Retirement Income
JOURNAL

The Hartford hedges its VA risk in Japan

By Editor Test *Thu, Apr 11, 2013*

The company also announced that financial results for the first quarter of 2013 will include a deferred acquisition charge (DAC) of approximately $600 million, after tax.

The Hartford has announced that the risk profile of its legacy variable annuity block has been significantly improved, thanks to an expanded Japan variable annuity (VA) hedging program, favorable yen weakening and global equity market movements.

"Last March, we announced a new strategy for… reducing the company's exposure to market volatility, lowering our cost of capital and increasing capital flexibility," said Liam E. McGee, The Hartford's chairman, president and CEO, in a release.

"A key element of that strategy… is to reduce the size and risk of the legacy VA block. As a result of actions we have taken and global market movements, the risk profile of the legacy VA block has dramatically improved and Talcott's [life run-off] operations are now capital self-sufficient."

The company also announced that financial results for the first quarter of 2013 will include a deferred acquisition charge (DAC) of approximately $600 million, after tax. The charge reflects the elimination of future estimated gross profits on the Japan VA block due to the increased costs of the hedging program.

The first quarter of 2013 will also include the previously announced charge of $140 million, after tax, associated with costs incurred in connection with the company's $800 million debt tender offer completed in the first quarter of 2013.

Due to these charges, the company expects a net loss for the first quarter of 2013. However, neither of these charges is included in core earnings, a non-GAAP financial measure.

The Hartford also increased its full year 2013 core earnings outlook, which was originally described in its Feb. 4, 2013 news release, to between $1.45 billion and $1.55 billion, reflecting higher Talcott Resolution core earnings due to the elimination of Japan VA DAC amortization expense as a result of the first quarter 2013 DAC charge.