S&P Capital IQ

CONTENTS

American International Group, Inc. NYSE:AIG

FQ4 2014 Earnings Call Transcripts

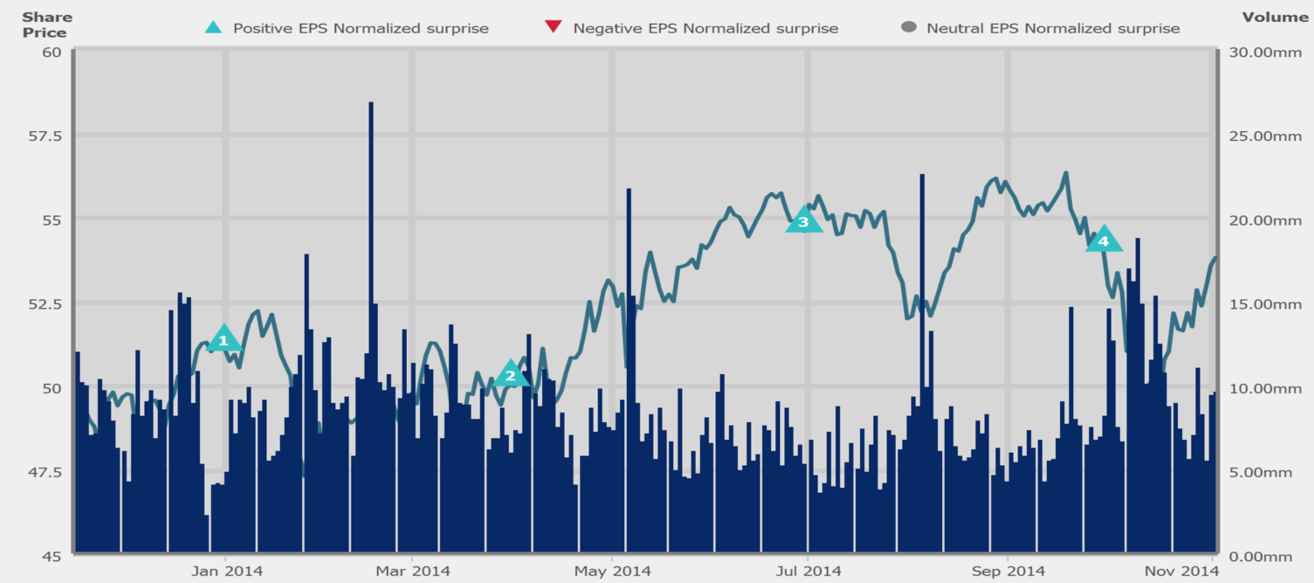
Friday, February 13, 2015 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.05	0.97	(7.62 %)	1.23	4.69	4.58
Revenue (mm)	8775.67	-	4.93	8866.40	34394.57	-

Currency: USD
Consensus as of Feb-13-2015 12:52 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	0.97	1.15	1 18.56 %
FQ1 2014	1.06	1.21	2 14.15 %
FQ2 2014	1.05	1.25	3 19.05 %
FQ3 2014	1.09	1.21	4 11.01 %

Call Participants

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John Q. Doyle
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Presentation

Operator

Good day, and welcome to AIG's Fourth Quarter Financial Results Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Liz Werner, Head of Investor Relations. Please go ahead, ma'am.

Elizabeth A. Werner
Head of Investor Relations and Vice President

Good morning, everyone. Before we get started, I'd like to remind you that today's presentation may contain certain forward-looking statements, which are based on management's current expectations and are subject to uncertainty and changes in circumstances. Any forward-looking statements are not guarantees of future performance or events. Actual performance and events may differ, possibly materially, from such forward-looking statements. Factors that could cause this include the factors described in our first, second and third quarter 2014 Form 10-Q, and our 2013 Form 10-K under Management's Discussion and Analysis of Financial Conditions and Results of Operations under Risk Factors.

AIG is not under any obligation and expressly disclaims any obligation to update any forward-looking statements whether as a result of new information, future events or otherwise. Today's presentation may contain non-GAAP financial measures. The reconciliation of such measures to the most comparable GAAP figures is included in our financial supplement, which is available on the website, www.aig.com.

This morning in the room, we have our CEO, Peter Hancock; David Herzog, our CFO; and the heads of our business segments, John Doyle, Head of Commercial, and Kevin Hogan, Head of Consumer.

So with that, I'd like to turn the call over to Peter Hancock.

Peter D. Hancock
Former Chief Executive Officer, President and Director

Thanks, Liz, and thank you for joining us this morning. I'd like to discuss the quarter's results, our priorities, financial objectives and our view of economic forces impacting our businesses. As we look back over the full year, the earnings growth of our core insurance business, our DTA utilization and accretive share repurchases resulted in 12% growth in book value per share excluding AOCI and DTA. Our fourth quarter and 2014 full year accomplishments reflect our commitment to value-based management and focus on growth, profitability and risk.

As just one example of executing on value-based metrics, I'd like to highlight our execution of debt retirement at spreads exceeding those of our debt issuance. This strategy resulted in over $0.5 billion of incremental economic value for shareholders despite an approximate $800 million GAAP charge to net income. This quarter, you'll also see that our resegmentation highlights our focus on customers. Our customers look to us as their lead insurer rather than just another source of capacity, and you'll hear more on our Commercial and Consumer customer focus from John and Kevin.

Our fourth quarter included both accomplishments and challenges. We saw the early signs of expenses moving in the right direction, both the Commercial and Consumer P&C businesses delivering accident year loss ratio improvement from the same period last year. We executed on a number of positive capital management actions, and yesterday, we announced a new $2.5 billion share repurchase authorization.

Our fourth quarter results also included evidence of our risk management discipline across the company; specifically, accident years 2005 and later continue to develop favorably. We continue to accelerate the DIB unwind with a focus on maximizing economic value, and we moved excess capital from our life insurance companies to the parent.

We also recognize the challenges that persisted this quarter, and we remain focused on them; specifically, certain older accident years have resulted in additional reserve strengthening. We provide details on the older accident years in our earnings presentation, which David will speak to.

Consistent with our practice since 2011, this quarter's actions are based on new information coming from a thorough and independent reserve analysis. We believe that the stable development of more recent accident years highlights the value of our reserving practices and our underwriting discipline.

Our priority is to deliver sustainable ROE improvements as we look to 2015 and beyond. For the full year 2014, ROE, excluding AOCI and excluding DTA, was 8.4%. Over the course of the year, excess alternative returns and lower-than-expected catastrophe losses added about 1 percentage point to this full year ROE. Excluding that 1% gives us a good starting point to discuss ROE expansion going forward. Over the next 3 years, we're focused on achieving annual ROE improvement through our commitment to managing growth, profitability and risk. We seek to deliver a consistent level of expense savings through our technology, process redesign, shared service centers and simplification of our organizational structure.

Turning to Page 3 of the earnings deck, we outlined our financial objectives for the next 3 years. Based on the outlook for our businesses and the current environment, we believe that we can achieve 50 basis points or higher of annual improvement in ROE, x AOCI and DTA through 2017 from a normalized baseline of 7.4% for 2014. Our ability to be higher will be driven in part by the timing of emerging benefits from our investments and the growth in savings resulting from these investments as well as catastrophe losses and investment returns that are in line with our expectations. Our long-term ROE objective remains 10%.

Our view on general operating and other expenses is that we can achieve a 3% to 5% annual decline on a net basis through 2017, which allows for growing our investment in technology and systems. David will provide further comments on our outlook for general operating expenses.

Finally, we expect book value per share growth, x AOCI and DTA, to exceed 10% annually through 2017 as a result of improved profitability, further capital and risk management actions, and our DTA utilization, assuming our ability to deploy excess capital continues.

We maintain a disciplined risk appetite for new businesses and acquisitions. Our acquisitions have not been capital intensive and have provided unique capabilities, clients and distribution, and are not driven by a desire for acquiring assets or short-term earnings.

I'd like to close with a few comments on the impact of external forces on our business and how we react to the changing environment. The reduction in inflationary expectations is good news for claims trends and underwriting results. Growth in the U.S. is also encouraging, and we will pursue new business with our disciplined approach. Offsetting these positives is impact of the sustained low interest rate environment and a decline in property casualty rate increases. Kevin will speak more about the impact of the current interest rate environment.

While there are positives and negatives to our operating environment, we believe our disciplined commitment to our customers and our ability to meet the wide range of their needs will serve us well in the long run.

Now I'd like to turn it over to David.

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Thank you, Peter, and good morning everyone. This morning, I will review the highlights for this quarter's results, our recent capital management actions and balance sheet strength, and our outlook for 2015 capital management.

Turning to Slide 4, you can see our total insurance operating income was up slightly versus a year ago. After-tax operating income for the quarter was $1.4 billion or $0.97 per diluted share. In the fourth quarter, our operating return on equity, adjusted for AOCI and DTA, was 6.8%; and as Peter mentioned, 8.4% for the full year. Reported net income was $655 million and included a charge for retirement of debt of $824 million associated with our liability management actions. Book value per share, excluding AOCI and DTA, grew just -- to just over $58 a share, 12% higher than a year ago, again, driven by our earnings, our DTA utilization and accretive share repurchases. I will highlight a few noteworthy items for the quarter, and John and Kevin will provide more details on the Commercial and Consumer operating results.

Turning to Slide 5, we summarized prior year development in our Property Casualty reserves. Net adverse prior year development for the quarter was just under $300 million, including premium adjustments of about $50 million and relates primarily to accident years 2004 and prior. Commercial Insurance reported prior year development of about $197 million, including those premium refunds. There were 4 classes of business that contribute almost equally to the adverse emergence, and those include Primary Workers' Compensation, Healthcare, Pollution Products and certain financial lines.

Consumer Insurance had a modest favorable prior year development of about $35 million, principally from our Private Client Group business. The runoff segment, now reported in Corporate, reported net adverse prior year development of about $135 million driven primarily by Pollution Products within the runoff environmental book and the retained asbestos and assumed reinsurance portfolios. As we have seen in the last couple of years, the overall adverse development was related to 2004 and prior. As of this year end, we have experienced less than a 2% change in our initially recorded year-end ultimates for each of the last 8 accident years.

In the third quarter, we disclosed that we expected a $250 million to $350 million negative impact on our workers' compensation discount due to the fall in interest rates as of September 30. In the fourth quarter, we reduced our workers' compensation discount by a little over $560 million due to the combined impact of this fall in interest rates and faster paydown of our reserves. In our U.S. Life business, we added a little over $100 million to the estimated reserves for "incurred but not reported" death claims, which reflected continuing efforts to identifying deceased insureds and their beneficiaries primarily related to legacy small face amount policies pursuant to the resolution of a multistate audit.

Turning to Slide 6, which represents the Corporate and Other operations, we saw mark-to-market earnings decline in mark-to-market earnings from our Direct Investment book and Global Capital Markets this quarter. We continue to actively wind down the Direct Investment book and Global Capital Markets; and in the fourth quarter, we redeemed about $2.5 billion of debt to bring the full year total to about $7.5 billion, using cash and short-term investments allocated to this book. We expect ongoing wind down to result in the release of capital to parent over time.

We expect that the earnings contribution from the Direct Investment book will also decline as the portfolios continues to wind down. The parent company investments in AerCap and PICC continue to deliver and resulted in about $250 million of pretax operating income in the quarter. Total Corporate expenses net were $236 million in the quarter, down on a sequential basis largely due to the incentive compensation accruals discussed in the prior quarter. Our reported operating effective tax rate for the quarter declined to just over 21% driven primarily by tax benefits related to foreign operations.

As Peter mentioned, managing our expenses while investing in our future are key priorities for AIG. As a baseline, Slide 7 shows total operating -- general operating expenses for 2014 from our new disclosure in the financial supplement. Our top investments are included in the reported general operating expenses and totaled a little over $650 million in 2014. For example, the Japan integration is included both in the general operating expense and is included in our investments as we describe here. we're focused on reducing the business-as-usual expenses, which we define as GOE less these investments sustainably over time as well as focusing on the overall expenses and the expense reduction that Peter referenced, all the while making the necessary investments to fund growth, profitability and enhanced risk management.

Our capital management highlights begin on Slide 8. During the quarter, we deployed $1.5 billion towards the repurchase of approximately 28 million shares of common stock bringing the full year repurchases to $4.9 billion. An additional 3.5 million shares were delivered in January with the full completion of the ASR, which we initiated in December. In addition, the Board of Directors approved an additional share repurchase authorization of $2.5 billion, which reflects the strong capital flows from our Life Insurance companies as well as the reduction in risk in our Property Casualty business.

With respect to debt capital management, we continue to manage the cost and maturity profile of our debt. As a result of the actions we've taken in 2014, we've reduced our run rate interest expense by roughly $250 million, and we expect the annual interest expense for 2015 to be just under $1.1 billion.

As shown on Slide 9, we ended the quarter with financial leverage ratios, including hybrids, of just over 15% or a little over 16% when giving effect for the January issuances. We continue to be opportunistic in our debt capital management and expect that an improving earnings profile will continue to positively affect our coverage ratios going forward. The year end RBC ratio for the fleet of U.S. companies -- U.S. Life companies is estimated at around 490% after giving effect for the fourth quarter and January distributions, which is closer to our targeted operating RBC level.

Cash flow to the holding company remains strong as you can see on Slide 10. We received cash dividends and loan repayments from our insurance subsidiaries of $2.9 billion during the quarter bringing the year-to-date to just over $8 billion. We also received $700 million in distributions and fixed maturity securities, bringing that total for the year to just over $1 billion. In addition, in January, our businesses paid $2.8 billion in dividends.

Looking ahead to 2015, we expect $6 billion to $7 billion in potential share repurchases and shareholder dividends. This total does not include any potential monetization of noncore assets. This is subject, of course, to board approval, ongoing discussions with rating agencies and any regulatory approvals that could be required. As part of the natural evolution, we have moved to a more dynamic approach to the deployment of our capital, which reflects our capital utilization for risk, deployment of capital in our businesses and capital flows. We expect dividends from our insurance subsidiaries in 2015 of $4 billion to $5 billion in addition to the distributions received thus far in 2015 that I mentioned a moment ago.

Further, we expect tax share repayments between $1.5 billion to $2 billion annually over the next several years, which reflects tax planning strategies and updates to our taxable income projections and also reflects our capital gain recognition that realized all of the capital loss carryforwards. We continue to expect that our tax attribute DTA will be fully utilized by 2020 or '21. We expect our operating effective tax rate for 2015 to be 33% to 34%.

So with that, I'd like to turn the call over to John.

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

Thank you, David. This morning, I will discuss our Commercial results, which include the operating segments Property Casualty, Mortgage Guaranty and Institutional Markets. You will see that we have moved our insurance runoff business, which had been part of the PC Other to Corporate. This is consistent with our focus on managing runoff lines to capture the greatest economic value for AIG.

Certain expenses and investment income that were previously reported as part of PC Other have been allocated to Commercial and Consumer to be consistent with how we manage the business. The total Commercial segment pretax operating income was $1.2 billion in the quarter driven by improved Property Casualty and favorable mortgage insurance results offset by weaker returns in our Institutional Markets business.

Beginning on Slide 12 with Property Casualty results, the quarter benefited from lower CAT and severe losses and improved operating efficiency. Net premiums written, excluding the effects of foreign exchange and return premiums on loss-sensitive business, declined 1% compared to the prior quarter primarily due to our continued underwriting discipline in U.S. Casualty. This was partially offset by new business growth in Financial Lines and Property. Financials Lines grew in all regions and importantly in targeted growth areas such as multinational, small business and M&A.

Property grew in all regions and segments outside of the U.S., particularly in middle-market property and highly engineered risk. Our intense focus on enhancing customer service in these lines, for example, engineering and loss control services, is increasingly becoming a differentiator for AIG.

Overall, rate change from the prior year quarter was essentially flat. Rate change in U.S. Financial Lines was just over 2%, while in U.S. Specialty, it was up about 2% as well. U.S. property rates were down nearly 6% in the quarter. Outside of the U.S, overall Property Casualty rates decreased slightly.

With respect to the rate environment, our management of business mix, enhanced pricing and risk selection tools and improved claim service gives us confidence in the accident year loss ratio trends and continued growth in risk-adjusted profitability. For the full year, the accident year loss ratio, as adjusted, was 65.6% or roughly flat from last year following a period of positive improvement.

In the quarter, we experienced modest elevated attritional loss activity in our short-tail lines. General operating expenses improved in the quarter primarily due to efficiencies from organizational realignment initiatives partially offset by investments in technology, engineering and analytics. The structure of our corporate CAT placement was consistent with the prior year but procured at an improved rate. We also continued our strategy of accessing the capital markets, entering into our third CAT bond transaction, which totaled $500 million in new issuance. This new bond offering was met with substantial investor interest. Collectively, our current CAT bonds provide $925 million of indemnity protection.

Net investment income for the quarter declined 7% from the same period last year to $1.1 billion, reflecting the impact of lower new money yields, lower invested assets and reduced contribution from alternative investments. Net investment income for the quarter included approximately $100 million of income from a rights offering in AIG's strategic investment in PICC.

Turning to Slide 13, Mortgage Guaranty reported another strong quarter of operating performance with operating income of $171 million. Mortgage Guaranty benefited from decreased first lien losses, an increase in first lien premium -- premiums earned and a second lien litigation settlement. The improvement in the loss ratio also include $30 million of favorable prior year reserve development. Mortgage Guaranty remains an important part of our operations given its strong returns and its strategic insights into the residential mortgage market.

Turning to Slide 14, Institutional Markets pretax operating income declined to $118 million for the quarter primarily due to lower investment returns on alternative investments. The decrease in net investment income was partially offset by higher fee income driven by growth and assets under management primarily from the stable value wrap business. Premiums and deposits in the quarter grew from the same period last year.

Now with regard to 2015, we expect modest growth in the aggregate as we continue to optimize our business mix. We also anticipate an additional 1- to 2-point improvement in the Property Casualty accident year loss ratio in 2015 from ongoing execution of value-based initiatives, progress in underwriting and claims excellence, and expectations for improved short-tail losses, although I would caution that results can vary from quarter-to-quarter due to the nature of the short-tail business.

We also expect to achieve improved operating efficiency while making investments in technology, engineering and analytics. And as David mentioned, we see this quarter's decline in net investment income as a trend that will likely continue into 2015 as our loss reserves decline and we continue to invest in this interest rate environment.

To sum it up, the Commercial team continues to advance its strategic initiatives and to build on the momentum to become our customers' most valued insurer.

Now I'd like to turn the call over to Kevin to discuss the Consumer results.

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

Thank you, John, and good morning, everyone. As you can see from our revised financial presentation, our Consumer results now bring together all of AIG's insurance products and services for consumers whether individual or group-based contracts that were previously reported in the Life and Retirement and Property Casualty segments. We've created this global Consumer platform with a broad distribution reach under a common leadership team and remain focused on executing against our strategic priorities, including our targeted growth strategy.

In the fourth quarter, we closed on the acquisition of Ageas Protect Limited, a leading provider of life protection products in the U.K., and entered into an agreement to acquire Laya Healthcare, an Ireland-based health-care company, which we expect to close in the second quarter of 2015.

These acquisitions will help drive continued expansion of our customer portfolio of insurance solutions designed to meet consumer needs for financial, health and retirement security. We believe Ageas will help strengthen our capability in the U.K. where we already offer personal accident, health and travel insurance coverage to consumers as well as customized insurance solutions for high net worth individuals through AIG Private Client Group.

Laya Healthcare serves more than 23% of the Irish private health market offering life, dental and travel insurance as well as health and wellness coverage, which nicely rounds out our available products in Ireland and provides a platform for expansion into health insurance in select additional markets around the globe.

Combined, our Consumer businesses delivered $923 million of operating earnings during the quarter. I will cover highlights for each of our 3 operating segments and share some views on 2015.

Before discussing results for the quarter for our retirement businesses, which begins on Slide 16, I wanted to remind you that as part of our resegmentation, we revised our presentation of retirement results to reclassify a portion of policy fees along with the related portion of back amortization from operating income to nonoperating income. This reclassification of policy fees, which relates primarily to guaranteed minimum withdrawal benefit embedded derivatives and our variable annuity products, offsets the fees from these embedded derivatives with the associated change in fair value of such derivative liabilities. This reclassification reduced pretax operating income for the full year of 2014 by a total of $215 million or roughly $50 million per quarter, but had no effect on GAAP net income. We believe this treatment is in line with current industry practice.

Operating income for retirement was $722 million for the quarter and reflected growth in fee income resulting from higher assets under management and a decline in net investment income. Policy fees rose from the prior year quarter on growth in assets under management, driven principally by strong net flows and variable annuities in Retirement Income Solutions and market appreciation.

The decline in net investment income was driven primarily by lower returns on alternative investments as well as decline in base yields as reinvestment rates are below the weighted average yield of the overall portfolio. At current levels, we would expect a 4 to 6 basis point quarterly decline in base yields. We also expect net investment income to be lower in 2015 by approximately $200 million due to the significant distributions of excess capital to parent in 2014.

Turning to Slide 17, the quarter benefited from effective spread management achieved through disciplined new business pricing and active management of crediting rates. The outflow of older policies which carry higher crediting rates than current rates offered has also contributed to reducing our cost of funds, which we have reduced in both Fixed Annuities and Group Retirement over the last 12 months.

Assets under management ended the year at $224 billion, 3% higher than a year ago, driven by the strong variable annuity net flows and overall separate account investment performance partially offset by net outflows in Fixed Annuities and Group Retirement. Net flows for Fixed Annuities have been affected by the low interest rate environment. We expect that sales of Fixed Annuities, although up on a sequential basis, will remain challenged in the current low interest rate environment as we continue to maintain new business pricing discipline.

We also experienced 2 large group surrenders in our Group Retirement business related to retirement plant consolidations, which we believe are part of the normal competitive pressures in this business. In addition, recent market results suggest pressure on new sales of variable annuities, although our index annuities sales continue to gain momentum, and macro trends continue to support growing customer need for quality income solutions.

Slide 18 presents results for our global Life business, which now includes Fuji Life in Japan. Life pretax operating income of $80 million decreased compared to the prior year quarter primarily due to a charge of $104 million in the fourth quarter to increase reserves for "incurred but not reported" death claims that David mentioned earlier. This reserve reflects continuing efforts related to a previously disclosed multistate audit and market conduct examination from 2011. The decrease [ph] in pretax operating income also reflected a decline in net investment income compared to the fourth quarter of 2013 primarily from lower alternative investment returns as well as a decline in base yields.

With respect to Life sales, Japan delivered good growth with a 4% increase in sales from the fourth quarter last year and a 7% increase in premiums. For the full year, Japan represented almost half of the new business sales for our global Life business. Life insurance in force reached over $1 trillion at the end of the year, more than 9% higher than prior year on both organic growth and the acquisition of Ageas Protect.

Turning to Slide 19, Personal Insurance reported operating income of $121 million, which reflects improved underwriting income from the year ago partially offset by lower net investment income. Net premiums written grew 2% from the same quarter a year ago excluding the effects of foreign exchange. We saw growth in the automobile and personal property lines of business partially offset by declines in certain classes of Accident & Health business as a result of our focus on maintaining underwriting discipline in pricing and terms and conditions.

The Personal Insurance accident year loss ratio as adjusted was 52.1% for the quarter and 6.1 points lower than the same quarter a year ago reflecting improvements across all lines of business. Improvement in the accident year loss ratio for our U.S. warranty programs business was offset by an increase in related profit-sharing arrangements, which increased the acquisition ratio. We continue to experience lower-than-expected losses in Japan automobile, which benefited from reduced frequency; and across the portfolio, both catastrophe and severe loss experience were better than our expectations.

Looking ahead to 2015, we believe that the full year 2014 accident year loss ratio, excluding impact of CATs and severe losses, is more indicative of our expectations for Personal Insurance than the current quarter ratio.

The general operating expense ratio declined 1.7 points from a year ago primarily due to efficiencies from organizational realignment initiatives, partially offset by increased technology-related expenses. While we are pleased that we have begun to see benefits from our initiatives thus far, as David mentioned, we are focusing on delivering on further operational efficiencies as we move forward.

Our Japan integration initiative is an important part of this story given the size and scale of our Japanese operations. We currently estimate that Japan integration costs will amount to $150 million in 2015, consistent with previous disclosure. However, as the final date of merger is subject to approval by the relevant authorities, specific timing of benefits to emerge remains uncertain.

We are carefully managing every aspect of this complex initiative and remain on track to deliver an internal rate of return on this investment that will exceed AIG's hurdle rates and achieve a return in the low double digits. We have already begun to see certain benefits arising out of these investments, such as the recent launch of a new agency front-end system that is now available to over 1,500 agents and will be expanded across our distribution network in the coming months.

To close, for our Consumer businesses, we remain focused on managing growth, profitability and risk by executing on our strategies, maintaining a prudent risk profile and emphasizing capital-efficient growth opportunities.

Now I'd like to turn it back to Liz to open up for Q&A.

Elizabeth A. Werner
Head of Investor Relations and Vice President
Thank you. Operator, could we open the lines for questions, please?

Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Michael Nannizzi from Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So just -- Kevin, just following up on something you just said now, on the Consumer loss ratio, the full year being more indicative than the fourth quarter. The expense ratio was higher in the fourth quarter than the full year, so kind of if you juxtapose those 2, that would imply that Personal lines you'd be running over 100. Is that where you expect to be running that business? Or is there something on the expense side that we should be considering where 4Q may not be a good starting point?

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

No, we're not anticipating running this business over 100. We anticipate, overall, continuing improvement in the expenses in personal insurance associated with the efficiencies that we have gained. And in terms of the loss ratio, there was better-than-expected experience this year, particularly with respect to Japan automobile. And so, it's that particular anomaly that we don't anticipate to repeat in 2015.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And then, maybe Peter, the $650 million -- or maybe David, the $650 million or so that you that you talked about in investment in 2014, can we get an idea of what that was in the prior year? And what have been the returns that you have seen? So the expense saves that you've generated from the investments so far. Just to get an idea of sort of how that process is tracking.

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Sure. The -- we didn't discuss 2013 because it's a bit of a -- the comparison is not really 1-for-1 because there are many projects and initiatives that we're doing in '14 that were not in existence in '13. So it's a bit of apples and oranges so to speak. So the returns that are coming out, there in, again, varying stages. So for example, the biggest items in there are, for example, our movement to shared services, the Japan initiative and certainly the shared services in some of the finance functions. Those are the biggest-ticket items. So we're beginning to see payback in each one of those at various stages, again, some come sooner than others. The finance centers have more immediate payback. It's closer to -- near -- within 1 year of the spend, you're seeing the initiative. So we haven't quantified the exact benefit yet, but again, it's going to vary by each one of those projects.

Peter D. Hancock
Former Chief Executive Officer, President and Director

I think the important theme is that we've set expense targets that we just disclosed on a net basis. So effectively, we are maintaining and increasing the level of investments while reducing the net number by 3% to 5%. So the business-as-usual expense is declining faster than 3% to 5% as we step up the level of investment on return -- on projects where we feel comfortable that we have a good expected return above our hurdle rate. So we're not sacrificing long-term growth and efficiency in order to get this net expense reduction.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then just connecting, David, your comments on deployment this year, the $6 billion to $7 billion, just trying to square that to the buyback authorization of $2.5 billion. So is the expectations that you put the buyback authorization out, you exhaust it at some point this year, and then continue increasing or -- and putting up new authorizations as you go through?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Well, the -- as I said, the expectation for the full year is $6 billion to $7 billion both in total for share repurchase and shareholder dividends. And again, I made reference to a more dynamic approach. So we wanted to reflect the very robust distributions to the holding company and, importantly, the reduction in risk in our P&C business, and so we increased the amount of authorization or asked for the amount of -- the amount of authorization we asked for to the first quarter. So we will deploy that as appropriate. And then, again, based on facts and circumstance, seek additional approvals throughout the year.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And just last quick one. Any impact from energy-related investments on either private equity returns, book value that we should think about, just given the 3-month lag in private equity?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

No, nothing material.

Operator

Moving on, we'll take our next question from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions. One is, in the U.S. Consumer business, the -- and I know the acquisition expense ratio was up because of these profit-sharing commissions. But the loss ratio relative to the past couple quarters actually didn't get better. And so, was there some sort of catch-up in that number? What kind of acquisition ratio should expect going forward? It was a bit different than what you had been running.

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

Yes. Jay, the sequence of loss ratio improvement is not substantive, but year-over-year, it is substantive. And the profit share is, of course, a look-back mechanism. And so, I think, where we are right now, we've restructured the underlying programs in the U.S. warranty business, essentially instituting deductible and other risk management arrangements which will change the profile of the loss ratio and acquisition ratio over time.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. And then secondly, the comment about 1- to 2-point accident year loss ratio improvement, I guess on the Commercial side for 2015, and I guess it was John that said that. Can you kind of discuss the drivers of that improvement?

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

Sure, Jay. It's mix of business really being the primary lever. It's also increased confidence in some of the risk selection and pricing tools we've implemented over the course of the last several years. It's from improved claims service outside of -- primarily outside of the United States, made big investments in our claims team and claim technology to improve how we run off the results outside of the U.S. And then lastly, we expect the short-tail losses, which, as I mentioned, were slightly elevated this year. The attritional short-tail losses to move back to a more normal state. So it's a combination of those things. But as I also noted, given the amount of short-tail business we have, it can be lumpy from quarter-to-quarter.

Operator

Moving on, we'll take our next question from Jay Gelb from Barclays.

Jay H. Gelb
Barclays PLC, Research Division

First, for David. The lockup of the AerCap shares begins to expire this month, and I heard that you made a mention of that $6 billion to 7 billion of share repurchase, and dividend 2015 didn't include monetization of noncore assets. So I was hoping you can update us on your view in terms of when or if you could start to sell down that AerCap stake of $4 billion?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Sure. The "if" part is pretty easy. It's for the contractual lockups, which the first 1/3 expire actually next week. That's the "if" or that's the how we could. We haven't commented on the monetization of this noncore asset. I'll maybe ask Peter to share his views and perspective on it. But as we have done before, it doesn't -- or as said before, it doesn't change our view of this as a noncore asset, but we want to -- we'll be very thoughtful as we think about maximizing value for our shareholders. So Peter, anything you want to add to that?

Peter D. Hancock
Former Chief Executive Officer, President and Director

I think that we've had a good track record over the last 5 years of making very thoughtful disposal decisions in the light of the value that we could realize, and a patient approach to disposing of this noncore asset is what we think makes sense. It's quite accretive to our coverage ratio from an earning -- from a ratings perspective. And in our stress test, while as an equity -- a concentrated equity position, on the face of it, it would seem like a hot potato. I would not describe it that way because we have extremely comfortable capital cushions from a stress-testing perspective. So I think we have time on our side. But we recognize it's a noncore asset, and if we receive a favorable offer for it, of course, we will dispose of it and then redeploy that capital to our core operations.

Jay H. Gelb
Barclays PLC, Research Division

All right, that makes sense. Then on the ROE expectation, if I think about 50 basis points of improvement starting at a 7.4% level for this year, normalized, I'm just trying to get a qualitative perspective of why, Peter, you and the board feel that that's adequate to potentially not get to 9% before even 2017.

Peter D. Hancock
Former Chief Executive Officer, President and Director

Well, we have a long-term goal of getting north of 10%, as I stated, and most importantly, getting it above our cost of capital. And so we look at the interaction of what we're doing to reduce our cost of capital, in particular, derisking the company and focusing the quality of earnings on really repeatable sources. So sure, we could get to the target quicker but we'd probably be at the expense of sustainability of earnings, quality of earnings, and we've judged that this is an appropriate pace that continues to demonstrate our commitment to improving returns while doing so in a sustainable way. And so we've made careful tradeoffs to improve the returns and to be very transparent about that process.

Jay H. Gelb
Barclays PLC, Research Division

All right. And then last one, on the Life risk base capital ratio, currently at 490%, if we -- when we hear from other large life insurers like Met and Prudential, they're targeting more in the 400% to 450% range. So I'm wondering if you still might have more room to bring down that RBC in the life business.

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Thank you, Jay. As we have said, I think in the past, our range -- target range is somewhere in that business between 425% and 470%. That's a range. So we're at 490%. We've taken very substantial amounts of capital out of that -- of those companies. So the short answer is, yes, we still have more room to reduce that. But again, we're pretty clear, and we're clear with all our stakeholders what that range is, and we're going to be very methodical and measured about how we do that. But we've made clear what our range is. We've obviously taken very substantial steps to get close to that. Remember, last year, we were north of 560% or 568% a year ago. So we've taken meaningful steps. So I think those actions should give you some sense of what -- how we're thinking about it.

Operator

Moving on, we'll take our last question. That will come from Adam Klauber from William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

The retirement of life, generally it was a weaker quarter or income was lower than it's been really over the last 5 or 7. Should we think about this as more of a typical quarter? Or should we think about it, look at the context of those segments more on an annual basis versus the fourth quarter?

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

Yes. Adam, look, I think, I mean, part of the difference in the income came from the performance in the alternatives and partnerships, which I think is kind of a normal course of business. We have seen a little bit of yield compression but nothing unusual in this quarter. We did have the IBNR reserve, the ongoing activities from 2011 associated with the identification of policyholders and beneficiaries, which is a process involving a third-party vendor, provides us information, we have to engage in the matches. And as that process comes to near a conclusion, we have to respond to the matches that are occurring and the identification of those policyholders. A lot of these are very small face amount policies. A lot of them go back a number of years, and matching is not an automated process. And those are some of the anomalies. As I mentioned, at the current rate environment, and by that, assuming a 10-year T [ph] around 180, this is where we expect a drift of 4 to 6 basis points per quarter in the base yields. That's a trend that will depend upon what the future rate environment is.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then in Group Retirement, you mentioned a couple large accounts left or were consolidated. Do you think there'll be more of those? Are they one-off? And did that have any impact on the quarterly financials?

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

So we don't -- first of all, I think it's important to note, we don't anticipate substantial impact on earnings from these larger cases. And with respect to the larger cases, they don't always come up for revisitation. We see nothing on the horizon at this juncture. Of course, we can't anticipate where consolidations may occur. And as you know, there are consolidations in a number of industries, especially health care associated with the recent developments in those industries. So we do see them as part of a normal aspect of the environment, and they are essentially one-off items.

Adam Klauber

William Blair & Company L.L.C., Research Division

Okay. And then in the Commercial Insurance on the P&C side. We saw good progress on the expense ratio. You mentioned you're going to continue to work towards that, but in investments. So again, is this year -- is the progress we've seen this year better than we can expect going forward? Or is it possible to see that type of progress going forward on the expense ratio?

John Q. Doyle
Former Chief Executive Officer of Global Commercial Insurance

We -- as I mentioned in my opening comments, Adam, we'll see some GOE improvement next year. I don't anticipate that it will be at the same dollar amount that we improved during 2014. And of course, the ratio will depend on other factors, but we do expect to continue to get more efficient.

Operator

Moving on, we'll take our next question from Josh Stirling from Sanford Bernstein.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

So, Peter, appreciate -- I think we all appreciate the clarity in your goals, and I wanted to spend just 1 minute or 2 talking about them. Like Jay, I guess, I'm kind of surprised about the pace of recovery that's implied by the bridge to 10%. And I wonder why these -- first of all, make sure we understand that. But I also wonder, more fundamentally, why is AIG's long-term goal only at 10%? I mean, if I try to put this simply, many of your model line peers in life and P&C all consistently generate solid mid-teens ROEs. Why shouldn't something higher be the long-term aspirational target? I mean, is there something about the business mix or infrastructure challenges or capital requirements that's really going to be a permanent headwind for the company? Or is this something we just need to be patient, and we're going to see upside to these goals over time?

Peter D. Hancock
Former Chief Executive Officer, President and Director

Well, I think that, given where we're starting from to speculate beyond 3 years is challenging. The 10% in an environment, if we have persistent deflationary pressures, low inflation and low investment yields, our view is actually quite comfortably above what the cost of capital is likely to be at that point. So our goal, as we say in overall terms, is to have sustainable ROE above our cost of capital, which is also a function of our risk level. And so if others are running at much higher ROEs, I suspect it is because they choose to run their balance sheets with more leverage and are willing to take more risk. And we think that we would like to position the company as a very balanced portfolio of diversified risk so that we can weather swings in the pricing cycles, swings in the economic cycles and be opportunistic in times of crisis where we think that there are tremendous one-off opportunities to add value. And I think that maximizing ROE inhibits that financial flexibility. But making sure that the ROE is comfortably above the cost of equity of the company and from sustainable sources as opposed to short-term risk taking of any kind. So we are very committed to improving the quality as well as the quantity of earnings and being transparent about that shift of mix.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

Okay. I'm wondering if we could just briefly -- similar sort of concept in a way, thinking about sort of focus on returns in the environment. I think you guys disclosed pricing was down relatively notably in Property. The Commercial business I think overall you guys were flattish. How do we think about you guys maintaining your pricing discipline in the context of everything else you're trying to do when you're also still trying to grow? How do we know sort of that you're going to focus on margins first and sort of long-term health for the franchise second?

Peter D. Hancock
Former Chief Executive Officer, President and Director

Well, I wanted to signal that very much in the $2.5 billion buyback because we talk about -- one of the factors that led us to step up the pace of buyback was the fact that we had reduced risk in the business; and in particular, in Commercial. And that's because we walked away from certain property renewals where we felt we were not getting adequately return -- rewarded for risk. And so, what we're really saying is that pricing discipline comes with it a sense that the capital that we have is precious, and we will not deploy it if we're not getting an adequate return on it. So prompt return of capital that's not deployed at adequate ROEs is our way of demonstrating to you, and internally, that we're not about volume. We're about value.

Operator

And moving on, we'll take our next question. That'll come from Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I just had some questions about the early debt retirement and when it occurred. Was there some debt that you retired in the quarter that already paid a coupon during the quarter? Or more succinctly, can we look at the 4Q run rate of interest expense as, at this point, a benchmark for looking into 2015?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

Josh, it's David. The -- as I said in my opening remarks, we expect, based on our full year expectation, to have interest expense of around or just inside of $1.1 billion. So again, you can look at the fourth quarter as a reasonable proxy.

Joshua David Shanker
Deutsche Bank AG, Research Division

For 1Q and then go down.

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

So again, that's why I'm trying to give you a level of insight. I think it's important to note that our leverage ratios are very much inside our target area, our target zone and, matter of fact, on the low side of that. So I think we've got plenty of financial visibility. But we are, obviously, focused on balancing leverage in our coverage. So I think those are the critical points you should take away.

Joshua David Shanker
Deutsche Bank AG, Research Division

Great. And on the "incurred but not reported" death claims, there were related charges taken both in 2Q '11 and 4Q '11. What solace should investors take that we're getting close to getting this as an issue that's behind them?

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

Well, that's true. I mean, this has been an ongoing process of working with the new process for identifying deceased policyholders and their beneficiaries. We have much more experience now with the vendor and with the matching process. And we went through an extensive analysis. We're getting down to the last, I think, processes with the vendor, and we have some insight into what we believe is going to be coming in the matching process in the future. So right now, this is our best estimate of what we think will bring us to the conclusion of this process. But until we get the files from the vendor and engage in the physical matching, we can't provide 100% guarantee.

Joshua David Shanker
Deutsche Bank AG, Research Division

And that charge includes the interest on unpaid claims as accrued since that time?

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

Yes, it does. In fact, that was an aspect of one of the reserve increases that you noted before. And so, we do fully incorporate interest in the reserve.

Operator

Moving on, we'll take our next question from Larry Greenberg, Janney Capital.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

I'm wondering if you could just elaborate a little bit more on what's going on at VALIC. I understand the large cases that were lost. But I guess in particular, it appears you've been pretty aggressive in managing crediting rates. And I'm wondering if maybe that is having an impact on the business just recognizing the flow of surrender activity and overall flows, and it also seems like the ROE has been trending down as well. So maybe just an update on the health of that business.

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

Actually, we consider the health of the Group Retirement business actually quite strong. We continue to recruit advisers. We have had, I think, good success with the process of expanding some of the product portfolio that we're able to represent in that business. And while it is true, we are and we continue to be disciplined in our new business pricing. We don't see the loss of these large cases as relevant to that. We continue to invest in this business. We invest in our record-keeping capabilities and also our advisory capabilities. And we're also introducing kind of a retirement information center to help educate our customers there. The most important part of the margins in this business are in the smaller- and medium-sized cases and in the ongoing contributions. So we do not get necessarily distracted by some of the consolidations that occurred in the large-case area.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

So other than the large-case activity, it's pretty much business as usual there?

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

It's certainly a competitive environment, and we are monitoring very carefully the developments in that business. But like I said, we continue to invest in that business, and we are comfortable where we are. Clearly, the yield environment is something that impacts that business as well. And we are investing in substantial technology to improve our position.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Great. And then just finally, on the life RBC ratio, was the decline for the year driven entirely by dividends up to the parent? Or were there any adjustments made for low interest rates as well?

David Lawrence Herzog
Former Chief Financial Officer and Executive Vice President

The short answer is, no. Substantially, all of the decrease in the RBC was related to the dividend close. We did provide additional reserves for cash flow testing, but those were insignificant relevant to the rest of the decline from distributions.

Elizabeth A. Werner
Head of Investor Relations and Vice President

And operator, I think we only have time for one more question, please.

Operator

Certainly. We'll take then our final question from Tom Gallagher from Credit Suisse.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Peter, I just wanted to ask you a few questions about your 9% ROE goal for 2017. Should we view that as a -- is that a goal? Is that a plan? What are you contemplating for an interest rate? Does that assume rising interest rates, flat? Can you just give a little color there?

Peter D. Hancock
Former Chief Executive Officer, President and Director

So first of all, I wouldn't describe it as a goal. Our goal is -- our broadest goal is to have a sustainable ROE comfortably above our cost of equity. And secondly, we've restated our long-term goal at 10%. The full cost, which is what I provided over the next 3 years of 50 basis point improvement per year is premised on an interest rate environment that reflects the forward curve in the market. So whether the market is right or wrong, your guess is as good as mine. We tend to run a fairly carefully matched duration book of the company. Don't speculate on interest rates, but I think that the interest rate assumption that we've used in our financial planning is based on the forward curve.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Okay. And this is just an editorial comment by me, but I think one thing being lost here is the fact that you also mentioned you're expecting 10% book value growth. So I would just comment that 50 basis points of improvement per year with 10% book value growth is actually a pretty solid level of earnings growth implied, for whatever that's worth. David, just to clarify, the -- if I understood your comments correctly, the $2.5 billion buyback authorization is expected to be the pace in 1Q, and then should we then expect a falloff? I assume that's funded by the excess that was taken out of the life company, and then should we expect the falloff to get to that, I guess, $6 billion to $7 billion of total capital return, including dividends, for the balance of the year. Is that right pace to think about?

Peter D. Hancock
Former Chief Executive Officer, President and Director

Tom, it's Peter. I think that the concept of the buyback being funded is, I think, combining solvency risk with liquidity risk in a way that I wouldn't. As you notice in the last quarter, we issued a substantial amount of very long-term debt at a very effective level. So we have comfortable liquidity in the holding company. And so, as we look at the scale of buyback, it's not really constrained by liquidity. It's really driven by risk. And so as we look at how the risk profile of the company changes, the RBC levels and dividends up from the subsidiaries is simply one indicator of enterprise risk. But the more we, the rating agencies and the fed look at the company as one combined enterprise, we start to see that we have substantial capacity to cope with the risk level of the company because the company has been substantially derisked over the last 5 years, and we continue to derisk the company. And as I mentioned earlier, as we exercise discipline in terms of new business writing, we may find -- if the pricing environment in the P&C side is softer, further capacity because of less risk, they may not be reflected in the short term in RBC ratio. So I just want to make sure that we recognize this is not literally dollar-for-dollar funding. It's separating the liquidity management, which is comfortable with a view towards managing enterprise risk well within our risk appetite.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Understood, Peter, on the sources and usage comment. Am I right about the pace though that you all expect?

Peter D. Hancock
Former Chief Executive Officer, President and Director

So I think that the pace you can infer from David's $6 billion to $7 billion for the full year, which would suggest that it's a somewhat accelerated pace in the first quarter but reminding yourself that it excludes any noncore asset disposals or accelerated unwind of the DIB.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Okay. And then one last one. Kevin, one thing that stood out in your businesses was a pretty strong improvement in International. There was a dropoff in revenues but then margins also picked up. Can you explain what was happening there?

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

Well, I think, Tom, an important part of the improvement does come from Japan. And we have been working on the overall rate adequacy in that environment in addition to enjoying an unusual year. With respect to the automobile loss ratio, there was a feature of an -- change in the way non-claim-discount bonuses work that's actually driven down frequency for the entire market. And then the fuel prices, which, ironically, were high at that time, also reduced the amount of driving, and that led to a substantial improvement there. I think in terms of revenue, there's an underlying improvement in our growth, but it is not as dramatic as the improvement in both loss ratio as we've instituted many of similar underwriting tools as to what Commercial has successfully used over the last couple of years.

Thomas George Gallagher
Crédit Suisse AG, Research Division

Okay. And so it's Japan auto driving the improvement, which -- so is this -- do you think this is a good new run rate? Would you expect continued margin improvement from here?

Kevin T. Hogan
Executive Vice President and Chief Executive Officer of Global Consumer Insurance

The Japan auto was unusual in that the prices of fuel were high. They are not anticipated to stay high, so we do not expect frequency to say that low. But, Tom, the improvement in the underwriting actually comes across the board. It's not limited to Japan. The implementation of the tools that I mentioned are having an impact on rate adequacy and portfolio quality across the board as we actively manage the portfolios. So don't anticipate the loss ratio as of fourth quarter as a run rate. There's a number of anomalies. We had a very benign CAT environment, severe losses below our expectations and also the unusual situation in Japan.

Elizabeth A. Werner
Head of Investor Relations and Vice President

Thank you, everyone, and we will be sure to follow up with everybody who's still in queue.

Operator
And thank you, everyone. That will conclude today's conference. We do thank you for your participation.