Chattanooga-based Unum quits long-term care field, takes loss

By Ellis Smith
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The Unum building is a prominent part of downtown Chattanooga sitting at the intersection of Lookout and Fifth Streets.
Photo by Dan Henry /Chattanooga Times Free Press.

Chattanooga-based Unum Group announced Monday it is ending sales of its group long-term care insurance in the midst of improved operating results in the fourth quarter.

Unum joins other insurers like MetLife which have halted long-term care sales, a market where payouts have become more expensive. Unum previously discontinued sales of individual long-term care insurance in 2009.

The move produced a net loss for Unum in the fourth quarter, but the insurance giant reported higher operating earnings from its core businesses. Earnings from operations in the fourth quarter were 78 cents per share, beating Wall Street expectations of 75 cents per share with after-tax operating income of $227.6 million.

Unum also beat its fourth-quarter 2010 results of $208.6 million from operations, or 66 cents per share.

But net income fell into negative territory as the company took a $561.2 million charge to discontinue selling new long-term care group insurance policies, according to a news release.

In addition to the long-term-care charge, Unum spent $119.3 million to buoy the $12 billion in cash reserves it maintains to support its now-closed individual disability business, the company reported.

As a result, Unum reported an overall net loss of $425.4 million, or $1.45 per share, compared to net income of $225.8 million, or 71 cents per share a year ago, Tom Watjen, president and CEO of Unum Group, wrote in a letter to employees.

"Regardless, our operating results were solid, our financial position strong and our financial outlook unchanged as a result of these decisions," Watjen wrote. "The bottom line is I feel very good about the quarter and the way we closed the year."

Analyst John Nadel of Sterne, Agee & Leach called Unum "a very interesting stock to watch" as the company jettisons its least profitable business.

Nadel said Unum's decision to stop selling new long-term policies are due to the Federal Reserve System's extremely low interest rates, which has lowered investment returns, as well as the number of Americans living longer, more expensive lives.

"It's going to cost [Unum] more by a very significant amount to offer these long-term policies, a little over a $1 billion pre-tax," Nadel said. "The underlying performance of their long-term businesses was better than expected, but they're exiting this business at a massive cost."

By division, Unum US again led the company with operating income of $208.6 million, an increase of 7.5 percent.

The Unum UK division increased operating income by 11.6 percent to $53.7 million, which the company attributed to "more normal claims trends" and sales growth of 15 percent.

Unum's Colonial Life division grew at a brisk clip to $67.6 million in operating income, 11.2 percent higher than the fourth quarter of 2011.

For all of 2011, Unum made $896.8 million in after-tax operating income on total revenue of $10.27 billion, or $2.95 per share. Including charges and other one-time expenses, the company still posted net earnings of $235.4 million for the year, or 78 cents per share.

Despite the charge-offs, Fitch affirmed Unum Group's ratings outlook as "stable" on Monday afternoon. Unum stock closed at $23.65 for the day, down 14 cents per share.