SMITH GROUP
DISABILITY & REINSURANCE CONSULTANTS

August 2017

Dear GC Smith Group Client:

We are pleased to provide the 2nd Quarter 2017 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 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.

Direct inquiries to:
Joe Skvorak
jskvorak@smithgroupre.com
707 Sable Oaks Dr.
South Portland, ME 04106
(207) 791-8315

About GC Smith Group

Smith LTD Management Group, Inc. is a disability and reinsurance consultant and a subsidiary of Guy Carpenter & Company, LLC, which is a global leader in providing risk and reinsurance intermediary services. Guy Carpenter is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC), a global team of professional services companies offering clients advice and solutions in the areas of risk, strategy and human capital.



GUY CARPENTER

HEALTHCARE & LIFE
SPECIALTY PRACTICE

## Prudential Financial

**Profit** (Pre-tax):

| Line of Business | 2Q17 Profit ($000,000) | 2Q16 Profit ($000,000) | 2Q17 Loss Ratio | 2Q16 Loss Ratio |
|---|---|---|---|---|
| Group Insurance | $136 | $89 | 84.5% | 86.6% |
| Group Disability | NA | NA | 47.5%* | 47.9%* |
| Group Life | NA | NA | 86.3% | 88.6% |

**EP/Sales**

| Line of Business | 2Q17 EP ($000,000) | 2Q17 Sales ($000,000) | 2Q16 EP ($000,000) | 2Q16 Sales ($000,000) |
|---|---|---|---|---|
| Disability | $209 | $14 | $196 | $21 |
| Life | $981 | $56 | $998 | $24 |

*****Benefit ratios reflect the impacts of annual reviews and update of assumptions and other refinements. Excluding these impacts, the group life, group disability and total group insurance benefit ratios were 86.3%, 76.7% and 84.5% for the three months ended June 30, 2017, 88.6%, 77.5% and 86.6% for the three months ended June 30, 2016

## Notable Statements

● Group Insurance delivered very strong earnings, driven by a benefit ratio that was the lowest in recent memory. It was a nice bounce-back quarter for Group Insurance after seasonally lighter first quarter results, and our underwriting trends continue to perform very well.

● Group Insurance earnings were $81 million for the quarter, up by $33 million from a year ago. The increase came mainly from more favorable underwriting results and a greater contribution from net investment results. Group Insurance benefits ratio of 84.5% was well below the low end of our targeted range of 87% to 91%, driven by favorable Group Life incidence, which produced about $30 million of favorable earnings as compared to our expected range.

## Unum

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

| Line of Business | 2Q17 Profit ($000,000) | 2Q16 Profit ($000,000) | 2Q17 Benefit Ratio | 2Q16 Benefit Ratio |
|---|---|---|---|---|
| Unum US | $247.8 | $227.2 | 67.4% | 69.1% |
| LTD/STD | $92.4 | $74.4 | 76.5% | 80.0% |
| Life & AD&D | $60.9 | $56.9 | 70.6% | 71.5% |
| US Supp & Vol | $94.5 | $95.9 | 49.0% | 46.8% |
| Unum UK | $28.9 | $36.9 | 75.6% | 70.1% |
| Colonial | $81.8 | $77.9 | 51.3% | 51.1% |

**EP/Sales**

| Line of Business | 2Q17 EP ($000,000) | 2Q17 Sales ($000,000) | 2Q16 EP ($000,000) | 2Q16 Sales ($000,000) |
|---|---|---|---|---|
| Unum US | $1,357.7 | $208.0 | $1,299.4 | $187.9 |
| LTD | $437.7 | $47.5 | $432.9 | $48.3 |
| STD | $158.3 | $27.4 | $156.2 | $24.9 |
| Life/AD&D | $400.6 | $59.5 | $383.6 | $55.3 |
| Voluntary/Supp | $361.1 | $73.6 | $326.7 | $59.4 |
| Unum UK | $126.8 | $25.2 | $140.8 | $23.0 |
| LTD | $83.8 | $11.5 | $95.5 | $14.6 |
| Life | $25.4 | $6.0 | $27.3 | $5.4 |
| Other | $17.6 | $7.7 | $18.0 | $3.0 |
| Colonial | $376.3 | $116.6 | $351.4 | $108.5 |
| Acc/Sick/Dis | $220.1 | $73.6 | $205.9 | $70.1 |
| Life | $75.0 | $24.9 | $67.7 | $21.7 |
| Cancer & CI | $81.2 | $18.1 | $77.8 | $16.7 |

## Notable Statements

### Unum U.S.

● Group disability had another outstanding quarter with before-tax operating income of $92.4 million, an increase of approximately 24% relative to last year. This growth in operating income was primarily driven by a strong improvement in the benefit ratio from 80% in the second quarter of 2016 to 76.5% this quarter.

● The benefit ratio includes a 50-basis point reduction in the discount rate for new claim incurrals that we implemented in the fourth quarter of 2016 and remains within the 76% to 79% range that we communicated to you at the December Investor Meeting.

● The favorable performance this quarter was primarily driven by lower incidence trends in the group LTD product line and lower prevalence rates in the group STD product line.

● The group Life/AD&D line produced a strong quarter with operating income of $60.9 million in the second quarter and increase of 7% over the year-ago quarter. Premium income increased 4.4% over the year-ago quarter and the benefit ratio improved to 70.6% in the quarter compared to 71.5% last year, primarily driven by lower average claim size.

● The supplemental and voluntary lines contributed $94.5 million to the earnings this quarter, a decline of 1.5% relative to last year. Premium income continues to grow at a healthy pace increasing 10.5% in the second quarter compared to last year.

● Sales in the Unum U.S. segment for the second quarter increased by 10.7% over last year with notable strength in the voluntary benefits large case segment and the group core market segment.

● For our group product lines, overall sales increased 4.6% over last year with our core market segment increasing by 5.7%, a nice improvement over recent quarters. The addition of the dental and vision product lines increased sales this quarter by $10.4 million and we're very pleased with the productivity being generated in this product line.

**Unum UK**

● Unum U.K. continues to operate in a challenging economic environment brought on by last year's Brexit vote. Second quarter before tax operating earnings reflected this challenge declining by 12.1% to £22.6 million compared to £25.7 million in the year ago quarter.

● Our premium income grew by 1% in the second quarter in local currency as favorable sales and renewal trends were largely offset by pressure on the in-force block. This trend is likely to continue as the U.K. works through the uncertainty surrounding Brexit.

● The Unum U.K. benefit ratio was 75.6% for the second quarter compared to 70.1% in the year ago quarter driven by higher inflation in the U.K. this quarter relative to last year.

● The benefit ratio was also impacted by the 80-basis point reduction to our discount rate for new claims, which we implemented in the first quarter and we expect this to continue to pressure year-over-year earnings growth for the second half of 2017.

●The underlying risk experience was unfavorable for the Group's long-term disability product line due to lower claim resolutions, while group life performance was favorable driven by a lower volume of new claims.

● The pressure on earnings we're experiencing in Unum U.K. is likely to continue for the second half of the year and repeating though that even with these growth challenges, the Unum U.K. segment continues to generate very good profit margins and an operating return on equity in the 15% to 16% range.

●Despite the economic headwinds, Unum U.K. sales for the second quarter were very strong increasing 24% relative to last year in local currency. This increase was primarily driven by its success in the dental and group critical illness product lines.

## Colonial

● Colonial had an excellent quarter with consistent and stable results. Operating income increased 5% to $81.8 million in the second quarter. Premium income growth continues to build momentum, increasing 7.1% for the quarter, driven by the strong sales trends we've seen over the past several years.

● Colonial Life's benefits experience remained generally in line with our recent trends as well as our expectations with a benefit ratio of 51.3% for the second quarter compared to 51.1% in the year ago quarter.

● Sales momentum for Colonial Life continues to be very strong, increasing 7.5% in the second quarter. Sales growth in the core commercial market segments was a big driver of this performance, increasing 13% in the second quarter, following growth of 13.2% in the first quarter.

## Analyst Questions

● Looking at the persistency in Unum U.S. It looks like you are down maybe 160 basis points first half of '17 versus first half of '16? Just wondering about the outlook, do you think persistency could stabilize or are you okay at these levels?

Response: Yes, persistency is down. If you recall we talked a little bit about the abnormally high persistency that we had the last couple of years actually, and so, where we find yourself today is actually well within what we would we see as historical norms.
That being said, we were encouraged to see a little bit of an improvement in 2Q over the first quarter of this year and probably most importantly we feel really good about the underwriting approach through the renewal process

So, to give you a sense of the business that we lost ran about nine points worse profitability perspective than the business that renewed through the cycle. So, we continue to feel good in a competitive market that customer see real value in the Unum proposition. I'd certainly say, we're in a range that we're comfortable with and probably if there's any trajectory it's slightly positive.

● If you can comment a little bit about the initial reception you're seeing in the market to your getting into the medical stop loss product line and what sort of the long-term potential you see in that market?

Response: We officially entered the medical stop was market as of 7/1, taking proposals for 1/18 effective dates. We are taking a slow entry into that market, but we do like it overall. It's about a $14 billion dollar industry. It has been growing at a low double-digit clip and importantly for us a lot of the same underlying fundamentals of our other lines; understanding the data that goes into actuarial pricing, translating that into disciplined case level underwriting and having a field force that understands the importance of balanced growth and profitability.

We feel like, we've got some capabilities to bring to bear in that market. Also, importantly it gives us insight into what employers are planning to do with their overall employee benefits program earlier in the cycle. So, we get a good look at what the employee base looks like from a health perspective as well as what we are planning to do with health plan design. Many, if we not most, of our products wrap around that health decisions. So, it's a good strategic insight at a case level. So, I don't expect we'll be talking about large impact to our P&L here in the next 12 to 24 months. In the long term, I think it's got the potential to be a nice business for us.

● Just wanted to talk a little bit about voluntary benefits. I was hoping you could talk about the penetration rates for voluntary both in terms of the adoption by employers as well as the number of employees who are electing voluntary benefits?

Response: We see both the adoption rates at the employer level and at the consumer level improving. The dynamics in the industry that create need, haven't changed, in fact, we're accelerating. So, more employers are moving to high deductible healthcare plans. We've shared statistics with you in the past. Roughly 40% of America's workers have adequate life insurance and disability insurance. So, there is huge opportunity there.
As employers are looking to continue to pass on cost to employees for benefits, they are increasingly looking at voluntary solutions. Our broker partners are increasingly looking to voluntary solutions as an opportunity to supplement their income as they've seen their income from health insurance backup. So, we're excited about the opportunities. We think that the penetration rates for both employer and consumer levels continue to increase.

● Can you quantify what the natural growth trends for premiums are in the U.S.?

Response: It's the continuation of what we've seen over the last several quarters, a little bit of job growth and a little bit of wage increase. Probably not as aggressive as we would like to see, but in that 1% to 1.5% tailwind to us in our traditional group insurance businesses.

## Aetna

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

| Line of Business | 2Q17 Profit ($000,000) | 2Q16 Profit ($000,000) |
|---|---|---|
| Group Insurance (Life, Disability, LTC) | $57.0 | $74.0 |

**EP**

| Line of Business | 2Q17 Earned Premium ($000,000) | 2Q16 Earned Premium ($000,000) |
|---|---|---|
| Group Life | $294 | $291 |
| Group Disability | $234 | $240.3 |

### Notable Statements

● Group benefit ratio of 86.5% versus 83.8% a year ago

● Income before income taxes and pre-tax adjusted earnings decreased primarily due to lower underwriting margins in our life products

### Analyst Questions

● If you can give us an update on how the Group insurance underwriting trends performed in the quarter and how you're thinking about updated earnings for that segment for the year relative to your prior view.

Response: So relative to the Group insurance trends, we're in line with our overall expectations relative to long-term disability. We have seen lower terminations, lower reopens, although I would tell you our Life business has been volatile and remain volatile. I would say that what we said last quarter in guiding you down on a year-over-year basis as a result of a large loss in one customer is still in line, so we expect those results to be in line with what we've already previously told you.

## Principal Financial Group

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

| Line of Business | 2Q17 Profit ($000,000) | 2Q16 Profit ($000,000) | 2Q17 Loss Ratio | 2Q16 Loss Ratio |
|---|---|---|---|---|
| Specialty Benefits | $63.6 | $66.5 | 63.7% | 61.7% |
| Group Disability | --- | --- | 65.3% | 60.0% |
| Group Life | --- | --- | 66.7% | 59.1% |

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

| Line of Business | 2Q17EP ($000,000) | 2Q17 Sales ($000,000) | 2Q16 EP ($000,000) | 2Q16 Sales ($000,000) |
|---|---|---|---|---|
| Disability | $116.0 | $13.8 | $105.8 | $13.6 |
| Life | $102.7 | $10.4 | $100.6 | $10.6 |

### Analyst Questions

●Premium was up nicely across products in Specialty Benefit. Can you talk about that a little bit? Is it pricing power, maybe taking advantage of some of the disruption in the market or is it simply that the US economy is doing better?

Response: You're right, premiums were good. When we look at 8% premium growth rate I'd say that's within our expectations. We've been seeing that for the last few years. And I do think we're benefiting from some pricing power. When we're in a small market with the type of reputation we have consistently in there with good business processes, good products, good practices we're seeing an ability to get off a spreadsheet and be a preferred provider and we like that. I think one factor though, you mentioned larger trends. I do think one factor going on in that premium growth is employment growth. So when I look at our business on a trailing 12-month basis, we're seeing employment growth of about 1.4% on our group product and as we look back over the arc of the last ten years that's near a high for us. So that 1.4% is clearly helpful in driving our in-force premium. And it's indicative of employment growth going on particularly in the small market. So again with our over indexing in the small market that's a really helpful trend for us.

## Cigna

**Profit** (Income from continuing operations, pre-tax, post realized investment gains/losses):

| Line of Business | 2Q17 Profit ($000,000) | 2Q16 Profit ($000,000) |
|---|---|---|
| Group Disability & Life | $143 | $6 |

**EP**

| Line of Business | 2Q17 EP ($000,000) | 2Q16 EP ($000,000) |
|---|---|---|
| Disability | $491 | $477 |
| Life | $441 | $442 |

### Notable Statements

● Group Disability and Life business delivered strong results, specifically in disability, where our clinical resources and productivity model continues to generate improved return-to-work results, which benefit our customers and our employer clients.

● For Group Disability and Life, second quarter premiums and fees were just over $1 billion. Second quarter earnings in our group business were $83 million, with our life business performing as expected and disability results continuing to reflect a better than expected pace of improvement from the claims process modifications implemented last year.

● Regarding the Group Disability and Life business, we now expect full year 2017 earnings in the range of $260 million to $280 million, an increase of $20 million to $30 million over previous expectations, reflecting continued operational improvements in our disability business.

## MetLife

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

| Line of Business | 2Q17 Profit ($000,000) | 2Q16 Profit ($000,000) | 2Q17 Loss Ratio | 2Q16 Loss Ratio |
|---|---|---|---|---|
| Group Benefits | $312 | $288 | --- | --- |
| Group Life | --- | --- | 87.3% | 85.5% |

**EP**

| Line of Business | 2Q17 EP ($000,000) | 2Q16 EP ($000,000) |
|---|---|---|
| Group Non-Medical Health | $1,664 | $1,676 |
| Group Life | $1,663 | $1,586 |

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

● Group Benefits sales were up 30% year-to-date with growth across all products. We continue to see particular strength in the jumbo market due to more quote activity and higher closing ratios, while persistency continued to be favorable.

## Analyst Questions

● A question about the competitive environment in group. We've seen at least four to five carriers that all have very favorable risk results. Is this as good as it's going to get and is this the point where competitive pressures lead to some carriers starting cutting pricing?

Response: Yes, the environment is competitive in life and disability and it's aggressive on the dental font. We remain disciplined in terms of our approach. And as you can see from our sales in the first half of the year, we have good growth across all segments.

## Hartford

**Profit** (Pre-tax and investment gains/losses)

| Line of Business | 2Q17 ($000,000) | 2Q16 ($000,000) |
|---|---|---|
| Group Benefits (Disability, Life, Other) | $96 | $75 |

**EP/Sales**

| Line of Business | 2Q17 EP ($000,000) | 2Q17 Sales ($000,000) | 2Q16 EP ($000,000) | 2Q16 Sales $(000,000) |
|---|---|---|---|---|
| Group Disability | $360 | $32 | $363 | $45 |
| Group Life | $391 | $33 | $376 | $31 |

### Notable Statements

● Group Disability loss ratio of 78.9% versus 79.9% a year earlier. Group Life loss ratio of 74.2% versus 78.1% a year earlier.

● The increase in earnings in Group Benefits reflects improved group life mortality and better disability experience with strong persistency supporting top line growth.

● The voluntary business while still small is building momentum with our new hospital indemnity product now approved and quoting in 44 states. We're focused on growing this business and are investing in new and enhanced capabilities to increase penetration with agents and brokers who specialize in this market.

## Lincoln Financial

**Profit** (Post-tax)

| Line of Business | 2Q17 Profit ($000,000) | 2Q16 Profit ($000,000) | 2Q17 Loss Ratio | 2Q16 Loss Ratio |
|---|---|---|---|---|
| Group Protection | $35 | $15 | 66.1% | 72.5% |
| Group Disability | $20 | $7 | 65.4% | 74.8% |
| Group Life | $15 | $8 | 66.1% | 70.4% |

**EP/Sales**

| Line of Business | 2Q17 EP ($000,000) | 2Q17 Sales ($000,000) | 2Q16 EP ($000,000) | 2Q16 Sales ($000,000) |
|---|---|---|---|---|
| Group Protection | $494 | $88 | $478 | $71 |
| Group Disability | $226 | $32 | $220 | $30 |
| Group Life | $206 | $28 | $201 | $25 |

### Notable Statements

● In Group Protection, earnings increased significantly over the prior year period as loss ratios were favorable. After seeing year-over-year premium growth for the first time in nearly three years last quarter, premiums grew 3% in the second quarter. During the quarter, sales increased 24%, driven by growth in all product lines. Year-to-date, sales have increased 12% and block persistency is up about 4 percentage points compared to the prior year.

● The non-medical loss ratio was 66.1% in the quarter, a 640 basis point improvement compared to the prior year as loss ratios were favorable across all product lines. While we wouldn't regularly expect loss ratios to be this strong, this quarter's result clearly speaks to successfully repricing our book of business and continued underwriting discipline on renewals and the new business.

● DAC amortization returned to more normal levels in the quarter as expected. The re-emergence of premium growth is also aiding our group business with premiums up 3% from the prior year quarter and leading indicators such as sales and persistency, trending in a positive direction. Bottom line, it was a very strong quarter for the group with a reported margin of 7%. We remain confident that annual margin improvement will continue working towards consistently achieving a 5% to 7% margin

**Sun**

**Profit** (Pre-tax):

| Line of Business | 2Q17 Profit ($000,000) | 2Q16 Profit ($000,000) |
|---|---|---|
| Group Benefits (U.S.)* | $23 | $23 |

**EP/Sales**

| Line of Business | 2Q17 EP ($000,000) | 2Q17 Sales ($000,000) | 2Q16 EP ($000,000) | 2Q16 Sales ($000,000) |
|---|---|---|---|---|
| Group Benefits (U.S.) | $880 | $123 | $908 | $121 |
| Employee Benefits Group | --- | $64 | --- | $66 |
| Medical Stop Loss | --- | $59 | --- | $55 |

Group Benefits includes group life, disability, dental, vision, DRMS business as well as medical stop loss. Effective 1/1/17, sales and business inforce categories have changed to employee benefits group (life, disability, dental, vision, DRMS) and medical stop loss. As of 6/30/17, employee benefits group represents 67% of total group benefits premium and medical stop loss the remaining 33%.

## SUMMARY

| Company | Earnings | Sales | EP |
|---|---|---|---|
| **Prudential** | **Group Insurance: $136M(↑56.2% )** | **Dis: $14M(↓33.3% )<br>Life: $56M(↑133.3%)** | **Dis: $209M(↑6.6%)<br>Life: $981M (↓1.7%)** |
| **Unum** | **LTD/STD: $92.4(↑24.2%)<br>Life/AD&D: $60.9M(↑7.0%)<br>Unum UK: $28.9M(↓21.7%)<br>Colonial: $81.8M (↑5% )** | **Unum U.S<br>LTD:$47.5M(↓1.7%)<br>STD: $27.4M(↑10%)<br>Life/AD&D: $59.5M(↑7.6%)<br>Vol/Supp: $73.6M(↑23.9%)<br>Unum UK<br>LTD: $11.5M(↓21.2%)<br>Life: $6.0M(↑11.1%)<br>Colonial<br>Acc/Dis: $73.6M(↑5%)<br>Life: $24.9M(↑14.7%)<br>Can/CI: $18.1M(↑8.4%)** | **Unum U.S.<br>LTD: $437.7M (↑1.1%)<br>STD: $158.3M (↑1.3%)<br>Life/AD&D: $400.6M (↑1.8%)<br>Vol: $361.1M(↑10.5%)<br>Unum UK<br>LTD: $83.8M(↓12.3%)<br>Life: $25.4M(↓7%)<br>Colonial<br>Acc/Dis: $220.1M (↑6.9%)<br>Life: $75M(↑10.8%)<br>Can/CI: $81.2M(↑4.4%)** |
| **Aetna** | **Group: $57M (↓23%)** | **Group:N/A** | **Group Life: $294M (↑1%)<br>Group Dis: $234M (↓2.6%)** |
| **Principal** | **Specialty Benefits: $63.6(↓4.4%)** | **Dis: $13.8M(↑1.5%)<br>Life: $10.4M(↓1.9%)** | **Dis: $116M(↑9.6%)<br>Life: $102.7M(↑2.1%)** |
| **Cigna** | **Group Dis & Life: $143M(+$6M year ago)** | **N/A** | **Dis: $491M(↑2.9%)<br>Life: $441M (flat)** |
| **Met** | **Group: $312M (↑8.3%)** | **Not reported by line of business** | **Group Non Medical: $1,664M(flat)<br>Life: $1,663M(↑4.9%)** |
| **Hartford** | **Group: $96M (↑28%)** | **Dis: $32M(↓28.9%)<br>Life: $33M(↑6.5%)** | **Dis: $360M(flat)<br>Life: $391M(↑4%)** |
| **Lincoln** | **Dis: $20M(↑186%)<br>Life: $15M (↑88%)** | **Dis: $32M(↑6.7%)<br>Life: $28M(↑12%)** | **Dis: $226M(↑2.7%)<br>Life: $206M(↑2.5%)** |
| **Sun** | **Group Benefits: $23M(flat)** | **U.S. Employee Benefits Group: $64M (↓3%)** | **Group Benefits: $880M(↓3.1%)** |