Unum Group
Form 10-Q
August 03, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549
FORM 10-Q
(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2011

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission file number 1-11294
Unum Group
(Exact name of registrant as specified in its charter)

Delaware	62-1598430
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1 Fountain Square
Chattanooga, Tennessee 37402
(Address of principal executive offices)
423.294.1011
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
(Check one): Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
303,460,132 shares of the registrant's common stock were outstanding as of July 29, 2011.

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Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” to encourage companies to provide prospective information, as long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. Certain information contained in this Quarterly Report on Form 10-Q (including certain statements in the consolidated financial statements and related notes and Management's Discussion and Analysis), or in any other written or oral statements made by us in communications with the financial community or contained in documents filed with the Securities and Exchange Commission (SEC), may be considered forward-looking. Forward-looking statements are those not based on historical information, but rather relate to future operations, strategies, financial results, or other developments and speak only as of the date made. We undertake no obligation to update these statements, even if made available on our website or otherwise. These statements may be made directly in this document or may be made part of this document by reference to other documents filed by us with the SEC, a practice which is known as “incorporation by reference.” You can find many of these statements by looking for words such as “will,” “may,” “should,” “could,” “believes,” “expects,” “anticipates,” “estimates,” “intends,” “projects,” “g “objectives,” or similar expressions in this document or in documents incorporated herein.

These forward-looking statements are subject to numerous assumptions, risks, and uncertainties, many of which are beyond our control. We caution readers that the following factors, in addition to other factors mentioned from time to time, may cause actual results to differ materially from those contemplated by the forward-looking statements:

- Unfavorable economic or business conditions, both domestic and foreign.
- Legislative, regulatory, or tax changes, both domestic and foreign, including the effect of potential legislation and increased regulation in the current political environment.
- Sustained periods of low interest rates.
- Changes in claim incidence, recovery rates, and offsets due to, among other factors, the rate of unemployment and consumer confidence, the emergence of new diseases, epidemics, or pandemics, new trends and developments in medical treatments, the effectiveness of claims management operations, and changes in government programs.
- Fluctuation in insurance reserve liabilities.
- Investment results, including but not limited to, realized investment losses resulting from defaults, contractual terms of derivative contracts, and impairments that differ from our assumptions and historical experience.
- The lack of appropriate investments in the market which can be acquired to match our liability cash flows and duration.
- Changes in interest rates, credit spreads, and securities prices.
- Increased competition from other insurers and financial services companies due to industry consolidation or other factors.
- Changes in demand for our products due to, among other factors, changes in societal attitudes, the rate of unemployment, and consumer confidence.
- Changes in accounting standards, practices, or policies.
- Changes in our financial strength and credit ratings.
- Rating agency actions, state insurance department market conduct examinations and other inquiries, other governmental investigations and actions, and negative media attention.
- Effectiveness in managing our operating risks and the implementation of operational improvements and strategic growth initiatives.
- Actual experience in pricing, underwriting, and reserving that deviates from our assumptions.
- Actual persistency and/or sales growth that is higher or lower than projected.
- Effectiveness of our risk management program.
- The level and results of litigation.
- Currency exchange rates.
-

Ability of our subsidiaries to pay dividends as a result of regulatory restrictions.

- Ability and willingness of reinsurers to meet their obligations.
- Changes in assumptions related to intangible assets such as deferred acquisition costs, value of business acquired, and goodwill.
- Events or consequences relating to political instability, terrorism, or acts of war, both domestic and foreign.
- Ability to recover our systems and information in the event of a disaster or unanticipated event.

For further discussion of risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, see Part I, Item 1A of our annual report on Form 10-K for the year ended December 31, 2010.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

PART I

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

Unum Group and Subsidiaries

	June 30 2011	December 31 2010
	(in millions of dollars)	
	(Unaudited)	
Assets		
Investments		
Fixed Maturity Securities - at fair value (amortized cost: $36,852.5; $36,546.6)	$40,768.4	$40,035.6
Mortgage Loans	1,576.3	1,516.8
Policy Loans	2,948.8	2,996.1
Other Long-term Investments	573.9	529.3
Short-term Investments	928.6	1,163.1
Total Investments	46,796.0	46,240.9
Other Assets		
Cash and Bank Deposits	71.2	53.6
Accounts and Premiums Receivable	1,690.4	1,665.8
Reinsurance Recoverable	4,785.8	4,827.9
Accrued Investment Income	766.5	669.8
Deferred Acquisition Costs	2,557.6	2,521.1
Goodwill	201.6	201.2
Property and Equipment	487.2	476.8
Other Assets	659.5	650.6
Total Assets	$58,015.8	$57,307.7

See notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEETS - Continued
Unum Group and Subsidiaries

	June 30 2011	December 31 2010
	(in millions of dollars)	
	(Unaudited)	
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	$1,527.4	$1,565.0
Reserves for Future Policy and Contract Benefits	40,325.9	39,715.0
Unearned Premiums	533.1	436.7
Other Policyholders' Funds	1,639.2	1,669.7
Income Tax Payable	124.4	135.7
Deferred Income Tax	507.6	417.2
Short-term Debt	140.4	225.1
Long-term Debt	2,589.1	2,631.3
Other Liabilities	1,545.9	1,567.6
Total Liabilities	48,933.0	48,363.3
Commitments and Contingent Liabilities - Note 9		
Stockholders' Equity		
Common Stock, $0.10 par		
Authorized: 725,000,000 shares		
Issued: 358,225,274 and 364,842,919 shares	35.8	36.5
Additional Paid-in Capital	2,577.2	2,615.4
Accumulated Other Comprehensive Income (Loss)		
Net Unrealized Gain on Securities Not Other-Than-Temporarily Impaired	471.7	408.3
Net Unrealized Gain on Securities Other-Than-Temporarily Impaired	—	2.1
Net Gain on Cash Flow Hedges	355.9	361.0
Foreign Currency Translation Adjustment	(82.8)	(110.9)
Unrecognized Pension and Postretirement Benefit Costs	(308.8)	(318.6)
Retained Earnings	7,313.7	7,060.8
Treasury Stock - at cost: 54,838,360 shares and 48,269,467 shares	(1,279.9)	(1,110.2)
Total Stockholders' Equity	9,082.8	8,944.4
Total Liabilities and Stockholders' Equity	$58,015.8	$57,307.7

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	(in millions of dollars, except share data)			
Revenue				
Premium Income	$1,875.0	$1,849.8	$3,744.5	$3,713.0
Net Investment Income	637.1	629.8	1,255.8	1,242.8
Realized Investment Gain (Loss)				
Total Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	(0.7)	(10.2)	(3.0)	(10.4)
Other Net Realized Investment Gain (Loss)	(2.9)	(19.3)	14.6	6.5
Net Realized Investment Gain (Loss)	(3.6)	(29.5)	11.6	(3.9)
Other Income	56.0	60.5	115.7	120.3
Total Revenue	2,564.5	2,510.6	5,127.6	5,072.2
Benefits and Expenses				
Benefits and Change in Reserves for Future Benefits	1,599.4	1,579.6	3,192.4	3,148.5
Commissions	217.9	207.8	442.2	426.1
Interest and Debt Expense	35.1	34.1	73.0	67.5
Deferral of Acquisition Costs	(158.2)	(149.7)	(316.5)	(304.6)
Amortization of Deferred Acquisition Costs	136.9	135.9	275.2	277.1
Compensation Expense	198.7	191.4	400.6	388.7
Other Expenses	196.7	203.4	392.5	399.6
Total Benefits and Expenses	2,226.5	2,202.5	4,459.4	4,402.9
Income Before Income Tax	338.0	308.1	668.2	669.3
Income Tax				
Current	91.0	95.2	156.3	170.1
Deferred	17.2	3.2	56.7	59.7
Total Income Tax	108.2	98.4	213.0	229.8
Net Income	$229.8	$209.7	$455.2	$439.5
Net Income Per Common Share				
Basic	$0.75	$0.63	$1.47	$1.32
Assuming Dilution	$0.75	$0.63	$1.46	$1.32

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (UNAUDITED)

Unum Group and Subsidiaries

	Six Months Ended June 30	
	2011	2010
	(in millions of dollars)	
Common Stock		
Balance at Beginning of Year	$36.5	$36.4
Common Stock Activity	0.1	0.1
Retirement of Repurchased Common Shares	(0.8)	—
Balance at End of Period	35.8	36.5
Additional Paid-in Capital		
Balance at Beginning of Year	2,615.4	2,587.4
Common Stock Activity	17.0	20.1
Retirement of Repurchased Common Shares	(55.2)	—
Balance at End of Period	2,577.2	2,607.5
Accumulated Other Comprehensive Income		
Balance at Beginning of Year	341.9	341.0
Change During Period	94.1	96.9
Balance at End of Period	436.0	437.9
Retained Earnings		
Balance at Beginning of Year	7,060.8	6,289.5
Net Income	455.2	439.5
Dividends to Stockholders (per common share: $0.185; $0.165)	(58.3)	(55.2)
Retirement of Repurchased Common Shares	(144.0)	—
Balance at End of Period	7,313.7	6,673.8
Treasury Stock		
Balance at Beginning of Year	(1,110.2)	(754.2)
Purchases of Treasury Stock	(169.7)	(129.8)
Balance at End of Period	(1,279.9)	(884.0)
Total Stockholders' Equity at End of Period	$9,082.8	$8,871.7

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

Unum Group and Subsidiaries

	Six Months Ended June 30	
	2011	2010
	(in millions of dollars)	
Cash Flows from Operating Activities		
Net Income	$455.2	$439.5
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Change in Receivables	88.4	43.5
Change in Deferred Acquisition Costs	(41.3)	(27.5)
Change in Insurance Reserves and Liabilities	221.9	339.8
Change in Income Taxes	43.6	125.5
Change in Other Accrued Liabilities	31.0	(58.9)
Non-cash Adjustments to Net Investment Income	(215.8)	(236.4)
Net Realized Investment (Gain) Loss	(11.6)	3.9
Depreciation	39.7	37.0
Other, Net	4.6	2.0
Net Cash Provided by Operating Activities	615.7	668.4
Cash Flows from Investing Activities		
Proceeds from Sales of Available-for-Sale Securities	585.5	550.4
Proceeds from Maturities of Available-for-Sale Securities	905.5	1,327.1
Proceeds from Sales and Maturities of Other Investments	69.2	63.6
Purchase of Available-for-Sale Securities	(1,588.1)	(2,080.7)
Purchase of Other Investments	(165.1)	(106.9)
Net Sales (Purchases) of Short-term Investments	196.2	(42.8)
Other, Net	(49.4)	(139.8)
Net Cash Used by Investing Activities	(46.2)	(429.1)
Cash Flows from Financing Activities		
Net Short-term Debt Repayments	(84.7)	—
Long-term Debt Repayments	(49.4)	(57.7)
Issuance of Common Stock	6.9	8.7
Repurchase of Common Stock	(369.7)	(127.6)
Dividends Paid to Stockholders	(58.3)	(55.2)
Other, Net	3.3	2.3
Net Cash Used by Financing Activities	(551.9)	(229.5)
Effect of Foreign Exchange Rate Changes on Cash	—	(0.1)
Net Increase in Cash and Bank Deposits	17.6	9.7
Cash and Bank Deposits at Beginning of Year	53.6	71.6
Cash and Bank Deposits at End of Period	$71.2	$81.3

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

Unum Group and Subsidiaries

	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
	(in millions of dollars)			
Net Income	$229.8	$209.7	$455.2	$439.5
Other Comprehensive Income (Loss)				
Change in Net Unrealized Gains and Losses on Securities Before Reclassification Adjustment:				
Change in Net Unrealized Gains and Losses on Securities Not Other-Than-Temporarily Impaired (net of tax expense of $196.0; $440.0; $155.3; $597.2)	371.8	823.1	294.5	1,129.1
Change in Net Unrealized Gains and Losses on Securities Other-Than-Temporarily Impaired (net of tax benefit of $ - ; $0.5; $1.1; $0.5)	—	(0.9)	(2.1)	(0.9)
Total Change in Net Unrealized Gains and Losses on Securities Before Reclassification Adjustment (net of tax expense of $196.0; $439.5; $154.2; $596.7)	371.8	822.2	292.4	1,128.2
Reclassification Adjustment for Net Realized Investment (Gain) Loss (net of tax expense (benefit) of $0.7; $(0.6); $1.2; $0.7)	(1.8)	0.4	(2.4)	(1.8)
Change in Net Gain on Cash Flow Hedges (net of tax expense (benefit) of $2.7; $36.1; $(2.7); $28.9)	4.8	67.9	(5.1)	53.9
Change in Adjustment to Reserves for Future Policy and Contract Benefits, Net of Reinsurance and Other (net of tax benefit of $181.5; $453.4; $121.7; $543.0)	(341.9)	(845.4)	(228.7)	(1,029.6)
Change in Foreign Currency Translation Adjustment	1.3	(15.7)	28.1	(78.0)
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense (benefit) of $2.5; $3.0; $4.1; $(5.5))	4.7	5.6	9.8	24.2
Total Other Comprehensive Income	38.9	35.0	94.1	96.9
Comprehensive Income	$268.7	$244.7	$549.3	$536.4

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
Unum Group and Subsidiaries
June 30, 2011

Note 1 - Basis of Presentation

The accompanying consolidated financial statements of Unum Group and its subsidiaries (the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes included in our annual report on Form 10-K for the year ended December 31, 2010.

In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Interim results are not necessarily indicative of full year performance.

In connection with our preparation of the consolidated financial statements, we evaluated events that occurred subsequent to June 30, 2011 for recognition or disclosure in our financial statements and notes to our financial statements.

Note 2 - Accounting Developments

Accounting Updates Adopted during the First Six Months of 2010:

Accounting Standards Codification (ASC) 810 “Consolidation”

In June 2009, the Financial Accounting Standards Board (FASB) issued an update to require a qualitative rather than a quantitative analysis to determine the primary beneficiary of a variable interest entity and require enhanced disclosures about an enterprise's involvement with a variable interest entity. We adopted this update effective January 1, 2010. The adoption of this update had no effect on our financial position or results of operations.

ASC 820 “Fair Value Measurements and Disclosures”

In January 2010, the FASB issued an update to require a number of additional disclosures regarding fair value measurements. Specifically, the update requires a reporting entity to disclose the amounts of significant transfers between Level 1 and Level 2 of the three tier fair value hierarchy and the reasons for these transfers, as well as the reasons for any transfers in or out of Level 3, effective for annual and interim periods beginning after December 15, 2009. The update also requires information in the reconciliation of recurring Level 3 measurements about purchases, sales, issuances, and settlements on a gross basis, effective for annual and interim periods beginning after December 15, 2010. We adopted this update in its entirety, including early adoption of the additional Level 3 information, effective January 1, 2010. The adoption of this update expanded our disclosures but had no effect on our financial position or results of operations.

ASC 860 “Transfers and Servicing”

In June 2009, the FASB issued an update to eliminate the exceptions for qualifying special-purpose entities from the consolidation guidance and eliminate the exception that permitted sale accounting for certain mortgage securitizations when a transferor has not surrendered control over the transferred financial assets. In addition, this update clarifies certain requirements for financial assets that are eligible for sale accounting and requires enhanced disclosures about the risks that a transferor continues to be exposed to because of its continuing involvement in transferred financial assets. We adopted this update effective January 1, 2010. The adoption of this update had no effect on our financial position or results of operations.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Unum Group and Subsidiaries
June 30, 2011
Note 2 - Accounting Developments - Continued

Accounting Updates Outstanding:

ASC 220 "Comprehensive Income"

In June 2011, the FASB issued an update related to the financial statement presentation of comprehensive income. This update requires that changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present net income and its components, followed consecutively by a second statement presenting total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The amendments in this update shall be applied retrospectively and are effective for interim and annual periods beginning after December 15, 2011. The adoption of this update will modify our financial statement presentation but will have no effect on our financial position or results of operations.

ASC 310 “Receivables”

In January and April 2011, the FASB deferred the effective date of disclosures about troubled debt restructurings and issued updates providing additional clarification to help creditors in determining whether a creditor has granted a concession as well as whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. These updates will be effective for interim and annual reporting periods beginning on or after June 15, 2011. The adoption of these updates may require additional disclosures but will have no effect on our financial position or results of operations.

ASC 820 “Fair Value Measurements and Disclosures”

In May 2011, the FASB issued an update to require additional disclosures regarding fair value measurements and to provide clarifying guidance on the application of existing fair value measurement requirements. Specifically, the update requires additional information on Level 1 and Level 2 transfers within the fair value hierarchy; the categorization by level of the fair value hierarchy for items that are not measured at fair value in the statement of financial position, but for which the fair value of such items is required to be disclosed; and information about the sensitivity of a fair value measurement in Level 3 of the fair value hierarchy to changes in unobservable inputs and any interrelationships between those unobservable inputs. The amendments in this update are effective for interim and annual periods beginning after December 15, 2011. The adoption of this update will expand our disclosures but will have no effect on our financial position or results of operations.

ASC 860 “Transfers and Servicing”

In April 2011, the FASB issued an update to revise the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. This update removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial asset on substantially the agreed terms, even in the event of default by the transferee, and the related requirement to demonstrate that the transferor possess adequate collateral to fund substantially all the cost of purchasing replacement financial assets. This update will be effective for interim and annual reporting periods beginning on or after December 15, 2011 and early adoption is prohibited. The adoption of this update will have no effect on our financial position or results of operations.

ASC 944 “Financial Services - Insurance”

In October 2010, the FASB issued an update which is intended to address the diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify as deferred acquisition costs. The amendments in the update modify the existing guidance and require that only incremental direct costs associated with the successful acquisition of a new or renewal insurance contract can be capitalized. All other costs are to be expensed as incurred. The amendments in the update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 and permit retrospective application.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Unum Group and Subsidiaries
June 30, 2011
Note 2 - Accounting Developments - Continued

Our expected retrospective adoption of this update will result in a reduction in our deferred acquisition cost asset as well as a decrease in the amortization associated with those previously deferred costs. There will also be a reduction in the level of costs we defer subsequent to adoption.

We are evaluating the full effects of implementing this update, but we currently estimate that our retrospective adoption will result in a cumulative effect adjustment to the opening balance of retained earnings of between $400.0 million and $600.0 million in the year of adoption. We currently estimate the adoption of this update will result in an immaterial decrease in net income in 2012 and in the years preceding to which the retrospective adoption will be applied.

Note 3 - Fair Values of Financial Instruments

Presented as follows are the carrying amounts and fair values of financial instruments. The carrying values of financial instruments such as short-term investments, cash and bank deposits, accounts and premiums receivable, and accrued investment income approximate fair value due to the short-term nature of the instruments. As such, these financial instruments are not included in the following chart.

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions of dollars)			
Assets				
Fixed Maturity Securities	$40,768.4	$40,768.4	$40,035.6	$40,035.6
Mortgage Loans	1,576.3	1,699.9	1,516.8	1,685.4
Policy Loans	2,948.8	2,997.8	2,996.1	3,044.4
Other Long-term Investments				
Derivatives	85.0	85.0	99.1	99.1
Equity Securities	13.2	13.2	10.4	10.4
Miscellaneous Long-term Investments	475.7	475.7	419.8	419.8
Liabilities				
Policyholders' Funds				
Deferred Annuity Products	$643.5	$643.5	$656.3	$656.3
Supplementary Contracts without Life Contingencies	497.9	497.9	508.5	508.5
Short-term Debt	140.4	140.4	225.1	226.8
Long-term Debt	2,589.1	2,572.0	2,631.3	2,483.8
Other Liabilities				
Derivatives	203.6	203.6	199.6	199.6
Embedded Derivative in Modified Coinsurance Arrangement	87.0	87.0	96.3	96.3
Unfunded Commitments to Investment Partnerships	177.8	177.8	169.9	169.9

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
Unum Group and Subsidiaries
June 30, 2011
Note 3 - Fair Values of Financial Instruments - Continued

The methods and assumptions used to estimate fair values of financial instruments are discussed as follows.

Fair Value Measurements for Financial Instruments Not Carried at Fair Value

Mortgage Loans: Fair values are estimated using discounted cash flow analyses and interest rates currently being offered for similar loans to borrowers with similar credit ratings and maturities. Loans with similar characteristics are aggregated for purposes of the calculations.

Policy Loans: Fair values for policy loans, net of reinsurance ceded, are estimated using discounted cash flow analyses and interest rates currently being offered to policyholders with similar policies. The carrying amounts of ceded policy loans of $2,741.7 million and $2,790.5 million as of June 30, 2011 and December 31, 2010, respectively, are reported on a gross basis in our consolidated balance sheets and approximate fair value.

Miscellaneous Long-term Investments: Carrying amounts approximate fair value.

Policyholders’ Funds: Policyholders' funds are comprised primarily of deferred annuity products and supplementary contracts without life contingencies. The carrying amounts approximate fair value.

Fair values for insurance contracts other than investment contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in our overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

Short-term and Long-term Debt: Fair values for short-term and long-term debt other than securities lending transactions are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. Carrying amounts for outstanding securities lending transactions approximate fair value.

Unfunded Commitments to Investment Partnerships: Unfunded equity commitments represent legally binding amounts that we have committed to certain investment partnerships subject to the partnerships meeting specified conditions. When these conditions are met, we are obligated to invest these amounts in the partnerships. Carrying amounts approximate fair value.

Fair Value Measurements for Financial Instruments Carried at Fair Value

We report fixed maturity securities, derivative financial instruments, and equity securities at fair value in our consolidated balance sheets. The degree of judgment utilized in measuring the fair value of financial instruments generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. An active market for a financial instrument is a market in which transactions for an asset or a similar asset occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and should be used to measure fair value whenever available. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation techniques that require more judgment. Pricing observability is generally impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions.

Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types. The market approach uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities. The income approach converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. The cost approach is based upon the amount that currently would be required to replace the service capacity of an asset, or the current replacement cost.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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June 30, 2011
Note 3 - Fair Values of Financial Instruments - Continued

We use valuation techniques that are appropriate in the circumstances and for which sufficient data are available that can be obtained without undue cost and effort. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate. If we use multiple valuation techniques to measure fair value, we evaluate and weigh the results, as appropriate, considering the reasonableness of the range indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

The selection of the valuation method(s) to apply considers the definition of an exit price and depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. We believe the market approach valuation technique provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. In weighing a broker quote as an input to fair value, we place less reliance on quotes that do not reflect the result of market transactions. We also consider the nature of the quote, particularly whether the quote is a binding offer. If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value. When relevant market data is unavailable, which may be the case during periods of market uncertainty, the income approach can, in suitable circumstances, provide a more appropriate fair value. During 2011, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2010.

We use observable and unobservable inputs in measuring the fair value of our financial instruments. Inputs that may be used include the following:

- Broker market maker prices and price levels
- Trade Reporting and Compliance Engine (TRACE) pricing
- Prices obtained from external pricing services
- Benchmark yields (Treasury and interest rate swap curves)
- Transactional data for new issuance and secondary trades
- Security cash flows and structures
- Recent issuance/supply
- Sector and issuer level spreads
- Security credit ratings/maturity/capital structure/optionality
- Corporate actions
- Underlying collateral
- Prepayment speeds/loan performance/delinquencies/weighted average life/seasoning
- Public covenants
- Comparative bond analysis
- Derivative spreads
- Relevant reports issued by analysts and rating agencies
- Audited financial statements

We review all prices obtained to ensure they are consistent with a variety of observable market inputs and to verify the validity of a security's price. The overall valuation process for determining fair values may include adjustments to valuations obtained from our pricing sources when they do not represent a valid exit price. These adjustments may be made when, in our judgment and considering our knowledge of the financial conditions and industry in which the issuer operates, certain features of the financial instrument require that an adjustment be made to the value originally obtained from our pricing sources. These features may include the complexity of the financial instrument, the market in which the financial instrument is traded, counterparty credit risk, credit structure, concentration, or liquidity. Additionally, an adjustment to the price derived from a model typically reflects our judgment of the inputs that other participants in the market for the financial instrument being measured at fair value would consider in pricing that same financial instrument.

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The parameters and inputs used to validate a price on a security may be adjusted for assumptions about risk and current market conditions on a quarter to quarter basis, as certain features may be more significant drivers of valuation at the time of pricing. Changes to inputs in valuations are not changes to valuation methodologies; rather, the inputs are modified to reflect direct or indirect impacts on asset classes from changes in market conditions.

Fair values for derivatives other than embedded derivatives in modified coinsurance arrangements are based on market quotes or pricing models and represent the net amount of cash we would have paid or received if the contracts had been settled or closed as of the last day of the period. We analyze credit default swap spreads relative to the average credit spread embedded within the London Interbank Offered Rate (LIBOR) setting syndicate in determining the effect of credit risk on our derivatives' fair values. If counterparty credit risk for a derivative asset is determined to be material and is not adequately reflected in the LIBOR-based fair value obtained from our pricing sources, we adjust the valuations obtained from our pricing sources. In regard to our own credit risk component, we adjust the valuation of derivative liabilities wherein the counterparty is exposed to our credit risk when the LIBOR-based valuation of our derivatives obtained from pricing sources does not effectively include an adequate credit component for our own credit risk.

Fair values for our embedded derivative in a modified coinsurance arrangement are estimated using internal pricing models and represent the hypothetical value of the duration mismatch of assets and liabilities, interest rate risk, and third party credit risk embedded in the modified coinsurance arrangement.

Certain of our investments do not have readily determinable market prices and/or observable inputs or may at times be affected by the lack of market liquidity. For these securities, we use internally prepared valuations combining matrix pricing with vendor purchased software programs, including valuations based on estimates of future profitability, to estimate the fair value. Additionally, we may obtain prices from independent third-party brokers to aid in establishing valuations for certain of these securities. Key assumptions used by us to determine fair value for these securities include risk free interest rates, risk premiums, performance of underlying collateral (if any), and other factors involving significant assumptions which may or may not reflect those of an active market.

At June 30, 2011, approximately 16.8 percent of our fixed maturity securities were valued using active trades from TRACE pricing or broker market maker prices for which there was current market activity in that specific security (comparable to receiving one binding quote). The prices obtained were not adjusted, and the assets were classified as Level 1, the highest category of the three-level fair value hierarchy classification wherein inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities.

The remaining 83.2 percent of our fixed maturity securities were valued based on non-binding quotes or other observable or unobservable inputs, as discussed below.

- Approximately 67.3 percent of our fixed maturity securities were valued based on prices from pricing services that generally use observable inputs such as prices for securities or comparable securities in active markets in their valuation techniques. These assets were classified as Level 2. Level 2 assets or liabilities are those valued using inputs (other than prices included in Level 1) that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

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Approximately 4.8 percent of our fixed maturity securities were valued based on one or more non-binding broker price levels, if validated by observable market data, or on TRACE prices for identical or similar assets absent current market activity. When only one price is available, it is used if observable inputs and analysis confirms that it is appropriate. These assets, for which we were able to validate the price using other observable market data, were classified as Level 2.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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Note 3 - Fair Values of Financial Instruments - Continued

Approximately 11.1 percent of our fixed maturity securities were valued based on prices of comparable securities, matrix pricing, market models, and/or internal models or were valued based on non-binding quotes with no other observable market data. These assets were classified as either Level 2 or Level 3, with the categorization dependent on whether there was other observable market data. Level 3 is the lowest category of the fair value hierarchy and reflects the judgment of management regarding what market participants would use in pricing assets or liabilities at the measurement date. Financial assets and liabilities categorized as Level 3 are generally those that are valued using unobservable inputs to extrapolate an estimated fair value.

We consider transactions in inactive or disorderly markets to be less representative of fair value. We use all available observable inputs when measuring fair value, but when significant other unobservable inputs and adjustments are necessary, we classify these assets or liabilities as Level 3.

The categorization of fair value measurements by input level is as follows:

	June 30, 2011 (in millions of dollars)			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	$120.9	$1,009.6	$—	$1,130.5
States, Municipalities, and Political Subdivisions	49.0	1,320.1	—	1,369.1
Foreign Governments	7.6	1,442.6	—	1,450.2
Public Utilities	1,074.4	8,594.1	217.9	9,886.4
Mortgage/Asset-Backed Securities	—	3,219.5	19.7	3,239.2
All Other Corporate Bonds	5,610.2	17,497.0	528.3	23,635.5
Redeemable Preferred Stocks	—	34.9	22.6	57.5
Total Fixed Maturity Securities	6,862.1	33,117.8	788.5	40,768.4
Other Long-term Investments				
Derivatives				
Interest Rate Swaps	—	84.8	—	84.8
Foreign Exchange Contracts	—	0.2	—	0.2
Total Derivatives	—	85.0	—	85.0
Equity Securities	9.6	—	3.6	13.2
Liabilities				
Other Liabilities				
Derivatives				
Interest Rate Swaps	$—	$33.2	$—	$33.2
Foreign Exchange Contracts	—	170.4	—	170.4

Embedded Derivative in Modified Coinsurance Arrangement	—	—	87.0	87.0
Total Derivatives	—	203.6	87.0	290.6

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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June 30, 2011
Note 3 - Fair Values of Financial Instruments - Continued

	December 31, 2010 (in millions of dollars)			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	$102.8	$998.9	$—	$1,101.7
States, Municipalities, and Political Subdivisions	301.9	943.3	—	1,245.2
Foreign Governments	0.7	1,408.6	—	1,409.3
Public Utilities	840.1	8,670.5	173.6	9,684.2
Mortgage/Asset-Backed Securities	—	3,384.8	0.7	3,385.5
All Other Corporate Bonds	4,170.7	18,154.3	829.7	23,154.7
Redeemable Preferred Stocks	—	33.3	21.7	55.0
Total Fixed Maturity Securities	5,416.2	33,593.7	1,025.7	40,035.6
Other Long-term Investments				
Derivatives				
Interest Rate Swaps	—	98.4	—	98.4
Foreign Exchange Contracts	—	0.7	—	0.7
Total Derivatives	—	99.1	—	99.1
Equity Securities	—	8.9	1.5	10.4
Liabilities				
Other Liabilities				
Derivatives				
Interest Rate Swaps	$—	$39.1	$—	$39.1
Foreign Exchange Contracts	—	160.5	—	160.5
Embedded Derivative in Modified Coinsurance Arrangement	—	—	96.3	96.3
Total Derivatives	—	199.6	96.3	295.9

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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June 30, 2011
Note 3 - Fair Values of Financial Instruments - Continued

Transfers of assets between Level 1 and Level 2 are as follows:

	Three Months Ended June 30, 2011		Six Months Ended June 30, 2011	
	(in millions of dollars)			
	Transfers into			
	Level 1 from Level 2	Level 2 from Level 1	Level 1 from Level 2	Level 2 from Level 1
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	$—	$—	$16.1	$—
States, Municipalities, and Political Subdivisions	—	27.0	25.4	301.9
Foreign Governments	—	—	—	0.7
Public Utilities	531.8	762.1	698.3	526.9
All Other Corporate Bonds	1,941.6	2,320.4	2,608.5	1,528.2
Total Fixed Maturity Securities	$2,473.4	$3,109.5	$3,348.3	$2,357.7
Equity Securities	$9.9	$—	$9.0	$—

	Three Months Ended June 30, 2010		Six Months Ended June 30, 2010	
	(in millions of dollars)			
	Transfers into			
	Level 1 from Level 2	Level 2 from Level 1	Level 1 from Level 2	Level 2 from Level 1
Fixed Maturity Securities				
United States Government and Government Agencies and Authorities	$18.3	$122.9	$114.3	$—
States, Municipalities, and Political Subdivisions	—	26.0	—	75.6
Public Utilities	485.9	697.1	577.1	655.8
All Other Corporate Bonds	1,991.5	1,849.1	2,689.8	1,258.1
Redeemable Preferred Stock	—	5.8	—	5.5
Total Fixed Maturity Securities	$2,495.7	$2,700.9	$3,381.2	$1,995.0

Transfers between Level 1 and Level 2 occurred due to the change in availability of either a TRACE or broker market maker price. Depending on current market conditions, the availability of these Level 1 prices can vary from period to period. For fair value measurements of financial instruments that were transferred either into or out of Level 1 or 2, we reflect the transfers using the fair value at the beginning of the period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) - Continued
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Note 3 - Fair Values of Financial Instruments - Continued

Changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are as follows:

Three Months Ended June 30, 2011
(in millions of dollars)

		Total Realized and Unrealized Investment Gains (Losses) Included in				Level 3 Transfers		
	Beginning of Period	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Into	Out of	End of Period
Fixed Maturity Securities								
Public Utilities	$324.7	$0.7	$3.0	$—	$(10.2)	$89.1	$(189.4)	$217.9
Mortgage/Asset-Backed Securities	32.2	—	(0.3)	19.4	(0.1)	—	(31.5)	19.7
All Other Corporate Bonds	633.8	(1.9)	3.3	25.0	(6.8)	53.1	(178.2)	528.3
Redeemable Preferred Stocks	0.1	—	0.8	—	—	21.7	—	22.6
Total Fixed Maturity Securities	990.8	(1.2)	6.8	44.4	(17.1)	163.9	(399.1)	788.5
Equity Securities	1.5	—	0.1	2.0	—	—	—	3.6
Embedded Derivative in Modified Coinsurance Arrangement	(82.2)	(4.8)	—	—	—	—	—	(87.0)

Three Months Ended June 30, 2010
(in millions of dollars)

		Total Realized and Unrealized Investment Gains (Losses) Included in				Level 3 Transfers		
	Beginning of Period	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Into	Out of	End of Period
Fixed Maturity Securities								
Foreign Governments	$39.7	$—	$—	$—	$—	$—	$(39.7)	$—
Public Utilities	218.7	—	3.0	—	—	4.6	(153.9)	72.4
Mortgage/Asset-Backed Securities	2.0	—	—	—	(0.5)	—	—	1.5
All Other Corporate Bonds	557.7	—	10.3	5.0	(19.8)	129.2	(252.3)	430.1
Redeemable Preferred Stocks	0.1	—	1.0	—	—	20.2	—	21.3
	818.2	—	14.3	5.0	(20.3)	154.0	(445.9)	525.3

Total Fixed Maturity
Securities