S&P Capital IQ

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The Hartford Financial Services Group, Inc. NYSE:HIG

FQ1 2016 Earnings Call Transcripts

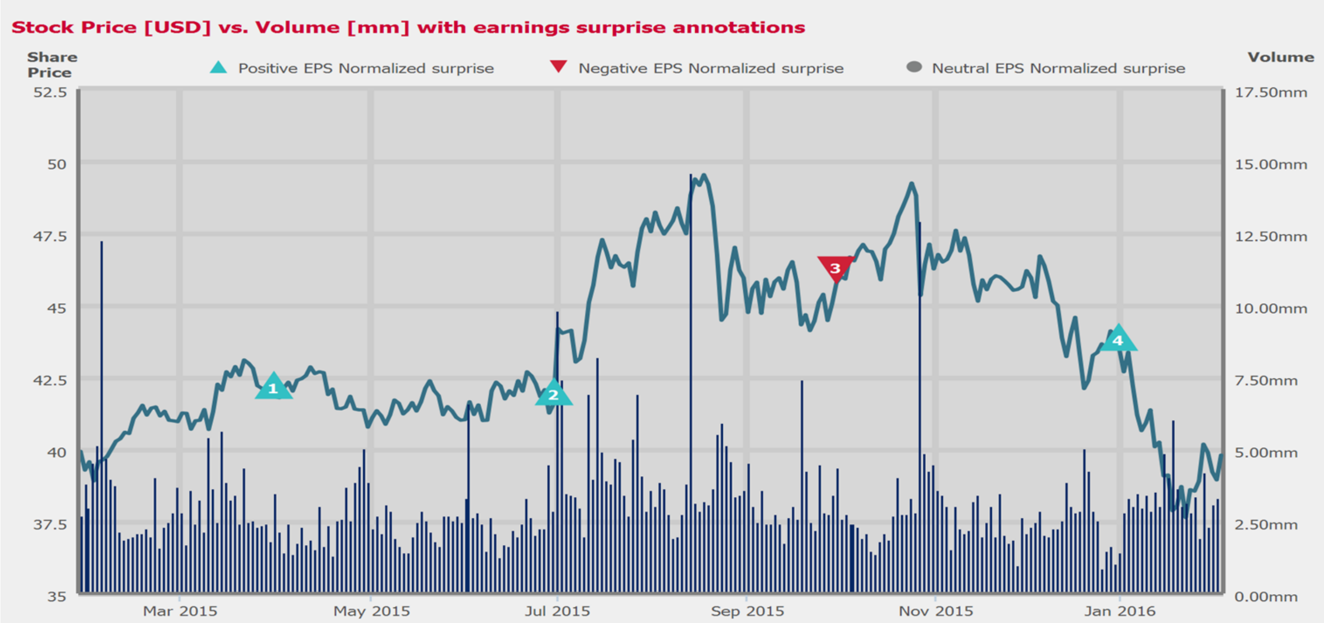
Friday, April 29, 2016 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.01	0.95	(5.94 %)	0.84	3.93	4.40
Revenue (mm)	4703.50	4391.00	(6.64 %)	4661.00	19044.00	19496.00

Currency: USD

Consensus as of Apr-29-2016 12:12 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.97	1.04	7.22 %
FQ2 2015	0.77	0.91	18.18 %
FQ3 2015	0.99	0.86	(13.13 %)

FQ4 2015	0.98	1.07	▲9.18 %

Call Participants

EXECUTIVES

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Christopher John Swift
Chairman & CEO

Douglas G. Elliot
President

Sabra R. Purtill
Senior Vice President of Investor Relations

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Ryan James Tunis
Crédit Suisse AG, Research Division

Presentation

Operator

Good morning. My name is Chris, and I will be your conference operator today. At this time, I would like to welcome everyone to The Hartford's First Quarter 2016 Financial Results Conference Call. [Operator Instructions] Sabra Purtill, Head of Investor Relations, you may begin your conference.

Sabra R. Purtill
Senior Vice President of Investor Relations

Thank you. Good morning, and welcome to The Hartford's webcast for first Quarter 2016 financial results. The news release, investor financial supplement, slides and 10-Q for this quarter were all released yesterday afternoon and are posted on our website. I did want to take this opportunity to apologize for the technical difficulties that delayed the posting of the supplement yesterday. While we do not expect to have this issue again, I wanted you all to know that we filed the 8-K with the news release and supplement before we post the supplement on the website.

And that's usually within just a few minutes after the news release goes out. So even without yesterday's snafu [ph], you can always find the supplement in the 8-K before you will see it posted in the financial results section of our website. Just a heads up, because we know that earnings nights are pretty hectic. Our speakers today include Chris Swift, Chairman and CEO of The Hartford; Doug Elliott, President; and Beth Bombara, CFO. Following their prepared remarks, we'll have about 30 minutes for Q&A.

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

Our presentation today also includes several non-GAAP financial measures. Explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings, as well as in the news release and financial supplement. I'll now turn the call over to Chris.

Christopher John Swift
Chairman & CEO

Thanks, Sabra. Good morning, everyone, and thank you for joining the call. I'm generally pleased with our results this quarter, particularly in Commercial Lines and Group Benefits, each of which delivered strong margins. We grew book value per share, excluding AOCI, 7% over the past year, and achieved a 10.3% core earnings ROE, excluding Talcott. We repurchased $350 million of shares during the quarter and plan to complete our buyback program by the end of 2016.

However, core earnings were down 15% over last year, as we continue to face some of the same headwinds from the second half of 2015. First, personal auto lost cost trends remain challenging, which impacted margins and led to strengthening reserves for the 2014 and 2015 accident years. Second, Commercial Lines performance has been very strong, but competition continues to intensify making it more challenging to grow at acceptable returns. And third, consistent with capital market activity, limited partnership investment income remained low similar to the second half of 2015, with an annualized yield of only 1%.

This was a difficult comparison with the first quarter of 2015, where returns averaged 14%. Given these headwinds, I'm pleased with the continued progress we have made in most of our lines of business. Doug and Beth will go into further detail about first quarter performance. But I would like to touch upon a few highlights, both positive and negative. We generated strong margins in Commercial Lines supported by underwriting discipline across all of our businesses. All-in combined ratio improved 4.8 points due to lower catastrophes and higher favorable prior year development, while the combined ratio, excluding catastrophes and prior year development, improved 2.8 points to 89.6. Group Benefits remained strong with a core earnings after-tax margin of 5.5%, top line growth from good January sales performance and solid in-force book persistency.

Although Mutual Funds' core earnings were down slightly, the business continues to deliver steady investment performance and had positive flows in equity funds. In February, Barron's recognized our 2015 investment performance, naming Hartford Funds as a top 10 fund family for the third time in the last 4 years.

While many of our businesses sustained their track record of underwriting improvement, Personal Lines results were disappointing overall. The combined ratio, excluding catastrophes and prior year development, improved slightly to 89.7, but this was entirely attributable to the very strong homeowners results due to lower non-CAT weather and fire losses.

However, personal auto results deteriorated with a 1.6-point increase in the combined ratio, excluding catastrophes and prior year development. Doug will talk about the underlying trends that contributed to these results, as well as the initiatives we have underway to improve profitability, including pricing actions.

Given these trends and the time needed to implement responsive actions that earn in, we currently expect the 2016 Personal Lines combined ratio, excluding catastrophes and prior year development, to be at or above the high end of the 90 to 92 outlook we provided in February.

Turning from our financial results. We like to provide an update on a few recent investments in products and distribution to make us a broader and deeper risk player.

On March 16, we announced our agreement to acquire Maxum Specialty Insurance Group, a well-respected E&S insurer with an experienced management team and a strong underwriting culture. The addition of Maxum will further strengthen our market leadership in small commercial by extending our product capabilities, adding E&S talent and helping to improve the customer and agent experience. We are hard at work in our integration plans. Our management team recently spent time with Maxum employees, introducing them to the extended team and to the opportunities The Hartford will bring to their business. In terms of the transaction process, we filed our Form A with the Delaware regulator this month, and expect to close the acquisition in the third quarter. We are all eager to begin working together and to demonstrate the power of our joint capability once this deal closes.

We also announced the expansion of our international insurance placement capabilities for Commercial Lines customers. Our new alliance with AXA Corporate Solutions, enables us to offer U.S. customers coverage for their international exposures, with a primary focus on developed markets, such as Europe and Asia. The Hartford will maintain underwriting and pricing control of these policies and will assume a 100% of the risks through a reinsurance agreement with AXA.

Aside from these 2 projects, we're hard at work on other initiatives and investments to accelerate premium growth and improve our operating capabilities. I look forward to showing our progress with you in the future.

Before turning the call over to Doug, I'd like to comment on some of the changing dynamics in the P&C industry. Some carriers are retreating or refocusing their businesses due to poor underwriting results, while others are undergoing strategic and leadership changes. Technology-based disruption is accelerating, affecting all industry participants. At the same time, we see competition intensifying, continued low interest rates and loss cost challenges, such as in personal auto. We recognize these challenges posed by these dynamics, and I remain confident in our ability to navigate this more difficult environment, including the work required in Personal Lines. The Hartford has a strong foundation and an experienced management team with the resolve to maintain underwriting discipline and expense control. We are reacting to these changes in the landscape and are focused on execution.

Now, I will turn the call over to Doug.

Douglas G. Elliot
President

Thank you, Chris, and good morning, everyone. We started 2016 with strong results in Commercial Lines and Group Benefits, continuing our solid execution from 2015 and successfully adapting to a changing competitive landscape.

Results in Personal Lines were disappointing as we took reserve actions to address emerging auto liability loss cost trends. I will share more on Commercial Lines and Group Benefits in a moment, but first I would like to cover our results for Personal Lines.

Core earnings for Personal Lines were $23 million for the quarter, down from $75 million last year. Catastrophe losses were $22 million higher than in 2015, which was a particularly light CAT quarter for Personal Lines. First quarter of 2016 included several well-documented storms in Texas, where we have teams currently deployed to assist our customers. Also included in core earnings this quarter is $65 million pretax of adverse auto liability development, primarily related to accident years 2014 and 2015, partially offset by favorable development in property.

The adverse auto liability development for accident year 2014 resulted from bodily injury severity trends with losses emerging more slowly than we expected. As more claims from this accident year are reaching settlement, we've recognized that our previous reserve estimates were too optimistic. For accident year 2015, our auto liability booking reflects the higher severity estimates that carried forward from 2014, as well as increased frequency trends. Our revised estimate of ultimate frequency trend for the third and fourth quarter of 2015 is now approximately 1 to 2 points higher than we estimated at year-end, reflecting the continued reporting of bodily injury claims from those accident quarters. That puts our frequency call for the second half of 2015 in the mid-single-digit range.

The Personal Lines underlying combined ratio, which excludes prior period development and catastrophes, was 89.7, improving 0.2 of a point from last year. Favorable non-catastrophe homeowner losses and a lower expense ratio, more than offset adverse auto losses. Frequency, which picked up in the second half of 2015, appears to be moderating somewhat in the current accident quarter at 2%. Severity on the other hand is notched up to 4%. Overall, we believe that our loss cost trends are consistent with recent quarters. However, as frequency and severity matures, our accident quarter estimates may change. As we continue to analyze the underlying trends and understand what is driving them, we nevertheless recognize that we need to take actions to address the profitability of our auto book. We're working aggressively on several fronts. First, our rate filings in the first quarter of 2016 were double the number from first quarter of last year, representing an average rate change in the applicable territories of 6.5%. The number of rate filings we've planned for the full year is 40% higher than in 2015, with an average increase in those territories of 6.6% in direct and 8.5% in agency. Given that we mainly issue 12-month policies, much of the 2016 filed rate change will earn into the book in 2017.

Second, in addition to addressing the underlying market trends with rate, we're taking other targeted actions to improve our profitability. In agency, we've terminated 2,200 unproductive relationships, deauthorized 2,300 agents from the AARP program and rolled out a new compensation structure focused on key partner agents. Agency written premium was down 8% in the quarter; however, AARP Agency was up 6%. We expect this shift in business mix toward AARP members and our more highly partnered agents to contribute to improve profitability over time.

On the direct side, we're targeting our marketing spend to more adequately priced customer segments and addressing underperforming business with targeted pricing and underwriting adjustments. Our program with AARP remains the cornerstone of this business. We are confident that we have headroom for growth with the current membership base, and as we've seen over many years with this business, we will continue to deliver both strong customer value and profitability.

While Personal Lines clearly has challenges to address, I'm very pleased with our results in Commercial Lines, where we continue to prioritize retentions and margins over growth amid increasing competition. We delivered core earnings of $249 million with a combined ratio of 91.1. This was an earnings increase of $15 million from first quarter 2015 and a combined ratio improvement of 4.8 points. Lower property losses, favorable prior year development and improved workers' compensation margins were largely offset by a decline in net investment income of $37 million after tax. Catastrophe losses for the quarter were $14 million less than in 2015. While first quarter catastrophe losses were above our expectations in both 2016 and 2015, this is typical volatility associated with storm activity.

Intense weather in the Southwest, particularly late in the quarter, has continued into April, and we are fully engaged to meet the needs of our customers. Renewal written pricing in standard Commercial Lines was 2% for the quarter, flat to the fourth quarter of 2015. I'm very pleased with this outcome and our continued balance of retention, pricing and new business.

Loss trends in workers' compensation remain favorable and returns are within our target range. We released workers' compensation reserves across Commercial Lines, reacting to the favorable emerged frequency we've experienced in more recent accident years along with the continued benign severity trends. We had adverse development in general liability, including the GL component of the Small Commercial package business, often referred to as business owners policy, or BOP.

Within certain risk classes, we've seen an increase in claims with greater complexity and likelihood of litigation. Losses on these claims have tended to emerge more slowly, and we have revised our estimates accordingly.

Looking at Small Commercial. The business continues to perform extremely well. The strong margins posted again this quarter along with the continued top line growth, reflect the momentum we've generated in this key market segment for us. The underlying combined ratio was 86.7, 2.9 points better than last year. The improvement was driven mainly by favorable non-catastrophe property losses and a modest improvement in workers' compensation results. Written premium was up 2% in the quarter, reflecting strong retention and solid new business flow, even as competitive conditions intensified. New business of $146 million was up 4% from 2015.

Moving over to Middle Market. We posted an underlying combined ratio of 92, improving 1.7 points from first quarter 2015. The improvement is largely driven by favorable non-catastrophes property losses and continued margin improvement in workers' compensation. Written premium declined 4% in the quarter. We're pleased with our retentions and ability to maintain solid pricing levels. However, new business was down $21 million versus last year. Our submission flow was off 7% this quarter versus a year ago as well as more accounts falling outside our underwriting and rate adequacy thresholds. I suspect that higher retentions across our competitors, coupled with our targeted underwriting message, are driving this result.

We expect moderated new business levels over the next few quarters as we balance growth aspirations with our objective to maintain the improved profitability that we've worked hard to achieve.

Within Specialty Commercial, the underlying combined ratio of 94.3, improved 4.8 points versus prior year, reflecting particularly strong margin improvement in National Accounts and Financial Products. Favorable prior year development in Financial Products contributed to Specialty Commercial's combined ratio of 76.5. This is based on our continued favorable experience in D&O. National Accounts continues to perform well under market conditions very similar to Middle Market. Competition is intense, but we're comfortable with our retentions and the new business accounts we're winning.

Finally, circling back to Group Benefits, we delivered solid results with core earnings of $48 million, down approximately 8% from 2015, producing a core earnings margin of 5.5%. The main drivers to the decline were lower net investment income and slightly higher losses, offset by lower expenses. The overall performance of our group life and disability book remains strong, and I'm pleased with our operating performance.

The modestly higher loss ratio is primarily due to year-over-year volatility in AD&D claims and disability severity driven by slightly higher average wage on recent claims.

Looking at the top line, fully insured ongoing premium was up 1% for the quarter. Overall book persistency on our employer group block of business continues to hold around 90.

Fully insured ongoing sales were $266 million for the quarter. This was our second highest sales quarter over the past 6 years, surpassed only by first quarter 2015, which was exceptionally strong.

In summary, we are well-positioned across Commercial Lines and Group Benefits to meet the challenges of increasingly competitive conditions. We're focused on retaining our accounts and maintaining margins. And in Personal Lines, we're aggressively addressing loss trends through numerous pricing and underwriting actions. Let me now turn the call over to Beth.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Thank you, Doug. I'm going to cover the other segments, the investment portfolio and our capital management actions before we turn the call over for questions. Mutual Funds' core earnings were down $2 million from the first quarter of 2015, due to the impact of lower average AUM. Total AUM was down about 6% from a year ago, consisting of a 3% decline in mutual fund AUM, principally due to market levels, and a 17% decline in Talcott AUM, primarily reflecting surrender activity.

Fund performance remained solid with 56% of all funds and 68% of equity funds, outperforming peers over the last 5 years. Net flows were a negative $186 million as positive equity net flows were more than offset by negative flows in fixed income. Over the last 12 months, net flows were a positive $776 million.

Talcott's core earnings declined from $111 million in the first quarter of 2015 to $77 million, slightly below our outlook as limited partnership income was significantly below our 6% annualized return assumption.

Limited partnership returns impacted all of our segments, which I will cover in more detail in the investment section.

Surrender activity was lower than last year at 6.7% for variable annuities and 4.4% for fixed annuities. Annualized surrender rates in the first quarter of 2015 were at elevated levels of 10.9% and 6.2%, respectively, as they included the impacts of several contract holder initiatives, all of which concluded in 2015.

Corporate reported a slightly better core loss of $51 million compared to a core loss of $62 million in the prior year. The primary driver was lower interest expense due to our debt capital management program.

Turning to investments. Our before-tax portfolio yield, excluding limited partnerships, was 4.1% this quarter, consistent with both the first and fourth quarters of 2015. Non-routine investment income, such as make-whole payments on bond calls, was minimal this quarter, totaling $6 million before tax compared with $26 million in the first quarter of 2015.

The P&C portfolio yield, excluding limited partnerships, declined to 3.8% from 4% in the first quarter of 2015, primarily due to lower non-routine investment income and a reinvestment rate over the last 12 months that was lower than the overall portfolio yield.

This quarter's yield improved slightly over the 3.7% achieved in the fourth quarter, primarily due to lower investment expenses. Pretax investment income from limited partnerships was $8 million or an annualized yield of 1% compared with $99 million or a 14% annualized yield in first quarter 2015.

While returns on limited partnerships are volatile, our average annualized return over the last 3 years was 9%, well in excess of our 6% planning assumption.

The decline in income this quarter is due to losses on hedge funds and lower income on real estate funds compared to the prior year, which benefited from gains on sales of underlying properties. Our hedge fund performance has generally been better than the global hedge fund index. However, hedge funds, in general, have not performed well recently, and we have been reducing our allocation to them over time.

The credit profile of the investment portfolio remains strong. Total impairments and mortgage loan valuation reserve charges in the quarter were $23 million before tax compared with $42 million in the fourth quarter and $15 million in the first quarter of 2015. Energy-related credit impairments have increased in the past year, as credit deterioration and downgrades continue in the sector. Our energy portfolio totaled $2.4 billion at March 31, 2016, down from $2.5 billion at year-end 2015, and $3.7 billion at year-end 2014, a reduction of 36% over the past 5 quarters.

We sold about $200 million of energy exposure during the quarter, resulting in a net realized loss of about $30 million before tax. As energy prices have remained volatile, we continue to manage our exposure proactively with the preference to own higher quality credits that we believe can withstand a lower for longer price environment. To conclude on earnings, first quarter core earnings per diluted share were $0.95, down 9% from first quarter 2015, largely due to decrease in new partnership income and the results in personal auto.

The 12 months core earnings ROE was 8.8% in total and 10.3%, excluding Talcott. The P&C core earnings ROE was 12.7% and Group Benefits was 10.2%. These are strong results given the difficult operating and capital markets environments over the past year.

Turning to shareholders' equity. Book value per diluted share, excluding AOCI, rose 7% from a year ago, resulting in total shareholder value creation, including dividends, over the past 12 months of 8.7% versus our target of 9%. During the quarter, we repurchased 8.4 million shares for $350 million, at an average price of $41.72 per share. During April, through the 27th, we have repurchased 105 million, leaving 875 million remaining under the authorization.

As you know, we tend to be consistent in our approach to repurchases and expect to use the remaining authorization over the balance of the year.

To conclude, in 2016, we remain focused on maintaining margins in Commercial Lines and Group Benefits, and working to improve performance in Personal Lines. Despite challenging capital markets, our investment portfolio continues to perform well, and we are focused on effectively and efficiently managing the runoff of Talcott.

I will now turn the call over to Sabra so we can begin the Q&A session.

Sabra R. Purtill
Senior Vice President of Investor Relations
Thank you, Beth. Just a reminder that we have about 30 minutes for Q&A. If you have to drop off or if we run out of time before we get to your question, please e-mail or call the IR team today, and we will follow up with you as soon as possible. Chris, could you please repeat the Q&A instructions.

Question and Answer

Operator

[Operator Instructions] The first question is from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess, I will start on the personal auto side. I guess, I was a little surprised, even though you talked about pressure that you saw and you took the reserve action, when looking at the accident year, x-CAT combined ratio for auto, it actually got quite a bit better than second half of last year. Can you -- I would've thought, given the pressure that you saw that you would have kept a relatively high loss pack. I'm wondering why it got better from second half of last year?

Douglas G. Elliot
President

Jay, this is Doug. I can go back and look at those numbers specifically, but obviously, we had pressure in the back half of last year as talked about last couple of quarters, particularly on the frequency side. This year, as I commented, frequency is in better shape. But overall, our lost trends are generally similar. The rating actions though that we were starting to take last summer are earning their way in. So we're now starting to begin -- just begin to see the impact of the changes that we're rolling through the book. So we're trying to offset what we're seeing in loss trend, Jay, with actions we're taking to combat that.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

This is Beth. I just wanted to add to that. The other thing you have to keep in mind too is there is seasonality in the auto results. So we typically, when we look at the compare, would go to the prior year where you do see that our combined ratios on an x-CAT, x-prior development for auto are up, so you do have to keep in mind the seasonality.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's really helpful. But it sounds if the claims trends -- the claims experience you had in the second half of last year, hasn't gotten worse. You just needed to go back and make sure the reserves from '14 and '15 were right, but it doesn't sound like things have gotten even worse from where you were in the second half of last year. Is that fair?

Douglas G. Elliot
President

Jay, what I would say is that, we did see a little uptick in the frequency of our second half. And maybe this is just a good moment for me just to define the frequency because I think it's a complicated measure, and I think it's important that we all understand exactly what we're saying. So let me just say this. For us, frequency does not solely equal just a number of accidents. Frequency is a function of the number of accidents and the number of coverage elements associated with the original collision. So for example, given an accident, we will receive an initial report, essentially a physical damage or a collision claim. But as that claim develops, additional coverages may be involved, such as medical uninsured -- underinsured or uninsured or other BI elements. As a result, our method for calculating frequency includes both the collision, but also the other coverages involved. And so what we saw in the first quarter was a development on the BI side of our frequency for the second half of 2015. It was not a development of the number of collisions, but it was the BI associated, and we include that in our calculation when we share our ultimate pics for frequency. And maybe one last clarifier. When we do share frequency trends, we're providing an estimate of the claim counts developed to ultimate for that accident period. Based on accidents related claim reported, we estimate how many more claims we expect to be reported for that accident period, and that becomes our frequency measure. So it's not a calendar year intake across claims, it's not some of the other things that may be others, may be reporting, ours is our best shot at the ultimate frequency in the quarter. And what changed in Q1 for 2015 was the BI components of our collision claim second half of the year.

Operator

The next question is from Ryan Tunis with Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

I guess, I'd like to hear Doug talk a little bit more about the competition in the Middle Market. And I think along those lines, just seeing renewal rate increases in the standard commercial holding at 2%, retention did dip a little bit. Just curious, is it fair to say that given what pricing is now, the strategy is to maintain margin even if it potentially comes at the expense of some growth and some retention?

Douglas G. Elliot
President

Ryan. That's a really fair way to say it. I'm very pleased with the first quarter in our Middle Market. We are seeing intensified competition. Very satisfied with our pricing performance and extremely pleased with our solid retentions. When I step back though, I want to be thoughtful about how we draw the line around new business, and you just saw that our dollars were down, but we're satisfied we are making good choices. And I'll make that trade any day, because we worked too hard to get our profitability to where it is today to let that move back in a different direction. So that is the balance that we're trading on across all our desks across the country and pleased with the first start -- first quarter start to 2016.

Ryan James Tunis
Crédit Suisse AG, Research Division

Okay. Just as a follow-up on Jay's question. I think what I'm just trying to get comfortable with is what we saw in the back half of last year, it sounds like it was a lower initial frequency that developed into something higher over the next 6 months or so. And now you're saying in the first quarter, you had a lower number. I mean, how can we get comfortable with the fact that over the next couple of quarters, that -- I think you said 2% frequency in 1Q wouldn't develop into something like 6%. I mean, are you reflecting that elevated BI frequency development in the way you picked the 1Q preserves, if that make sense?

Douglas G. Elliot
President

So we've tried to understand the dynamics of what happened in the back half of 2015, and build some of those indications into the way we're projecting first quarter '16. Obviously, there is a different economic and driving climate, we understand that. We are trying to build that into our predictions. But we are fairly satisfied that we feel like we have a good shot at what we think happened in the first quarter, and have reflected that in the financials. But I will say this to you that the market has changed on us. It's the reason that our filings are up. We're pricing for a different level of market and auto activity. And I think between what we're doing on the pricing side and the actions we're taking on book management, we expect to see improved progress in our auto book of business in the coming quarters. Maybe not all of it in Q2, but certainly the back half of the year, we expect to see demonstrable progress in our auto results.

Operator

The next question is from Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just following up a little bit there, Doug. Can you break out -- I mean, you guys talked -- it seems like we're mostly conversation here is focused on the frequency trend from 2015, but it sounded like from your filings -- your release that the charge was attributable both to -- and a lift in severity on the '14 book as well as the frequency trend. Can you help us understand those components and the magnitude of the 2? And if it's a base year issue in 2014 on severity, how that impacted both '14 and '15 accident years on that front?

Douglas G. Elliot
President

Sure, Mike. And good question and multiple features to the question. Couple of thoughts. 2014, our change in our reserve position clearly is driven by the bodily injury movement that we have now seen. I'd start by saying that our early look on '14 through the first 12 months, even in the early part of 2015, was very, very positive. In fact, I would say that, that year was running extremely positive relative to the prior years. And then, things started to shift throughout 2015. And clearly, as we looked at that book of business the last 90 days, we've seen pressure there. So we went back and adjusted '14. It might be a surprise for people to understand how much of our open bodily injury claim book is still open unpaid as of 12/31/15. I'm talking about accident year '14 unpaid at 12/31. Between 40% and 50% of our BI claims are still open. That is the component that we're seeing more pressure to close. Those that are closing are closing for greater dollars than we expected. And it's costing us greater dollars to defend those cases as well. So what we saw through that loss component is what drove us to '14. And then you're right. We rolled that change in '14 through '15, and also had to re-establish our expectations and our base for '16 as well.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Can you give some dollars in terms of magnitude? How much was severity? How much was the '14 issue? How much was the '15 frequency issue?

Douglas G. Elliot
President

The '14 issue was all severity.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay, I know. But it's $52 million was the total charge, right, like a development charge. So can you tell us -- I just want to understand like the order of magnitude on the development dollars for the '14 issue and the '15 issue?

Douglas G. Elliot
President

So the $65 million was '14 and '15, primarily, right, and half of that was '14, which was all severity.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

And the other half was....

Douglas G. Elliot
President

And in the '15 year, half of the 32-ish was frequency and half of it was severity.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. Thank you so much for that. And then -- I mean, also I guess, you sort of putting into perspective, Personal Lines probably a quarter of your underwriting profitability on a run rate basis. Looking at Commercial Lines here, you talked also in your -- I guess, Chris talked in his script about running at the high end of the range on Personal Lines. Where does 1Q put you on your kind of scale in terms of Commercial Lines?

Douglas G. Elliot
President

Mike, I would suggest this to you. When I look at Q1 '15 versus '16, we ran 2.8 to -- 3 points better XX year-to-year. Probably about half of that would have been favorable property experience. The other significant chunk inside that change is our workers' comp experience. I expect our comp experience to continue going forward. Based on all of what we can see inside our current signals, that to me looks repeatable as we move forward. The property had a very good quarter. I'm hoping for better quarters. I know we're taking better underwriting actions, but I can't counter all that property going forward. So I think there's a -- maybe a 1/3 to 1/2 of that, that is repeatable. And I hope we can repeat the property as well.

Christopher John Swift
Chairman & CEO

This is Chris. I just wanted to follow up on Doug's point, because when we look at our, particularly our BI activity, and as Doug said, we still have substantial reserves open for the older accident years. I mean, there does seem to be, again this is anecdotal right now, there is a more litigious environment that we face. So as Doug described, the elements of our severity, there could be more of them. But there seems to be much more litigation, jury awards that are exceeding some of our initial expectations and reserve adjustments that were reflecting through '15 into '16 here.

Operator

The next question is from Jay Gelb with Barclays.

Jay H. Gelb
Barclays PLC, Research Division

For Chris and Beth, I want to get your sense as to, looking at the 2016 guidance that was provided last year, do you still think it's achievable to get to the low end of that guidance, the 1.5 [ph] -- $7.5 billion of core operating earnings before the other legacy P&C impact?

Christopher John Swift
Chairman & CEO

Jay, it's Chris. The guidance that we provided at year-end, I think everyone understood the assumptions based in that, particularly as it relates to prior year development. Our investment partnerships are combined ratio picks for commercial and in personal lines. So we're out of the business of updating quarterly. But I think you could determine the sensitivities, particularly as it relates to Personal Lines, particularly as it relates to our net investment income and partnerships. So I think, you should be able to understand where that is coming out right now. So as we sit here 1 quarter into it, this took 3 quarters to go. I mean, there are items that could break our way or things that we'll need to continue to manage. So we're not giving up on the year, and still feel that the guidance we gave was appropriate.

Jay H. Gelb
Barclays PLC, Research Division

Understood. And then for the return on equity profile. The 9% return on equity for the entire company, that was achieved over the trailing 12 months. But I'm wondering if there might be some more downside pressure to that level, especially given net investment income, if not the Personal Lines impact, too?

Douglas G. Elliot
President

I think that the prior comments in your question here sort of go hand-in-hand. I mean, they are both, obviously, interrelated to the extent the numerator in the equation gets a little softer. That's going to affect the overall ROE. So I would agree with you that there are some pressures we face. But we're only one quarter in. So we're going to continue to work very, very hard, Jay, as you know.

Operator

The next question is from Randy Binner with FBR.

Randolph Binner
FBR Capital Markets & Co., Research Division

I just wanted to follow up on some of the personal auto stuff again. So I think, I was kind of, just as a follow-up to everyone, I'm trying to get to the actual why of why claims are worse and on the severity side. And I think, that it was -- there was a comment in there that litigation is broadly worse. So I just want to understand that, it's not more accidents necessarily, it's that more BI claims are developing poorly. So is that a result of litigation as a result of people having worse injuries or you having an older driving population? Can you just flush out kind of what -- what's actually happening there?

Douglas G. Elliot
President

Sure. Randy. Let me take a crack at it. We certainly felt an increase in collision frequency, physical damage frequency, second half of 2015. That appears to have settled down, and our numbers in first quarter were reasonably quiet, flattish. And I would add, and as we shared with you last year, that's off of a tough compare. So we feel pretty good about collision accidents in the first quarter. Keep in mind, weather was relatively tame. So have to understand that as well. On the liability frequency, we are seeing more features, more BI components to the collisions that are being reported, and we're addressing them. So in 2015, the uptick in frequency was both more features, more coverages attached to those collisions. And that is rolling into '16 relative to our expectations. So we've reset baseline, if you will, for '16. We have built in our pricing programs, what we think are kind of new norms for severity and frequency. And we're working our way through kind of dealing with, needing an improved financial outlook and profile for this business, we will get there.

Randolph Binner
FBR Capital Markets & Co., Research Division

So when you say more features, is that because more coverages are wrapped together in the products you're selling? Or is it just a more of likelihood that someone has BI? Or is it more just that because you have half your claims still open, the trial bar has been more effective at prosecuting those?

Douglas G. Elliot
President

Yes. It's not more features in the policy for sure. What we think some of the condition is due to is that, we're clearly seeing higher speeds in the highways and more highway accidents. And so with higher speeds, those are more difficult accidents with more people hurt and more damage caused by those accidents. So I think it's the complexity, and the speed of some of these accidents. And we're feeling pressure inside our liability -- bodily injury component of getting these cases closed.

Randolph Binner
FBR Capital Markets & Co., Research Division

Do you -- you mentioned, is that the industry norm to have half the claims still open? I mean, it seems about right. But I'm just wondering if that's normal, and if as part of these initiatives in addition to just raising prices, if there's anything you can invest in more on the claim side, if these are becoming more complicated claims.

Douglas G. Elliot
President

Couple of parts to that answer. First thing is, I think that, that range of 40% to 50% of open bodily injury claims on an accident year, that's 18 months out is completely within the norm. So I'd start there. Secondly, although I've talked about many of our underwriting and book management initiatives, there are equally as many claim initiatives that we're embarking on. Both ourselves -- we're looking at system dynamics, we're looking at how we can cut data more effectively. So there are a number of diagnostics that we're dropping on the desktops of our claim examiners. So we can do absolutely the best job possible adjudicating claims.

Randolph Binner
FBR Capital Markets & Co., Research Division

That's perfect. And then just I want to sneak in one more to make sure it gets asked. I know that you have a CAT budget for the second quarter, which incorporates a lot of things that happened in May and June. But is -- but is it possible for you to comment if you're ahead of budget so far for April in light of the continued storms in Texas?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

I will answer, it's Beth. So -- we've our budget for second quarter is about $151 million, and we kind of look at that sort of evenly across the 3 months; 1/3, 1/3, 1/3. So if you think about our budget for April, of about 50. We are running a little bit above that at this point. There obviously has been a lot of activity. So the month of April has come in strong as it relates to CAT activity, and obviously continue to monitor it through the rest of the quarter.

Christopher John Swift
Chairman & CEO

Randy, it's Chris. Let me just make an observation. As Doug said, I said in my prepared remarks, I mean, we're obviously not happy and disappointed just where we're at, particularly in Personal Lines. But you should know that we are doubling our efforts down to fully understand these trends, take the litany of actions. And it's not only rate, as Doug said in his remarks. I mean, there is a number of other actions that we're aggressively getting after. And just know there is a tremendous amount of energy in our Personal Lines team to get our arms around these issues and get back caught up to trends. So I'm confident we can get our arms around this. We know what needs to be done. It's going to take a little bit of time, but just know the energy and commitment that we're devoting to this.

Douglas G. Elliot
President

Randy, maybe one final comment, and this really is a comment across several of the questions today. I think we've commented over the years that our AARP business has been more profitable and continues to be. So as you looked into both my comments about our rating accidents, which have a little bit more intensity around what we're doing in the agency space. And also the fact that, if you look at the premium indications, I gave you some growth numbers, and you have a sense that we're down overall in agency. And you saw, based on my comments, that we're up in AARP Agency. I think, that gives you a signal that our other agency business is down significantly in the quarter. We feel good about that mix. We're mixing toward the strength of this franchise, which is a mature driver. We're being thoughtful about our class programs. We're adjusting as we go. I'm very confident that, based on all the actions we're taking, we're going to see progress over the course of 2016.

Operator

[Operator Instructions] The next question is from John Nadel with Piper Jaffray.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Maybe a question for Beth. But now that you have completed the original $1.5 billion dividend plan out of Talcott, $500 billion, $500 billion and $500 billion, And your stress scenario, you presented to us last quarter, seems to indicate a pretty sizable capital cushion. I'm curious whether you have any intention at this point of going back to the insurance regulator to present perhaps another plan to extract more capital beyond the $200 million or $300 million of normal dividends that you are already expecting to take out annually?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

So for 2016 -- for the remainder of 2016, as we've said, we're anticipating taking out another $250 million in the second half. And for '16, that is all we are intending to do at this point. As we roll into '17, we will obviously continue to look at overall what capital is generated in Talcott, as well as just the runoff activity to determine if there is additional dividend beyond just sort of that normal $200 million to $300 million. But that we would look to update more towards the end of this year.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Yes, I'm just curious about whether you have plans to -- not something that would necessarily be actionable in '16. But you guys had obviously teed it up with the regulators sometime in advance of the $1.5 billion over an 18-month period of time. I'm thinking something similar to that. I'm looking at the policy counts, I'm looking at the net amount at risk, and the continued runoff of the annuity business. It looks like that might be setting up for some further opportunity? That's all.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes, and again, over time, there are obviously is additional capital that we'll be able to extract. I believe, I said on our last call that when I think about dividends for 2017, I think about them not being higher than what we're experiencing in '16. So again in '16, we're doing $750 million. As I said, I'd anticipate there would be some additional excess beyond just what we're generating. But I wouldn't want you to think that there would be something above sort of a level that we're seeing this year.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Okay. And then just around the $250 million, which is beyond the $500 million that was part of the original plan. I think in the past, you've indicated that there's some sensitivity to that as it relates to the level of interest rate. Do you still feel comfortable given where rates are?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. I feel very comfortable with the $250 million, even with the interest rate activity that we've seen. Again, as we think about sizing the dividends, we take a lot of that into consideration from our stress scenarios and so forth. So feel very good about our ability to do that.

Operator

I'm showing no further questions at this time. I will turn the call back over to Sabra Purtill for any closing remarks.

Sabra R. Purtill
Senior Vice President of Investor Relations

Thank you, Chris, and thank you, all, for joining us today, and your interest in The Hartford. If you have any additional questions throughout the day, please don't hesitate to follow up with the IR team. We wish you all a good weekend, and good luck with the rest of earnings season. Thank you.

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