a material event and now we've disclosed it or is it a fear that there's potential for a meaningful cost of resolution i.e. fine or penalties and you need to hold back capital for something like that?

Michael J. Peninger

I guess John we're not buying back now. At the end of the day we hope to be able to do so as soon as possible but we have to, as I said earlier, we have to make a judgment about whether we have inside information. That's really the call that we're making and as Rob said we're a conservative company so we want to make that decision as thoughtfully as possible.

John Nadel
Sterne, Agee & Leach

I guess the question then is and maybe you already know the answer based on what you said, when do you make that judgment? Has that judgment been made?

Robert B. Pollack

I think a couple of things John, if you look at when we got out of the market, we then got in to a blackout period, okay. So, it's something that we're assessing on a regular basis and we'll continue to do so. The big take away here is we see the stock as attractively priced and we want to buy back as soon as we can.

John Nadel
Sterne, Agee & Leach

Let's switch gears for a second, I know Steve touched on this with you Mike but the goodwill idea that you guys did sort of a preliminary review, can you compare the depth of that sort of review that you already did with how much additional incremental work you would do on a more formal impairment testing in the fourth quarter? How much has to really change in a two or three month period of time for an impairment to be recorded?

Michael J. Peninger

Well, you have to relook at all of your assumptions John. During the interim period we did look - we go through the same process. You're looking at external events though. One of the ways for examples that you would try to look at the value of each of the segments is by looking at values of peer companies that could move around, you've got market values of assets that move around, you've got changes in interest rates and then another one is just your internal projections which typically aren't going to change radically in a three month period but they can change. There's just lots of different variables John. It's not like we didn't use the same process. It is the same process.

John Nadel
Sterne, Agee & Leach

Then just specifically on the goodwill, how much is there related to solutions versus benefits? And, is there any in any other segments?

Michael J. Peninger

We have goodwill in all of our segments. It's actually in the 10K but the solutions is about $370 million of goodwill and benefits has I think $180 or so million.

John Nadel
Sterne, Agee & Leach

Last question, just on the health segment, I think in our discussion last night and then in your comments this morning it sounds like definitely the pricing actions you've taken are negatively impacting your lapse rates i.e. you lapse rates have definitely spiked a bit. Can you give us a sense for how much they've moved from a normal - if I sort of typically think historically you're lapse rate is at about 25% annually. How much higher is it now running?

Robert B. Pollack

First, I think it's a little hard to separate John just the one variable because a lot of just what's happened because of the economy has caused things to go up as well. We think our lapse rates are running a couple of points higher. Again, we're certainly trying to be mindful of that. Don and his team work hard. We've got a retention unit trying to keep people. Little anecdotes are a lot of the lapses are occurring just because people don't have the money to pay for the coverage. That's a different dynamic than we've historically seen so it's hard to separate that pricing action from that economic action. Again, we're trying to be responsive and find ways and keep more of that business in a changing environment.

John Nadel
Sterne, Agee & Leach

Then related, with the pricing actions that you've taken I know there are a lot of different product designs and a lot of different price points but can you give use a sense for as you look across the market at the typical competitors that you run up against especially in the individual market, how different are you prices right now, how much higher relative to your top competitors in the market place right now?

Michael J. Peninger

That's a really hard question to answer John because it's so market specific and typically there is - your relative comparison can vary vastly from one competitor to the next. There's not a single competitor in every market. And, we also think that the trends are affecting our business are affecting other carriers too. This is not like it's stuff that's unique to us.

Robert B. Pollack

I think the one thing that is clear is our affordable healthcare which is a modified designed, more first dollar benefit coverage is resonating in the market. It's a lower premium per member product and we're seeing a lot of response to that product.

John Nadel
Sterne, Agee & Leach

Just a quick clarification on the claims cost of $8 to $10 million after tax for the H1N1 flu shots that you're covering. I just missed what the time frame is for that and is there anybody else picking up that cost or just you guys? Are you passing it along in any way?

Michael J. Peninger

We're paying for the cost of the vaccinations. If there's flu, if people actually get the flu and go in and get treated that would become treated like a normal claim but we're picking up the cost of administrating the vaccines and we were excited to have this opportunity with Walgreens to let our customers go in and get that at any of the Walgreens clinics.

John Nadel
Sterne, Agee & Leach

That's $8 to $10 million over what period?

Michael J. Peninger

It was six to eight months.

John Nadel
Sterne, Agee & Leach

And that begins sort of now?

Michael J. Peninger

Yes.

Operator

Your final question comes from Adam Klauber - Fox-Pitt Kelton.

Adam Klauber
Fox-Pitt Kelton

On the specialty property is the natural attrition of the subprime portfolio running around 10% this year?

Michael J. Peninger

I don't have the number off the top of my head Adam but we've got them in our supplement, the subprime loans. There really haven't been any new ones coming on this year so you could kind of look at the draw down there.

Adam Klauber
Fox-Pitt Kelton

Do you think that draw down will accelerate in 2010/2011 as more of the older vintages of subprime just eventually go away or pay off or do you think it stays more level next year?

Robert B. Pollack

I think some of that will be dependent on if there's any new subprime issues. Again, we look at it as an inventory Adam. Certainly there are going to be some that move out in to foreclosed and then and REO status. If there's new subprime loans that are originated they can replace that. Obviously there just hasn't been any of that replacement origination going on for a while. On the other hand I'd point out historically there has been a subprime market and maybe not at the levels of the last few years but certainly it's contributed to 10% or so of the outstanding mortgage loans.

Adam Klauber
Fox-Pitt Kelton

Also, in your earlier remarks you said there's obvious risk of losing business in consolidation. Has that been heightened recently as we see more and more banks get in trouble?

Michael J. Peninger

Well, there's been lots of consolidation going on. This is where we benefit from having the market share that we do and we have two thirds of the market so we believe that when there's consolidation we're more likely to win than lose but certainly we have lost loans to consolidations but over the long term we believe as consolidation continues we're going to win more of our share, win more than we lose.

Adam Klauber
Fox-Pitt Kelton

Do you think consolidation will pick up over the next 12 months compared to what we've seen?

Robert B. Pollack

If you look at the top four the growth has been enormous over the last three or four years Adam. I don't have the numbers in front of me but I think the share of the top four is almost double in the last couple of years. They can only get 100% of the market, I don't think they'll get all of it. I think that maybe that will slow down a bit.

Adam Klauber
Fox-Pitt Kelton

You mentioned the goodwill, which areas I guess would be under greater stress for potential goodwill write downs?

Michael J. Peninger

We look at all of our segments. We did the interim review of solutions and employee benefits. Those were the ones that you'd look at a little closer to the edge I guess.

Robert B. Pollack

Each of our businesses is working to improve performance through operating efficiencies while pursuing additional clients to grow their businesses. We've strengthened our enterprise risk management activities to better understand and plan for scenarios that could adversely impact results. We've remained well positioned with holding company capital to meet a variety of needs. We look forward to updating you on our continued progress.

Operator
This does conclude Assurant's third quarter 2009 call. Please note that a replay will be available as of 11 am Eastern Time. You may now disconnect.