

## NOTE 6 Realignment and Efficiency Plan

During the third quarter of 2012, the Company, in connection with the execution of its strategy, committed to a series of actions to further improve its organizational alignment, operational effectiveness, and efficiency. As a result, the Company recognized charges in other operating expenses of \$77 million pre-tax (\$50 million after-tax) in the third quarter of 2012 consisting primarily of severance costs. The

Global Health Care segment reported \$65 million pre-tax (\$42 million after-tax) of the charge. The remainder was reported as follows: \$9 million pre-tax (\$6 million after-tax) in Global Supplemental Benefits and \$3 million pre-tax (\$2 million after-tax) in Group Disability and Life.

Summarized below is activity for 2012.

<i>(In millions)</i>	Severance	Real estate	Total
Third quarter 2012 charge	\$ 72	\$ 5	\$ 77
less: Fourth quarter 2012 payments	5	1	6
Balance, December 31, 2012	\$ 67	\$ 4	\$ 71

The severance costs are expected to be substantially paid in 2013.

## NOTE 7 Guaranteed Minimum Death Benefit Contracts

As discussed in Note 25, the Company reinsured the guaranteed minimum death benefit ("GMDB") business on February 4, 2013.

The Company's reinsurance operations, that were discontinued in 2000 and are now an inactive business in run-off mode, reinsured a GMDB, also known as variable annuity death benefits ("VADBe"), under certain variable annuities issued by other insurance companies. These variable annuities are essentially investments in mutual funds combined with a death benefit. The Company has equity and other market exposures as a result of this product. In periods of declining equity markets and in periods of flat equity markets following a decline, the Company's liabilities for these guaranteed minimum death benefits increase. Conversely, in periods of rising equity markets, the Company's liabilities for these guaranteed minimum death benefits decrease.

In 2000, the Company determined that the GMDB reinsurance business was premium deficient because the recorded future policy benefit reserve was less than the expected present value of future claims and expenses less the expected present value of future premiums and investment income using revised assumptions based on actual and expected experience. The Company tests for premium deficiency by reviewing its reserve each quarter using current market conditions and its long-term assumptions. Under premium deficiency accounting, if the recorded reserve is determined to be insufficient, an increase to the reserve is reflected as a charge to current period income. Consistent with GAAP, the Company does not recognize gains on premium deficient long duration products.

See Note 13 for further information on the Company's dynamic hedge programs. These programs were used to reduce certain equity and interest rate exposures associated with this business and were discontinued after February 4, 2013.

The determination of liabilities for GMDB requires the Company to make critical accounting estimates. The Company estimates its liabilities for GMDB exposures with an internal model using many scenarios and based on assumptions regarding lapse, future partial surrenders, claim mortality (deaths that result in claims), interest rates

(mean investment performance and discount rate) and volatility. These assumptions are based on the Company's experience and future expectations over the long-term period, consistent with the long-term nature of this product. The Company regularly evaluates these assumptions and changes its estimates if actual experience or other evidence suggests that assumptions should be revised.

The following provides information about the Company's reserving methodology and assumptions for GMDB as of December 31, 2012:

- The reserves represent estimates of the present value of net amounts expected to be paid, less the present value of net future premiums. Included in net amounts expected to be paid is the excess of the guaranteed death benefits over the values of the contractholders' accounts (based on underlying equity and bond mutual fund investments).
- The reserves include an estimate for partial surrenders (that allow most contractholders to withdraw substantially all of their mutual fund investments while retaining the death benefit coverage in effect at the time of the withdrawal, essentially locking in the death benefit for a particular policy) based on annual election rates that vary from 0% to 13% depending on the net amount at risk for each policy and whether surrender charges apply.
- The assumed mean investment performance ("growth interest rate") for the underlying equity mutual funds for the portion of the liability that is covered by the Company's growth interest rate hedge program is based on the market-observable LIBOR swap curve. The assumed mean investment performance for the remainder of the underlying equity mutual funds considers the Company's GMDB equity hedge program using futures contracts, and is based on the Company's view that short-term interest rates will average 4% over future periods, but considers that current short-term rates are less than 4%. The mean investment performance assumption for the underlying fixed income mutual funds (bonds and money market) is 5% based on a review of historical returns. The investment performance for underlying equity and fixed income mutual funds is reduced by fund fees ranging from 1% to 3% across all funds.