SMITH GROUP
DISABILITY & REINSURANCE CONSULTANTS

August 2014

Dear Smith Group Client:

We are pleased to provide the 2nd Quarter 2014 Earnings Conference Call Summary for leading group LTD carriers.

This report is based on insurers' quarterly earnings releases. The data and information upon which this summary is based are readily available in the public domain. Sources include press releases, statistical supplements, SEC filings, and earnings conference calls. As a service to its reinsurance and consulting clients, Smith Group compiles this earnings information, analyzes group LTD statistics, and identifies notable trends.

This summary is not intended to make predictions about insurers or their results.

Direct inquiries to:
Joe Skvorak
jskvorak@smithgroupre.com
707 Sable Oaks Dr.
South Portland, ME 04106
(207) 879-5680

**Prudential Financial**

Profit (not reported by business line):

| Line of Business | 2Q14 Profit ($000,000) | 2Q13 Profit ($000,000) | 2Q14 Loss Ratio | 2Q13 Loss Ratio |
|---|---|---|---|---|
| Group Disability | NA | NA | 83.9% | 93.2% |
| Group Life | NA | NA | 89.3% | 90.6% |

EP/Sales:

| Line of Business | 2Q14 EP ($000,000) | 2Q14 Sales ($000,000) | 2Q13 EP ($000,000) | 2Q13 Sales ($000,000) |
|---|---|---|---|---|
| Disability | $199 | $12 | $220 | $7 |
| Life | $966 | $10 | $1,001 | $15 |

**Notable Statements**

● In Group, experience was more favorable than a year ago in both life and disability. We are confident that Group Insurance is on the right track, but improvement will not be linear.

● In disability, favorable claims experience drove an improvement of 9 percentage points in the benefit ratio compared to the year-ago quarter. This contrasts to an adverse fluctuation in the first quarter. While we've enhanced our claims management capabilities and are continuing to make progress in re-pricing cases as they renew, experience will vary from one quarter to another, and improvements won't be linear.

**Unum**

Profit (Before FIT and net realized investment Gains/Losses):

| Line of Business | 2Q14 Profit ($000,000) | 2Q13 Profit ($000,000) | 2Q14 Benefit Ratio | 2Q13 Benefit Ratio |
|---|---|---|---|---|
| Unum US | $218.8 | $214.0 | 70.4% | 72.0% |
| LTD/STD | $73.6 | $73.0 | 81.9% | 83.9% |
| Life & AD&D | $61.6 | $57.3 | 70.1% | 71.1% |
| US Supp & Vol | $83.6 | $83.7 | 49.8% | 50.3% |
| Unum Limited | $39.6 | $33.5 | 74.0% | 84.2% |
| Colonial | $75.3 | $71.1 | 52.0% | 52.1% |

EP/Sales

| Line of Business | 2Q14 EP ($000,000) | 2Q14 Sales ($000,000) | 2Q13 EP ($000,000) | 2Q13 Sales ($000,000) |
|---|---|---|---|---|
| Unum US | $1,157.7 | $184.0 | $1,131.5 | $131.4 |
| LTD | $386.2 | $46.8 | $394.8 | $32.8 |
| STD | $137.8 | $23.3 | $129.1 | $18.7 |
| Life/AD&D | $344.3 | $62.3 | $333.8 | $36.5 |
| Voluntary/Supp | $289.4 | $51.6 | $273.8 | $43.4 |
| Unum UK | $154 | $21.1 | $137.6 | $21.7 |
| LTD | $105.9 | $14.8 | $96.3 | $13.8 |
| Life | $33.7 | $5.4 | $26.5 | $6.8 |
| Other | $14.4 | $.9 | $14.8 | $1.1 |
| Colonial | $316.8 | $90.6 | $307.9 | $84.1 |
| Acc/Sick/Dis | $189.2 | $57.3 | $184.7 | $54.5 |
| Life | $57.5 | $18.3 | $55.3 | $15.8 |
| Cancer & CI | $70.1 | $15.0 | $67.9 | $13.8 |

**Notable Statements**

**Unum U.S.**

● Operating earnings increased 2.2% year-over-year, driven primarily by favorable experience in the Group Life and AD&D line. Group Life and AD&D produced a strong quarter with $61.6 million in operating income, up 7.5% on favorable risk experience, and premium growth of just over 3%.

● The supplemental and voluntary line reported operating income of $83.6 million for the quarter, basically flat with the year-ago quarter and operating income in our Group disability business increased slightly to $73.6 million from $73 million a year ago.

● Premium income was essentially flat this quarter, which is an improvement from the small declines we experienced over the prior two quarters, as we are seeing better sales trends and continued stable persistency.

● Importantly, our benefit ratio in group disability continued to improve, with the ratio declining to 81.9% this quarter from 83.9% a year ago, as the underlying experience showed stable claim incidence trends and continued favorable claim recovery performance.

● Looking forward, we expect the stable level of earnings from group disability, with some slight improvements in the benefit ratio and premium growth offset by some ongoing pressure from net investment income given the low rate environment. We expect our profit margins in this line to remain strong, among the highest in the industry. Overall, it was a solid quarter for Unum US, and the segment ROE stood strong at 14%.

● Within our group benefit lines, LTD, STD and Group Life, total sales increased by 50%, with 40% growth in the core market and 80% in large-case market, much of which was driven by sales to existing customers.

● In addition to the strong sales, persistency for our Unum US employee benefits lines remained strong at 89% for the quarter. Bring it all together, premium growth for Unum US was up 2.3% for the quarter, and we believe we are starting to see some of the benefit from better overall employment trends.

**Unum UK**

● Operating earnings were £23.6 million for the second quarter, 8% higher than the second quarter 2013, and generally consistent with our expectations. Our Group Life results are much improved and reflect the aggressive pricing and repositioning activities of the past several quarters.

● Group disability results were improved this quarter and our overall benefit ratio was 74% compared to 84% in the year-ago quarter. Our margins for the UK have actually improved back to the mid-20% area, which generates about an 18% of return on equity.

● Sales were down about 11% in the quarter to £12.6 million. Much of the decline is in the group life market, down 29%, probably due to the competitive pricing conditions in our own actions, as we carefully priced this book of business. The pipeline does tell us that we should see this improve in the second half of the year.

**Colonial**

● Colonial Life had a very strong quarter with earnings of $75.3 million compared to $71.1 million a year ago. We saw a steady, consistent risk experience across its business lines, generating a benefit ratio of 52%, in line with the benefit ratio from last year. The underlying profitability of this business remains excellent, producing an operating ROE of 17% for the quarter.

● Also at Colonial Life, we saw very good sales again this quarter, an increase of 7.7% overall, with positive contributions from both new accounts and existing accounts. We

also saw better trends in our core commercial markets, with quarterly sales growth approaching 9% in the under 1,000 life market.

**Analyst Questions**

● Intrigued to hear you say you are starting to see some of the benefit from better overall employment trends. What do you think that means in terms of how much has it ticked up so far and where could it go?

Response: We had seen through the recession, actually a headwind there, where we saw contractions in the order of 1 to 2%, I'd say over the last four quarters or so that leveled out, then to push up a little bit in the quarter, then down a little bit in the following quarter and now I think, through the first half of this year, we've actually started to see that move into positive range and think in terms of a percentage point or so.

We are optimistic. Our business plans don't center on the assumption, but we're optimistic that we will continue to see that build slowly. It plays out in natural growth to our book-of-business as our premiums lever on hiring trends and salary increases, that premium comes in at very low acquisition cost, which is terrific. Also at play is the attitude towards benefits. So, as some of the slack comes out of the labor market, we are seeing clients with a little bit of a better attitude towards improving benefits plans, perhaps adding a new benefit or two and so, that's showing up in our NBOC (new business old contract) results as well.

● And then the sales overall this quarter, understanding that you had an easier comparison, but still for that you had excellent growth. Was there an adjustment in pricing strategy?

Obviously, your benefits ratios have been improving. Did you take that more into account when you were putting up proposals this quarter? It just seems like there was more of a step function and I'm curious as to what drove that?

Response: So just to hit the question directly first and then speak to the mix of sales overall. Orientation around pricing is very consistent and actually has been for an extended period of time. We actually feel pretty good in each of our lines of business about having the market share that we do, having blocks the size that we do yield some pretty good insights around where prices need to move up a bit, where we can afford to come down a bit, but the aggregate level has actually moved not much at all. And looking at the quality of the business, it's one of those quarters, where everything broke our way across segments and products, which is good to see. But if you look at the strategy, we are very focused on building out the breadth of the relationships we have with the clients that know us and that appreciate the Unum brand.

So, 62% of all of our new sales came from those existing relationships, that's important. We see two points or three points more favorable pricing from a line that's added to an

existing relationship. We know that as we build out the relationship, it drives persistency in future period and that's very important to us through the renewal program.

One of the key drivers certainly was large case. And just to put that into perspective, if we look at large case it actually feel good about where that business is. It was up 80% in the quarter. But if you look at the last 12 quarters, seven times we've been up, five times we've been down, and we really don't get too caught up in what happens quarter-to-quarter, we look at the aggregate, long-term trend. ROE in that business is actually very comparable now to our core business, and we started to see a leveling of the earned premium, which is great and will bode well for earned premium going forward.

So, feel actually very good about the mix and the quality of the business that's coming in.

● Just following up on a couple of the last questions, I guess in the group market, we have seen several competitors that continue to face the margin pressure and appear to be either pulling back or raising prices. So has this resulted in either less competition or provided a little bit of a price umbrella for you to ramp up growth?

Response: Certainly, it remains a competitive market. At any given point in time, there is going to be some carriers that are retrenching and trying to improve profitability, and in others, there's going to be carriers that are trying to extend share. That being said on balance, I would say it is a pricing environment that is slightly improved over prior year. While I couldn't speak to any particularly competitor, our best insight is that the industry, when it comes to Group insurance, is currently running at a mid-single digit ROE, which would suggest there is some work to be done and I think we're starting to see the benefit of that in a little bit of a firmer pricing environment.

As we look forward, again, so we're sort of cautiously optimistic that the market will firm or continue to firm up a bit.

But we also recognize that, as you come around the corner and you're headed towards the second half of the year, it is not easy always to maintain that pricing discipline in the face of decreased sales and so it's somewhat of an open question, as to whether industry players will stick their guns when it comes to improving the margins of their book of business.

So, there is certainly probably some nuances about why we can do a little better, but I would say, first and foremost, it's that disciplined approach to the marketplace, I think, that frankly all of our businesses benefit from.

**Standard Financial Group**

Profit (Operating income, pre-tax, excluding after-tax realized investment gains or losses):

| Line of Business | 2Q14 Profit ($000,000) | 2Q13 Profit ($000,000) | 2Q14 Ben Ratio | 2Q13 Ben Ratio |
|---|---|---|---|---|
| Employee Benefits | $32.7 | $46.6 | 82% | 80.4% |

EP/Sales

| Line of Business | 2Q14EP ($000,000) | 2Q14 Sales ($000,000) | 2Q13 EP ($000,000) | 2Q13 Sales ($000,000) |
|---|---|---|---|---|
| LTD | $189.4 | $7.9 | $198.0 | $10 |
| STD | $57.5 | $2.9 | $59.6 | $6.6 |
| Life & AD&D | $202.9 | $5.1 | $214.5 | $6.0 |
| Other | $19.4 | $5.1 | $19.2 | $2.6 |
| ERR | ($1.9) | --- | ($4.3) | --- |
| Total EB | $467.3 | $21.0 | $487.0 | $25.2 |

**Notable Statements**

● Less favorable claims experience in insurance services. The benefit ratio for Employee Benefits was 82.0% for the second quarter of 2014, compared to 80.4% for the second quarter of 2013.

●Some key observations that might help interpret the claim results this quarter would include: the higher claims experience was limited solely to the month of April. We did not see a higher number of claims, instance numbers remained stable and as expected. The higher benefit ratio was primarily to due to a few more large, think expensive, long-term disability claims than we would typically see in the quarter. And finally, the greater than normal number of large claims is not broad-based but is isolated within a few segments.

● Employee Benefit premiums decreased 4% for the second quarter of 2014 compared to the second quarter of 2013. The lower premiums reflected lower sales for the second quarter, our lightest sales quarter of the year. This is further reflection of our pricing discipline in a competitive market. However, sequential quarters would demonstrate that we are beginning to see growth in premiums.

● In addition, employment levels among our existing customers have slightly increased again this quarter. Although the increase is small, it is continuing the trend we have seen for the past three quarters now. The pronounced growth in the U.S. employment data happened in markets that were not a significant portion of our book, such as construction, manufacturing and especially temporary employees.

● The discount rate used for newly established long-term disability claim reserves remained at 4% for the second quarter of 2014, 25 basis points higher than the 3.75% used for the second quarter of last year. The 25-basis-point increase in the discount rate results in a corresponding increase in quarterly pretax income of approximately $2 million.

**Analyst Questions**

● A question on the higher severity. You mentioned isolated segments. If we look back to the poorer margins in 2012, is there any pattern between the segments that had difficulty this quarter versus that period?

Response: It's important to make a distinction between what we saw this quarter and what you're referring to, because the difference is fairly significant, meaning that this isn't a broad-based phenomena that we saw this quarter. It's very specific and isolated to not only a quarter, but also a month, and also isolated a few segments. So we're really talking about a few claims and a few segments. We've done, as you can imagine, a fair amount of analysis around what we saw in the quarter. No correlation to vintage, no correlation between the claims and really, didn't see the trend continue within the quarter, and that's why we're calling it some seasonality within the quarter.

● And just back on the segments where you mentioned that was isolated to a few segments. Can you comment on what segments those were and why there would be a level of comfort that you wouldn't expect to see a repeat of the higher claim severity?

Response: Tom, I think it's important to make the distinction that this is -- we're talking about claims severity and not claims incidence which, I think, Seth was referring to earlier. But at the same time, if we thought there was some type of a trend or phenomena here we thought was going to continue, we call out those segments and make sure we knew what those were. We just don't see that, that's the case here. And so, we're not going to go into that detail.

● I just wanted to follow-up on incidence. I think you mentioned that it was generally still trending in the right direction. Could you just give us a sense of how did group disability incidence in the current quarter compared to full year 2013 incidence?

Response: On the direct comparison like I would say that we've seen, from the time we started the pricing matching some time ago, we've seen that taper. It hasn't dramatically fallen, but it's been very kind of predictable as we've managed that book of business. It would compare probably slightly favorable to the period you're referring to because we've seen it come down gradually since then.

● Could you remind us how much of your group insurance payment are voluntary-paid versus employer-paid at this point? And are you seeing much of a differential in the growth there?

Response: We do view the voluntary space as a growth opportunity and we are making investments there. I think we've alluded to that in the past in some detail. It is part of a very clearly articulated strategy we have for this business. Voluntary employee pay premiums are roughly 35% of our books. So it's a significant part of our business today.

**Aetna**

Profit (Operating income, pre-tax, excluding after-tax realized investment gains or losses):

| Line of Business | 2Q14 Profit ($000,000) | 2Q13 Profit ($000,000) |
|---|---|---|
| Group Insurance (Life, Disability, LTC) | $60.6 | $30.6 |

EP

| Line of Business | 2Q14 Earned Premium ($000,000) | 2Q13 Earned Premium ($000,000) |
|---|---|---|
| Group Insurance | $530.1 | $486.4 |

● Group benefit ratio was 83% versus 90.5% a year earlier

● Group operating earnings increased both sequentially and year-over-year due to higher underwriting margins reflecting improved experience in our life and disability products. As we look to the remainder of the year for this business, we project that underwriting margins will return to a level more consistent with recent historical experience.

**Principal Financial Group**

Profit (Operating income, post-tax, excluding after-tax realized investment gains or losses):

| Line of Business | 2Q14 Profit ($000,000) | 2Q13 Profit ($000,000) | 2Q14 Loss Ratio | 2Q13 Loss Ratio |
|---|---|---|---|---|
| Specialty Benefits | $29.0 | $25.7 | 65.8% | 66.7% |
| Group Disability | --- | --- | 66.8% | 68.3% |
| Group Life | --- | --- | 66.2% | 65.0% |

*Life & Health Division includes Individual Life, Health Insurance and Specialty Benefits

| Line of Business | 2Q14EP ($000,000) | 2Q14 Sales ($000,000) | 2Q13 EP ($000,000) | 2Q13 Sales ($000,000) |
|---|---|---|---|---|
| Disability | $86.3 | $13.2 | $77.6 | $15.9 |
| Life | $89.2 | $12.1 | $83.0 | $11.1 |

**Notable Statements**

● Specialty benefits premium and fees increased 6% over second quarter 2013 as a result of $62 million in sales and strong persistency.

● Specialty Benefits' operating earnings of $29 million were up 13% from the year ago quarter.

**Cigna**

Profit (Income from continuing operations, excluding realized investment gains/losses, after taxes):

| Line of Business | 2Q14 Profit ($000,000) | 2Q13 Profit ($000,000) |
|---|---|---|
| Group Disability & Life | $110 | $104 |

EP

| Line of Business | 2Q14 EP ($000,000) | 2Q13 EP ($000,000) |
|---|---|---|
| Disability | $427 | $396 |
| Life | $405 | $390 |

**Notable Statements**

● The results of our Group Disability and Life segment continue to be strong, driven by our disability and productivity model, which produces industry-leading return-to-work results. In our group business, we are putting our customers front and center, leveraging our broad, talented clinical teams and supporting their work with actionable insights to help our customers improve their well-being and sense of security.

● For Group Disability and Life, second quarter results were also strong with premium and fee increases of 5% over second quarter 2013. Second quarter earnings in our group business increased 6% to $110 million. The quarter's earnings included a $35 million after tax favorable impact from a reserve study on our Group Disability business, as well as strong operating results in Disability, underscoring the strong fundamentals in our disability and productivity programs.

● Regarding the group Disability and Life business, we now expect full year 2014 earnings in the range of $315 million to $330 million.

**Analyst Questions**

● The reserve study, the $35 million in disability, was that expected? Is that sort of normal course business, i.e., was that in guidance?

Response: On the reserve study question, we’ve got a consistent track record of continuing to refine our return to work in productivity programs in our disability business, and over time, some of that will show up in the run rate of the business, and some of those outcomes show up in the reserve studies. So while we don't actually specifically plan on a reserve study benefit, we do plan on operational improvements that will improve results in disability. So it's one of these things -- that specific study and the results from that specific study weren't planned for, but some level of improvement in group results was planned for and contemplated in the outlook.

Follow up: So the guidance really had it. Whether it was explicitly in the reserve study or not, you guys did expect $35 million of disability earnings coming through that mechanism, I guess?

Response: We expected some improvement in the year. Quite frankly, we didn't necessarily expect it this quarter. It's kind of over the course of the year, but you've got the general idea. We were expecting improvements.

**Assurant**

Profit (Net operating income after tax, before net realized gains and losses and the after tax effect of one time events.):

| Line of Business | 2Q14 Profit ($000) | 2Q13 Profit ($0000) | 2Q14 Loss Ratio | 2Q13 Loss Ratio |
|---|---|---|---|---|
| Employee Benefits* (includes DRMS) | $14,432 | $11,474 | 67.4% | 68.8% |

* Employee benefits includes dental, disability & life

EP/Sales

| Line of Business | 2Q14 EP ($000) | 2Q14 Sales ($000) | 2Q13 EP ($000) | 2Q13 Sales ($000) |
|---|---|---|---|---|
| LTD & STD | $102,929 | $8,300 | $101,289 | $6,905 |
| Life | $50,137 | $6,691 | $48,465 | $6,344 |

**Notable Statements**

● Assurant Employee Benefits achieved strong results this quarter, with an ongoing focus on voluntary offerings for the small to mid-sized employer. Voluntary premiums grew by 13%, or roughly two times the rate of the market. We've gained share with our efficient enrollment, communication, and billing capabilities, combined with our broad product suite. We continue to allocate resources to voluntary, while working to reduce expenses in other non-growth areas.

● Employee Benefits delivered a strong quarter, driven by improved disability experience, reflecting lower incidence and targeted pricing actions. In addition, the previously announced increase in the discount rate on new long-term disability claim reserves added nearly $1 million to operating income.

● Voluntary premiums grew by 13%, while our true group business continued to decline as expected. Employee benefits remains focused on reducing expenses. In the quarter, the expense ratio declined due to net earned premium growth.

**MetLife**

Profit (Operating Earnings after tax, before after-tax investment gains/losses):

| Line of Business | 2Q14 Profit ($000,000) | 2Q13 Profit ($000,000) | 2Q14 Loss Ratio | 2Q13 Loss Ratio |
|---|---|---|---|---|
| Group Non-Medical Health | $205 | $275 | 82.6% | 80.0% |
| Group Life | --- | --- | 87.3% | 86.5% |

EP

| Line of Business | 2Q14 EP ($000,000) | 2Q13 EP ($000,000) |
|---|---|---|
| Group Non-Medical Health | $4,038 | $3,797 |
| Group Life | $1,435 | $1,406 |

Group Non-Medical Health includes dental, disability, LTC, AD&D, CI, Vision and other health.

**Notable Statements**

● Life mortality ratio of 87.3% versus 86.5% a year ago.

● Second quarter earnings for Group, Voluntary & Worksite Benefits were below expectations. The shortfall in this segment was primarily driven by results in disability and dental. In disability, claims severity and an operational issue at one claims management center location led to the underperformance this quarter. Claim severity was 3% above expectations. As for the operational issue, we have brought in new leadership and additional resources to improve claims management.

**Analyst Questions**

● Regarding disability, but the claims management operational issue that was referenced, could you expand on exactly what that operational issue was and kind of what can be done to turn it around? It sounded like from the commentary that things turnaround pretty quickly. So just trying to get some understanding of what that operational issue was.

Response: So we manage group disability claims out of four locations. And there -- and in one of our offices, we've seen a real slip in, and I would see our claims management metrics. And we feel that this is operationally driven, not underwriting driven or anything else. And so what we've done is we've brought in our best claims management people in the company, change the managerial structure there. And I think we're just going to -- you're going to see a focus in terms of our procedures regarding claims management over the next 6 months. We feel that it's a manageable issue, and our expectation is that it can be adjusted pretty quickly.

● I just wanted to go back to the disability issue real quick, have you determined that there are any pricing or other underwriting changes that need to be made? I understand the claims issue, but is there a pricing issue as well?

Response: I wouldn't say there's a pricing issue per say, but we're obviously, at this renewal season, where we have cases that are underwater and not performing at expectations. We're seeking renewals that will alleviate that issue. And I would just say, in general, we are being more aggressive about disability pricing this sale season than we have been in recent years.

## Hartford

Profit (Post tax and investment gains/losses)

| Line of Business | 2Q14 ($000,000) | 2Q13 ($000,000) |
|---|---|---|
| Group Benefits (Disability, Life, Other) | $52 | $37 |

EP/Sales

| Line of Business | 2Q14 EP ($000,000) | 2Q14 Sales ($000,000) | 2Q13 EP ($000,000) | 2Q13 Sales $(000,000) |
|---|---|---|---|---|
| Group Disability | $349 | $20 | $355 | $46 |
| Group Life | $371 | $24 | $427 | $55 |

**Notable Statements**

● Strong quarter for Group Benefits with core earnings of $52 million, up 41% from last year. Profit improvement this quarter is driven largely by the life and AD&D lines, where we benefited from favorable life mortality. Disability trends were slightly elevated in the quarter yet remain favorable year-to-date through June.

● For the quarter, long-term disability incidence trends continue to be favorable, offset by lower recoveries versus a year ago, resulting in a slightly higher disability loss ratio. We continue to see favorable effects of our underwriting, pricing and claims management initiatives reflected in the achieved margin improvement across our employer group life and disability block. The rate of improvement has been significant in recent years, and we will remain disciplined with these operating leverage.

● Overall book persistency on our group life and disability business exceeded 90% through June, which is up over 10 points from 2013. We are very pleased with our renewal block and the overall persistency rebound versus 2012 and 2013.

● Industry data indicates that new sales are trending down slightly. Our sense is that in early 2014, large case customers have taken a tempered approach to moving their business, particularly as they sort through the dynamics of the Affordable Care Act and the trend to our more employee-direct benefit options. We believe this may have been a factor in our own strong book persistency, and contributed to our lower quarter-over-quarter fully insured ongoing sales of $45 million.

**Lincoln Financial**

Profit (Post tax)

| Line of Business | 2Q14 Profit ($000,000) | 2Q13 Profit ($000,000) | 2Q14 Loss Ratio | 2Q13 Loss Ratio |
|---|---|---|---|---|
| Group Protection | $2 | $22 | 80.3% | 73.5% |
| Group Disability | --- | --- | 82.6% | 70.1% |
| Group Life | --- | --- | 80.0% | 77.1% |

EP/Sales

| Line of Business | 2Q14 EP ($000,000) | 2Q14 Sales ($000,000) | 2Q13 EP ($000,000) | 2Q13 Sales ($000,000) |
|---|---|---|---|---|
| Group Protection | $574 | $73 | $531 | $95 |
| Group Disability | --- | $30 | --- | $42 |
| Group Life | --- | $29 | --- | $33 |

**Notable Statements**

● In Group Protection, we continued to address our profitability challenges. As I have pointed out before, we started implementing pricing actions in mid-2013 aimed primarily at our employer-paid life and disability business. These pricing actions are achieving mid to upper single-digit increases in both new sales and renewals. We will continue to make pricing changes as needed in order to restore profitability. Given the rate increases, new business levels were off in the second quarter.

● We continued to make inroads on our target strategy to further expand the employee-paid voluntary market. In the quarter, 43% of our sales were employee-paid, up from 39% in prior quarter. This is an important element in our overall strategy to achieve and sustain profitable growth in this business. Achieving this shift in sales mix, combined with ongoing pricing actions and strengthening our management team notably with the recent appointment of Dick Mucci as president, have us on the right path to achieve our strategic and earnings objectives over time.

**Analyst Questions**

● On the disability business, if you just talk about the success you're having in raising prices in the business. How is it impacting persistency and a couple of years from now, when are you done re-pricing the book, how much of the book do you expect to lose?

Response: So the total amount of premium that we expect to be re-priced in this employer-paid segment is $1.1 billion. Through the second quarter of this year we've actually re-priced $300 million of that. Now in terms of the earn to premium we've experienced in the first half of the year, roughly $130 million of that premium has been at this increased level. Of the $1.1 billion, about $130 million of that we experienced in the

first half of the year. As we move throughout this year, over the course of this year we will re-price in total $500 million of that $1.1 billion. And about $300 million of that premium will come through in this year. That's how you should experience. Then as you move into 2015, we'll pretty much complete the re-pricing as we hit the 1/1 2016 renewals. So you should see about $800 million to 900 million of that premium effectively re-priced inside of our 2015 earned premium and then it would all be re-priced in 2016 effectively. Now in terms of the persistency on that, our historic persistency is roughly 80%. We've continued to experience persistence roughly in that range and I wouldn't expect it to change in a material way from that.

● A follow-up on the disability claims issue. So Randy, you had mentioned you all had seen some more, what you described as subjective claims in disability. Can I take that commentary to mean that you are going to start emphasizing more claims adjudication and recovery, and focus more on sort of the scrutiny of the legitimacy and ability to get claims off the books? Is that going to be an area of focus going forward?

Response: Claims management is a big part of the Group Protection business. And as I've watched it over the years, you see patterns. For example if incidence starts rising, the claims get higher, it may take a little while to increase the staff and train the staff in such a way that the amount of claims that are being approved or disapproved get back to where they should be. And this year, Randy has mentioned that we've had more complex claims. And sort of the same idea is that we'll have to upgrade our staff and move people into the areas that are dealing with these more sophisticated claims. So I can't tell you whether it's going to increase or decrease claims, but over time these things will even themselves out whereas in a particular quarter you could see more less claims than you might over a longer period of time.

**Sun**

Profit (Net income after tax):

| Line of Business | 2Q14 Profit ($000,000) | 2Q13 Profit ($000,000) |
|---|---|---|
| Employee Benefits Group (U.S.) | $3 | $17 |

EP/Sales

| Line of Business | 2Q14 EP ($000,000) | 2Q14 Sales ($000,000) | 2Q13 EP ($000,000) | 2Q13 Sales ($000,000) |
|---|---|---|---|---|
| Employee Benefits Group (U.S.) | $592 | $102 | $552 | $108 |

● I was surprised to see voluntary sales down, given it's been such a high-growth business for you. I think Dean mentioned competition. So could you talk maybe a bit to the competitive environment on this front? And any new riders or offerings you have coming rolling out in the second half of this year?

Response: Yes. Let me give a little color on our sales results in the quarter. We deliberately started to rebalance our sales in the quarter amongst our different benefits products. So as you heard, stop-loss sales were up significantly and Group Benefits sales were down somewhat. And that is a product of the price increases that we put through on Group Benefits. Most of our voluntary sales are in the group disability and life category. So as sales of those products moderated, so too did the voluntary sales as well. The second quarter also is a somewhat modest sales quarter for voluntary. It picks up especially in the third and fourth quarters. But through the year, we do think we'll see some moderation continuing in our Group Benefits sales and a continued momentum in stop-loss. We are also paying a lot of attention to and making investments in private exchanges. We think private exchanges are the next area that will really spur the development of voluntary sales. So that is an important new dimension for us. And we did not have any new products come online in the second quarter, but we're currently exploring a number of new voluntary products to potentially bring online in the future.

● Most of my questions have been asked and answered, but I just wanted to talk about the group life and the group disability businesses, where you had some adverse experience. And can you talk about both Canada and the U.S., what you're seeing there? If it's -- do you think it's an aberration? Do you think that it's a pricing issue? Do you think that there's something going on in the industry that's driving these results? It has been somewhat industry-wide.

Response: I'll comment on the U.S. We are seeing pressure, as I've mentioned, in our group disability business, but the underlying incidence and recoveries are generally in line with our expectations. Our pressure in the disability business is more on the pricing

side, and that's why we've made recent adjustments to our pricing, particularly in that business.

● And you're not seeing anything in terms of claims management? Because I know that others carriers cited claims management as an issue as well?

Response: No. At this point, our incidence rates, recovery rates, et cetera, are generally in line with our expectations and consistent with where they have been.

**Summary**

| Company | Earnings | Sales | EP |
|---|---|---|---|
| Prudential | Not reported by line of business | Dis: $12M (↑71.4% )<br>Life: $10M (↓33.3%) | Dis: $199M (↓9.5%)<br>Life: $966M (↓3.5%) |
| Unum | LTD/STD: $73.6(flat)<br>Life/AD&D: $61.6M (7↑.5%)<br>Limited: $39.6M (↑18.2%)<br>Colonial: $75.3 (↑5.9% ) | U.S Brokerage<br>LTD:$46.8M(↑42.7%)<br>STD: $23.3M(↑24.6%)<br>Life/AD&D: $62.3M(↑70.7%)<br>Vol:$51.6M(↑18.9%)<br>Unum Limited<br>LTD: $14.8M(↑7.2%)<br>Life: $5.4M(↓20.6%)<br>Colonial<br>Acc/Dis: $57.3M(↑5.1%)<br>Life: $18.3M (↑15.8%)<br>Can/CI: $15M(↑8.7%) | U.S. Brokerage<br>LTD: $386.2M (↓2.2%)<br>STD: $137.8M (↑6.7%)<br>Life/AD&D: $344.3M (↑3.1%)<br>Vol: $289.4M(↑5.7%)<br>Unum Limited<br>LTD: $105.9M (↑10%)<br>Life: $33.7(↑27.2%)<br>Colonial<br>Acc/Dis: $189.2M (↑2.4%)<br>Life: $57.5M (↑4%)<br>Can/CI: $70.1M(↑3.2%) |
| Standard | Group: $32.7M (↓29.8%) | LTD: $7.9M (↓21%)<br>STD: $2.9M (↓56.1%)<br>Life/AD&D: $5.1M (↓15%) | LTD: $189.4 (↓4.3%)<br>STD: $57.5M (↓3.5%)<br>Life/AD&D: $202.9M (↓5.4%) |
| Aetna | Group: $60.6M (↑98%) | Group:N/A | Group: $530.1M (↑9%) |
| Principal | Specialty Benefits: $29M (↑12.8%) | Dis: $13.2M (↓17%)<br>Life: $12.1M (↑9%) | Dis: $86.3M (↑11.2%)<br>Life: $89.2M (↑7.5%) |
| Cigna | Group Dis & Life: $110M(↑5.8%) | N/A | Dis: $427M (↑7.8%)<br>Life: $405M (↑3.8%) |
| Assurant | Employee Benefit: $14.4M(↑25.8%) | LTD/STD: $8.3M(↑20.2%)<br>Life: $6.7M (↑5.5%) | LTD/STD: $102.9M (↑1.6%)<br>Life: $50.1M (↑3.4%) |
| Met | Group: $205M (↓25.5%) | Not reported by line of business | Group: $4,038M (↑6.3%)<br>Life: $1,435M(↑2.1%) |
| Hartford | Group: $52M (↑40.5%) | Dis: $20M (↓56.5%)<br>Life: $24M (↓56.4%) | Dis: $349M (↓1.7%)<br>Life: $371M (↓13.1%) |
| Lincoln | Group Protection: $2M (↓90.9%) | Dis: $30M(↓28.6%)<br>Life: $29M (↓12.1%) | Group Protection: $574M (↑8.1%) |
| Sun | U.S. Employee Benefits Group: $3M (↓82.4%) | U.S. Employee Benefits Group: $102M (↓5.6%) | U.S. Employee Benefits Group: $592M (↑7.2%) |