CONTENTS

CALL PARTICIPANTS 2
PRESENTATION 3
QUESTION AND ANSWER 9

The Hartford Financial Services Group, Inc. NYSE:HIG

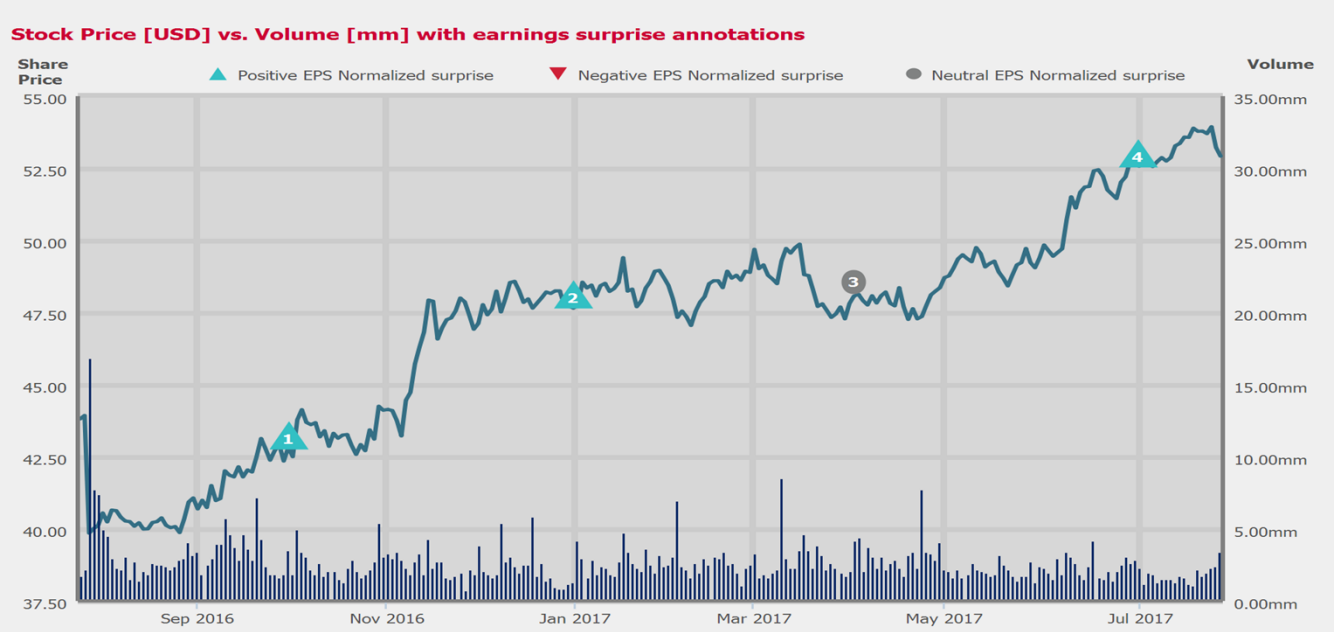
FQ3 2017 Earnings Call Transcripts

Monday, October 23, 2017 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.57	0.60	5.26	1.18	3.80	4.64
Revenue (mm)	4680.50	4684.00	0.07	4659.00	17948.95	17787.50

Currency: USD
Consensus as of Oct-23-2017 1:37 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	0.95	1.06	1 11.58 %
FQ4 2016	0.93	1.08	2 16.13 %
FQ1 2017	1.00	1.00	3 0.00 %

COPYRIGHT © 2017, S&P CAPITAL IQ, A PART OF MCGRAW HILL FINANCIAL.

FQ2 2017	0.94	1.04	▲10.64 %

Call Participants

EXECUTIVES

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Christopher John Swift
Chairman & CEO

Douglas G. Elliot
President

Sabra R. Purtill
Treasurer, Senior VP & Head of Investor Relations

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Ian Gutterman
Balyasny Asset Management L.P.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Jay Adam Cohen
BofA Merrill Lynch, Research Division

John Andrew Heagerty
Atlantic Equities LLP, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Kai Pan
Morgan Stanley, Research Division

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Randolph Binner
FBR Capital Markets & Co., Research Division

Ryan James Tunis
Crédit Suisse AG, Research Division

Thomas George Gallagher
Evercore ISI, Research Division

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Presentation

Operator

Good morning. My name is Emily, and I will be your conference operator today. At this time, I would like to welcome everyone to The Hartford conference call regarding this morning's announcement of its acquisition and third quarter 2017 financial results. [Operator Instructions] Thank you.

Sabra Purtill, Head of Investor Relations, you may begin your conference.

Sabra R. Purtill
Treasurer, Senior VP & Head of Investor Relations

Thank you. Good morning, and thank you all for joining us today. Today's webcast will discuss our agreement announced this morning to acquire Aetna's U.S. Group Life and Disability business. In addition, we announced third quarter financial results this morning.

We thought that combining these 2 announcements would benefit investors by providing you all with the most comprehensive update on The Hartford, including the expected future financial and strategic benefits of the acquisition; our full third quarter financial results, including catastrophe results; revisions to our subsidiary dividend and capital management plans; and an update on other market, competitive and financial trends that are important considerations for your investment in The Hartford.

Please note that there are 2 separate press releases, which we issued early this morning: one for the acquisition released jointly with Aetna; and one for financial results. In addition, there is one 8-K for the acquisition and one for earnings, including the investor financial supplement and our declaration of a 9% increase in our quarterly dividend rate. Please note that we will file our third quarter 10-Q on Thursday afternoon, consistent with our normal schedule.

Finally, there are also 2 slide decks: one summarizing the acquisition; and one for financial results. We will not be using the slide decks for this webcast, but we may refer to them in Q&A in order to bring certain items or numbers to your attention.

Our speakers today include Chris Swift, Chairman and CEO of The Hartford; Doug Elliot, President; and Beth Bombara, CFO. Following their prepared remarks, we will provide ample time for Q&A for both the acquisition and financial results.

Just a few comments before Chris begins. Today's call includes forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and actual results could be materially different. We do not assume any obligation to update information or forward-looking statements provided on this call.

Investors should also consider the risks and uncertainties that could cause actual results to differ from these statements. A detailed description of those risks and uncertainties can be found in our SEC filings, which are available on our website.

Our commentary today includes non-GAAP financial measures. Explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings as well as in the news release and financial supplement, which are also available on our website.

Finally, please note that no portion of this conference call may be reproduced or rebroadcast in any form without The Hartford's prior written consent. Replays of this webcast and an official transcript will be available on The Hartford's website for at least 1 year.

I'll now turn the call over to Chris.

Christopher John Swift
Chairman & CEO

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Thank you, Sabra. We appreciate everyone joining us this Monday morning. I'm very excited about today's announcement of our acquisition of Aetna's group benefits business. Group Benefits is a core underwriting business for us, with a stable risk profile, strong returns and good growth opportunities. Combined, we will have about $5 billion in annual premium, making us one of the top 2 companies in the market. We are pleased about the opportunity to deploy capital in a business that we know well and can efficiently integrate and grow. We thoroughly understand the fundamentals of this business, the customer expectations and distribution channel dynamics. Together, the strategic and financial benefits of this acquisition will create long-term shareholder value and strengthen our leadership in Group Benefits and P&C.

The combination of these businesses is compelling. Combining our 2 organizations, which together insure about 20 million individuals, is a unique opportunity to accelerate The Hartford's strategic objectives for Group Benefits, namely growing our voluntary product premium base and increasing our presence in the Middle Market segment. This deal positions us to achieve these goals.

It also achieves our customer digital enablement objectives and provides a superior claims leave management platform that we will be able to leverage to achieve better claim outcomes. Additionally, we will be able to leverage our data and analytical capabilities across our workers' compensation and group disability claims, which will enhance our competitive advantages and cross-product capabilities.

Financially, it is accretive to core earnings and, in 2018, is accretive by more than $100 million before amortization of intangibles. The acquisition also provides a long-term return on investment in the double-digit range.

Once we have completed the integration and achieved expense savings, we expect to generate incremental core earnings, before amortization of intangibles, of approximately $150 million annually by year 3 on a run rate basis. Beth will provide a deeper review of the financials, but I would highlight that we do anticipate meaningful expense savings. In total, we anticipate $100 million run rate savings that will build over 3 years. That estimate is focused on the integration of the 2 operations in the near term and not what we aspire to achieve longer term as we leverage the power of technology, digital capabilities and data and analytics.

I would also note that the book is profitable today. It does not require fixing or underwriting initiatives. As a result, it will contribute to our bottom line in the first full year.

It's also important to note that the financial assumptions around this transaction have been prudently established and are realistic to achieve. In addition, we expect tax benefits from the transaction of about $325 million on a net present value basis.

Finally, I am confident in the -- that the integration will go smoothly and efficiently, both from a people perspective and developing the future operating model as well as with our relationships with distributors, employers and individual customers. The Hartford and Aetna have complementary cultures providing high-quality products and excellent customer service to distributors and policyholders alike.

Turning to the quarter, let me provide you with a brief overview of our third quarter results, which Doug and Beth will cover in more detail. The significant level of losses related to Hurricanes Harvey and Irma, which were consistent with the range we preannounced, were the primary driver of our decline in core earnings. Our thoughts and prayers are with all those impacted by these storms as well as by the recent California wildfires. The Hartford's employees have worked tirelessly to help our customers recover from the devastation caused by these events. We're about restoring lives when customers have had their worst possible day. And I'm proud, but not surprised, at the phenomenal job our claim team has done.

Aside from the CAT losses, this quarter results were strong, and, at each segment, were either in line or better than our outlook. Underlying Commercial Lines' results were consistent with our expectations, with some pressure on margins from the competitive environment and loss cost trends.

Personal Lines' underlying results continue to improve, reflecting our multiple profitability initiatives for personal auto. We expect continued Personal Lines' improvement in 2018.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Group Benefits' results have been exceptionally good this year, continuing an overall trend of growth and margin improvements.

In addition, Mutual Funds has been delivering strong sales, good investment performance and overall positive net flows.

Finally, continued strong limited partnership returns have supported net investment income across all segments.

In summary, I'm very excited about today's acquisition announcement and the future potential in Group Benefits, and I'm equally pleased with our underlying financial results, both this quarter and for the year. Aside from catastrophe losses, our 2017 results will show a solid improvement from 2016.

Looking forward, we are optimistic about continued growth and profitability in 2018 through additional progress in Personal Lines, the financial and strategic benefits of the acquisition of Group Benefits and the potential for an improved rate environment in Commercial Lines, particularly in property, as the industry comes to terms with pricing, risk selection and catastrophe exposures.

Now I'll turn the call over to Doug.

Douglas G. Elliot
President

Thank you, Chris, and good morning, everyone. Before I provide an overview of our third quarter results, I'd also like to comment on our acquisition of Aetna's Group Life and Disability business.

We are very excited about the potential of our complementary organizations. I've been impressed with the Aetna leaders we've met and the products, services and technology they have developed. This is an opportunity to create a more distinctive value proposition for our customers and distribution partners, and I look forward to working with our new combined team.

Turning back to third quarter performance. Of course, the most significant driver of our overall results was catastrophe losses of $352 million, primarily from Harvey and Irma. These storms, along with Maria, Nate and the California wildfires, have had devastating consequences for thousands of Americans. Our thoughts and prayers are with all of them.

For our claims team, it has been 8 weeks of nonstop action across the country in response to these disasters. Almost a year ago, many of you joined us at our Investor Day, where we highlighted our claim capabilities, including our mobile response unit. The performance of our team has been outstanding, moving as rapidly as circumstances on the ground will allow to meet with customers and help them begin the journey of rebuilding their homes, businesses and lives.

Neither Harvey nor Irma resulted in losses that exceeded our property CAT retention. We are pleased with the risk aggregation procedures and desk underwriting execution of our team in effectively managing our exposure to events such as Harvey, Irma and Maria. There is always room for refinement, and I'm sure we'll do some of that, but overall, I'm pleased with our performance.

Let me get into the details of our third quarter earnings, where we are very pleased with our underlying results across Property & Casualty and Group Benefits.

The Commercial Lines' combined ratio was 108.6, deteriorating 14.7 points versus prior year, primarily due to higher catastrophe losses. The underlying combined ratio was 93.2, deteriorating 3.2 points versus prior year, largely driven by increased expenses, primarily higher variable compensation and technology costs. There was also a modest margin compression in workers' compensation and general liability as market conditions continued to be competitive.

Small Commercial continued its strong performance with an underlying combined ratio of 89.2. Written premium was up 4.5% as retention remained very solid. New business of $140 million was down slightly from prior year. Over the last 4 quarters, our Small Commercial business has generated $586 million in new business, including Maxum, demonstrating the strength of our capabilities in a competitive market.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

In Middle Market, the underlying combined ratio was 97, deteriorating 3.9 points from 2016, primarily due to higher expenses and slight margin compression. Written premium decreased 1%. Solid retention, slightly positive renewal written pricing and new business production of $112 million, up from a year ago, was offset by lower auto premiums and other onetime premium adjustments. The market continues to be very competitive, and we're balancing growth aspirations with the need to maintain adequate pricing and sound underwriting quality standards.

Moving to Specialty Commercial, the underlying combined ratio of 98.6 deteriorated 4.9 points, mainly due to higher expenses and a slightly higher auto liability loss ratio, as we have reported throughout 2017. Financial Products and Bond continued to contribute to the strong results in Specialty.

In Personal Lines, the third quarter combined ratio was 104, deteriorating 3.8 points from a year ago. Catastrophe losses were up 5.1 points, offset by improvement in the underlying loss ratio. The underlying combined ratio of 94.9 improved 1.2 points.

In auto, after adjusting third quarter 2016 for net development affecting the quarter, the 2017 auto loss ratio has improved approximately 2.5 points. Our progress remains in line with our expectations. The year-to-date auto combined ratio was 101.5, including 2.8 points of catastrophes. The full year auto combined ratio outlook of 101 to 103, which we provided at the start of 2017, included approximately 1 point for catastrophes. We expect to be above this range for the full year due to higher CAT losses. However, we remain on track to achieve 2 to 3 points of improvement in the underlying auto loss ratio for the full year.

Personal Lines' written premium for third quarter 2017 was down 8%, largely driven by profit improvement initiatives and agency. Within the AARP Direct channel, written premium was down 3.5%. With improved rate adequacy, our increased marketing efforts are in full motion, and we expect to see positive year-over-year new business growth in early 2018.

Turning to Group Benefits, we posted another excellent quarter with core earnings of $66 million and a core earnings margin of 7.2%. Loss trends in 2017 continue to run better than expected, with improved group life results and favorable incidence and recovery trends in group disability. Our execution in underwriting, pricing and claims management as well as favorable market trends relative to historical experience are contributing 4.4 points of total loss ratio improvement for the quarter.

On the top line, fully insured ongoing premiums for the third quarter increased 1%. Overall book persistency on our employer group block of business remains strong at approximately 90%. And fully insured ongoing sales were $68 million, up $7 million versus prior year. Group Benefits is on a very solid track and, with today's acquisition announcement, has an exciting future ahead. I look forward to updating you on this journey over the months to come.

In summary, our Property & Casualty and Group Benefit businesses delivered excellent underlying results for third quarter 2017. I'm extremely pleased with the consistent execution of our entire team and the performance of our businesses. We will continue to maintain our disciplined and balanced approach to deliver profitable growth, and we're especially proud of our colleagues on the frontline, who are responding to the needs of our customers faced with rebuilding their lives in the aftermath of catastrophic storms and wildfires.

Let me now turn the call over to Beth.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Thank you, Doug. I'm going to briefly cover third quarter results from the other segments and some of the key financial impacts of the acquisition of Aetna's Group Life and Disability business before taking your questions.

Turning to Mutual Funds. Strong net flows and market appreciation as well as the addition of the Schroders funds drove total segment AUM up 18% to $111.7 billion and core earnings up 24% to $26 million. We continue to benefit from strong investment performance, with 79% of our funds beating their

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

peers on a 5-year basis. Sales remain robust, helping generate net inflow of $3.4 billion in 2017 through September 30.

Talcott's performance was in line with our outlook with core earnings of $83 million, down from $104 million in the third quarter of 2016 due to lower but still quite strong limited partnership income. Over the past 4 quarters, VA contract counts decreased 9% and fixed annuity contracts decreased 7%. Total statutory surplus was $4.1 billion at quarter-end, reflecting the impact of the $300 million in dividends paid in September.

The investment portfolio continues to perform well, with generally stable portfolio yields, strong LP returns and modest impairments. Total LP investment income was $71 million before tax for an annualized yield of 12% compared with $93 million or 15% in the third quarter of 2016. Excluding LPs, the total before tax annualized portfolio yield was 4% this quarter, down slightly from the third quarter of 2016.

For the P&C portfolio, the annualized yield, excluding LPs, was 3.7%, also down slightly from the third quarter of 2016.

To summarize, third quarter 2017 core earnings were $222 million or $0.60 per diluted share, down from third quarter 2016 due to the high level of catastrophe losses from Hurricanes Harvey and Irma.

Our core earnings ROE for the past 12 months was 8.2%, up 0.6 points from a year ago, and our core earnings ROE, excluding Talcott, was 9.7%. Group Benefits' core earnings ROE was 12.1%, while P&C core earnings ROE was 10.7%, a good result in light of elevated catastrophe losses.

Through the third quarter, we have reported $657 million of current accident year catastrophes. As we head into the fourth quarter, I would note that in addition to our per occurrence property CAT treaty, we have a property catastrophe aggregate treaty that provides coverage of up to $200 million above the attachment point of $850 million of aggregate CAT losses.

Turning to shareholders' equity. Book value per diluted share was $47.33, down 2% from a year ago, largely due to a reduction in AOCI. Excluding AOCI, book value per diluted share was $45.72, essentially the same as September 30, 2016. The year-over-year comparison on an ex AOCI basis was impacted by the fourth quarter 2016 charge related to our agreement to reinsure our A&E exposures, higher catastrophe losses and the second quarter 2017 charge related to the settlement of a portion of our pension obligation.

During the third quarter, we repurchased $325 million of stock. And through October 12, we repurchased an additional 900,000 shares for $52 million.

Before taking questions, I wanted to provide an overview of the financial and capital impact of the purchase of Aetna's Group Life and Disability business. We are paying $1.45 billion cash consideration, which is principally comprised of a ceding commission, in exchange for reinsuring to Hartford Life and Accident, our Group Benefits insurance subsidiary. The acquired business has approximately $2 billion of group disability and life premium, along with GAAP reserves of approximately $3.3 billion and invested assets with a fair value of approximately $3.4 billion. The purchase price is tax-deductible over time. And together with the impact the transaction will have on the timing of the utilization of our current tax attributes, we estimate the federal tax benefit to be approximately $325 million on a present value basis.

The cash consideration will be funded through existing capital resources, including increased P&C and Talcott dividends in the fourth quarter. The purchase price does not include statutory capital to support the business, which will be provided by existing resources within Hartford Life and Accident as well as a $200 million capital contribution from the holding company.

As a result of the transaction, the estimated company action level risk-based capital at Hartford Life and Accident will decrease to about 330% at year-end 2017, and we expect it to increase in 2018 to about 380% due to forecasted statutory net income. In addition, we do not expect dividends from Hartford Life and Accident through 2018.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

We will not issue debt or equity to fund the cash consideration for the deal, and there is no financing contingency. We will fund the cash consideration and $200 million capital contribution from existing corporate resources, including dividends of $600 million from P&C, dividends of $800 million from Talcott and $250 million of existing holding company resources. Both the P&C and Talcott dividends are extraordinary and required regulatory approval, which we received last week.

Additionally, we have discontinued equity repurchases under our current program, which has $273 million left under the authorization. Given the additional dividends from P&C and Talcott this year to fund the transaction, 2018 subsidiary dividends will be significantly below prior years, and we do not currently expect to authorize a 2018 repurchase plan. However, based on the growing profitability of our P&C, Group Benefits and Mutual Funds businesses, we have declared an increase in our quarterly dividend to $0.25 per share. This is the fifth consecutive year we have increased our quarterly dividend.

As previously communicated, we also plan to call our $500 million junior subordinated bond when it becomes redeemable at par in June 2018.

As the acquisition is expected to close in early November, and based on our current outlook for persistency and earnings margins of the Aetna business, we expect the transaction to be accretive to net income and core earnings beginning in 2018. Net income accretion is estimated at $60 million to $80 million, including the impact of about $15 million after-tax of restructuring and integration costs not included in core earnings.

Over the integration period, we expect restructuring and integration costs to total $50 million after-tax. By the completion of the integration, we expect to decrease annual run rate operating expenses by about $100 million before tax, $60 million of which we expect to achieve in 2018.

We expect core earnings accretion to be in a range of $80 million to $100 million in 2018. This includes the expense savings as well as about $20 million to $30 million after-tax of amortization of intangibles.

From a balance sheet perspective, about half of the purchase price assigned to intangibles is classified as value of business acquired, which will be amortized through earnings over approximately 15 years. The remainder is classified as goodwill and does not amortize. As a result, there is no impact to book value per share, but a reduction in tangible book value per share of about 8% on a pro forma basis as of September 30.

To conclude, aside from the impact of catastrophes, this quarter's results were consistent with our expectations for 2017, and demonstrate continued growth and strong margins in Group Benefits and Mutual Funds and ongoing improvement in Personal Lines' profitability as well as industry-leading Commercial Lines' performance. As Chris and Doug reviewed, we are excited about the opportunity to acquire Aetna's Group Life and Disability business, and are focused on a smooth and timely integration of the 2 companies' operations.

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

Sabra R. Purtill
Treasurer, Senior VP & Head of Investor Relations

Thank you, Beth. Before beginning Q&A, I would like to remind you that since this call is public, it would be helpful to everyone listening live or reading the transcript if we are able to address as many of your material questions as possible, as we do not expect to have any public investor conferences or webcasts until early December at the Goldman Sachs conference.

After this call, the investor relations team would be happy to explain any financial disclosures or technical tax or accounting questions that can be addressed with the information provided in our news release, IFS or slide deck. We appreciate your consideration of this request.
Emily, could you please repeat the Q&A instructions? Operator?

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions here. Just first question, aside from, obviously, the reduction in statutory surplus you'll have at the Talcott entities, does this transaction with Aetna have any impact or implications on your ability to ultimately dispose of that?

Christopher John Swift
Chairman & CEO

Brian, it's Chris. I didn't hear the last part. Dispose of?

Brian Robert Meredith
UBS Investment Bank, Research Division

Of the remaining kind of the variable annuity and the fixed annuity institutional block in your run-off business, any implications that it will have?

Christopher John Swift
Chairman & CEO

None.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. That's what I figured. Second question is could you talk a little bit more about what happened with the underlying kind of combined ratio in Commercial, particularly the expense side? Are these one-off type costs with the technology and variable comp? Or is this something we should kind of expect here going forward?

Douglas G. Elliot
President

Brian, this is Doug. There were some one-offs in the quarter that were important. So 2/3 of that change, roughly, in the quarter related to expense. We had a little bit of amortization, depreciation of IT and then, also, we did some true-up of our variable comp plans. And I would note that there was a little bit of a swing in the quarter because last year, during third quarter, the adjustments went the other way. So this year, when we bumped up the accruals, we had a bit of a swing, and I would look toward the year-to-date to get a more normalized view. Relative to the loss margin compression, just a bit across our market in comp and GL, but nothing that I'm concerned with, and I think it's more the normal that we've been talking to the last couple of quarters.

Operator

Our next question comes from the line of Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question, could you discuss the strategic direction for the company? Because since the financial crisis, you've been downsizing your life business to focus on P&C. And now, you almost double your group life business. I just wonder, what do you think about the pro and the cons as a multi-line carrier versus a pure-play P&C carrier in the current marketplace?

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Christopher John Swift
Chairman & CEO

Kai, it's Chris. I'd recharacterize your statement a little bit. It's life and disability, in which we'd say disability is very similar to our P&C business. We see the linkage in alignment, particularly on adjudicating claims in comp and long-term disability, very similar. So I don't think we're trying to recreate a multi-line. We're focused on our 3 businesses, as we've said, since our restructuring, P&C Commercial, P&C Personal Lines, Group Benefits and Mutual Funds. So -- and we're going to continue to try to grow all 3. Our historic focus has been on organic growth, building capabilities, adding product lines. This is the first opportunity we had that made financial and strategic sense to acquire a business that we considered core all along.

Kai Pan
Morgan Stanley, Research Division

Okay. So my second question on pricing, and one of your competitor last week pushing for sort of a more cross-based, like, pricing increase. What's sort of your pricing outlook? How do you position yourselves?

Douglas G. Elliot
President

Kai, this is Doug. Let me address different parts of that question. I'll end up with property, which is on everybody's mind. Obviously, you know we've been working the auto pricing component hard these last several years, not just in Personal Lines, but also in Commercial. That work will continue, as evidenced by some of the disclosures we made in the supplement. Also, I've mentioned in prior calls that we have turned our attention up quite a bit in the general liability space. We've been concerned with a couple of trends inside particular sectors of our Middle Market and Small Commercial book, and have been addressing those with pricing the last couple of quarters. But there's no question the last 60 days of catastrophic events, flood, winds, wildfire, et cetera, make us go back and think about all of our property pricing. We've been working on our by-peril and geographic pricing elements the last 2 to 3 years, feel good about that progress. But obviously, the severity and the frequency of what we've seen in the last 60 days makes us go back and think even harder about property, and I expect our property prices will go up in the ensuing months.

Operator

Our next question comes from the line of Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I wanted to talk a little about where you are in terms of goals and margins on the group block you guys currently have, and where would you think that you would get to a targeted sort of steady-state on the new combined businesses.

Christopher John Swift
Chairman & CEO

Yes. Josh, thank you. I would share with you, as we said in our prepared remarks, we're most pleased with our book of benefits and how it's performed on a year-to-date basis. And the margins have been healthy. We've always talked about 5.5% to 6% as sort of a normalized range. I don't see any update to that right now for our book. So when we combine it with Aetna, it will probably take a good 24 to 34 months to get to that 5.5% to 6% on a combined basis. But we're focused on integration, focused on the appropriate structure. But I have no reason not to believe that 5.5% to 6% on a combined basis should be the target for the entire portfolio.

Joshua David Shanker
Deutsche Bank AG, Research Division

And do you expect the group disability market to look notably different in 5 or 10 years in terms of consolidation following this transaction? Or in general, do you have a long-term view on the shape of it?

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Christopher John Swift
Chairman & CEO

Yes. I'd say, first, from, I'll call it, the product set and the needs, we're very bullish on it, right. We continue to believe benefits, including our voluntary and additional A&H capabilities, will have a place in the marketplace. We see long-term, steady, stable economic conditions, employment, so I don't see any shocks on the horizon. So it's hard to say what happens from a consolidation side, and I would say that the industry is already fairly tight around the top 10, probably controlling 10% or 80% of the premium. So I don't see any per se radical consolidation. But our aim, obviously, with this transaction is to be one of the top industry players that will continue to improve our offerings, our skill sets, our digital capabilities and really build a best-in-class platform to serve the benefits marketplace.

Operator

Our next question comes from the line of Ryan Tunis from Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

I was just hoping maybe you guys could give us some idea of what the earnings are of -- from the Aetna transaction like in a baseline year, sort of if we're just thinking about what the company's earning in -- or what that unit's earning in 2017 without thinking about any of the cost saves.

Christopher John Swift
Chairman & CEO

Ryan, obviously, we don't have Aetna's forecasted 2017 earnings for the division. I think what we are trying to do to help you is we tried to provide a core earnings number with and without amortization of intangibles in '18. And I tried to lead you to think that 3 years henceforth, on a run rate basis, we're about $150 million of after-tax earnings, ex intangible amortization. So those are the points I would triangulate for your model.

Ryan James Tunis
Crédit Suisse AG, Research Division

Got you. And I guess, for those cost saves, is there going to be reinvestment of any of that? Or are you thinking about, I guess, all of that flowing to the bottom line in getting to the $150 million?

Christopher John Swift
Chairman & CEO

Well, I think most of it. We think for the bottom line, I think one of the real features that we're, Doug and I and Mike Concannon, who's with us here, our business leader, is they really do have some good digital capabilities, particularly embedded in their claims system and their recovery management capabilities. So that is actually a big cost avoidance for us to spend upwards of $100-plus million to build a more modern claim platform for this business. So that's a great benefit, but it will probably take 12 to 18 months to fully integrate into our platforms. So otherwise, what I would say, it's a typical back-office consolidation of activities. I think our vision is to really create an integrated leadership team here because the Aetna men and women run a good business, have proven their capabilities in this space as a good competitor. So we want to leverage as much of that talent as possible within our organization going forward.

Ryan James Tunis
Crédit Suisse AG, Research Division

That's helpful. And then, I guess just a point of clarification. It's kind of difficult looking at the legacy, I guess, the way Aetna presented it, to really tell what's been going on, but it does look like profitability of the group business in general has gotten a little bit worse, which is -- it seems like we've seen the opposite on Hartford's block. First of all, is that a fair assessment in terms of what you're looking at? And second of all, I guess, if it is, can you talk a little bit about what you think's been driving performance there over the past few years, and how you think you might be able to reverse that or improve it?

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Christopher John Swift
Chairman & CEO

It's probably not fair to comment on their trends. I mean, obviously, it's their trends. I could tell you, what we did from a diligence side is look at the block in totality. I think we were very comfortable with the pricing assumptions, the reserving assumptions. We'll have to harmonize into our environment as far as discount rates and the like. But I tried to say in my commentary, Josh, that I didn't see -- excuse me, Ryan, I didn't see the need to view this as a fixer-upper. I mean, I think the block is performing fairly well, and we'll integrate it, and as business comes up for renewal at a regained rate guarantee, compete effectively to retain that business going forward. That's probably the highest priority of the integration. And Doug and I talk about it with Mike and the leadership team, is we have to have a high retention of customers coming out of rate guarantees.

Douglas G. Elliot
President

Ryan, one other thing, this is Doug, that Chris and I and Mike have spent a lot of time talking about, we are strong in the national account space and actually across the board. There's an exhibit in the prepared PowerPoint slides that gives you a sense of their mix. We're excited. Yes, they have a strong national franchise, but they also have a very solid middle market franchise that when combined with ours, really enables us to be a different player in the Middle Market. So excited about their digital capabilities, excited about their absence management system and very excited that we're going to be leaning into the middle market in addition to all of our voluntary suite of products that we will bring to market and have been over the past couple of quarters.

Ryan James Tunis
Crédit Suisse AG, Research Division

That's helpful. And then, I guess, just lastly and maybe for Beth. Just thinking about how big is Group Benefits now as a percentage of total allocated equity at the company. I mean, I guess, obviously, it seems like doing the coinsurance deal, you'll have to -- I think you're committing $200 million of statutory equity. But do you have any idea, I guess, pro forma this transaction, what percentage of your allocated GAAP capital will be supporting Group Benefits?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. And actually included in our materials, we showed some of the balance sheet impacts relative to Group Benefits. But when you look at kind of all-in equity, and I'm looking at more on a GAAP basis, Group Benefits pro forma for this transaction will be about 17%.

Operator

You next question comes from the line of Jay Cohen from Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Two questions. I guess, the first one on the Aetna deal. From what I understand, this one has been floating out there for about a year. So obviously, others had a chance to look at this. Is there something that makes you kind of the better buyer for this business versus others out there?

Christopher John Swift
Chairman & CEO

Jay, I would say we're very complementary besides being a half a mile apart. I mean, their business profile and ours equally weighted life and disability, good national account presence, good middle market presence. I think our voluntary suite of products we've built out over the last 3 or 4 years and is really coming from a sales and revenue side. So I think the natural synergies -- as I said, their claim system and some of their digital capabilities, we think are best-in-class. And how we integrate it and use that insight,

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

particularly as it relates to workers' comp and share the benefits across multiple product lines, I think it makes us the natural buyer. There are more synergies. And I know we've discussed this in the past, Jay, but disability and comp, there are more and more synergies all the time, whether it be from a distribution side, a claim outcomes side, a cross-sell opportunity side, it is really integrated these days.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. That's helpful. And then the second question is on the California fires. I know it's early, can you give us at least qualitatively what you're seeing out there as far as your exposure, personal versus commercial at this point?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Sure, Jay. It's Beth. So a couple of things. It is early to provide an estimate where, obviously, our claims folks are working very closely and responding to our customers. What I would say is as we see here and look at it, we see the exposure could be at or above what we incurred for Harvey, which again, on a pretax basis, was $175 million. And we really see it primarily as a Personal Lines event with relatively small exposure on the Commercial side.

Operator

Our next question comes the line of Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

I have a few questions. First, can you guys -- can you tell us what equity Aetna had supporting their group benefits business?

Christopher John Swift
Chairman & CEO

Elyse, I don't have that data. So the equity that Aetna had supporting it?

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Yes.

Christopher John Swift
Chairman & CEO

Yes, that wouldn't be relevant for us.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question, on the auto side. In terms of the disclosures in the quarter, the expense ratio was relatively stable year-over-year. I know you guys alluded to potentially seeing the expense ratio rise as you kind of look to reinvigorate growth there. Is that something you're expecting in the fourth quarter? And then the rate increases got up to 12% this quarter. In your mind, does that -- is that as high as it's going to get? Just how do you kind of see rate as well as expenses in that business as we think about Q4 and onward?

Douglas G. Elliot
President

Two good questions, Elyse. This is Doug. On the expense question, yes, we were about even for the quarter after a couple of quarters of outperforming 2016. In the fourth quarter, I expect it to swing the other way, so I think our expense numbers will be up a couple of points versus 2016. And that's -- as we

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

lean into marketing, we'll be spending there. So that's the expense side. On the pricing side, I do think we are about at our high watermark for written pricing. So obviously, that written will earn its way in. But as we think about our curves, our filings, our needed rate, we are at a high watermark that will be tapering into 2018.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, great. And then one more question. In terms of the acquisition, Chris, I think in the past, you had mentioned maybe your sweet spot would be deals about $500 million to $1 billion in premiums. And maybe that was just kind of some commentary off the cuff in terms of potential acquisitions, I guess. This is obviously double that target. Is it just -- obviously, the strategic rationale that you mentioned earlier in the call. Is that what's your view, I guess, to pursue a deal that just in terms of that metric seems a bit bigger than what you had been looking for?

Christopher John Swift
Chairman & CEO

Yes, I generally agree. I mean, it was an opportunity. Obviously, it's a little bigger. It's benefits. So a lot of that commentary we talked about on this acquisition side related to P&C in that $500 million to $1 billion, which would still be a sweet spot. This one was in the benefits space and just a little bit bigger, but very -- again, very financially and strategically compelling.

Operator

Our next question comes from the line of Tom Gallagher from Evercore ISI.

Thomas George Gallagher
Evercore ISI, Research Division

A couple of questions on the deal. Chris, if I'm understanding the math correctly, you're saying $150 million of annualized earnings power 3 years out, right? So -- and is the way to interpret that -- and part of that's going to come from the $100 million of expense saves. So the math I'm doing would suggest you're paying about 20x current run rate earnings, but then eventually, with the benefit of cost saves, you'd be paying 10x when you think about what you fully expect this to earn 3 years out. Is that a fair way to think about the multiples and evaluation here?

Christopher John Swift
Chairman & CEO

I don't want to fact-check your math, but I think generally, the $150 million ex amortization of intangibles would be a key. Yes, and I thought about it more from an '18 side, forward '18 earnings with a little, like, expense servings. We're probably paying 16, 17x forward earnings. So I wouldn't quibble with your math too much.

Thomas George Gallagher
Evercore ISI, Research Division

Okay. And then just related to the deal also, I think as I've looked at the block, it had some deterioration in group disability over the last few years from a loss ratio standpoint, and I know they lost a large national account business recently. To what extent have you factored those things in? Do you think there needs to be significant repricing? Or is there material integration risk as you think about the transaction?

Christopher John Swift
Chairman & CEO

Tom, I tried to describe it as, it will require a lot of hard work, no doubt about it, but I think we see it as relatively smooth and straightforward. And from the block's performance in totality, I think we're comfortable where they priced it and where results have been. That's not to say that we're not going to tweak things as we go forward, but you should not think in terms of a fundamental repricing initiative, sort

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

of a fixer-upper in my colloquial language. So I think we feel very comfortable that they've been prudent over the years, but we'll have to integrate it and run it through our pricing models long term.

Thomas George Gallagher
Evercore ISI, Research Division

Got it. And then just one final one, the 330% RBC, is that a number that you expect to build back up? Or is that a good run rate? Can you talk about what your RBC target would be, where you want that to be sort of steady-state?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. Tom, it's Beth. So when we think about the RBC to support this business, we think about it long term in the 350% to 400% range. And so as I said in my prepared remarks, when we look out at the income we'll generate in '18 and don't anticipate dividends from Hartford Life and Accident in '18, we'll get back up into that range. We anticipate being at about 380%, and we feel very comfortable running that business at those levels.

Operator

Our next question comes from the line of Randy Binner from FBR.

Randolph Binner
FBR Capital Markets & Co., Research Division

I want to go back to distribution, and this [news] has become a very large market to a number of distributors out there. And it's the question of 1 plus 1 equals what here? And I've heard answers that you're going to be better in the middle market, and that your digital services that you're getting from Aetna, I think are a material improvement. But can you just walk us through a little bit more how you've kind of overcome that typical issue you have from a distribution perspective when you become such a large market together for a lot of the folks who move this product?

Christopher John Swift
Chairman & CEO

Yes. I'll start, and then I'll ask Doug to comment. I mean, that is traditional thinking. But I would say that this market is already highly concentrated. And I think the capabilities that our combined group have, particularly in disability and the insights and our proven track record of helping clients recover more quickly, just sort of speaks for itself from a capability side. I would say also, from the broker side, we have meaningful relationships with a lot of these men and women on the P&C side. And I think it's just an additional connection point, opportunity point, profit point for them as we can do more business together. So I don't see a 1 plus 1 equals anything less than 2 at this point in time, but we've got to work hard to earn their trust. And again, as I said, when business comes out of rate guarantees, to really work hard to retain those accounts and relationships. Doug, what would you add?

Douglas G. Elliot
President

I guess, the only thing I would add is that as part of this relationship, we have entered a multiyear agreement with Aetna to work with their medical reps on selling business together, so they will have the ability to work with our folks. And this distribution agreement, multiyear, I think, is very exciting. They have done a nice job in the past at working together, both medical and their group business, and we look forward to seeing how we can win together going forward. So Chris, I'm excited. I think our reputation is well earned in the Group Benefits space amongst the top brokers. Yes, I think there's opportunity for us to be broader and deeper in the next 200 outside of that top 10, and I think this capability and group of talent executives coming over from Aetna allow us to jointly enter that space more aggressively.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Another thing...

Randolph Binner
FBR Capital Markets & Co., Research Division

Just a quick follow -- sorry, go ahead. Sorry.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

No, Randy, the only thing I was going to add is that, obviously, as we assessed this business and as we built our projections over the next couple of years, we did take into consideration that, sometimes, you can have a little bit of, for lack of a better word, shock lapse that can enter the book. So we've taken that into consideration in building our projections. But as Doug and Chris said, we do believe that we're in a good position to compete in this space going forward.

Christopher John Swift
Chairman & CEO

Randy, just one final point. I mean, with 20 million combined customers, again, I really think the opportunity here is voluntary products, to be able to offer, again, through our distribution partners, a full product suite of voluntary capabilities and maybe additional A&H capabilities down the road that, again, I think will be attractive to our distribution partners going forward.

Operator

Our next question comes from the line of Jimmy Bhullar from JP Morgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Some of my questions were answered, but can you discuss what do you view your capacity, your appetite for buybacks beyond 2018? I think -- like would you anticipate returning to the market in 2019?

Christopher John Swift
Chairman & CEO

Jimmy, it's Chris. I'd say -- I mean, you know our historical pattern. We'd like to obviously close this transaction, integrate it, get a good way through '18, see how we're performing, but the capital generation of the firm is still strong. So as we get into '19, there are possibilities of returning additional capital to shareholders, but that would be premature to really speculate and forecast right now, and we'll keep you posted as we go along.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And then on the loss ratio in the Personal Lines business, it's inched higher in the past couple of quarters, I guess, and mostly because of the auto business. I guess, some of that could be seasonality, but could you discuss what's driving that despite the fact that you've been implementing price hikes as well?

Douglas G. Elliot
President

Yes. Jimmy, this is Doug. It is all seasonality. Our underlying fundamentals are very solid, and we feel very good about the progress we've made, very much in line with our expectations and what we shared with you last January.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

And then lastly, as you look at your Group Benefits franchise, do you feel like you're going to need to grow it? Like obviously, you've made a big bet on the Group Benefits market with this deal because it seems like you paid maybe a fair price, certainly not a very low price for this acquisition. You've also suspended buybacks and taken your business mix away from being more of a pure P&C company. So do you feel like, as you're looking at the Group Benefits business further, that you're going to continue to expand through acquisitions? Or what's your view of just how this business fits within your overall franchise, and whether you need to add additional capabilities in this market over time?

Christopher John Swift
Chairman & CEO

Just to be clear, I think we have all the capabilities we need to compete here for the long term: full product set; core disability; core life; voluntary; A&H, particularly business travel accident coming online. So I don't see the need to go out and think in terms of what's the next deal that we're going to do in this space, Jimmy. It's really about execution. It's about managing our distribution relationships and ultimately, taking care of the customers that we have today. So that's our focus.

Operator

Our next question comes from the line of Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

It's a couple of questions related to the transaction and the guidance. Why was this structured as a reinsurance transaction? Was that -- is the tax benefits that you're going to be able to ultimately benefit from, was that really sort of the secret sauce that kind of make the math work on this?

Christopher John Swift
Chairman & CEO

No, I wouldn't say that. I mean, remember, there's certain blocks of business that Aetna has in their legal entities that is not coming over, as we disclosed in our slide deck, principally, long-term care and dental and vision. So I don't -- they didn't offer us to sell us a legal entity, and I think it was structured vis-à-vis reinsurance to dispose of the business they wanted to sell us.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

I see, okay. So that structure was really more motivated by their interests and motivations than necessarily The Hartford's?

Christopher John Swift
Chairman & CEO

Yes. It was their legal structure. And I would say the tax benefits, there's ways of replicating an asset sale, vis-à-vis tax code election. So I don't want to get into a detailed tax debate, but there were tax benefits that we enjoyed during -- in this transaction.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. The second question, there's sort of 2 sub-questions related to just the guidance figures, the core earnings after tax of $80 million to $100 million. Just to clarify, is that the core -- the earnings after tax as it relates to the Group Benefits portion, which is to say, does that number take into account the less investment income that you would have out of the P&C and Talcott as a result of the way the deal's funded?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Yes. This is Beth. So the $80 million to $100 million is reflective of the increase we see on the Group Benefits side. Again, from a timing perspective, yes, the net investment income in P&C and Talcott would be slightly impacted by the acceleration of the dividends that we're taking out, but really not a very meaningful amount.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Okay. And then in that same vein, the tax benefits that The Hartford overall will realize, are those taken into account within the $80 million to $100 million? Or would that be kind of over top of that spread across the group?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. So that gets a little complicated. Again, when we think about the tax benefit, we really think about that from a cash flow perspective. How it will impact the P&L, again, since a lot of the tax benefit is coming from the purchase price and the intangibles that are going to be amortized into income, there's a piece of it that would come through the tax benefit associated with the amortization on the intangibles, and there's a portion of it that relates to goodwill, which obviously stays on the balance sheet. So the way I think about it is it really is more of a cash flow item that will impact the statutory capital of the subsidiaries, which ultimately, will provide capital to the holding company.

Operator

Our next question comes from the line of John Heagerty with Atlantic Equities.

John Andrew Heagerty
Atlantic Equities LLP, Research Division

Just a couple of points of clarification, if I could. On the $150 million, is that -- is there any sort of revenue synergies included in that? Is that all expected to be expense synergies coming through?

Christopher John Swift
Chairman & CEO

What I would say is that we have a revenue model. I wouldn't say that it is, I'll call it, aggressive in terms of what we think we could do from a revenue growth side. I think it's somewhat, we think, what we can do with our business. And as Beth pointed out to, we've been a little cautious in forecasting just what is the lapse rate renewal and retention going forward. So we've probably been a little conservative there, John. So I wouldn't say that there is a lot of revenue synergies other than I do think we could increase our run rate sales in voluntary with this larger customer base.

John Andrew Heagerty
Atlantic Equities LLP, Research Division

And then just on the timing of the integration costs, can you tell us when they're going to be -- which year they're going to be phased in and how much in each year?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. So John, we've actually included that in some of the slide materials that are on our website. But as we said, we expect about $15 million after-tax to come in, in 2018. There'll be a little bit that will come through in 2017, and then the remainder we'll see in 2019. But if you go to Page 14 in our slide deck, we give you the run rate of those costs over the period.

John Andrew Heagerty
Atlantic Equities LLP, Research Division

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Great. And then finally, just more philosophically, how do you sort of evaluate making this acquisition from a shareholder value-creation perspective just compared to simply buying back more stock?

Christopher John Swift
Chairman & CEO

John, we've talked about this extensively. I mean, we are very sensitive to, I'll call it, the metrics of -- the short-term metrics of buying back shares. But in this particular one, we thought in terms of the long-term IRRs, which is more attractive than buying in shares today. Yes, I think we've been focused on a growth orientation that creates new revenue streams, whether we build them or acquire them. And we balance that, I think, pretty well here with a return on investment that will approach double digits. And that's what we wanted to focus on, is having the recurring revenue and earnings stream in our profile going forward than just the short-term benefits of share buybacks.

Operator

Our next question comes from the line of Ian Gutterman from Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

Firstly, can I go back to the tax? I guess, I'm struggling to understand what that $325 million is. Is that just like the Aetna NOL that you're able to keep on the acquisition? Or is there something that has to do with how you use your own tax benefits stash? Or what exactly is that?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Right. So there's 2 pieces. The bulk of it relates to the fact that the amount that we're paying, the $1.45 billion, nearly all of that is tax-deductible over time. So we will amortize that, get a tax deduction. Typically, on average, it's around 15 years. And so that's what we did as we looked at that tax benefit impacting us over that period of time and what that value is on a present value basis. And that's probably about $260 million of the amount that we discussed. The other portion is the fact that with the increase in earnings that we will have coming from this acquisition, we will be able to utilize our current tax attributes, our NOLs and AMT credits, faster than we otherwise would have. And so, again, PV-ing out the cash flows associated with that is where we get the remainder of the benefit.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, that makes sense. So is it fair to think of the consideration paid is really closer to $1.1 billion?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. I would. The way we think about it is the amount that we paid less the present value benefit that we'll get from these tax attributes over time.

Ian Gutterman
Balyasny Asset Management L.P.

Got it, okay. And then, Doug, I want to go back to Josh's question about just if I think 2, 3 years out, once you've had a chance to reprice the book, is there any reason this shouldn't -- is there something fundamentally different about where they play or their mix of business that it shouldn't be in that 5.5% to 6% range on profitability?

Douglas G. Elliot
President

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Ian, I don't think so. I think we know them as a competitor. We've done our diligence. We expect coming together the fundamentals of how we compete in the marketplace to be consistent with our prior approach. And those goals that Chris outlined are absolutely doable, and we expect to achieve them.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. So a leading question here, but if I take the $100 million of savings, so after-tax $65 million, on a pro forma, $5-plus billion on a premium base, that's an extra point to margins. Does that suggest the goal over time can become 6.5% to 7%?

Christopher John Swift
Chairman & CEO

Ian, you're really stretching us here. Again, all I would share with you right now is there are potential upsides, but I'd rather have you focus on what is ultimately realistic, and what we've talked about is realistic. And if there's upside, we'll talk about it. You'll see it coming through the top line in cross-sell opportunities, however you want to describe it. But let's just focus on what's realistic as opposed to anything that really pushes the bounds.

Ian Gutterman
Balyasny Asset Management L.P.

No, that's right. I just want to -- I was sort of trying to reverse-engineer your $150 million you commented on earlier. If I take out the $65 million after-tax of savings, that's $85 million. On $2 billion, it's only 4%. So I just want to make sure that, that -- it sounds like you should, hopefully, be able to do better than that $150 million as that 4% goes up to 5% or 6%.

Christopher John Swift
Chairman & CEO

From your mouth to God's ears.

Ian Gutterman
Balyasny Asset Management L.P.

Yes, okay. And then just quickly, any -- I know you commented on it a little bit, but any further detail you want to add to -- obviously, there's been a lot of speculation from some of the earlier calls. I'm guessing you've heard about pricing opportunities. And one of your large competitors talked about pricing outside not being driven just by what they're seeing in CAT, but just based on the pressures, Doug, I think you've talked about before, about some of the pricings not really being attractive on a return basis. Does it feel like there's opportunities beyond just property that you can get rate on package, if you will, which implies you're getting rate on comp, too? Or is it really going to be more narrow, I guess?

Douglas G. Elliot
President

I guess, I'll take that apart in a few different ways. Clearly, we've been working on the package area ex -- we'll come back to comp because I would separate liability, GL from workers' compensation. And we have been addressing our needs in the general liability area over the last couple of years, and you see that in the fact that we're pleased with our pricing performance in the quarter. But I do think there is potential for us to lean into both our liability and our property pricing a little harder over the coming months. And clearly, the events the last 60 days give us reason to go back and reassess our CAT loads and our tornado hail loads, et cetera, in our property book. Workers' compensation is a little bit different story. So we are managing our way through a bit more of a regulated climate in Commercial Lines. We really are very pleased about our current book performance and are trying to balance that book performance with pricing trends as we go forward. So Ian, I think we'll continue to manage comps separately, but yes, I see some upside in the pricing in our property and GL area.

Sabra R. Purtill

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Treasurer, Senior VP & Head of Investor Relations

Thanks. Emily, I believe we have one more question in the queue. But if there's anybody else who wants to ask a question, please queue into the call.

Operator

And our last question comes from the line of Ryan Tunis from Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

I just have one last follow-up. So if we were to have any sales from here of noncore assets, just curious how we should think about the prioritization of the use of proceeds. Should we think about capital first being used to get the capital levels higher in HLA, et cetera, et cetera, et cetera? Should we think about buyback next, and then M&A? Or does that not sound like, kind of, the right way to think about it?

Christopher John Swift
Chairman & CEO

Ryan, it's Chris. We've talked about this before. I think if -- through any additional sales of noncore assets, we would first look to always right size our debt and equity ratios as we would monetize a unit. I think from there, we've always talked about wanting to deploy capital into growth opportunities, whether it be organic or, obviously, M&A, like we did here today. And then finally, if there aren't, I'll call it, adequate uses for that capital, that earn a hurdle rate of above our cost of equity capital, we would consider returning excess capital over time to shareholders, but we demonstrated the priorities of using excess capital here in recurring revenue streams, and I would have that mindset going forward.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

And, Ryan, the only thing I'll add to that, again, as we look at the capitalization of HLA, we're very comfortable with the level that it's at. And the fact that just through the normal course of the earnings generation that will be there next year, that will be within our RBC targets.

Operator

Our next question comes from the line of Meyer Shields from KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. One question on operations and one on the deal. Doug, you talked about a true-up for variable comp affecting the expense ratio this quarter. I was hoping you could dig a little deeper in terms of what underpinned that decision.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. Meyer, I'll take that. It's Beth. So -- and I think it's important to also point out the comment that Doug made on just the year-over-year compares. So when we look at our variable compensation plans, which are tied to what our underlying performance in our businesses are, if you look at 2016, obviously, our underlying performance was not where it needed to be, and we took down a lot of incentive accruals in the third and fourth quarter. When you look at our underlying performance for this year, we feel it has been very strong. And so we saw increases in that. So there's a little bit of a delta, and that last year we were taking things down. And this year, we were modestly increasing them. That shows up in the expense ratio.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Okay. So this is -- the deal is being structured as reinsurance. Is there going to be any need for a new corporate entity or something like that at Hartford? Or can all of this business be handled within your current core operating structure?

Christopher John Swift
Chairman & CEO

No, it could be handled by HLA. HLA is the, again, the assuming companies, which is our entity devoted towards the Group Benefit business. If you recall, we restructured that years ago, and there's no additional legal entities required, Meyer.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, fantastic. And then just finally, the $325 million present value tax benefit, that's all 35%, right?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Yes. So we did that based on current tax rates. I would point out that, obviously, if tax rates go down, that benefit would go down, but the value of the business and the earnings on that business, being taxed at a lower rate would far exceed any decrease to that value.

Operator

Our next question comes from the line of Jimmy Bhullar from JP Morgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Beth, I just wanted to follow up on the components of the tax benefit. And if I understood your comments right, I think the 2 components are, one, the purchase price being deductible and in the future; and then second is just the acceleration in the use of your existing tax attributes. And, I guess, I understand how the acceleration in the use of your existing tax attributes creates extra value because of this deal, but the purchase price being deductible, if you were to grow your business organically, most of those, sort of the consideration and expenses involved in that, would have been deductible anyway. So I'm just trying to understand how that is sort of extra value that's being created just through the deal.

Beth A. Bombara
Chief Financial Officer and Executive Vice President

Well, based on the price that we're paying, the fact that it is deductible, over time, we will get a tax benefit associated with that. And we think that's an important consideration as you think about the total cash flows associated with acquiring this business today.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

No, that I understand, but if you were -- it's not like if you were -- my point is, wouldn't -- and any time if you'd built the business organically, any consideration that you -- or the cash that you would have had to outlay because of -- for that would have been deductible anyway, right? It has nothing -- you're just pointing out like how cash flows will work in the future because you'll get a tax benefit. But most of the time, if you're building a business in-house versus doing any deals, that -- any cash that you have that's an outlay would be deductible anyway, right?

Beth A. Bombara
Chief Financial Officer and Executive Vice President

That's true, and I think that would be an important consideration in looking at what you're -- what's being spent. But again, the fact that we are getting a tax benefit on what we're paying, when you think about the cash flows associated with the entire business, I still see it as a relevant point.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

Operator

And there are no further questions at this time. I turn the call back over to the presenters.

Sabra R. Purtill
Treasurer, Senior VP & Head of Investor Relations

Thank you, Emily, and thank you, all, for joining us today and your interest in The Hartford. If you have any additional questions, please do not hesitate to follow up with the investor relations team. Thank you, and have a good day.

Operator
This concludes today's conference call. You may now disconnect.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.
The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.
THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.
© 2017 Capital IQ, Inc.

Copyright © 2017 S&P Global Market Intelligence, a division of S&P Global Inc. All Rights reserved.