Positioned for GROWTH

2014 ANNUAL REPORT

Financial Highlights
Unum Group

	2014	2013	2012	2011	2010
Income Per Share[1]					
After-tax Operating Income[2]	**$ 3.55**	$ 3.32	$ 3.15	$ 2.98	$ 2.73
Net Realized Investment Gain (Loss)	**0.05**	0.02	0.13	(0.01)	0.05
Non-operating Retirement-related Loss, Net of Tax	**(0.18)**	(0.08)	(0.11)	(0.07)	(0.06)
Costs Related to Early Retirement of Debt, Net of Tax	**(0.04)**	—	—	—	—
Reserve Charges for Closed Block, Net of Tax	**(1.77)**	—	—	(1.62)	—
Unclaimed Death Benefits Reserve Increase, Net of Tax	—	(0.24)	—	—	—
Group Life Waiver of Premium Benefit Reserve Reduction, Net of Tax	—	0.21	—	—	—
Deferred Acquisition Costs for Closed Block, Net of Tax	—	—	—	(0.42)	—
Special Tax Items	—	—	—	0.08	(0.03)
Net Income	**$ 1.61**	$ 3.23	$ 3.17	$ 0.94	$ 2.69
Book Value Per Share					
Total Stockholders' Equity	**$33.90**	$33.30	$31.87	$27.91	$26.80
Net Unrealized Gain on Securities	**1.15**	0.52	3.23	2.11	1.31
Net Gain on Cash Flow Hedges	**1.55**	1.52	1.48	1.39	1.14
Foreign Currency Translation Adjustment	**(0.45)**	(0.18)	(0.26)	(0.41)	(0.34)
Unrecognized Pension and Postretirement Benefit Costs	**(1.59)**	(0.88)	(2.13)	(1.51)	(1.00)
Total Stockholders' Equity, Excluding Accumulated Other Comprehensive Income	**$33.24**	$32.32	$29.55	$26.33	$25.69

[1] Per share amounts for operating statement data assume dilution.

[2] We analyze our performance using non-GAAP financial measures which exclude certain items and the related tax thereon from net income. We believe "After-tax Operating Income," which is a non-GAAP financial measure and excludes certain items as specified above, is a better performance measure and a better indicator of the profitability and underlying trends in our business. Realized investment gains or losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our company. The amortization of prior period actuarial gains or losses, a component of the net periodic benefit cost for our pensions and other postretirement benefit plans, is driven by market performance as well as plan amendments, and is not indicative of the operational results of our businesses. We also exclude certain other items specified above in order to enhance the understanding and comparability of our operational performance and the underlying fundamentals, but this exclusion is not an indication that similar items may not recur and does not replace the comparable GAAP measures in the determination of overall profitability.

To Our Shareholders, Customers and Colleagues

In many ways the Unum story for 2014 sounds much like one you've heard before, which, in my view, is a very good thing. We strive for steady, consistent performance in all that we do – in the quality of service we provide our customers, in the profitability and returns we generate in our core businesses, and in our commitment to returning capital to our shareholders – not just in one year, but over the longer term.

That's exactly what we did again in 2014.

Thomas R. Watjen
Chief Executive Officer

Our steady, consistent performance doesn't just happen. It's a result of staying focused on a few very basic principles – principles that have served us well in the past and will continue to do so in the future. The most important of these is remaining disciplined in all that we do – in our business focus, in our commitment to superior customer service, in our prudent financial and risk management, in our precise execution of our business plans (delivering on what we say we will do), and in our commitment to creating a high-performance environment where our people can flourish and make a difference.

While we enjoyed another strong year, the general environment remained very challenging. Persistently low interest rates continue to create headwinds for us and our competitors, putting pressure on our profit margins and testing our industry's ability to operate profitably. Although steady improvement in the overall economy softened the blow somewhat in 2014, operating in this prolonged period of low interest rates requires discipline – and a considerable measure of patience.

As I mentioned earlier, these have been hallmarks of this company for some time and it is therefore no surprise to me that, despite a challenging environment in 2014, we generated the ninth consecutive year of operating earnings-per-share growth, or that over this period we repurchased $2.8 billion of stock and increased our dividend by 120 percent, or that we did all this while significantly strengthening our position in all of our key markets. We are exceptionally proud of that track record, especially considering the unprecedented economic and market volatility we experienced during that nine-year span.

This past year, many of the same solid operating trends we have seen in the past continued, including strong profitability across most of our businesses, excellent customer retention and solid investment performance – despite the challenging interest rate environment. Additionally, the growth trends that emerged in 2013 accelerated in 2014, as we saw very positive sales and premium increases in all of our core businesses. This growth clearly hasn't come from any meaningful economic recovery, but rather from the quality and competitiveness of our product and service offerings, our strong relationships in the marketplace, and generally favorable employee benefit market conditions.

Again, steady and consistent results don't just happen – it's our people who are behind our success and set us apart from our competition. It should be no surprise, then, that we focus a great deal of attention on attracting, retaining and developing the absolute best people in the industry – people to both deliver on today's commitments and help us meet the demands of the future. This past year was no exception, as we continued to invest heavily in our people at all levels, with a sustained focus on leadership development and succession planning across the company. I think we have proven that we can transition leadership very effectively without skipping a beat, which I'll come back to in a moment.

Looking back on 2014, we accomplished much of what we set out to do and are well-positioned for another solid year in 2015, in spite of the headwinds. We have very good operating businesses and positive long-term trends in our markets. In fact, the need for our products and services has never been greater. We also have strong profit margins in all of our operating businesses and a solid financial foundation that gives us significant flexibility. And, perhaps most importantly, we have created a culture where doing the right thing and striving to meet the ever-changing needs of our customers and the marketplace are deeply embedded within the company.

Moving forward, we intend to stick to the time-tested script of remaining disciplined in all that we do, which has allowed us to deliver steady, consistent results for our customers and shareholders.

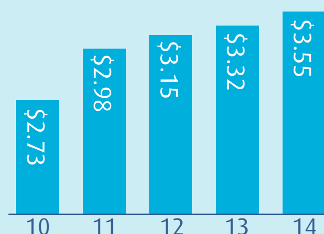
2014 PERFORMANCE

As has been the case over much of the last decade, we were fortunate in 2014 to have two sources of value for our shareholders: our solid business operations and our ability to return capital to our shareholders through share repurchases and dividend increases.

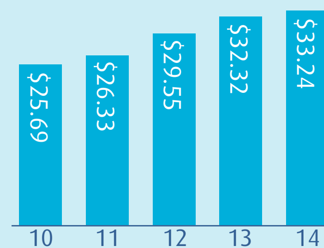
Our core businesses – Unum US, Colonial Life and Unum UK – once again performed well. This past year we benefited, too, from the retrenching actions taken by a number of our competitors, who had been aggressively growing their businesses in an unsustainable manner. Our discipline and patience was rewarded. As I mentioned earlier, we saw solid sales growth in all three businesses in 2014, including a 21 percent improvement for Unum US and a nearly 12 percent increase for Colonial Life – its highest growth rate since 1990.

2014 Financial Performance Highlights

OPERATING EARNINGS PER SHARE



BOOK VALUE PER SHARE (EXCLUDES AOCI)



Among the year's other highlights*:

- Operating earnings increased 6.9 percent to $3.55 per share, marking Unum's ninth consecutive year of operating EPS growth;
- Operating return on equity for our principal businesses was 14.7 percent, again exceeding the average for our industry, while total company operating return on equity was 11.4 percent;
- Book value per share[I], a measure of enterprise growth, increased 2.8 percent to $33.24 – an average increase of 8.2 percent annually over the past six years.

*In analyzing performance, the company sometimes uses non-GAAP financial measures that differ from what is reported under GAAP. Refer to the Financial Highlights and pages 23,24, 153, 154 and 168 for reconciliations of the non-GAAP financial measures used in this report, including operating income, operating revenue, operating earnings per share, operating return on equity, and book value per share (excluding accumulated other comprehensive income, or AOCI), to the most directly comparable GAAP measures.

[I]Excludes AOCI.

This success comes despite the impact today's low interest rate environment continues to have on our investment results, especially on our group long-term disability and long-term care lines of business. During the year we strengthened our long-term care reserves by nearly $700 million to better reflect a continuation of this low interest rate environment. I'm confident that we are doing all the right things to manage this business (a product that we no longer sell but continue to service). We are also taking the appropriate pricing actions in those product lines that are more sensitive to interest rates, such as group long term disability. While we never like to raise prices, it is the most prudent thing to do in this environment.

During 2014, with strong capital generation from our core operations, we continued our practice of returning excess capital to our shareholders. We repurchased another $300 million of our stock, bringing our total since 2007 to $2.8 billion, or nearly 32 percent of our outstanding shares. Additionally, we increased our dividend nearly 14 percent, marking the sixth consecutive year of double-digit dividend increases. Our capital position remains strong, again exceeding most of our targets in 2014, giving us the flexibility to both support the needs of our business while also returning capital to shareholders.

CONSOLIDATED OPERATING RETURN ON EQUITY

Although our longer-term total shareholder return continues to outperform our industry and the broader market, I am disappointed that our stock's performance in 2014 was below that of our peers. We believe the uncertainty around interest rates and our long-term care business impacted investors' views of our company more so than the strong financial and operating results we achieved throughout the year. I'm confident, though, that these factors remain important to investors and will ultimately be recognized in the market, and that we are on the right path to continue to create long-term value for our shareholders.

A GROWING NEED FOR WHAT WE DO

At Unum, we are well aware of the important role we play in helping to protect the financial futures of individuals and their families, as well as in helping employers better manage their businesses. Last year, we paid more than $6.7 billion in benefits and, in our group disability business alone, enabled more than 230,000 individuals to return to work and a productive lifestyle, while giving millions of others the peace of mind that comes with protecting themselves and their loved ones. In addition, more than 178,000 companies large and small have entrusted us to help their employees protect their futures.

Challenging economic conditions in recent years combined with shifting employee benefits trends have created an even greater need for our products and services. The value of what we do becomes especially clear when you consider:

- With nearly 70 percent of consumers in the U.S. and U.K. living paycheck-to-paycheck, most consumers lack the resources to support themselves should a significant illness or injury occur.
- Yet life-changing events occur more frequently than many people expect. In fact, one out of four of today's 20-year-olds will be out of work for at least six months due to a disability over the course of their working years, with little to fall back on.
- Unfortunately, most consumers are under-insured against these very real risks. For example, 66 percent of working Americans lack basic disability coverage, and the situation is even bleaker in the U.K., where 92 percent lack basic disability coverage. This lack of coverage can have devastating financial consequences on the goals and aspirations of individuals and their families.

As we know all too well, governments lack the financial resources to expand their welfare programs to provide adequate coverage for those facing these issues. Often the best, and only, opportunity for workers to obtain basic financial protection is through the workplace. In fact, nearly 90 percent of all disability insurance is purchased at the workplace, while roughly 80 percent of all life insurance coverage is acquired there – facts that have changed very little in spite of health-care and other market reforms.

As a leading provider of workplace benefits, we see a tremendous opportunity to grow the market and believe we are in a strong position to do so – in part by building from our 165 years of industry expertise, and the strong customer relationships and reputation we have established over the years, but it goes beyond that.

Last year in the U.S., in an attempt to reduce the uninsured population, we proposed legislation that would make it easier for employers to offer disability insurance on an "opt-out" basis, or, in other words, to provide coverage at the time of employment, with the employee able to decline it later if they so choose. This approach has proven highly successful in increasing the participation in 401(k) or retirement saving plans, and we believe this proposed legislation can help to fill a critical protection gap in this country. We remain hopeful that this legislation will gain the necessary support it needs in Congress.

We are also continuing to invest heavily in our consumer research capabilities to better understand and engage consumers. There's a reason so few consumers elect not to purchase this coverage when it's offered in the workplace. We've already taken a number of critical

steps to address the root causes of this longstanding industry challenge, with much of the focus being on simplifying our products and services, and creating an even better customer experience – not just by "insurance industry standards," but across all industries.

While in 2014 we enjoyed some of the strongest growth rates we've seen in many years, we believe that there are even greater opportunities ahead. The quality of our offering, the strength of our relationships in the market, and the potential to grow our markets are exciting opportunities within our grasp. But rest assured, unlike some in our industry, we will not grow our business at the expense of future profitability. Instead, we are committed to maintaining the disciplined approach to growth that has so successfully guided us over my 12 years as CEO.

2015 OUTLOOK

Hoping for higher interest rates or a more robust economic environment in 2015 is one way to plan for the future, but it's not how we've gone about doing it. We don't believe that we will get any material help from the environment this year, and therefore we are taking the steps needed to operate in a setting not dissimilar from the one we are in today.

In 2015, our focus will remain on profitably growing our business, maintaining strong margins through disciplined pricing, underwriting and expense management, and effectively managing our capital – just as it has been in the past. Even in this persistently low interest rate environment, we expect to maintain solid operating margins and significant financial flexibility to support the needs of our businesses, while also continuing to return capital to our shareholders.

I am very confident that we will be able to achieve these objectives because we have solid plans in place and a track record of delivering on our commitments to our customers, to our shareholders and to all of our stakeholders.

I mentioned earlier that for many years we have been committed to a rigorous leadership development and succession planning process at all levels of the organization. While we emphasize internal advancement, we also leverage Unum's track record and reputation to attract outside talent for particular expertise, and to help assure that we bring fresh perspectives and insights to our company. Looking back over the past five or so years, this commitment has paid dividends as we have seamlessly transitioned the responsibilities of a number of retiring executives without impacting our performance. We are fortunate to have such a deep and talented group of leaders ready to take on new roles in the future.

Which brings me to my decision to retire as CEO at this year's Annual Meeting. I'm as healthy and energized as ever, but it's simply time to step away from active management. I wouldn't do so if I didn't believe we were well-positioned for the future, and I step back knowing that Unum is in very good hands and poised for even greater things ahead. Rick McKenney, who will be succeeding me as CEO, has made significant contributions to this company since joining as chief financial officer in 2009, and the board and I have tremendous confidence Unum will continue to thrive under his leadership. With the work we have done these past five years to put in place the leadership team of the future, Rick will be flanked by a deeply talented, well-established executive leadership team.

As I make my transition, I want to thank you for your support over these past 12 years as CEO of this great company. We've enjoyed a number of successes over that time, as well as a few challenges along the way that tested the resolve of our organization and each of us as individuals. We not only met each challenge but emerged a stronger, more vibrant company. While I will miss being CEO, I am looking forward to my new role as non-executive chairman of the board for the next two years – and to lending my support wherever I can.

In closing, I'd like to thank our employees, who never fail to amaze me with their commitment to our customers, and with their enthusiasm for developing better and more efficient ways to do their jobs and move our company forward. They are well aware of the larger purpose of our business – to provide our customers with peace-of-mind and, when necessary, the financial support to help them navigate through challenging, sometimes tragic experiences. We owe our success and the optimism we have for the future to them.

I'd like to also thank our board of directors and my management team for the strong leadership they've provided, including never shying away from making tough decisions. They've also had the courage to stick with the principles that have been so important to our past success and will most certainly guide us over the long term.

It has been a privilege to lead this great company for the last 12 years. Unum is today well-positioned strategically and financially to capitalize on the opportunities that lie ahead, and we believe the steps we've taken to ensure management continuity and an orderly leadership transition will enable the company to continue to generate outstanding results well into the future.

On behalf of all of us at Unum, thank you for your continued support.

Thomas R. Watjen
Chief Executive Officer

Leadership Transition: The Opportunity Ahead

Richard P. McKenney
President

When I joined Unum six years ago, I knew I was joining a special company. Primarily, I was attracted to a company that provides fundamental protection to workers both in the U.S. and the U.K. by the best in the industry. Under Tom Watjen's leadership, Unum was gaining a well-earned reputation for consistent performance, a disciplined approach to growth, and a laser focus on understanding and capitalizing on the opportunities presented by a changing-workplace landscape.

Today, that momentum continues. Despite a difficult environment with low interest rates and a sluggish economy, we have generated consistent profitability and earnings-per-share growth combined with a track record of creating shareholder value. Most recently we have also seen good organic top-line growth, which provides encouragement that our customers are also appreciative of our consistency. All of this has placed Unum at the forefront of our industry, and I'm confident our disciplined execution and 10,000 of the best people in the business will help keep us there.

As incoming CEO, I couldn't be more excited about what lies in front of us. The need for our products and services has never been greater, and we approach this opportunity from a position of competitive and financial strength. As we look to the future, we'll not only stay true to the principles that have gotten us where we are today, we will continue to follow our successful strategy.

I'm fortunate to be joined by a strong leadership team that has a deep understanding of our business and has a track record of successfully executing on our plans and delivering value to our stakeholders. This team will tell you, as will I, that the real drivers of this success are our employees throughout the U.S., U.K. and Ireland who approach each work day with a passion for helping others.

Few companies have as rich a culture and history as Unum. We're a pioneer in offering financial protection benefits through the workplace — and we feel we have an important leadership role to continue that tradition of innovation. Since 1848, we've given millions of families the peace of mind that comes from knowing our company will be there when they need us most — a responsibility we take very seriously. We combine this passion to serve our customers with a belief that we also need to work hard to be a good corporate citizen, one that invests in our communities in the spirit that our efforts make a difference in the places we call home.

As Tom approaches retirement, I'd like to thank him on behalf of all of our employees for his tremendous leadership and foresight, but most especially for the winning spirit he has brought to this company in his 12 years as CEO. I'm delighted that we will continue to benefit from his insight as chairman of the board over the next two years.

In closing, I'm honored to serve this great company as CEO and appreciate the trust placed in me by our board, shareholders, and employees. Unum is stronger today than ever before, and each of us understands the responsibility we have to build on this foundation. Our world will continue to change at an ever more rapid pace, and by continuing to anticipate the needs of our customers and remaining disciplined, we'll be well-positioned to deliver even greater value for our stakeholders in the years ahead.

I look forward to updating you as our team navigates our journey.

Rick

Richard P. McKenney
President

Aligned With Growing Needs

> The true opportunity lies in helping people plan for unforeseen circumstances rather than hoping against them.

Our benefits make a significant difference to people when they face the unexpected challenges of life. In 2014, we paid $6.7 billion to individuals and families as financial protection against the impact of injury, illness or death.

While hundreds of thousands of people received our support last year, there were millions more without adequate financial protection. Two-thirds of employees in the U.S. and nearly nine in 10 workers in the U.K. lack easy access to benefits that can preserve their financial stability if they are unable to work.

With governments in both countries short on resources and solutions to close financial gaps, the responsibility for building a personal financial safety net lands squarely on individuals. And for the vast majority of us, the workplace is the best place to be educated about the risks and get access to affordable coverage.

The need is quite clear. In the U.S., one in four of today's 20-year-olds will be unable to work due to injury or illness before they retire.

Employer-sponsored benefits play a major role in addressing the growing need for financial protection for families and individuals. We're in a strong position to expand a market with clear potential and to help ensure financial security for today's diverse workforce.

For nearly a decade, we have leaned into headwinds from a stagnant economy and low interest rates. Through it all, our discipline has enabled us to diversify and deliver solid results to shareholders without wavering on our commitment to excellent service and support for our customers.

The focused approach is evident in our investment philosophy. We not only have a disciplined approach to running our businesses, but also, we have maintained a prudent investment strategy that steers clear of risky investments and focuses on supporting our broad portfolio of products.

With more than $50 billion under active management, our investment portfolio is designed to match the long-term nature of our business. The high quality of our investments means we have a significantly lower default experience than the market average, and low exposure to problem areas.

Although today's stubbornly low interest rates continue to put pressure on our investment income, we are able to offset this impact by adjusting the pricing of many of our products to accommodate changing economic environments and their impact on our profitability.

Through it all, we have a responsibility to make investment decisions that are in the best interest of our shareholders and customers. That means looking for sensible opportunities that provide attractive returns over the long term. It's a simple but powerful guiding principle.

"Although we constantly refine our plans to meet changing business needs and financial market realities, what doesn't change is our long-term perspective."

Breege Farrell
Executive Vice President and
Chief Investment Officer

A Focused Investment Strategy

Unum's People: Powering the Progress

Our ability to deliver on the promises we make to our customers and shareholders rests with our greatest asset – our people.

Our employees' expertise, energy and passion for what they do have made us an industry leader and enable us to deliver on our promise to help people when they need it most.

We attract, retain and develop the best talent in our industry. The expertise and passion of our nearly 10,000 employees keep us at the top of our markets. We keep our skills sharp by constantly investing in the success of our employees with development opportunities at every level and professional challenges that may cross departments, businesses, and even oceans.

We work hard to help employees see the connection between their individual performance and the company's overall success. The achievements of our people are rewarded in ways large and small, from daily recognition through our Spotlight online forum to an annual Disney World immersion for the top performers of the year.

With a similar commitment, our employees never fail to turn their talents and support back to the communities we call home. Our culture of professional excellence and social responsibility is one reason we are recognized each year as a Best Place to Work in the insurance industry and in the states where we have major campuses.

Our people are our brand. Making our people a priority will remain essential to our steadfast commitment to help workers in the U.S. and U.K. when they need it most.

Q–A

Executing Our Growth Agenda

A Q&A with Michael Simonds, President and Chief Executive Officer, Unum US; Peter O'Donnell, President and Chief Executive Officer, Unum UK; and Tim Arnold, President and Chief Executive Officer, Colonial Life; about executing Unum's growth agenda.

What are the growth opportunities for our business in today's environment?

Peter: The greatest opportunity is extending the financial safety net to the huge number of workers without protection. For example, in the U.K., only 10 percent of employees are covered by income protection benefits and whilst there is greater coverage in the U.S., there are still 70 percent of workers who lack this important coverage. We're keen to provide solutions because everyone needs a backup plan. Increasing the number of employers who offer a broad range of benefits and turning up the dial on participation for those who already have a package can make a big difference.

Tim: Employers of all sizes are struggling these days with providing competitive yet affordable benefits, as well as dealing with the complexity brought on by health care reform. So from that perspective, we can add value in all markets. For Colonial Life in particular, small business offers a tremendous growth opportunity. When you consider there are nearly six million employers in the U.S. with fewer than 100 workers, and that only 18 percent of them are offering voluntary benefits, too many people lack important financial protection benefits. Small business is America's economic growth engine and employs the majority of America's workers, and that market has barely been tapped.

Mike: One of the biggest opportunities we have in Unum US is to grow through stronger relationships with existing clients. Our company saw terrific sales growth in 2014, but the even better news is our people delivered it the right way: profitable, disciplined growth. For Unum US, more than 60 percent of 2014 sales were to existing clients. That's a smart way to expand our reach. That approach to profitable growth serves both our business and the people who rely on our benefits and our strength.

What are our unique strengths? Where do we stand apart from competitors?

Tim: The depth and breadth of our combined experience across our company in the employee benefits market is a huge strength. The voluntary benefits market in particular has seen a big influx of providers in recent years who see the opportunity, but may underestimate the complexities involved and the expertise it takes to be successful. I think the ability to understand and meet the needs of customers and employees from a mom-and-pop shop to a Fortune 500 corporation makes us unique.

Peter: Our expertise, focus and service offering are what sets us apart from our competitors, and our people are at the heart of this. They're extremely knowledgeable and experienced in what they do and are proud to support people at a time when they need us most. This is more than just delivering great service — our people take their work and its results personally. By consistently going the extra mile for our customers, we want every interaction with Unum to be the defining feature that makes us the provider of choice.

What's important in leading a growing company?

Mike: In a growing company, leaders focus on the external: They strive to understand how the client and the consumer experience the company. They focus on how the market is changing, how technology is altering the

Michael Simonds
President and Chief Executive Officer
Unum US

Peter O'Donnell
President and Chief Executive Officer
Unum UK

Tim Arnold
President and Chief Executive Officer
Colonial Life

landscape and ratcheting up customer expectations. We have to be willing to question how we do things, why we do things, and to trust each other to make good decisions. The drive to grow means we want to work with people who challenge us. It affects the way we hire and promote, and it inspires us to look for exceptional talent and invest in a culture that attracts and retains that talent.

What's the biggest challenge to growth and how are we positioned compared with competitors to take advantage of opportunities?

Tim: The amount of change in our industry over the past few years has been incredible: health care reform legislation, increasing regulatory requirements, increasing competition, emerging technology, economic shifts. We always have to be ready to react to — or better yet, pro-actively plan for — the challenges these changes bring. And yet we can't let that distract us from our focus: helping workers protect themselves and their families.

We have several advantages working for us. Our combined company has an international presence with the ability to work both directly with employers and through broker partners. We're extremely strong financially, so we have the resources to take advantage of opportunities when they arise. And in the U.S., having two brands and two distribution systems makes us stronger, as does the significant work we've done to share resources and constantly refine our practices to benefit our customers.

How are we investing in customer service?

Mike: Our investment in elevating the Unum experience includes efforts like Client First, which puts some of our best front-line people on the road for visits with employer clients across the country. Through these visits, we get to see the reality of what our clients experience day to day, and we collect first-hand feedback that helps us ensure our work is always focused on what's important to them.

Peter: Our aim is to understand what matters to our customers and make it as easy as possible for them to do business with us. We've been focused on finding better ways to engage with our customers, streamlining our operations, simplifying our processes to support our service proposition, and investing in a new administration platform.

Tim: We need to ensure the technology behind our service is modern, simple to use and personalized. We're adding new capabilities for submitting claims online and helping customers get the information they need when and how it works best for them. And our Enrollment and Consumerism teams work across our businesses to find the best ways to help customers learn about their benefits, choose the right benefits for their needs, elevate the enrollment experience — and to feel good about that choice.

Our aim is to make it as easy as possible for our customers to do business with us, and they remain at the heart of all we do.

Q – A

Repositioning the Closed Block

A Q&A with CFO Jack McGarry and SVP and President of Closed Block Operations Steve Mitchell about Unum's Closed Block segment of business, made up of products the company no longer actively sells but still services.

What is the Closed Block and why is it so important to Unum's business?

Jack: Several years ago we made the decision to discontinue selling certain product lines, such as long-term care and older individual disability policies, and separate them from our ongoing business operations for financial reporting purposes. Although the premium associated with the Closed Block is small, more than 30 percent of Unum's capital is tied up in these products. Even though we no longer sell new products associated with this business, we have significant obligations to these policyholders.

Is our relationship with Closed Block customers different from policyholders of other products?

Steve: We're proud of our service levels with all of our products, and the Closed Block is no different. We maintain high standards of quality for both our service and claim interactions, and we're mindful that often these customers have other products with Unum — so the level of service we provide directly impacts our brand.

What are the challenges facing the Closed Block?

Jack: There are two fundamental challenges, particularly with long-term care. First, this is an immature business for us and for the entire industry. Therefore, the historical data that exists is relatively new and evolving. In spite of the age of the business, we believe we have a good understanding of the trends and information available to us today, and we're confident we have the appropriate level of resources focused on the right issues.

Second, these product lines are very sensitive to the interest rate environment because we're collecting money today with the intent of paying it out perhaps 30 years down the road. In the meantime, we rely on investment income to provide funding for what we ultimately pay out on those claims. The persistently low interest rates hamper our investment returns, which in turn creates an even bigger challenge for this business.

Jack McGarry
Chief Financial Officer

Steve Mitchell
Senior Vice President and President
Closed Block Operations

What are we doing to overcome these challenges and maximize our operating results?

Steve: Although there can be a perception that Closed Blocks are set aside and forgotten, that couldn't be further from the truth. In fact, we are extremely active in managing this business. It requires a lot of attention and discipline. Two years ago, we committed additional resources to this area and aligned it with the Finance organization, which we believe enhances our ability to actively manage this business. Additionally, we've strengthened the management information infrastructure for the long-term care line and continued to develop tools and analytic capabilities to better understand how this business will play out over time.

We have also implemented rate increases on this block. The long-term care business is "guaranteed renewable," which means we reserved the right to change rates if emerging experience was worse than anticipated. This was an important feature because so little was known about long-term care experience when the product was first introduced, and the combination of low interest rates, high persistency, and increasing claim trends has put pressure on prices.

Although in 2014 we felt the need to increase the reserves associated with this business, we're confident the steps we've taken will ultimately lead to an improved risk, capital, and earnings outlook.

We're proud of our service levels with all of our products, and the Closed Block is no different. We maintain high standards of quality for both our service and claim interaction, and we're mindful that often these customers have other products with Unum — so the level of service we provide directly impacts our brand.

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Asset Management and
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Fidelity Investments

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Chief Executive Officer
of the Company

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Unum UK

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Unum US

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Senior Vice President,
Corporate Marketing and Public Relations

Diane M. Garofalo
Senior Vice President,
Corporate Human Resources

Stephen J. Mitchell
Senior Vice President,
President, Closed Block Operations

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Selected Financial Data

(in millions of dollars, except share data)	2014	2013	2012	2011	2010
	At or for the Year Ended December 31				
Income Statement Data					
Revenue					
Premium Income	$ 7,797.2	$ 7,624.7	$ 7,716.1	$ 7,514.2	$ 7,431.4
Net Investment Income	2,477.4	2,492.1	2,515.2	2,519.6	2,495.5
Net Realized Investment Gain (Loss)	16.1	6.8	56.2	(4.9)	24.7
Other Income	219.0	230.2	227.9	249.1	241.6
Total	10,509.7	10,353.8	10,515.4	10,278.0	10,193.2
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits [1]	7,310.8	6,595.7	6,722.2	7,209.5	6,354.1
Commissions	935.3	909.5	917.2	879.2	855.4
Interest and Debt Expense	167.5	149.4	145.4	143.3	141.8
Other Expenses [2]	1,568.9	1,494.0	1,481.1	1,712.7	1,522.0
Total	9,982.5	9,148.6	9,265.9	9,944.7	8,873.3
Income Before Income Tax	527.2	1,205.2	1,249.5	333.3	1,319.9
Income Tax	113.8	347.1	355.1	49.1	441.2
Net Income	$ 413.4	$ 858.1	$ 894.4	$ 284.2	$ 878.7
Balance Sheet Data					
Assets	$62,497.1	$59,403.6	$62,236.1	$59,555.2	$56,602.7
Long-term Debt	$ 2,628.7	$ 2,612.0	$ 2,755.4	$ 2,570.2	$ 2,631.3
Accumulated Other Comprehensive Income	$ 166.4	$ 255.0	$ 628.0	$ 461.8	$ 351.4
Other Stockholders' Equity	8,386.0	8,404.1	7,984.6	7,707.9	8,133.5
Total Stockholders' Equity	$ 8,552.4	$ 8,659.1	$ 8,612.6	$ 8,169.7	$ 8,484.9

	At or for the Year Ended December 31				
	2014	2013	2012	2011	2010
Per Share Data					
Net Income					
Basic	$ 1.62	$ 3.24	$ 3.18	$ 0.94	$ 2.70
Assuming Dilution	$ 1.61	$ 3.23	$ 3.17	$ 0.94	$ 2.69
Stockholders' Equity	$33.90	$33.30	$31.87	$27.91	$26.80
Cash Dividends	$0.620	$0.550	$0.470	$0.395	$0.350
Weighted Average Common Shares Outstanding					
Basic (000s)	255,525.9	264,725.8	281,355.9	302,399.8	325,839.0
Assuming Dilution (000s)	256,652.8	265,949.2	281,756.8	303,571.0	327,221.1

(1) Included are reserve increases of $698.2 million in 2014 and $573.6 million in 2011 related to our long-term care closed block business and a reserve increase of $183.5 million in 2011 related to our individual disability closed block business. See Note 6 of the "Notes to Consolidated Financial Statements" contained herein for further discussion of the 2014 reserve increase.

(2) Includes the net change in deferred acquisition costs as well as compensation expense and other expenses. Included in these expenses is $64.4 million in 2014 related to a settlement loss for a pension plan amendment and $196.0 million in 2011 related to the impairment of long-term care closed block deferred acquisition costs. See Note 9 of the "Notes to Consolidated Financial Statements" contained herein for further discussion of the 2014 settlement loss.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis presented in this section should be read in conjunction with the "Selected Financial Data," the Consolidated Financial Statements and notes, and the "Cautionary Statement Regarding Forward-Looking Statements" included herein.

Executive Summary

2014 Operating Performance and Capital Management

For 2014, we reported net income of $413.4 million, or $1.61 per diluted common share, compared to net income of $858.1 million, or $3.23 per diluted common share, in 2013. Included in our results for both years are net realized investment gains and losses and non-operating retirement-related gains or losses. Included in our 2014 results is a reserve increase related to our long-term care block of business ($698.2 million before tax and $453.8 million after tax, or $1.77 per diluted common share) and costs related to the early retirement of debt ($13.2 million before tax and $10.4 million after tax, or $0.04 per diluted common share). Included in our 2013 results is a reserve increase related to unclaimed death benefits ($95.5 million before tax and $62.1 million after tax, or $0.24 per diluted common share) and a reserve reduction related to group life waiver of premium benefits ($85.0 million before tax and $55.2 million after tax, or $0.21 per diluted common share). Adjusting for these items, after-tax operating income was $910.4 million, or $3.55 per diluted common share, in 2014, compared to $882.5 million, or $3.32 per diluted common share, in 2013. The growth in after-tax operating income per diluted common share is aided by our capital management strategy of returning capital to shareholders through repurchases of our common stock. See "Reconciliation of Non-GAAP Financial Measures" contained herein for further discussion of these items.

Operating revenue, which excludes net realized investment gains and losses, increased in 2014 relative to the prior year, driven by growth in premium income. Net investment income, also a significant source of revenue for us, was lower than the prior year. Before-tax operating income, which excludes net realized investment gains and losses and non-operating retirement-related gains or losses, declined relative to 2013. Before-tax operating income, when also excluding the reserve adjustments and costs related to the early retirement of debt, as discussed in the preceding paragraph, increased relative to 2013, with favorable earnings in all of our reporting segments except Unum US where we experienced slightly less favorable earnings in the group disability line of business.

Our Unum US segment reported a decrease in operating income of 1.4 percent in 2014 compared to 2013. Operating income, excluding the 2013 reserve adjustments related to unclaimed death benefits and group life waiver of premium benefits, decreased slightly by 0.3 percent, with lower net investment income and higher expenses offset partially by growth in premium income and overall favorable risk results. Premium income increased 3.2 percent in 2014 compared to 2013. The benefit ratio for our Unum US segment for 2014 was 70.6 percent, compared to 71.3 percent, or 71.6 percent excluding the reserve adjustments, in 2013. Unum US sales increased 21.0 percent in 2014 compared to 2013. Persistency remains strong and is generally consistent with our expectations.

Our Unum UK segment reported an increase in operating income, as measured in Unum UK's local currency, of 6.5 percent in 2014 compared to 2013, with an increase in premium income and overall favorable risk results. Premium income in local currency increased 3.6 percent in 2014 relative to 2013. The benefit ratio for Unum UK was 71.0 percent in 2014 compared to 74.3 percent in 2013. Unum UK sales in 2014 increased 7.2 percent, in local currency, compared to 2013. Persistency is favorable relative to the prior year, but group life persistency continues to be lower than our long-term expectations as a result of pursuing rate increases on renewing business.

Our Colonial Life segment reported an increase in operating income of 13.4 percent in 2014 compared to 2013. Operating income, excluding the 2013 reserve increase related to unclaimed death benefits, increased 5.4 percent in 2014, with growth in premium income and favorable risk results. Premium income grew 3.4 percent in 2014 compared to 2013. The 2014 benefit ratio for Colonial Life was 51.9 percent compared to 54.1 percent, or 52.5 percent excluding the reserve increase, in 2013. Colonial Life sales increased 11.6 percent in 2014 compared to 2013. Persistency is generally stable relative to the prior year.

Our Closed Block segment reported a loss in 2014 as a result of the reserve increase for long-term care. Excluding the reserve increase, operating income increased 12.1 percent in 2014 relative to 2013, with an increase in net investment income and favorable risk results in our long-term care line of business offset partially by less favorable risk results in our individual disability line of business.

Although the low interest rate environment and tighter credit spreads continue to place pressure on our profit margins by impacting our net investment income yields, our invested asset quality remains strong. The net unrealized gain on our fixed maturity securities was $6.3 billion at December 31, 2014 compared to $4.1 billion at December 31, 2013, with the increase due primarily to a decline in U.S. Treasury rates during 2014. The earned book yield on our investment portfolio was 5.48 percent for 2014 compared to a yield of 5.57 percent for 2013.

We believe our capital and financial positions are strong. At December 31, 2014, the RBC ratio for our traditional U.S. insurance subsidiaries, calculated on a weighted average basis using the NAIC Company Action Level formula, was in excess of 400 percent and generally consistent with the prior year. During 2014, we repurchased 8.7 million shares of Unum Group common stock at a cost of approximately $301 million under our share repurchase program. Cash equivalents and marketable securities held at Unum Group and our other intermediate holding companies, which are a significant source of liquidity for us, were approximately $575 million at December 31, 2014.

2014 Long-term Care Reserve Increase

Policy reserves for our long-term care block of business are determined using the gross premium valuation method and, prior to the fourth quarter of 2014, were valued based on assumptions established as of December 31, 2011, the date of the initial loss recognition. Gross premium valuation assumptions do not change after the date of loss recognition unless reserves are again determined to be deficient. We undertake a review of policy reserve adequacy annually during the fourth quarter of each year, or more frequently if appropriate, using best estimate assumptions as of the date of the review.

Included in our fourth quarter of 2014 review was an analysis of our reserve assumptions, including those for the discount rate, mortality and morbidity rates, persistency, and premium rate increases. Our analysis of reserve discount rate assumptions considered the continued historic low interest rate environment, future market expectations, and our view of future portfolio yields. The assumptions we established in 2011 were set at a level that we estimated would be sustainable in a low interest rate environment for three to five years, with improvements in market yields beginning after the third year. Since that time, however, interest rates have continued to hover near historic lows, and credit spreads have tightened. Our assumption update for mortality incorporates the last three years of Company-specific experience and emerging trends as well as industry data, where available and appropriate, and reflects improvements in life expectancies beyond what was initially anticipated in 2011. Our morbidity assumptions were updated to reflect trends from our own emerging Company experience in claim incidence and terminations, as well as trends based on available and appropriate industry data and studies. Our premium rate increase assumptions were updated to reflect progress-to-date and our on-going rate increase strategy.

Based on our analysis, as of December 31, 2014 we lowered the discount rate assumption to reflect the low interest rate environment and our revised expectation of future investment portfolio yield rates. Our revised assumptions anticipate the low interest rate environment persisting for the next three to five years, with a return to more historical averages over the following five year period. We updated our mortality assumptions to reflect emerging experience due to an increase in life expectancies which increases the ultimate number of people who will utilize long-term care benefits and also lengthens the amount of time a claimant may receive long-term care benefits. We changed our morbidity assumptions to reflect emerging industry experience as well as our own company experience, and we updated our projection of future premium rate increase approvals. Using our revised best estimate assumptions, as of December 31, 2014 we determined that our policy and claim reserves should be increased $698.2 million to reflect our current estimate of future benefit obligations. This charge decreased our 2014 net income $453.8 million. We do not expect these reserve charges to have a material impact on future cash flows available from our subsidiaries or on our capital management plans.

Management's Discussion and Analysis of Financial Condition and Results of Operations

2014 and 2013 Retirement Benefit Changes

In 2014, we amended our U.S. qualified defined benefit pension plan to allow a limited-time offer of benefit payouts to eligible former employees with a vested right to a pension benefit. The offer provided eligible former employees, regardless of age, with an option to elect to receive a lump-sum settlement of his or her entire accrued pension benefit in December 2014 or to elect receipt of monthly pension benefits commencing in January 2015. We recognized a settlement loss of $64.4 million before tax, or $41.9 million after tax, during the fourth quarter of 2014. This non-operating retirement-related loss represented the applicable portion of the unrecognized actuarial loss which had previously been included in accumulated other comprehensive income and which pertained to the settled benefit obligation.

In 2013, we adopted plan amendments which froze participation and benefit accruals in our defined benefit pension plans in the U.S. and U.K., effective December 31, 2013 for the U.S. plans and June 30, 2014 for the U.K. plan. As a result of these plan amendments we recognized a net before-tax curtailment gain of $3.0 million during 2013. Because the amendments eliminated all future service accruals subsequent to the effective dates of the amendments, we were also required to remeasure the benefit obligations of our pension plans, which decreased our net pension liability approximately $330 million during 2013, with a corresponding increase in other comprehensive income, less applicable income tax of approximately $115 million. Concurrent with our amendments to our defined benefit pension plans, we adopted amendments to increase the benefits under our defined contribution plans commensurate with the effective dates of the pension plan amendments.

2013 Unclaimed Death Benefits Reserve Increase

Beginning in 2011, a number of state regulators began requiring insurers to cross-check specified insurance policies with the Social Security Administration's Death Master File to identify potential matches. If a potential match was identified, insurers were requested to determine if benefits were due, locate beneficiaries, and make payments where appropriate. We initiated this process where requested, and in 2012 we began implementing this process in all states on a forward-looking basis. We believe adopting this process, which reflects an evolving regulatory and industry practice, is in the best interest of our customers. Therefore, in addition to implementing this on a forward-looking basis, in 2013 we began an initiative to search for potential claims from previous years.

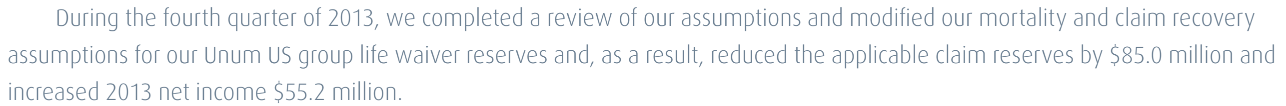
During the fourth quarter of 2013, we completed our assessment of benefits which we estimate will be paid under this initiative, and as such, established additional reserves for payment of these benefits. Claim reserves were increased $49.1 million for Unum US group life, $26.3 million for Unum US voluntary life, and $20.1 million for Colonial Life voluntary life, for a total reserve increase of $95.5 million. These reserve adjustments decreased 2013 net income $62.1 million.

Although the legal and regulatory environment continues to evolve, we believe our decision to adopt this claims practice and establish additional reserves is in the best interests of our customers.

2013 Group Life Waiver of Premium Benefit Reserve Reduction

Within our Unum US segment, we offer group life insurance coverage which consists primarily of renewable term life insurance and includes a provision for waiver of premium, if disabled. The group life waiver of premium benefit (group life waiver) provides for continuation of life insurance coverage when an insured, or the employer on behalf of the insured, is no longer paying premium because the employee is not actively at work due to a disability. The group life waiver claim reserve is the present value of future anticipated death benefits reflecting the probability of death while remaining disabled. Claim reserves are calculated using assumptions based on past experience adjusted for current trends and any other factors that would modify past experience and are subject to revision as current claim experience emerges and alters our view of future expectations.

The two fundamental assumptions in the development of the group life waiver reserve are mortality and recovery. Our emerging experience and that which continues to emerge within the industry indicate an increase in life expectancies, which decreases the ultimate anticipated death benefits to be paid under the group life waiver benefit. Emerging experience also reflects an improvement in claim recovery rates, which also lessens the likelihood of payment of a death benefit while the insured is disabled.



During the fourth quarter of 2013, we completed a review of our assumptions and modified our mortality and claim recovery assumptions for our Unum US group life waiver reserves and, as a result, reduced the applicable claim reserves by $85.0 million and increased 2013 net income $55.2 million.

Consolidated Company Outlook for 2015

We believe our disciplined approach to providing financial protection products at the workplace puts us in a position of strength as we seek to capitalize on the growing and largely unfilled need for our products and services. We believe the need for our products and services remains strong, and we intend to continue protecting our solid margins and returns through our pricing and risk actions. We continue to invest in our infrastructure and our employees, with a focus on quality and simplification of processes and offerings. Our strategy is centered on maintaining a strong customer focus while providing an innovative product portfolio of financial protection choices to deepen employee coverages, broaden employer relationships, and open new markets. The low interest rate environment continues to be a challenge and may put pressure on our profitability and reserve levels for some products, but we continue to analyze and employ strategies that we believe will help us navigate this environment. We believe that consistent operating results, combined with the implementation of strategic initiatives and the effective deployment of capital, will allow us to meet our long-term financial objectives.

Further discussion is included in "Consolidated Operating Results," "Segment Results," "Investments," "Liquidity and Capital Resources," "Notes to Consolidated Financial Statements," and "Reconciliation of Non-GAAP Financial Measures" contained herein.

Reconciliation of Non-GAAP Financial Measures

We analyze our performance using non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures of "operating revenue," "before-tax operating income" or "before-tax operating loss," and "after-tax operating income" differ from total revenue, income before income tax, and net income as presented in our consolidated operating results and in income statements prepared in accordance with GAAP due to the exclusion of net realized investment gains and losses, non-operating retirement-related gains or losses, and certain other items as specified in the reconciliations below. We believe operating revenue and operating income or loss are better performance measures and better indicators of the revenue and profitability and underlying trends in our business.

Realized investment gains or losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains or losses. Although we may experience realized investment gains or losses which will affect future earnings levels, a long-term focus is necessary to maintain profitability over the life of the business since our underlying business is long-term in nature, and we need to earn the interest rates assumed in calculating our liabilities.

The amortization of prior period actuarial gains or losses, a component of the net periodic benefit cost for our pensions and other postretirement benefit plans, is driven by market performance as well as plan amendments and is not indicative of the operational results of our businesses. We believe that excluding the amortization of prior period gains or losses, as well as the settlement loss from our pension plan amendment, from operating income or loss provides investors with additional information for comparison and analysis of our operating results. Although we manage our non-operating retirement-related gains or losses separately from the operational performance of our business, these gains or losses impact the overall profitability of our company and have historically increased or decreased over time, depending on plan amendments and market conditions and the resulting impact on the actuarial gains or losses in our pensions and other postretirement benefit plans.

We believe that excluding the 2014 costs related to the early retirement of debt is appropriate because in conjunction with the debt redemption, we recognized in realized investment gains and losses a deferred gain from previously terminated derivatives which were associated with the hedge of this debt. The amount recognized as a realized investment gain, which basically offsets the cost of the debt redemption, is also excluded from our non-GAAP financial measures since we analyze our performance excluding amounts reported as realized investment gains or losses. We believe it provides investors with a more realistic view of our overall profitability if we are consistent in excluding both the cost of the debt retirement as well as the gain on the hedge of the debt.

We may at other times exclude certain other items from our discussion of financial ratios and metrics in order to enhance the understanding and comparability of our operational performance and the underlying fundamentals, but this exclusion is not an indication that similar items may not recur and does not replace net income or net loss as a measure of our overall profitability.

A reconciliation of "operating revenue" to total revenue and "before-tax operating income" to income before income tax is as follows:

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Operating Revenue	$10,493.6	$10,347.0	$10,459.2
Net Realized Investment Gain	16.1	6.8	56.2
Total Revenue	$10,509.7	$10,353.8	$10,515.4
Before-tax Operating Income	$ 1,292.5	$ 1,241.8	$ 1,239.7
Net Realized Investment Gain	16.1	6.8	56.2
Non-operating Retirement-related Loss	(70.0)	(32.9)	(46.4)
Costs Related to Early Retirement of Debt	(13.2)	—	—
Long-term Care Reserve Increase	(698.2)	—	—
Unclaimed Death Benefits Reserve Increase	—	(95.5)	—
Group Life Waiver of Premium Benefit Reserve Reduction	—	85.0	—
Income Before Income Tax	$ 527.2	$ 1,205.2	$ 1,249.5

The after-tax impacts of these items are reflected in the following reconciliation of after-tax operating income to net income.

	Year Ended December 31					
	2014		2013		2012	
	(in millions)	per share*	(in millions)	per share*	(in millions)	per share*
After-tax Operating Income	$ 910.4	$ 3.55	$882.5	$ 3.32	$887.5	$ 3.15
Net Realized Investment Gain, Net of Tax	12.8	0.05	3.9	0.02	37.1	0.13
Non-operating Retirement-related Loss, Net of Tax	(45.6)	(0.18)	(21.4)	(0.08)	(30.2)	(0.11)
Costs Related to Early Retirement of Debt, Net of Tax	(10.4)	(0.04)	—	—	—	—
Long-term Care Reserve Increase, Net of Tax	(453.8)	(1.77)	—	—	—	—
Unclaimed Death Benefits Reserve Increase, Net of Tax	—	—	(62.1)	(0.24)	—	—
Group Life Waiver of Premium Benefit Reserve Reduction, Net of Tax	—	—	55.2	0.21	—	—
Net Income	$ 413.4	$ 1.61	$858.1	$ 3.23	$894.4	$ 3.17

* Assuming Dilution

Critical Accounting Estimates

We prepare our financial statements in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in our financial statements and accompanying notes. Estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed in our financial statements. The accounting estimates deemed to be most critical to our financial position and results of operations are those related to reserves for policy and contract benefits, deferred acquisition costs, valuation of investments, pension and postretirement benefit plans, income taxes, and contingent liabilities. For additional information, refer to our significant accounting policies in Note 1 of the "Notes to Consolidated Financial Statements" contained herein.

Reserves for Policy and Contract Benefits

Reserves for policy and contract benefits are our largest liabilities and represent claims that we estimate we will eventually pay to our policyholders. The two primary categories of reserves are policy reserves for claims not yet incurred and claim reserves for claims that have been incurred or are estimated to have been incurred but not yet reported to us. Reserves for policy and contract benefits equaled $41.3 billion and $40.5 billion at December 31, 2014 and 2013, respectively, or approximately 76.6 percent and 79.8 percent of our total liabilities, respectively. Reserves ceded to reinsurers were $6.9 billion and $6.8 billion at December 31, 2014 and 2013, respectively, and are reported as a reinsurance recoverable in our consolidated balance sheets.

Policy Reserves

Policy reserves are established in the same period we issue a policy and equal the difference between projected future policy benefits and future premiums, allowing a margin for expenses and profit. These reserves relate primarily to our non interest-sensitive products, including our individual disability and voluntary benefits products in our Unum US segment; individual disability products in our Unum UK segment; disability and cancer and critical illness policies in our Colonial Life segment; and individual disability, long-term care, and other products in our Closed Block segment. The reserves are calculated based on assumptions that were appropriate at the date the policy was issued and are not subsequently modified unless the policy reserves become inadequate (i.e. loss recognition occurs).

- Persistency assumptions are based on our actual historical experience adjusted for future expectations.
- Claim incidence and claim resolution rate assumptions related to mortality and morbidity are based on actual experience or industry standards adjusted as appropriate to reflect our actual experience and future expectations.
- Discount rate assumptions are based on our current and expected net investment returns.

In establishing policy reserves, we use assumptions that reflect our best estimate while considering the potential for adverse variances in actual future experience, which results in a total policy reserve balance that has an embedded reserve for adverse deviation. We do not, however, establish an explicit and separate reserve as a provision for adverse deviation from our assumptions.

We perform loss recognition tests on our policy reserves annually, or more frequently if appropriate, using best estimate assumptions as of the date of the test, without a provision for adverse deviation. We group the policy reserves for each major product line within a segment when we perform the loss recognition tests. If the policy reserves determined using these best estimate assumptions are higher than our existing policy reserves net of any deferred acquisition cost balance, the existing policy reserves are increased or deferred acquisition costs are reduced to immediately recognize the deficiency. Thereafter, the policy reserves for the product line are calculated using the same method we used for the loss recognition testing, referred to as the gross premium valuation method, wherein we use our best estimate as of the gross premium valuation (loss recognition) date rather than the initial policy issue date to determine the expected future claims, commissions, and expenses we will pay and the expected future gross premiums we will receive.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Because the key policy reserve assumptions for policy persistency, mortality and morbidity, and discount rates are all locked in at policy issuance based on assumptions appropriate at that time, policy reserve assumptions are generally not changed due to a change in claim status from active to disabled subsequent to policy issuance. Depending on the funding mechanism, a full policy reserve is held during disability reflecting continued funding of the full policy reserve during a disability claim, or a fractional policy reserve is held reflecting that the individual policyholder would need to recover before he or she can again generate future claims for a separate occurrence. The policy reserves build up and release over time based on assumptions made at the time of policy issuance such that the reserve is eliminated as policyholders either reach the terminal age for coverage, die, or voluntarily lapse the policy. Policy reserves for Unum US, Unum UK, and Colonial Life products are determined using the net level premium method as prescribed by GAAP. In applying this method, we use, as applicable by product type, morbidity and mortality incidence rate assumptions, claim resolution rate assumptions, and policy persistency assumptions, among others, to determine our expected future claim payments and expected future premium income. We then apply an interest, or discount, rate to determine the present value of the expected future claims and claim expenses we will pay and the expected future premiums we will receive, with a provision for profit allowed.

Policy reserves for our Closed Block segment include certain older policy forms for individual disability, individual and group long-term care, and certain other products, all of which are no longer actively marketed. The reserves for individual disability and individual and group long-term care are determined using the gross premium valuation method. Key assumptions are persistency, mortality and morbidity, claim incidence, claim resolution rates, commission rates, and maintenance expense rates. For long-term care, premium rate increases are also a key assumption. We apply an interest, or discount, rate to determine the present value of the expected future claims, commissions, and expenses we will pay as well as the expected future premiums we will receive, with no provision for future profit. The interest rate is based on our expected net investment returns on the investment portfolio supporting the reserves for these blocks of business. Under the gross premium valuation method, we do not include an embedded provision for the risk of adverse deviation from these assumptions. Gross premium valuation assumptions do not change after the date of loss recognition unless reserves are again determined to be deficient. We perform loss recognition tests on the policy reserves for this block of business annually, or more frequently if appropriate.

Policy reserves for certain other products, excluding individual disability and individual and group long-term care, which are no longer actively marketed and are reported in our Closed Block segment represent $5.8 billion on a gross basis. We have ceded $4.7 billion of these other products' policy reserves to reinsurers. The ceded reserve balance is reported in our consolidated balance sheets as a reinsurance recoverable. We continue to service a block of group pension products, which we have not ceded, and the policy reserves for these products are based on expected mortality rates and retirement rates. Expected future payments are discounted at interest rates reflecting the anticipated investment returns for the assets supporting the liabilities.

Claim Reserves

Claim reserves are established when a claim is incurred or is estimated to have been incurred but not yet reported (IBNR) to us and, as prescribed by GAAP, equals our long-term best estimate of the present value of the liability for future claim payments and claim adjustment expenses. A claim reserve is based on actual known facts regarding the claim, such as the benefits available under the applicable policy, the covered benefit period, the age, and, as appropriate, the occupation and cause of disability of the claimant, as well as assumptions derived from our actual historical experience and expected future changes in experience for factors such as the claim duration, discount rate, and policy benefit offsets, including those for social security and other government-based welfare benefits. Reserves for IBNR claims, similar to incurred claim reserves, include our assumptions for claim duration and discount rates, but because we do not yet know the facts regarding the specific claims, these reserves are also established based on historical incidence rate assumptions, including claim reporting patterns, the average cost of claims, and the expected volumes of incurred claims. Our incurred claim reserves and IBNR claim reserves do not include any provision for the risk of adverse deviation from our assumptions.

Claim reserves, unlike policy reserves, are subject to revision as current claim experience and projections of future factors affecting claim experience change. Each quarter we review our emerging experience to ensure that our claim reserves are appropriate. If we believe, based on our actual experience and our view of future events, that our long-term assumptions need to be modified, we adjust our reserves accordingly with a charge or credit to our current period income.

Multiple estimation methods exist to establish claim reserve liabilities, with each method having its own advantages and disadvantages. Available reserving methods utilized to calculate claim reserves include the tabular reserve method, the paid development method, the incurred loss development method, the count and severity method, and the expected claim cost method. No single method is better than the others in all situations and for all product lines. The estimation methods we have chosen are those that we believe produce the most reliable reserves.

We use a tabular reserve methodology for our Unum US group and individual long-term disability claims and for our Closed Block group and individual long-term care claims that have been reported. Under the tabular reserve methodology, reserves for reported claims are based on certain characteristics of the actual reported claimants, such as age, length of time disabled, and medical diagnosis, as well as assumptions regarding claim duration, discount rate, and policy benefit offsets. We believe the tabular reserve method is the most accurate to calculate long-term liabilities and allows us to use the most available known facts about each claim. IBNR claim reserves for our long-term products are calculated using the count and severity method using historical patterns of the claims to be reported and the associated claim costs. For Unum US group short-term disability products, an estimate of the value of future payments to be made on claims already submitted, as well as on IBNR claims, is determined in aggregate using a paid development method rather than on the individual claimant basis that we use for reported claims on long-term products. The average length of time between the event triggering a claim under a policy and the final resolution of those claims is much shorter for these products than for our long-term liabilities and results in less estimation variability.

Claim reserves for Unum US group life and accidental death and dismemberment products are related primarily to death claims reported but not yet paid, IBNR death claims, and a liability for waiver of premium benefits. The death claim reserve is based on the actual face amount to be paid, the IBNR reserve is calculated using the paid development method, and the waiver of premium benefits reserve is calculated using the tabular reserve methodology.

Claim reserves supporting our Unum UK segment are calculated using generally the same methodology that we use for Unum US disability and group life reserves. The assumptions used in calculating claim reserves for this line of business are based on standard United Kingdom industry experience, adjusted for Unum UK's own experience.

The majority of the Colonial Life segment lines of business have short-term benefits, which generally have less estimation variability than our long-term products because of the shorter claim payout period. Our claim reserves for Colonial Life's lines of business are predominantly determined using the incurred loss development method based on our own experience. The incurred loss development method uses the historical patterns of payments by loss date to predict future claim payments for each loss date. Where the incurred loss development method may not be appropriate, we estimate the incurred claims using an expected claim cost per policy or other measure of exposure. The key assumptions for claim reserves for the Colonial Life lines of business are: (1) the timing, rate, and amount of estimated future claim payments; and (2) the estimated expenses associated with the payment of claims.

The following table displays policy reserves, incurred claim reserves, and IBNR claim reserves by major product line, with the summation of the policy reserves and claim reserves shown both gross and net of the associated reinsurance recoverable. Incurred claim reserves represent the expected benefits payable under each incurred claim, along with other expenses associated with the payment of the claims. IBNR claim reserves include provisions for incurred but not reported claims and a provision for reopened claims for our disability products. The IBNR and reopened claim reserves for our disability products are developed and maintained in aggregate based on historical monitoring. Impacting year over year comparability of policy and claim reserves in the following chart is the 2014 long-term care reserve increase. See "Executive Summary" and Note 6 of the "Notes to Consolidated Financial Statements" contained herein for further discussion.

Management's Discussion and Analysis of Financial Condition and Results of Operations

	December 31, 2014							
		Gross					Total	
	Policy		Claim Reserves				Reinsurance	Total
(in millions of dollars)	Reserves	%	Incurred	IBNR	%	Total	Ceded	Net
Group Disability	$ —	—%	$ 6,558.4	$ 581.1	29.5%	$ 7,139.5	$ 66.9	$ 7,072.6
Group Life and Accidental								
Death & Dismemberment	68.8	0.4	712.6	195.4	3.7	976.8	3.9	972.9
Individual Disability	555.6	3.2	1,201.5	127.3	5.5	1,884.4	112.5	1,771.9
Voluntary Benefits	1,366.4	8.0	52.3	58.4	0.5	1,477.1	29.1	1,448.0
Unum US Segment	1,990.8	11.6	8,524.8	962.2	39.2	11,477.8	212.4	11,265.4
Unum UK Segment	22.8	0.1	2,168.2	145.2	9.6	2,336.2	112.3	2,223.9
Colonial Life Segment	1,670.4	9.8	279.4	127.3	1.7	2,077.1	9.9	2,067.2
Individual Disability	735.0	4.3	10,150.9	285.6	43.1	11,171.5	1,551.7	9,619.8
Long-term Care	6,884.2	40.2	1,083.3	111.9	4.9	8,079.4	42.5	8,036.9
Other	5,811.4	34.0	214.3	140.7	1.5	6,166.4	4,959.8	1,206.6
Closed Block Segment	13,430.6	78.5	11,448.5	538.2	49.5	25,417.3	6,554.0	18,863.3
Subtotal	$17,114.6	100.0%	$22,420.9	$1,772.9	100.0%	41,308.4	6,888.6	34,419.8
Adjustment to Reserves								
for Unrealized Gain on Securities						6,150.3	365.0	5,785.3
Consolidated						$47,458.7	$7,253.6	$40,205.1

	December 31, 2013							
		Gross					Total	
	Policy		Claim Reserves				Reinsurance	Total
	Reserves	%	Incurred	IBNR	%	Total	Ceded	Net
Group Disability	$ —	—%	$ 6,810.3	$ 569.1	30.1%	$ 7,379.4	$ 66.6	$ 7,312.8
Group Life and Accidental								
Death & Dismemberment	72.3	0.5	713.2	201.1	3.7	986.6	2.5	984.1
Individual Disability	558.3	3.5	1,155.7	124.4	5.2	1,838.4	104.3	1,734.1
Voluntary Benefits	1,298.4	8.1	48.9	73.2	0.5	1,420.5	29.2	1,391.3
Unum US Segment	1,929.0	12.1	8,728.1	967.8	39.5	11,624.9	202.6	11,422.3
Unum UK Segment	24.9	0.1	2,286.0	171.7	10.0	2,482.6	130.1	2,352.5
Colonial Life Segment	1,577.6	9.9	274.1	134.1	1.7	1,985.8	13.9	1,971.9
Individual Disability	859.3	5.4	10,346.8	281.9	43.3	11,488.0	1,545.0	9,943.0
Long-term Care	5,791.4	36.3	865.7	94.8	3.9	6,751.9	42.6	6,709.3
Other	5,783.8	36.2	234.4	150.2	1.6	6,168.4	4,915.2	1,253.2
Closed Block Segment	12,434.5	77.9	11,446.9	526.9	48.8	24,408.3	6,502.8	17,905.5
Subtotal	$15,966.0	100.0%	$22,735.1	$1,800.5	100.0%	40,501.6	6,849.4	33,652.2
Adjustment to Reserves								
for Unrealized Gain on Securities						4,108.5	263.8	3,844.7
Consolidated						$44,610.1	$7,113.2	$37,496.9

Key Assumptions

The calculation of policy and claim reserves involves numerous assumptions, but the primary assumptions used to calculate reserves are (1) the discount rate, (2) the claim resolution rate, and (3) the claim incidence rate for policy reserves and IBNR claim reserves. Of these assumptions, our discount rate and claim resolution rate assumptions have historically had the most significant effects on our level of reserves because many of our product lines provide benefit payments over an extended period of time.

1. The *discount rate,* which is used in calculating both policy reserves and incurred and IBNR claim reserves, is the interest rate that we use to discount future claim payments to determine the present value. A higher discount rate produces a lower reserve. If the discount rate is higher than our future investment returns, our invested assets will not earn enough investment income to support our future claim payments. In this case, the reserves may eventually be insufficient. We set our assumptions based on our current and expected future investment yield of the assets supporting the reserves, considering current and expected future market conditions. If the investment yield on new investments that are purchased is below or above the investment yield of the existing investment portfolio, it is likely that the discount rate assumption on claims will be established to reflect the effect of the new investment yield.
2. The *claim resolution rate,* used for both policy reserves and incurred and IBNR claim reserves, is the probability that a disability or long-term care claim will close due to recovery or death of the insured. It is important because it is used to estimate how long benefits will be paid for a claim. Estimated resolution rates that are set too high will result in reserves that are lower than they need to be to pay the claim benefits over time. Claim resolution assumptions involve many factors, including the cause of disability, the policyholder's age, the type of contractual benefits provided, and the time since initially becoming disabled. We primarily use our own claim experience to develop our claim resolution assumptions. These assumptions are established for the probability of death and the probability of recovery from disability. Our studies review actual claim resolution experience over a number of years, with more weight placed on our experience in the more recent years. We also consider any expected future changes in claim resolution experience.
3. The *incidence rate,* used for policy reserves and IBNR claim reserves, is the rate at which new claims are submitted to us. The incidence rate is affected by many factors, including the age of the insured, the insured's occupation or industry, the benefit plan design, and certain external factors such as consumer confidence and levels of unemployment. We establish our incidence assumption using a historical review of actual incidence results along with an outlook of future incidence expectations.

Establishing reserve assumptions is complex and involves many factors. Reserves, particularly for policies offering insurance coverage for long-term disabilities and long-term care, are dependent on numerous assumptions other than just those presented in the preceding discussion. The impact of internal and external events, such as changes in claims operational procedures, economic trends such as the rate of unemployment and the level of consumer confidence, the emergence of new diseases, new trends and developments in medical treatments, and legal trends and legislative changes, including changes to social security and other government-based welfare benefits programs which provide policy benefit offsets, among other factors, will influence claim incidence rates, claim resolution rates, and claim costs. In addition, for policies offering coverage for disability or long-term care at advanced ages, the level and pattern of mortality rates at advanced ages will impact overall benefit costs. Reserve assumptions differ by product line and by policy type within a product line. Additionally, in any period and over time, our actual experience may have a positive or negative variance from our long-term assumptions, either singularly or collectively, and these variances may offset each other. We test the overall adequacy of our reserves using all assumptions and with a long-term view of our expected experience over the life of a block of business rather than test just one or a few assumptions independently that may be aberrant over a short period of time. Therefore, it is not possible to bifurcate the assumptions to evaluate the sensitivity of a change in each assumption, but rather in the aggregate by product line. The following section presents an overview of our trend analysis for key assumptions and the results of variability in our assumptions, in aggregate, for the reserves which we believe are reasonably possible to have a material impact on our future financial results if actual claims yield a materially different amount than what we currently expect and have reserved for, either favorable or unfavorable.

Trends in Key Assumptions

Generally, we do not expect our mortality and morbidity claim incidence trends or our persistency trends to change significantly in the short-term, and to the extent that these trends do change, we expect those changes to be gradual over a longer period of time. We have historically experienced an increase in our group long-term disability morbidity claim incidence trends during and following a recessionary period, particularly in our Unum US operations. During 2014, claim incidence rates for Unum US group long-term disability were stable relative to the prior year, continuing to benefit from the gradual improvement in the economy. During 2013, claim incidence rates for Unum US group long-term disability improved slightly compared to the slightly elevated level of incidence rates in 2012. We expect that claim incidence trends for Unum US group long-term disability may continue to somewhat follow general economic conditions and demographics of the general U.S. workforce.

During 2014, our claim incidence rates for our Closed Block long-term care line of business improved slightly relative to the levels of 2013 and 2012, when we experienced claim incidence rates higher than the long-term assumptions we established at the time of loss recognition in 2011. We undertook a thorough review of our reserve assumptions related to our long-term care line of business during 2014 and updated our reserves using best estimate assumptions as of the date of the review. See "2014 Long-term Care Reserve Increase" contained herein.

Interest rates improved somewhat during 2013 and early 2014 before returning to levels well below historical norms in the latter part of 2014, and the assumptions we used to discount our reserves during these periods generally trended downward slightly for all segments and product lines. Reserve discount rate assumptions for new policies and new claims are adjusted to reflect our current and expected net investment returns. Changes in our average discount rate assumptions tend to occur gradually over a longer period of time because of the long-duration investment portfolios which support the reserves for the majority of our lines of business.

Claim resolution rates have a greater chance of significant variability in a shorter period of time than our other reserve assumptions. These rates are reviewed on a quarterly basis for the death and recovery components separately. Claim resolution rates in our Unum US group and individual long-term disability product lines and our Closed Block individual disability product line have over the last several years exhibited some variability. Relative to the resolution rate we expect to experience over the life of the block of business, actual quarterly rates during 2013 and 2014 have varied by +3 and -2 percent in our Unum US group long-term disability line of business, between +10 and -13 percent in our Unum US individual disability line of business, and between +7 and -6 percent in our Closed Block individual disability line of business. Claim resolution rates are very sensitive to operational and environmental changes and can be volatile over short periods of time. Throughout the period 2012 to 2014, our claim resolution rates were fairly consistent with or slightly favorable to our long-term assumptions. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period, both favorably and unfavorably.

Regarding experience for our older age, longer duration disabled claimants in our Closed Block individual disability line of business, the claim resolution rates, primarily as pertaining to life expectancy of the insured, showed a reduction in the number of deaths at these older ages during 2014, which we believe is temporary in nature. During 2013 and 2012, mortality assumptions remained relatively consistent with the assumptions that we updated in 2011 for this particular claim block.

We monitor and test our reserves for adequacy relative to all of our assumptions in the aggregate. In our estimation, scenarios based on reasonably possible variations in each of our reserve assumptions, when modeled together in aggregate, could produce potential results as illustrated in the chart below. The major contributor to the variance for both the Unum US group long-term disability line of business and the Closed Block individual disability line of business is the claim resolution rate.

(in millions of dollars)	Potential impact, positive or negative, of variations in reserve assumptions on our December 31, 2014 claim reserve balance	
Unum US group long-term disability	3.6%	$250
Closed Block individual disability	2.5%	$245

In addition, we consider variability in our reserve assumptions related to long-term care policy reserves. These reserves are held under the gross premium valuation method with assumptions established as of December 31, 2014, the date of loss recognition. Assumptions for policy reserves do not change after the date of loss recognition unless reserves are again determined to be deficient. As such, positive developments will result in the accumulation of reserve margin, while adverse developments would result in an additional reserve charge. Policy reserves for long-term care are based upon a number of key assumptions, and each assumption has various factors which may impact the long-term outcome. Key assumptions with respect to morbidity, mortality, persistency, interest rates, and future premium rate increases must incorporate extended views of expectations for many years into the future. Reserves are highly sensitive to these estimates. For example, a 25 basis point change in the assumed discount rate over the lifetime of this business would impact reserves by approximately $475 million, assuming all other factors held constant.

Key assumptions and related impacts are also heavily interrelated in both their outcome and in their effects on reserves. For example, changes in the view of morbidity and mortality might be mitigated by either potential future premium rate increases and/or morbidity improvements due to general improvement in health and/or medical breakthroughs. There is potentially a wide range of outcomes for each assumption and in totality.

We believe that these ranges provide a reasonable estimate of the possible changes in reserve balances for those product lines where we believe it is possible that variability in the assumptions, in the aggregate, could result in a material impact on our reserve levels, but we record our reserves based on our long-term best estimate. Because these product lines have long-term claim payout periods, there is a greater potential for significant variability in claim costs, either positive or negative. We closely monitor emerging experience and use these results to inform our view of long-term assumptions.

Deferred Acquisition Costs (DAC)

We defer incremental direct costs associated with the successful acquisition of new or renewal insurance contracts and amortize (expense) these costs over the life of the related policies. Deferred costs include certain commissions, other agency compensation, selection and policy issue expenses, and field expenses. Acquisition costs that do not vary with the production of new business, such as commissions on group products which are generally level throughout the life of the policy, are excluded from deferral.

Approximately 83.7 percent of our DAC relates to non interest-sensitive products, and we amortize DAC for these products in proportion to the premium income we expect to receive over the life of the policies. DAC related to interest-sensitive policies is amortized over the lives of the policies in relation to the present value of estimated gross profits from surrender charges, mortality margins, investment returns, and expense margins. Key assumptions used in developing the future amortization of DAC are persistency, premium income, and for our interest-sensitive products, mortality margins and investment returns. We use our own historical experience and expectation of the future performance of our businesses in determining our assumptions. For non-interest sensitive products, the estimated premium income in the early years of the amortization period is generally higher than in the later years due to the anticipated cumulative effect of policy persistency in the early years, which results in a greater proportion of the costs being amortized in the early years of the life of the policy. During 2014, our key assumptions used to develop the future amortization of acquisition costs deferred during 2014 did not change materially from those used in 2013. Generally, we do not expect our key assumptions to change significantly in the short-term, and to the extent that these trends do change, we expect those changes to be gradual over a longer period of time.

The following are our current assumptions regarding the length of our amortization periods, the approximate DAC balance that remains at the end of years 3, 10, and 15 as a percentage of the cost initially deferred, and our DAC balances as of December 31, 2014 and 2013.

(in millions of dollars)	Amortization Period	Balance Remaining as a % of Initial Deferral			DAC Balances at December 31	
		Year 3	Year 10	Year 15	**2014**	2012
Unum US						
Group Disability	6	30%	0%	0%	**$ 69.8**	$ 55.9
Group Life and Accidental						
Death & Dismemberment	6	31%	0%	0%	**59.8**	49.9
Supplemental and Voluntary:						
Individual Disability	20	71%	44%	21%	**423.6**	433.4
Voluntary Benefits	20	58%	23%	8%	**543.3**	512.3
Unum UK						
Group Long-term Disability	3	0%	0%	0%	**5.1**	5.1
Group Life	3	0%	0%	0%	**1.3**	1.2
Supplemental	20	57%	17%	7%	**24.0**	28.0
Colonial Life						
Accident, Sickness, and Disability	15	46%	12%	2%	**378.2**	350.6
Life	25	70%	33%	16%	**215.2**	218.7
Cancer and Critical Illness	19	59%	26%	10%	**181.0**	174.1
Totals					**$1,901.3**	$1,829.2

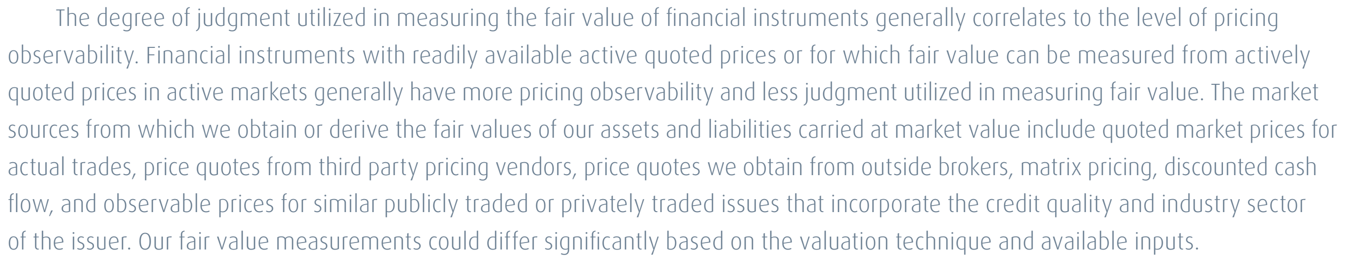
Amortization of DAC is adjusted to reflect actual experience for assumptions which deviate compared to the anticipated experience. Any deviations from projections may result in a change to the rate of amortization in the period such events occur. As an example, for our non-interest sensitive products, we may experience accelerated amortization if policies terminate earlier than projected, or we may experience a slower rate of amortization if policies persist longer than projected. Our actual experience has not varied materially from our assumptions during the last three years.

See Note 1 of the "Notes to Consolidated Financial Statements" contained herein for further discussion of our DAC accounting policy.

Fair Value of Investments

All of our fixed maturity securities are classified as available-for-sale and are reported at fair value. Our derivative financial instruments, including certain derivative instruments embedded in other contracts, are reported as either assets or liabilities and measured at fair value. We hold an immaterial amount of equity securities, which are also reported at fair value.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and therefore represents an exit price, not an entry price. The exit price objective applies regardless of our intent and/or ability to sell the asset or transfer the liability at the measurement date. We generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. The market approach uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities and the income approach converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. We believe the market approach valuation technique provides more observable data than the income approach, considering the types of investments we hold.



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. The market sources from which we obtain or derive the fair values of our assets and liabilities carried at market value include quoted market prices for actual trades, price quotes from third party pricing vendors, price quotes we obtain from outside brokers, matrix pricing, discounted cash flow, and observable prices for similar publicly traded or privately traded issues that incorporate the credit quality and industry sector of the issuer. Our fair value measurements could differ significantly based on the valuation technique and available inputs.

Inputs to valuation techniques refer broadly to the assumptions that market participants use in pricing assets or liabilities, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value and/or the risk inherent in the inputs to the valuation technique. We use observable and unobservable inputs in measuring the fair value of our financial instruments. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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.

As of December 31, 2014, the key assumptions we generally used to estimate the fair value of these types of securities included those listed below. Where appropriate, we have noted the assumption used for the prior period as well as the reason for the change.

- Risk free interest rates of 1.65 percent for five-year maturities to 2.75 percent for 30-year maturities were derived from the December 31, 2014 yield curve for U.S. Treasury Bonds with similar maturities. This compares to interest rates of 1.74 percent for five-year maturities to 3.97 percent for 30-year maturities used at December 31, 2013.
- Baa corporate bond spread adjustments ranging from 1.21 percent to 2.54 percent were added to the risk free rate to reflect additional credit risk and the lack of liquidity. We used spread adjustments ranging from 1.01 percent to 2.10 percent at December 31, 2013. The changes were based on observable market spreads. Newly issued private placement securities have historically offered yield premiums higher than a similar interest rate spread on comparable newly issued public securities.
- Additional basis points were added as deemed appropriate for foreign investments, certain industries, and individual securities in certain industries that are considered to be of greater risk.

As of December 31, 2014, approximately 6.6 percent of our fixed maturity securities were categorized as Level 1, 89.0 percent as Level 2, and 4.4 percent as Level 3. Level 1 is 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 Level 2 category includes assets or liabilities valued using inputs (other than those included in the Level 1 category) 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. The Level 3 category 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 using unobservable inputs to extrapolate an estimated fair value.

Rapidly changing credit and equity market conditions can materially impact the valuation of securities, and the period to period changes in value can vary significantly.

See Note 2 of the "Notes to Consolidated Financial Statements" contained herein.

Investment Impairments

One of the significant estimates related to investments is our impairment valuation. In determining when a decline in fair value below amortized cost of a fixed maturity security is other than temporary, we evaluate the following factors:

- Whether we expect to recover the entire amortized cost basis of the security
- Whether we intend to sell the security or will be required to sell the security before the recovery of its amortized cost basis
- Whether the security is current as to principal and interest payments
- The significance of the decline in value
- The time period during which there has been a significant decline in value
- Current and future business prospects and trends of earnings
- The valuation of the security's underlying collateral
- Relevant industry conditions and trends relative to their historical cycles
- Market conditions
- Rating agency and governmental actions
- Bid and offering prices and the level of trading activity
- Adverse changes in estimated cash flows for securitized investments
- Changes in fair value subsequent to the balance sheet date
- Any other key measures for the related security

We evaluate available information, including the factors noted above, both positive and negative, in reaching our conclusions. In particular, we also consider the strength of the issuer's balance sheet, its debt obligations and near term funding requirements, cash flow and liquidity, the profitability of its core businesses, the availability of marketable assets which could be sold to increase liquidity, its industry fundamentals and regulatory environment, and its access to capital markets. Although all available and applicable factors are considered in our analysis, our expectation of recovering the entire amortized cost basis of the security, whether we intend to sell the security, whether it is more likely than not we will be required to sell the security before recovery of its amortized cost, and whether the security is current on principal and interest payments are the most critical factors in determining whether impairments are other than temporary. The significance of the decline in value and the length of time during which there has been a significant decline are also important factors, but we generally do not record an impairment loss based solely on these two factors, since often other more relevant factors will impact our evaluation of a security.

While determining other-than-temporary impairments is a judgmental area, we utilize a formal, well-defined, and disciplined process to monitor and evaluate our fixed income investment portfolio, supported by issuer specific research and documentation as of the end of each period. The process results in a thorough evaluation of problem investments and the recording of losses on a timely basis for investments determined to have an other-than-temporary impairment.

We use a comprehensive rating system to evaluate the investment and credit risk of our mortgage loans and to identify specific properties for inspection and reevaluation. Mortgage loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We establish an allowance for probable losses on mortgage loans based on a review of individual loans, considering the value of the underlying collateral, the value of which is periodically assessed. Mortgage loans are not reported at fair value in our consolidated balance sheets unless the mortgage loan is considered impaired, in which case the impairment is recognized as a realized investment loss in our consolidated statements of income.

There are a number of significant risks inherent in the process of monitoring our investments for impairments and determining when and if an impairment is other than temporary. These risks and uncertainties include the following possibilities:

- The assessment of a borrower's ability to meet its contractual obligations will change.
- The economic outlook, either domestic or foreign, may be less favorable or may have a more significant impact on the borrower than anticipated, and as such, the investment may not recover in value.
- New information may become available concerning the security, such as disclosure of accounting irregularities, fraud, or corporate governance issues.
- Significant changes in credit spreads may occur in the related industry.
- Significant increases in interest rates may occur and may not return to levels similar to when securities were initially purchased.
- Adverse rating agency actions may occur.

See Notes 1 and 3 of the "Notes to Consolidated Financial Statements" contained herein.

Pension and Postretirement Benefit Plans

We sponsor several defined benefit pension and other postretirement benefit (OPEB) plans for our employees, including non-qualified pension plans. The U.S. qualified and non-qualified defined benefit pension plans comprise the majority of our total benefit obligation and benefit cost. We have a separate defined benefit plan for eligible employees in our U.K. operation.

During 2013, our U.S. defined benefit pension plans were closed to new entrants and were amended to freeze participation and benefit accruals as of December 31, 2013. In 2014, we further amended our U.S. qualified defined benefit pension plan to allow a limited-time offer of benefit payouts to eligible former employees with a vested right to a pension benefit. The offer provided eligible former employees, regardless of age, with an option to elect to receive a lump-sum settlement of his or her entire accrued pension benefit in December 2014 or to elect receipt of monthly pension benefits commencing in January 2015. For those who elected to receive lump-sum settlements, distributions from plan assets were made on or before December 31, 2014.

The U.K. defined benefit pension plan was closed to new entrants effective December 31, 2002 and was amended in 2013 to freeze participation effective June 30, 2014 and to reduce the maximum rate of inflation indexation from 5.0 percent to 2.5 percent for pension benefits which were earned prior to April 1997 effective at the date of adoption in 2013.

Assumptions

Our net periodic benefit costs and the value of our benefit obligations for these plans are determined based on a set of economic and demographic assumptions that represent our best estimate of future expected experience. Major assumptions used in accounting for these plans include the expected discount (interest) rate, the long-term rate of return on plan assets, and mortality rates. We also use, as applicable, expected increases in compensation levels and a weighted average annual rate of increase in the per capita cost of covered benefits, which reflects a health care cost trend rate, and the U.K. pension plan also uses expected cost of living increases to plan benefits.

The assumptions chosen for our pension and OPEB plans are reviewed annually, using a December 31 measurement date for each of our plans unless we are required to perform an interim remeasurement. The discount rate, expected long-term rate of return, and mortality rate assumptions have the most significant effect on our net periodic benefit costs associated with these plans. In addition to the effect of changes in our assumptions, the net periodic cost or benefit obligation under our pension and OPEB plans may change due to factors such as plan amendments, actual experience being different from our assumptions, special benefits to terminated employees, and/or changes in benefits provided under the plans.

- *Discount rate* — This interest assumption is based on the yield derived from a portfolio of high quality fixed income corporate debt instruments that reasonably match the timing and amounts of projected future benefits for each of our retirement-related benefit plans. The rate is determined at the measurement date. A lower discount rate increases the present value of benefit obligations and increases our net periodic benefit cost.

- *Long-term rate of return* — This assumption is our best estimate of the average annual assumed return on plan assets until current benefits are paid. The market-related value as it relates to our estimate of long-term rate of return equals the fair value of plan assets, determined as of the measurement date. The return on plan assets recognizes all asset gains and losses, including changes in fair value, through the measurement date. Our expectations for the future investment returns of the asset categories are based on a combination of historical market performance, evaluations of investment forecasts obtained from external consultants and economists, and current market yields. The expected return for the total portfolio is calculated based on the plan's current asset holdings. The actual rate of return on plan assets is determined based on the fair value of the plan assets at the beginning and the end of the period, adjusted for contributions and benefit payments. A lower long-term rate of return on plan assets increases our net periodic benefit cost.

  Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition. We believe our investment portfolios are well diversified by asset class and sector, with no potential risk concentrations in any one category. See Note 9 of the "Notes to Consolidated Financial Statements" contained herein for further discussion of the investment portfolios for our plans.

- *Mortality rate* — This assumption reflects our best estimate, as of the measurement date, of the life expectancies of plan participants in order to determine the expected length of time for benefit payments. We derive our assumptions from industry mortality tables. The Society of Actuaries released updated mortality tables during the fourth quarter of 2014 which show that longevity in the United States is increasing, thereby establishing a new benchmark for mortality rates of private pension plan participants in the United States. Our mortality assumptions, which reflect the updated mortality tables, increased the benefit obligation of our U.S. defined benefit pension plans by approximately $125 million and of our OPEB plan by approximately $14 million. These updated tables do not impact the calculation of the benefit obligation for our U.K. defined benefit pension plan.

The weighted average assumptions used in the measurement of our net periodic benefit costs for the years ended December 31 are as follows:

	Pension Benefits					
	U.S. Plans		U.K. Plan		OPEB	
Assumption	2015	2014	2015	2014	2015	2014
Discount Rate	4.40%	5.30%	3.60%	4.40%	4.30%	5.00%
Expected Long-term Rate of Return on Plan Assets	7.50%	7.50%	5.20%	6.10%	5.75%	5.75%

The following illustrates the sensitivity of the below items to a 50 basis point change in the discount rate or the expected long-term rate of return on plan assets:

		At or for the Year Ended December 31, 2014			
Assumption	($ in millions)	Change	Net Periodic Benefit Cost, Before Tax	Benefit Obligation	Stockholders' Equity, After Tax
Discount Rate		+50 bp	$(3.5)	$(181.9)	$ 121.4
Discount Rate		-50 bp	2.6	205.9	(137.5)
Expected Long-term Rate of Return on Plan Assets		+50 bp	(9.1)	N/A	N/A
Expected Long-term Rate of Return on Plan Assets		-50 bp	9.1	N/A	N/A

Benefit Obligation and Fair Value of Plan Assets

During 2014, the fair value of plan assets in our U.S. qualified defined benefit pension plan decreased $117.0 million, or approximately 7.4 percent, due primarily to the payment of $214.5 million in benefit payments related to our limited-time offer for benefit payouts, offset partially by an appreciation in the fair value of the remaining plan assets. The fair value of plan assets in our U.K. pension plan increased £21.7 million, or approximately 15.9 percent. Although the effect of these changes in fair value had no impact on our 2014 net periodic pension costs, the favorable rate of return on these U.S. plan assets during 2014, in excess of our assumed rate of return for 2014, will have a favorable impact on our net periodic pension costs for 2015. This favorable impact on costs is offset by a decrease in the discount rate for all of our plans and a decrease in the expected long-term rate of return assumption for our U.K. pension plan assets. We believe our assumptions appropriately reflect the impact of the current economic environment.

Our pension and OPEB plans have an aggregate unrecognized net actuarial loss of $631.0 million and an unrecognized prior service credit of $0.7 million, which together represent the cumulative liability and asset gains and losses as well as the portion of prior service credits that have not been recognized in pension expense. As of December 31, 2014, the unrecognized net loss for these two items combined was $630.3 million.

The unrecognized gains or losses are amortized as a component of the net benefit cost. Our 2014, 2013, and 2012 pension and OPEB expense includes $3.9 million, $27.9 million, and $43.4 million, respectively, of amortization of the unrecognized net actuarial loss and prior service credit. Our 2014 net periodic benefit cost for our U.S. qualified defined benefit pension plan also includes a $64.4 million settlement loss related to our 2014 plan amendment, with a corresponding reduction in the unrecognized net actuarial loss in accumulated other comprehensive income. The unrecognized net actuarial loss for our pension plans, which is $628.4 million at December 31, 2014, will be amortized over the average remaining life expectancy of the plan participants, which is approximately 35 years for U.S. participants and 34 years for U.K. participants, to the extent that it exceeds the 10 percent corridor, as described below. The unrecognized net actuarial loss of $2.6 million for our OPEB plan will be amortized over the average future working life of OPEB plan participants, estimated at five years,

to the extent the loss is outside of a corridor established in accordance with GAAP. The corridor for the pension and OPEB plans is established based on the greater of 10 percent of the plan assets or 10 percent of the benefit obligation. At December 31, 2014, $403.7 million of the actuarial loss was outside of the corridor for the U.S. plans and £6.9 million was outside of the corridor for the U.K. plan. At December 31, 2014, none of the actuarial loss was outside of the corridor for the OPEB plan.

The fair value of plan assets in our U.S. qualified defined benefit pension plan was $1,473.7 million at December 31, 2014, compared to $1,590.7 million at December 31, 2013. The plan was in a $245.1 million underfunded position at December 31, 2014 compared to an overfunded position of $13.4 million at December 31, 2013. This year-over-year change was due primarily to the decrease in the discount rate and the adoption of updated mortality assumptions.

The fair value of plan assets in our U.K. pension plan was £158.1 million at December 31, 2014, compared to £136.4 million at December 31, 2013. The U.K. pension plan was in an overfunded position of £12.4 million and £10.3 million at December 31, 2014 and 2013, respectively.

The fair value of plan assets in our OPEB plan was $11.3 million at December 31, 2014, compared to $11.4 million at December 31, 2013. These assets represent life insurance contracts to fund the life insurance benefit portion of our OPEB plan. Our OPEB plan represents a non-vested, non-guaranteed obligation, and current regulations do not require specific funding levels for these benefits, which are comprised of retiree life, medical, and dental benefits. It is our practice to use general assets to pay medical and dental claims as they come due in lieu of utilizing plan assets for the medical and dental benefit portions of our OPEB plan.

See Executive Summary and Note 9 of the "Notes to Consolidated Financial Statements" contained herein for further discussion of our plans.

Income Taxes

We record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. In evaluating the ability to recover deferred tax assets, we have considered all available positive and negative evidence including past operating results, the existence of cumulative losses in the most recent years, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies. In the event we determine that we most likely would not be able to realize all or part of our deferred tax assets in the future, an increase to the valuation allowance would be charged to earnings in the period such determination is made. Likewise, if it is later determined that it is more likely than not that those deferred tax assets would be realized, the previously provided valuation allowance would be reversed. As of December 31, 2014 and 2013, we had no valuation allowance.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws in a multitude of jurisdictions, both domestic and foreign. The amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect profitability.

GAAP prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in income tax returns. The evaluation of a tax position is a two step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The second step is to measure a position that satisfies the recognition threshold at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more likely than not threshold but that now satisfy the recognition threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more likely than not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. If a previously recognized tax position is settled for an amount that is different from the amount initially measured, the difference will be recognized as a tax benefit or expense in the period the settlement is effective.

See Note 7 of the "Notes to Consolidated Financial Statements" contained herein.

Contingent Liabilities

On a quarterly basis, we review relevant information with respect to litigation and contingencies to be reflected in our consolidated financial statements. An estimated loss is accrued when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. It is possible that our results of operations or cash flows in a particular period could be materially affected by an ultimate unfavorable outcome of pending litigation or regulatory matters depending, in part, on our results of operations or cash flows for the particular period. See Note 14 of the "Notes to Consolidated Financial Statements" contained herein.

Accounting Developments

For information on new accounting standards and the impact, if any, on our financial position or results of operations, see Note 1 of the "Notes to Consolidated Financial Statements" contained herein.

Consolidated Operating Results

	Year Ended December 31				
(in millions of dollars)	2014	% Change	2013	% Change	2012
Revenue					
Premium Income	$ 7,797.2	2.3%	$ 7,624.7	(1.2)%	$ 7,716.1
Net Investment Income	2,477.4	(0.6)	2,492.1	(0.9)	2,515.2
Net Realized Investment Gain	16.1	136.8	6.8	(87.9)	56.2
Other Income	219.0	(4.9)	230.2	1.0	227.9
Total Revenue	10,509.7	1.5	10,353.8	(1.5)	10,515.4
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	7,310.8	10.8	6,595.7	(1.9)	6,722.2
Commissions	935.3	2.8	909.5	(0.8)	917.2
Interest and Debt Expense	167.5	12.1	149.4	2.8	145.4
Deferral of Acquisition Costs	(524.0)	12.3	(466.8)	(0.1)	(467.3)
Amortization of Deferred Acquisition Costs	440.8	5.2	418.9	10.6	378.7
Compensation Expense	820.9	3.9	790.4	0.5	786.8
Other Expenses	831.2	10.6	751.5	(4.0)	782.9
Total Benefits and Expenses	9,982.5	9.1	9,148.6	(1.3)	9,265.9
Income Before Income Tax	527.2	(56.3)	1,205.2	(3.5)	1,249.5
Income Tax	113.8	(67.2)	347.1	(2.3)	355.1
Net Income	$ 413.4	(51.8)	$ 858.1	(4.1)	$ 894.4

Management's Discussion and Analysis of Financial Condition and Results of Operations

In describing our results, we may at times note certain items and exclude the impact on financial ratios and metrics to enhance the understanding and comparability of our operational performance and the underlying fundamentals, but this exclusion is not an indication that similar items may not recur. See "Reconciliation of Non-GAAP Financial Measures" contained herein for additional discussion of these items.

The comparability of our financial results between years is affected by the fluctuation in the British pound sterling to dollar exchange rate. The functional currency of our U.K. operations is the British pound sterling. In periods when the pound weakens relative to the preceding period, translating pounds into dollars decreases current period results relative to the prior period. In periods when the pound strengthens, translating pounds into dollars increases current period results relative to the prior period. Our weighted average pound/dollar exchange rate was 1.646, 1.566, and 1.584 for years ended 2014, 2013, and 2012, respectively. If the 2013 and 2012 results for our U.K. operations had been translated at the higher exchange rate of 2014, our operating revenue by segment in 2013 and 2012 would have been higher by approximately $37.0 million and $32.9 million, respectively, and our operating income in 2013 and 2012 would have been higher by approximately $6.7 million and $5.1 million, respectively. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert pounds into dollars. As a result, we view foreign currency translation as a financial reporting item and not a reflection of operations or profitability in the U.K.

Premium income for 2014 increased relative to the prior year, with premium growth in each of our principal operating business segments due to increased sales, premium rate increases, and favorable persistency in most of our product lines. While we are pleased with the improvement we saw throughout 2014, our premium growth rates remain below our long-term expectations for each of our principal operating business segments. For 2013, we reported premium growth in our Unum US and Colonial Life segments relative to 2012, but premium income in total declined for 2013, as we believe growth in many of our product lines was unfavorably impacted during 2013 by the weak pace of economic growth, low levels of employment growth, the competitive environment, and the distraction caused by political instability and the implementation of healthcare reform. Also unfavorably impacting year over year comparisons for 2013 relative to 2012 were the reinsurance agreements we entered into during 2013 to cede a portion of certain product lines in Unum US individual disability and in Unum UK group life. Premium income continues to decline year over year, as expected, in our Closed Block segment.

Net investment income declined in 2014 relative to 2013 due primarily to a decrease in yield on invested assets and lower miscellaneous income, which includes income from bond call premiums, mortgage fees and payoffs, and partnership investments, partially offset by an increase in the level of invested assets. Net investment income was lower in 2013 relative to 2012 due primarily to a decline in the yield on invested assets, partially offset by a higher level of invested assets.

We recognized net realized investment gains of $16.1 million, $6.8 million, and $56.2 million in 2014, 2013, and 2012, respectively. The net realized investment gain for 2014 includes a $13.1 million hedge gain associated with the early retirement of a portion of the outstanding debt issued by one of our U.K. subsidiaries and an other-than-temporary impairment loss on fixed maturity securities of $13.5 million. The 2013 net realized investment gain includes a $30.0 million loss related to the sale of lower yielding securities during a period when interest rates increased, and we advantageously reinvested the proceeds into higher yielding investments, thereby increasing our investment yield and also improving the credit quality of our fixed maturity securities portfolio. Also included in net realized investment gains is the change in the fair value of an embedded derivative in a modified coinsurance arrangement, which resulted in realized gains of $3.3 million, $30.7 million, and $51.8 million in 2014, 2013, and 2012, respectively. See Notes 4 and 8 of the "Notes to Consolidated Financial Statements" contained herein for further discussion of the hedge gain related to the retirement of debt in 2014.

The consolidated benefit ratios were 93.8 percent in 2014 compared to 86.5 percent in 2013 and 87.1 percent in 2012. Excluding the 2014 and 2013 reserve adjustments, the benefit ratios for 2014 and 2013 were 84.8 percent and 86.4 percent, respectively. The underlying risk results in 2014 for each of our principal operating business segments, as well as for the majority of our product lines within those segments, were favorable or consistent with the prior year periods.

Interest and debt expense for 2014 was higher than the prior year due primarily to the first quarter of 2014 issuance of $350 million of 4.00% senior notes, partially offset by the second quarter of 2014 retirement of $145 million of principal outstanding on 6.85% debt. Interest and debt expense for 2014 also includes $13.2 million of costs related to the second quarter of 2014 early retirement of debt. Interest and debt expense for 2013 was higher than 2012 due primarily to the issuance of $250 million of 5.75% senior notes in the third quarter of 2012, offset partially by lower interest expense on our floating rate debt and the purchase and retirement of the debt held by Tailwind Holdings, LLC (Tailwind Holdings) in the first quarter of 2013. See Note 8 of the "Notes to Consolidated Financial Statements" contained herein for further discussion of our debt.

The deferral of acquisition costs increased in 2014 due primarily to sales growth in each of our principal operating business segments. The deferral of acquisition costs in 2013 was generally consistent with 2012. Amortization of acquisition costs was higher year-over-year in both 2014 and 2013 due to growth in the level of the deferred assets in our Unum US and Colonial Life businesses. Also contributing to the increase in amortization of acquisition costs in 2013 compared to 2012 was a higher level of policy terminations experienced in 2013 relative to assumptions for certain issue years within some of our Unum US supplemental and voluntary product lines.

Other expenses, including compensation expense, increased in 2014 compared to 2013 due to an increase in acquisition-related expenses, including sales compensation, resulting from higher sales in certain of our product lines, higher expenses related to technology and other growth-related investments, increased contributions to our defined contribution plans as a result of amendments to these plans which became effective in 2014, and the settlement loss related to our 2014 pension plan amendment. Partially offsetting these expense increases is a lower level of net actuarial loss amortization in 2014 compared to 2013 due to pension plan amendments adopted during 2013. Other expenses, including compensation expense, were in aggregate lower in 2013 relative to 2012 due to active expense management, the impact of the mid-year 2013 pension plan amendments, and expense reductions associated with reinsurance agreements entered into during 2013. See Note 9 in the "Notes to Consolidated Financial Statements" contained herein for further discussion of our employee benefit plans.

Our income tax for 2014 was 21.6 percent of income before income tax, compared to 28.8 percent and 28.4 percent in 2013 and 2012, respectively. Our effective tax rate differs from the U.S. statutory rate of 35 percent primarily due to tax credits for tax credit partnerships and foreign earnings taxed at lower rates than the U.S. statutory rate. Our overall rate for 2014 was favorably impacted because a larger proportion of our 2014 earnings was derived from our foreign operations and taxed at that lower rate due to the long-term care reserve charge which is taxed at the higher U.S. rate. Our income tax for 2013 and 2012 includes reductions of $6.3 million and $9.3 million, respectively, to reflect the impact of the decrease in the U.K. corporation tax rate changes on our net deferred tax liability related to our U.K. operations. Our 2012 income tax also includes a release of an $11.0 million tax liability related to unrecognized tax benefits. See Note 7 in the "Notes to Consolidated Financial Statements" contained herein for further information on our income tax.

Further discussion of operating results for each of our segments and major product lines is included in "Segment Operating Results" herein.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Consolidated Sales Results

Shown below are sales results for our three principal operating business segments.

	Year Ended December 31				
(in millions)	2014	% Change	2013	% Change	2012
Unum US	$902.1	21.0%	$745.6	(2.0)%	$760.5
Unum UK	£ 51.9	7.2%	£ 48.4	(18.7)%	£ 59.5
Colonial Life	$410.1	11.6%	$367.6	1.6%	$361.9

Sales shown in the preceding chart generally represent the annualized premium income on new sales which we expect to receive and report as premium income during the next 12 months following or beginning in the initial quarter in which the sale is reported, depending on the effective date of the new sale. Sales do not correspond to premium income reported as revenue in accordance with GAAP. This is because new annualized sales premiums reflect current sales performance and what we expect to recognize as premium income over a 12 month period, while premium income reported in our financial statements is reported on an "as earned" basis rather than an annualized basis and also includes renewals and persistency of in-force policies written in prior years as well as current new sales.

Sales, persistency of the existing block of business, employment and salary growth, and the effectiveness of a renewal program are indicators of growth in premium income. Trends in new sales, as well as existing market share, also indicate the potential for growth in our respective markets and the level of market acceptance of price changes and new product offerings. Sales results may fluctuate significantly due to case size and timing of sales submissions.

See "Segment Results" as follows for a discussion of sales by segment.

Segment Results

Our reporting segments are comprised of the following: Unum US, Unum UK, Colonial Life, Closed Block, and Corporate. Financial information for each of our reporting segments is as follows.

Unum US Segment

The Unum US segment includes group long-term and short-term disability insurance, group life and accidental death and dismemberment products, and supplemental and voluntary lines of business, which are comprised of individual disability and voluntary benefits products.

Unum US Operating Results

Shown below are financial results for the Unum US segment. In the sections following, financial results and key ratios are also presented for the major lines of business within the segment.

(in millions of dollars, except ratios)	Year Ended December 31				
	2014	% Change	2013	% Change	2012
Operating Revenue					
Premium Income	$4,659.7	3.2%	$4,517.1	1.4%	$4,456.5
Net Investment Income	890.3	(4.2)	929.6	(2.4)	952.3
Other Income	122.1	(4.8)	128.3	3.0	124.6
Total	5,672.1	1.7	5,575.0	0.8	5,533.4
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	3,288.1	2.0	3,222.4	(0.5)	3,238.6
Commissions	528.7	4.7	505.2	(0.5)	507.5
Deferral of Acquisition Costs	(292.7)	16.2	(252.0)	1.1	(249.2)
Amortization of Deferred Acquisition Costs	248.1	7.9	230.0	17.0	196.5
Other Expenses	1,043.6	4.3	1,000.8	0.8	992.9
Total	4,815.8	2.3	4,706.4	0.4	4,686.3
Income Before Income Tax and Net Realized Investment Gains and Losses	856.3	(1.4)	868.6	2.5	847.1
Unclaimed Death Benefits (UDB) Reserve Increase	—	—	75.4	—	—
Group Life Waiver of Premium Benefit (Waiver) Reserve Reduction	—	—	(85.0)	—	—
Operating Income	$ 856.3	(0.3)	$ 859.0	1.4	$ 847.1
Operating Ratios (% of Premium Income):					
Benefit Ratio	70.6%		71.3%		72.7%
Benefit Ratio Excluding the UDB and Waiver Reserve Adjustments			71.6%		
Other Expense Ratio	22.4%		22.2%		22.3%
Income Ratio	18.4%		19.2%		19.0%
Operating Income Ratio	18.4%		19.0%		19.0%

Unum US Group Disability Operating Results

Shown below are financial results and key performance indicators for Unum US group disability.

(in millions of dollars, except ratios)	Year Ended December 31				
	2014	% Change	2013	% Change	2012
Operating Revenue					
Premium Income					
Group Long-term Disability	$1,553.5	—%	$1,553.9	(1.6)%	$1,578.8
Group Short-term Disability	558.1	7.4	519.6	9.0	476.7
Total Premium Income	2,111.6	1.8	2,073.5	0.9	2,055.5
Net Investment Income	519.1	(5.6)	550.1	(4.6)	576.9
Other Income	91.0	(4.8)	95.6	2.0	93.7
Total	2,721.7	0.1	2,719.2	(0.3)	2,726.1
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	1,746.4	0.8	1,732.9	(0.5)	1,741.6
Commissions	161.2	(1.7)	164.0	3.0	159.3
Deferral of Acquisition Costs	(40.2)	35.8	(29.6)	12.5	(26.3)
Amortization of Deferred Acquisition Costs	26.3	24.6	21.1	15.3	18.3
Other Expenses	550.0	3.3	532.4	(1.4)	540.1
Total	2,443.7	0.9	2,420.8	(0.5)	2,433.0
Operating Income	$ 278.0	(6.8)	$ 298.4	1.8	$ 293.1
Operating Ratios (% of Premium Income):					
Benefit Ratio	82.7%		83.6%		84.7%
Other Expense Ratio	26.0%		25.7%		26.3%
Operating Income Ratio	13.2%		14.4%		14.3%
Persistency:					
Group Long-term Disability	90.6%		87.2%		90.7%
Group Short-term Disability	89.6%		88.0%		88.0%

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Premium income increased in 2014 compared to 2013, driven by favorable persistency, premium rate increases, and sales growth for both group long-term and group short-term disability. Net investment income declined in 2014 relative to 2013 due to a decrease in the level of invested assets and a decline in yield. Other income is comprised primarily of fees from administrative services products, which declined slightly in 2014 relative to 2013. Also included in other income for 2013 is a gain of $4.0 million on the purchase and retirement of the debt issued by Tailwind Holdings.

Risk results were favorable in 2014 compared to 2013 due primarily to favorable claim recovery experience, partially offset by slightly higher claim incidence rates and a 50 basis point decrease in the discount rate which we implemented during the fourth quarter of 2014 for group long-term disability new claim incurrals.

The deferral of acquisition costs was higher in 2014 relative to the prior year due to an increase in deferrable expenses related to sales growth. The amortization of acquisition costs increased in 2014 compared to 2013 due to growth in the level of the deferred asset. The other expense ratio for 2014 was higher compared to 2013 due to an increase in other expenses driven by technology and other growth-related investments, a higher level of allocated retirement-related costs, and higher acquisition-related expenses resulting from the increased level of sales.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Premium income increased slightly in 2013 compared to 2012 primarily due to growth from rate increases, partially offset by a decline in persistency in the group long-term disability product line. We believe the weak pace of economic growth, low levels of employment growth, and competitive environment hampered our premium income growth in 2013, including growth from existing customers. Net investment income declined in 2013 relative to 2012 due to decreases in the level of invested assets, lower miscellaneous income, and a decrease in the yield on invested assets. Other income increased slightly in 2013 compared to 2012 due to the gain of $4.0 million on the purchase and retirement of the debt issued by Tailwind Holdings, partially offset by a decrease in fees from administrative services products.

Risk results were favorable in 2013 compared to 2012 due to favorable claim incidence rates and continued strong claim recovery experience. These results were partially offset by the 50 basis point decrease in the discount rate which we implemented during the third quarter of 2012 for group long-term disability new claim incurrals.

The deferral and amortization of acquisition costs were both higher in 2013 relative to 2012 due to an increase in deferrable expenses and the resulting continued growth in the level of the deferred asset. The other expense ratio for 2013 was lower compared to 2012 as we continued to focus on operating effectiveness and expense management relative to our premium income level.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Unum US Group Life and Accidental Death and Dismemberment Operating Results

Shown below are financial results and key performance indicators for Unum US group life and accidental death and dismemberment.

	Year Ended December 31				
(in millions of dollars, except ratios)	2014	% Change	2013	% Change	2012
Operating Revenue					
Premium Income					
Group Life	$1,262.3	4.0%	$1,213.9	2.7%	$1,182.1
Accidental Death & Dismemberment	125.9	3.5	121.6	5.5	115.3
Total Premium Income	1,388.2	3.9	1,335.5	2.9	1,297.4
Net Investment Income	139.2	(2.4)	142.6	(2.9)	146.9
Other Income	1.4	(22.2)	1.8	(5.3)	1.9
Total	1,528.8	3.3	1,479.9	2.3	1,446.2
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	975.8	7.2	909.9	(2.8)	936.4
Commissions	113.3	4.0	108.9	4.1	104.6
Deferral of Acquisition Costs	(31.3)	26.7	(24.7)	10.3	(22.4)
Amortization of Deferred Acquisition Costs	21.4	37.2	15.6	14.7	13.6
Other Expenses	205.2	3.5	198.2	2.6	193.1
Total	1,284.4	6.3	1,207.9	(1.4)	1,225.3
Income Before Income Tax and Net Realized Investment Gains and Losses	244.4	(10.1)	272.0	23.1	220.9
Unclaimed Death Benefits (UDB) Reserve Increase	—	—	49.1	—	—
Group Life Waiver of Premium Benefit (Waiver) Reserve Reduction	—	—	(85.0)	—	—
Operating Income	$ 244.4	3.5	$ 236.1	6.9	$ 220.9
Operating Ratios (% of Premium Income):					
Benefit Ratio	70.3%		68.1%		72.2%
Benefit Ratio Excluding the UDB and Waiver Reserve Adjustments			70.8%		
Other Expense Ratio	14.8%		14.8%		14.9%
Income Ratio	17.6%		20.4%		17.0%
Operating Income Ratio	17.6%		17.7%		17.0%
Persistency:					
Group Life	90.8%		88.1%		90.6%
Accidental Death & Dismemberment	91.1%		88.8%		90.0%

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Premium income increased in 2014 compared to 2013 primarily due to continued growth in the block of business resulting from sales and favorable persistency. Net investment income was lower in 2014 relative to the prior year due to a decrease in the yield on invested assets and lower miscellaneous income, partially offset by an increase in the level of invested assets.

Risk results were unfavorable in 2014 compared to the prior year due to the net favorable impact of the 2013 reserve adjustments for group life waiver of premium benefits and unclaimed death benefits. Excluding these two reserve adjustments, risk results were slightly favorable in 2014 compared to 2013 due to lower claim incidence rates, partially offset by a higher average claim size.

The deferral of acquisition costs was higher in 2014 relative to the prior year due to sales growth. The amortization of acquisition costs increased in 2014 compared to 2013 due to growth in the level of the deferred asset. The other expense ratio in 2014 was consistent with the prior year as the increase in premium income more than offset expense increases driven by technology and other growth-related investments, a higher level of allocated retirement-related costs, and higher acquisition-related expenses resulting from the increased level of sales.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Premium income increased in 2013 compared to 2012 primarily due to growth in the block of business which resulted from sales and premium rate increases, partially offset by a decline in persistency. Net investment income was lower in 2013 compared to 2012 primarily due to a decrease in the yield on invested assets, partially offset by an increase in the level of invested assets.

Risk results were favorable in 2013 compared to 2012 as a result of the 2013 reserve reduction for group life waiver of premium benefits, partially offset by the reserve increase for unclaimed death benefits. Excluding these two reserve adjustments, risk results were favorable in 2013 compared to 2012 due primarily to more favorable experience related to the group life waiver of premium benefits.

The deferral and amortization of acquisition costs were both higher in 2013 relative to the prior year due to an increase in deferrable expenses and the resulting continued growth in the level of the deferred asset. The other expense ratio in 2013 was consistent with 2012.

Unum US Supplemental and Voluntary Operating Results

Shown below are financial results and key performance indicators for Unum US supplemental and voluntary product lines.

(in millions of dollars, except ratios)	Year Ended December 31				
	2014	% Change	2013	% Change	2012
Operating Revenue					
Premium Income					
Individual Disability	$ 466.1	0.2%	$ 465.3	(2.6)%	$ 477.6
Voluntary Benefits	693.8	7.9	642.8	2.7	626.0
Total Premium Income	1,159.9	4.7	1,108.1	0.4	1,103.6
Net Investment Income	232.0	(2.1)	236.9	3.7	228.5
Other Income	29.7	(3.9)	30.9	6.6	29.0
Total	1,421.6	3.3	1,375.9	1.1	1,361.1
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	565.9	(2.4)	579.6	3.4	560.6
Commissions	254.2	9.4	232.3	(4.6)	243.6
Deferral of Acquisition Costs	(221.2)	11.9	(197.7)	(1.4)	(200.5)
Amortization of Deferred Acquisition Costs	200.4	3.7	193.3	17.4	164.6
Other Expenses	288.4	6.7	270.2	4.0	259.7
Total	1,087.7	0.9	1,077.7	4.8	1,028.0
Income Before Income Tax and Net Realized Investment Gains and Losses	333.9	12.0	298.2	(10.5)	333.1
Unclaimed Death Benefits (UDB) Reserve Increase	—	—	26.3	—	—
Operating Income	$ 333.9	2.9	$ 324.5	(2.6)	$ 333.1
Interest Adjusted Loss Ratio:					
Individual Disability	30.0%		29.6%		31.2%
Operating Ratios (% of Premium Income):					
Benefit Ratios:					
Individual Disability	51.6%		51.3%		52.4%
Voluntary Benefits	46.9%		53.0%		49.5%
Benefit Ratio Excluding the UDB Reserve Increase					
Voluntary Benefits			48.9%		
Other Expense Ratio	24.9%		24.4%		23.5%
Income Ratio	28.8%		26.9%		30.2%
Operating Income Ratio	28.8%		29.3%		30.2%
Persistency:					
Individual Disability	90.0%		90.5%		91.4%
Voluntary Benefits	77.6%		77.0%		78.9%

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Premium income was higher in 2014 compared to 2013, driven primarily by higher sales and stable to favorable persistency. Net investment income was lower in 2014 relative to 2013 due to decrease in yield on invested assets and lower miscellaneous income, partially offset by an increase in the level of invested assets.

Risk results for the individual disability product line were slightly less favorable during 2014 compared to 2013 due to lower claim recoveries and higher claim incidence rates. Risk results for voluntary benefits were favorable compared to 2013 due to the 2013 reserve increase for unclaimed death benefits. Excluding this reserve increase, risk results were favorable due to improved claim experience in the disability and life product lines.

Commissions and deferral of acquisition costs were higher in 2014 relative to 2013 due primarily to higher sales. The amortization of deferred acquisition costs was higher in 2014 compared to the prior year due to growth in the level of the deferred asset. The other expense ratio for 2014 increased compared to 2013 due to an increase in other expenses driven by technology and other growth-related investments, a higher level of allocated retirement-related costs, and higher acquisition-related expenses resulting from the increased level of sales.

The individual disability product line had goodwill of approximately $187.5 million at December 31, 2014, none of which is currently believed to be at risk for future impairment.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Premium income was generally consistent in 2013 compared to 2012, with growth in voluntary benefits offset by a decrease in the individual disability product line due to a reinsurance contract entered into during the second quarter of 2013 to cede a small block of individual disability business. Persistency for both individual disability and voluntary benefits declined relative to 2012 due to a higher level of policy terminations in the early part of 2013. Net investment income was higher in 2013 compared to 2012 due to an increase in the level of invested assets, an increase in miscellaneous income, partially offset by a decline in the yield on invested assets.

Risk results for the individual disability product line were favorable during 2013 compared to 2012 due to higher claim recoveries and the impact of a release of active life reserves related to the termination of a large in-force policy in 2013. Risk results for voluntary benefits were unfavorable compared to 2012 as a result of the 2013 reserve increase for unclaimed death benefits. Excluding this reserve increase, risk results for voluntary benefits were slightly favorable in 2013 compared to 2012 due to favorable experience in the life and critical illness product lines.

Commissions were lower in 2013 relative to 2012 due primarily to amounts ceded under the individual disability reinsurance contract previously discussed. The deferral of acquisition costs was generally consistent in 2013 compared to 2012. The amortization of deferred acquisition costs was higher in 2013 compared to 2012 due to a less favorable year-over-year impact from the prospective unlocking for expected future experience relative to assumptions for our interest-sensitive voluntary life products as well as a higher level of policy terminations relative to assumptions for certain issue years within certain of our product lines. The other expense ratio in 2013 was higher than 2012 due primarily to lower premium income resulting from the reinsurance contract entered into during 2013 in our individual disability product line as well as higher expenses associated with our voluntary benefits products.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Sales

	Year Ended December 31				
(in millions of dollars)	2014	% Change	2013	% Change	2012
Sales by Product					
Group Disability and Group Life and AD&D					
Group Long-term Disability	$223.6	29.0%	$173.3	(4.9)%	$182.2
Group Short-term Disability	118.8	16.6	101.9	4.6	97.4
Group Life and AD&D	264.8	32.8	199.4	(3.9)	207.5
Subtotal	607.2	27.9	474.6	(2.6)	487.1
Supplemental and Voluntary					
Individual Disability	56.8	8.8	52.2	(8.4)	57.0
Voluntary Benefits	238.1	8.8	218.8	1.1	216.4
Subtotal	294.9	8.8	271.0	(0.9)	273.4
Total Sales	$902.1	21.0	$745.6	(2.0)	$760.5
Sales by Market Sector					
Group Disability and Group Life and AD&D					
Core Market (< 2,000 lives)	$401.7	23.8%	$324.4	(3.1)%	$334.9
Large Case Market	205.5	36.8	150.2	(1.3)	152.2
Subtotal	607.2	27.9	474.6	(2.6)	487.1
Supplemental and Voluntary	294.9	8.8	271.0	(0.9)	273.4
Total Sales	$902.1	21.0	$745.6	(2.0)	$760.5

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Sales of our group products increased in 2014 relative to 2013 in both the core and large case market segments for new and existing customer accounts. The sales mix in the group market sector for 2014 was approximately 66 percent core market and 34 percent large case market, generally consistent with the level of 2013.

Sales in our individual disability line of business, which are primarily concentrated in the multi-life market, increased in 2014 due to a favorable mix of sales in the core and large case market segments. Sales of voluntary benefits were higher in 2014 compared to 2013, with increases in both core and large case market sales.

We attribute a portion of our 2014 sales growth relative to 2013 to the distraction which occurred in the marketplace during 2013 as a result of healthcare reform implementation, which we believe negatively impacted our core market sales for our group and voluntary benefits products throughout 2013.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Sales in our group core and large case market segments declined in 2013 relative to 2012. In both markets, sales to existing accounts increased in 2013 but this increase was more than offset by a decrease in new account sales. The decline in new sales in our group core market was driven by fewer sales opportunities in the small-size employer market segment during 2013, which we believe may have been temporarily attributable to healthcare reform as well as the uncertain economic and political environment. We believe the decline in new sales in our large case market was partially due to our disciplined and opportunistic approach to sales growth. The sales mix in our group market sector in 2013 was approximately 68 percent core market and 32 percent large case market, generally consistent with the prior year.

Sales in our individual disability line of business were lower in 2013 compared to 2012 due to lower sales growth from existing customers. Sales of voluntary benefits were higher in 2013 compared to 2012, with an increase in core market sales partially offset by a decrease in large case market sales.

Segment Outlook

During 2015, we expect continued strong growth momentum, with continued strong persistency and sales growth within our existing client relationships. We believe we will achieve year-over-year growth in premium income, with additional improvement in our premium and sales growth rates if the overall economic recovery further accelerates and market pricing adequately reflects the impact of a low interest rate environment.

Our net investment income may be impacted, either favorably or unfavorably, by fluctuations in miscellaneous investment income. The low interest rate environment and tighter credit spreads continue to place pressure on our profit margins by impacting net investment income yields and claim reserve discount rates. As part of our continued pricing discipline and our reserving strategy, we continuously monitor emerging interest rate experience and adjust our pricing and reserve discount rates, as appropriate. We expect a stable risk environment for our group disability product line in 2015, with the impact of the lower claim reserve discount rate offset by premium rate increases we place in the market, resulting in a benefit ratio for full year 2015 that is generally consistent with the level of 2014.

Our amortization of deferred acquisition costs may be unfavorably impacted, particularly in our supplemental and voluntary product line, by higher than expected policy terminations. We believe future profit margin improvement is achievable, driven primarily by our continued product mix shift, expense efficiencies, and consistent operating effectiveness.

Certain risks and uncertainties are inherent in the disability insurance business. Components of claims experience, such as incidence and recovery rates, may be worse than we expect. Disability claim incidence and claim recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence. Within the group disability market, pricing and renewal actions can be taken to react to higher claim rates or lower discount rates, but these actions take time to implement, and there is a risk that the market will not sustain increased prices. In addition, changes in economic and external conditions may not manifest themselves in claims experience for an extended period of time. Unfavorable economic conditions may lead to a higher rate of claim incidence, lower levels of claim recoveries, or lower claim discount rates. Claim incidence levels may fluctuate due to the normal volatility that occurs in group disability business or may be related to economic conditions. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

We remain confident in our strategy of providing consumers with valuable financial protection benefits, broadening our employer client relationships, and building collaborative partnerships with complementary product manufacturers, technology firms, and distributors. Our continued investment in our franchise includes active client management and a differentiated integrated experience across our product lines. There are significant growth opportunities in each of our markets and within our existing client base, and we continue to invest in the people, processes, and technologies that will allow us to enhance our ability to grow the market over the long term. Underpinning our strategy is our continued commitment to risk management discipline, talent development, and our core values.

Unum UK Segment

The Unum UK segment includes insurance for group long-term disability, group life, and supplemental lines of business which include individual disability and critical illness. Unum UK's products are sold primarily in the United Kingdom through field sales personnel and independent brokers and consultants.

Operating Results

Shown below are financial results and key performance indicators for the Unum UK segment.

	Year Ended December 31				
(in millions of dollars, except ratios)	2014	% Change	2013	% Change	2012
Operating Revenue					
Premium Income					
Group Long-term Disability	$418.9	7.4%	$389.9	(4.8)%	$409.7
Group Life	133.2	25.2	106.4	(51.9)	221.3
Supplemental	55.1	(8.6)	60.3	(5.2)	63.6
Total Premium Income	607.2	9.1	556.6	(19.9)	694.6
Net Investment Income	151.0	1.7	148.5	(13.1)	170.8
Other Income	—	(100.0)	0.1	—	0.1
Total	758.2	7.5	705.2	(18.5)	865.5
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	431.0	4.3	413.3	(23.7)	541.4
Commissions	42.8	12.6	38.0	(10.8)	42.6
Deferral of Acquisition Costs	(10.5)	7.1	(9.8)	(16.9)	(11.8)
Amortization of Deferred Acquisition Costs	12.5	(15.0)	14.7	(6.4)	15.7
Other Expenses	134.6	15.0	117.0	(20.0)	146.3
Total	610.4	6.5	573.2	(21.9)	734.2
Operating Income	$147.8	12.0	$132.0	0.5	$131.3
Operating Ratios (% of Premium Income):					
Benefit Ratio	71.0%		74.3%		77.9%
Other Expense Ratio	22.2%		21.0%		21.1%
Operating Income Ratio	24.3%		23.7%		18.9%
Persistency:					
Group Long-term Disability	90.1%		82.2%		84.0%
Group Life	76.0%		66.7%		82.5%
Supplemental	86.6%		78.8%		84.6%

Foreign Currency Translation

The functional currency of Unum UK is the British pound sterling. Unum UK's premium income, net investment income, claims, and expenses are received or paid in pounds, and we hold pound-denominated assets to support Unum UK's pound-denominated policy reserves and liabilities. We translate Unum UK's pound-denominated financial statement items into dollars for our consolidated financial reporting. We translate income statement items using an average exchange rate for the reporting period, and we translate balance sheet items using the exchange rate at the end of the period. We report unrealized foreign currency translation gains and losses in accumulated other comprehensive income in our consolidated balance sheets.

Fluctuations in the pound to dollar exchange rate have an effect on Unum UK's reported financial results and our consolidated financial results. In periods when the pound strengthens relative to the preceding period, translating pounds into dollars increases current period results relative to the prior period. In periods when the pound weakens, translating pounds into dollars decreases current period results relative to the prior period.

	Year Ended December 31				
(in millions of pounds, except ratios)	2014	% Change	2013	% Change	2012
Operating Revenue					
Premium Income					
Group Long-term Disability	£ 254.4	2.1%	£ 249.2	(3.6)%	£ 258.4
Group Life	80.8	18.5	68.2	(51.1)	139.6
Supplemental	33.4	(13.2)	38.5	(4.0)	40.1
Total Premium Income	368.6	3.6	355.9	(18.8)	438.1
Net Investment Income	91.6	(3.5)	94.9	(11.9)	107.7
Other Income	0.1	—	0.1	—	—
Total	460.3	2.1	450.9	(17.4)	545.8
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	261.4	(1.2)	264.5	(22.5)	341.4
Commissions	26.0	7.0	24.3	(9.7)	26.9
Deferral of Acquisition Costs	(6.4)	3.2	(6.2)	(17.3)	(7.5)
Amortization of Deferred Acquisition Costs	7.6	(18.3)	9.3	(6.1)	9.9
Other Expenses	81.9	9.6	74.7	(19.0)	92.2
Total	370.5	1.1	366.6	(20.8)	462.9
Operating Income	£ 89.8	6.5	£ 84.3	1.7	£ 82.9
Weighted Average Pound/Dollar Exchange Rate	1.646		1.566		1.584

Management's Discussion and Analysis of Financial Condition and Results of Operations

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Premium income was higher in 2014 compared to 2013 due to premium rate increases in our group long-term disability and group life product lines, favorable persistency, and an increased retention level in our reinsurance program, as of January 1, 2014, for our group life products that provide lump sum benefits. Partially offsetting these increases were large case policy terminations in our group life and supplemental product lines.

Net investment income declined in 2014 compared to 2013 due primarily to lower yields on invested assets. We also reported lower income from inflation index-linked bonds which we invest in to support the claim reserves associated with certain of our group policies that provide for inflation-linked increases in benefits.

Group long-term disability and group life risk results were favorable in 2014 compared to 2013 due primarily to lower claim incidence rates. Supplemental risk results were favorable in 2014 compared to 2013 due to lower claim incidence rates for the group critical illness product line.

Commissions were higher in 2014 compared to 2013 due primarily to the increased retention level in our group life reinsurance program. The amortization of deferred acquisition costs was lower in 2014 compared to the prior year due primarily to a decrease in the level of the deferred asset. The other expense ratio was higher in 2014 compared to the prior year due primarily to an increase in operational investments in our business and a lower comparative expense ratio in 2013 as a result of expense allowances related to the reinsurance agreements in our group life product line.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Premium income was lower in 2013 compared to 2012 due primarily to reinsurance agreements we entered into effective January 1, 2013 to cede an additional portion of our group life business. The reinsurance agreements significantly decreased premium income and benefit payments for group life during 2013 and also reduced volatility in this line of business. Premium income in 2013 was also unfavorably impacted by continued pressure on persistency resulting from the initiation of premium rate increases, partially offset by an increase in premium income as a result of rate increases in existing customer accounts.

Net investment income declined in 2013 compared to 2012 due primarily to a decrease in the yield on invested assets, lower levels of invested assets, and lower income from inflation index-linked bonds.

Group long-term disability risk results were unfavorable in 2013 compared to 2012 due primarily to lower claim recoveries. Group life risk results were favorable in 2013 compared to 2012 due primarily to lower mortality rates on the retained business. Supplemental risk results were favorable in 2013 compared to the prior year due to lower claim incidence rates for the group critical illness product line.

Commissions and deferral of acquisition costs were lower in 2013 compared to 2012 due to expenses ceded under the group life reinsurance agreements and a lower level of sales in 2013. The amortization of deferred acquisition costs and the other expense ratio were generally consistent in 2013 compared to the prior year.

Sales

(in millions of dollars and pounds)	Year Ended December 31				
	2014	% Change	2013	% Change	2012
Sales by Product					
Group Long-term Disability	$57.4	13.7%	$50.5	(1.4)%	$51.2
Group Life	23.8	11.2	21.4	(43.7)	38.0
Supplemental	3.9	—	3.9	(20.4)	4.9
Total Sales	$85.1	12.3	$75.8	(19.4)	$94.1
Sales by Market Sector					
Group Long-term Disability and Group Life					
Core Market (< 500 lives)	$42.5	9.3%	$38.9	0.5%	$38.7
Large Case Market	38.7	17.3	33.0	(34.7)	50.5
Subtotal	81.2	12.9	71.9	(19.4)	89.2
Supplemental	3.9	—	3.9	(20.4)	4.9
Total Sales	$85.1	12.3	$75.8	(19.4)	$94.1
Sales by Product					
Group Long-term Disability	£35.1	9.0%	£32.2	(0.3)%	£32.3
Group Life	14.4	5.1	13.7	(43.2)	24.1
Supplemental	2.4	(4.0)	2.5	(19.4)	3.1
Total Sales	£51.9	7.2	£48.4	(18.7)	£59.5
Sales by Market Sector					
Group Long-term Disability and Group Life					
Core Market (< 500 lives)	£25.8	3.6%	£24.9	2.0%	£24.4
Large Case Market	23.7	12.9	21.0	(34.4)	32.0
Subtotal	49.5	7.8	45.9	(18.6)	56.4
Supplemental	2.4	(4.0)	2.5	(19.4)	3.1
Total Sales	£51.9	7.2	£48.4	(18.7)	£59.5

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Sales in group long-term disability increased in 2014 compared to 2013 due to higher sales in the large case market, with an increase in sales to new customers partially offset by lower sales to existing customers. In the group long-term disability core market, or employee groups with fewer than 500 lives, sales declined in 2014 relative to the prior year.

Group life sales within the core market segment were higher in 2014 compared to 2013 for both new and existing customers. Group life sales in the large case market declined in 2014 relative to the prior year due to decreased sales to existing customers, partially offset by higher sales to new customers.

Supplemental sales were lower in 2014 compared to 2013 due primarily to lower sales in our group critical illness product line.

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Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Sales in group long-term disability in 2013 were consistent with 2012, with higher new account sales and an increase in core market sales offset by a decrease in sales to existing customers and a decline in sales in the large case market.

Group life sales were lower in 2013 compared to 2012 as a result of declines in new account sales in both the core and large case markets, which more than offset higher sales to existing customers. The decrease in group life sales was due in part to pricing discipline and the initiation of rate increases on new business. Also impacting the comparability of group life sales relative to 2012 was the discontinuance of new sales of certain of our group life product lines beginning in the third quarter of 2012.

Supplemental sales were lower in 2013 compared to 2012 due primarily to lower sales in our individual disability product line.

Segment Outlook

Our primary focus during 2015 will be a continuance of building on the key capabilities that we believe will enable us to deliver future growth. We expect to continue to improve our profitability through our shift in business mix, premium rate increases, an increased focus on new to market sales, and continued pursuit of efficiency opportunities.

We expect the low interest rate environment to continue to contribute to a dampening of overall earnings growth, and unfavorable economic conditions may lead to a higher rate of claim incidence, lower levels of claim recoveries, or lower claim discount rates. We are also preparing for Solvency II, a new European Union capital regime that will become effective January 1, 2016, the adoption of which will likely result in an increase in supervisory and disclosure requirements and could also result in increased capital requirements. We continue to work with regulatory authorities in the U.K. to agree on appropriate capital requirements for our U.K. business under Solvency II. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

In our group life business, the completion of our near-term actions regarding rate increases, reinsurance, and the discontinuance of certain product lines have reduced volatility and contributed to improvement in our overall profit margin. We are now looking at opportunities for disciplined growth in this market segment.

In our group long-term disability business, we remain committed to driving growth in the U.K. market. We will continue to follow a disciplined approach to new sales activity in the competitive pricing environment. We do, however, see genuine opportunities to grow the group long-term disability market in the U.K. through establishing new relationships with employers, deepening the level of coverage with our existing corporate clients, and through new offerings such as a sick-pay product and an updated offering of our group critical illness product. We anticipate returning to more normal levels of premium growth as our rate increases continue to be placed in the market and as we continue to increase sales to new and existing customers. We have seen some positive results in terms of new to market sales and increased coverage in existing cases. We believe the outlook for higher levels of employment, increases in corporate payrolls, and expansion of benefit spending is beginning to improve and will positively impact our sales and operating results, but a sustained low interest rate environment may dampen our profitability. In addition, we continue to focus on new market opportunities by raising awareness of the need for income protection. Expanding group long-term disability market penetration remains a significant opportunity and priority.

Colonial Life Segment

The Colonial Life segment includes insurance for accident, sickness, and disability products, life products, and cancer and critical illness products issued primarily by Colonial Life & Accident Insurance Company and marketed to employees at the workplace through an independent contractor agency sales force and brokers.

Operating Results

Shown below are financial results and key performance indicators for the Colonial Life segment.

	Year Ended December 31				
(in millions of dollars, except ratios)	2014	% Change	2013	% Change	2012
Operating Revenue					
Premium Income					
Accident, Sickness, and Disability	$ 759.8	2.9%	$ 738.7	2.0%	$ 724.5
Life	231.8	4.8	221.1	5.4	209.7
Cancer and Critical Illness	282.1	3.6	272.4	4.6	260.3
Total Premium Income	1,273.7	3.4	1,232.2	3.2	1,194.5
Net Investment Income	146.7	0.9	145.4	4.9	138.6
Other Income	0.1	(50.0)	0.2	(33.3)	0.3
Total	1,420.5	3.1	1,377.8	3.3	1,333.4
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	660.6	(1.0)	667.0	6.3	627.3
Commissions	262.3	3.9	252.5	(0.8)	254.5
Deferral of Acquisition Costs	(220.8)	7.7	(205.0)	(0.6)	(206.3)
Amortization of Deferred Acquisition Costs	180.2	3.4	174.2	4.6	166.5
Other Expenses	238.0	6.1	224.3	3.3	217.1
Total	1,120.3	0.7	1,113.0	5.1	1,059.1
Income Before Income Tax and Net Realized Investment Gains and Losses	300.2	13.4	264.8	(3.5)	274.3
Unclaimed Death Benefits (UDB) Reserve Increase	—	—	20.1	—	—
Operating Income	$ 300.2	5.4	$ 284.9	3.9	$ 274.3
Operating Ratios (% of Premium Income):					
Benefit Ratio	51.9%		54.1%		52.5%
Benefit Ratio Excluding the UDB Reserve Increase			52.5%		
Other Expense Ratio	18.7%		18.2%		18.2%
Income Ratio	23.6%		21.5%		23.0%
Operating Income Ratio	23.6%		23.1%		23.0%
Persistency:					
Accident, Sickness, and Disability	75.5%		75.2%		75.7%
Life	85.2%		85.2%		85.7%
Cancer and Critical Illness	83.5%		83.1%		84.5%

Management's Discussion and Analysis of Financial Condition and Results of Operations

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Premium income increased in 2014 relative to 2013 due to sales and continued strong persistency. Net investment income was higher in 2014 relative to the prior year due to an increase in the level of invested assets, partially offset by a decrease in yield on invested assets and lower miscellaneous income.

Favorable risk results in 2014 compared to 2013 primarily reflect improved claim experience in the cancer and critical illness product line. This was partially offset by less favorable experience in the accident, sickness, and disability product line due to a higher average claim size and in the life product line due to less favorable mortality experience. The release of active life reserves on terminations of older cases in the accident, sickness, and disability and cancer and critical illness product lines also favorably impacted 2014 relative to 2013.

Commissions and the deferral of acquisition costs were higher in 2014 relative to 2013 due to sales growth. The amortization of deferred acquisition costs was higher in 2014 compared to the prior year due primarily to continued growth in the level of the deferred asset. The other expense ratio was higher in 2014 compared to 2013 due primarily to continued investment in our business, higher sales compensation, and a higher level of allocated retirement-related costs.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Premium income increased in 2013 relative to 2012 due to continued growth in the block of business as a result of sales and continued strong persistency. Net investment income increased in 2013 due to an increase in the level of invested assets and higher miscellaneous income, partially offset by a decrease in the yield on invested assets.

Our reported risk results for 2013 were less favorable than in 2012 as a result of the reserve increase for unclaimed death benefits. Excluding this reserve increase, the benefit ratio of 52.5 percent was consistent with the level of 2012, with favorable risk results in the life product line, due to improved mortality experience, offsetting less favorable risk results in the accident, sickness, and disability and cancer and critical illness product lines that resulted from an increased level of incurred claims.

Commissions and the deferral of acquisition costs were generally consistent in 2013 compared to 2012. The amortization of deferred acquisition costs was higher in 2013 compared to 2012 due to continued growth in the level of the deferred asset as well as higher amortization resulting from the prospective unlocking for expected future experience relative to assumptions for our interest-sensitive life products. The increase in other expenses in 2013 compared to 2012 was commensurate with the growth in premium income.

Sales

	Year Ended December 31				
(in millions of dollars)	2014	% Change	2013	% Change	2012
Sales by Product					
Accident, Sickness, and Disability	$260.7	9.4%	$238.2	2.2%	$233.0
Life	78.8	15.7	68.1	1.2	67.3
Cancer and Critical Illness	70.6	15.2	61.3	(0.5)	61.6
Total Sales	$410.1	11.6	$367.6	1.6	$361.9
Sales by Market Sector					
Commercial					
Core Market (< 1,000 lives)	$275.6	12.0%	$246.0	(0.9)%	$248.3
Large Case Market	53.2	8.6	49.0	19.8	40.9
Subtotal	328.8	11.5	295.0	2.0	289.2
Public Sector	81.3	12.0	72.6	(0.1)	72.7
Total Sales	$410.1	11.6	$367.6	1.6	$361.9

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Sales were higher in 2014 compared to 2013 due to growth in both new and existing customer account sales and across all market segments. Commercial market sales increased in 2014, with higher sales in both the core commercial market, which we define as accounts with fewer than 1,000 lives, and in the large case commercial market. The growth in our core commercial market sales for 2014 was primarily attributable to new account sales, although we also experienced favorable growth in existing account sales. The growth in the large case commercial market was primarily attributable to higher sales to existing accounts. Public sector sales for 2014 increased due primarily to new account sales. The number of new accounts increased 13.4 percent in 2014 compared to 2013, and the average new case size increased 5.8 percent.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Sales were slightly higher in 2013 than 2012, with growth in existing account sales in all market segments. This growth was partially offset by a slight decrease in new account sales, with the decline primarily occurring in the core commercial market. Although large case commercial market sales were significantly higher than 2012, our new business pricing was within our guidelines as we continued our disciplined yet opportunistic approach to sales growth in this market. We believe the 2013 decrease in core commercial market sales, particularly in the small employer segment, was partially attributable to healthcare reform as well as the uncertain economic and political environment. The number of new accounts decreased 18.2 percent in 2013 compared to 2012, while the average new case size increased 20.0 percent.

Segment Outlook

We expect to see continued favorable sales and premium growth trends in 2015. Volatility in net investment income is likely to continue as a result of fluctuations in miscellaneous investment income. We expect our annual benefit ratio for 2015 to be generally consistent with the level of 2014. While we expect the low interest rate environment to continue to pressure our profit margins, we believe our underlying profitability will remain strong.

Proper execution of our growth strategy should deliver sales and premium growth that are in line with long-term expectations. Unfavorable U.S. economic conditions and the increasing competition in the voluntary market are seen as external risks to achievement of our business plans. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly.

We believe our success will be driven primarily by execution in the core commercial and public sector segments and through expansion of the overall market. We believe the current market environment offers considerable opportunities to meet the emerging needs of employers, brokers, and consumers. We intend to continue to focus on growth, the customer experience, productivity, and talent development. Achieving our 2015 growth objectives will be supported by a continued focus on third-party connectivity, enrollment solutions, service capabilities, and operational excellence.

Closed Block Segment

The Closed Block segment consists of individual disability, group and individual long-term care, and other insurance products no longer actively marketed. The individual disability line of business in this segment generally consists of policies we sold prior to the mid-1990s and entirely discontinued selling in 2004, other than update features contractually allowable on existing policies. We discontinued offering individual long-term care in 2009 and group long-term care in 2012. Other insurance products include group pension, individual life and corporate-owned life insurance, reinsurance pools and management operations, and other miscellaneous product lines.

Operating Results

Shown below are financial results and key performance indicators for the Closed Block segment.

(in millions of dollars, except ratios)	Year Ended December 31				
	2014	% Change	2013	% Change	2012
Operating Revenue					
Premium Income					
Individual Disability	$ 624.8	(9.1)%	$ 687.5	(6.6)%	$ 736.4
Long-term Care	630.9	—	630.6	(0.2)	631.9
All Other	0.9	28.6	0.7	(68.2)	2.2
Total Premium Income	1,256.6	(4.7)	1,318.8	(3.8)	1,370.5
Net Investment Income	1,284.1	0.9	1,272.3	3.4	1,230.5
Other Income	91.8	(2.2)	93.9	(6.2)	100.1
Total	2,632.5	(2.0)	2,685.0	(0.6)	2,701.1
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	2,931.1	27.8	2,293.0	(0.9)	2,314.9
Commissions	101.5	(10.8)	113.8	1.1	112.6
Interest and Debt Expense	7.3	(13.1)	8.4	(19.2)	10.4
Other Expenses	168.2	4.9	160.4	(4.4)	167.7
Total	3,208.1	24.6	2,575.6	(1.2)	2,605.6
Income (Loss) Before Income Tax and Net Realized Investment Gains and Losses	(575.6)	(626.1)	109.4	14.6	95.5
Long-term Care Reserve Increase	698.2	—	—	—	—
Operating Income	$ 122.6	12.1	$ 109.4	14.6	$ 95.5
Interest Adjusted Loss Ratios:					
Individual Disability	83.6%		82.6%		83.0%
Long-term Care	196.6%		89.6%		90.1%
Long-term Care Excluding the Reserve Increase	85.9%				
Operating Ratios (% of Premium Income):					
Other Expense Ratio	13.4%		12.2%		12.2%
Income (Loss) Ratio	(45.8)%		8.3%		7.0%
Operating Income Ratio	9.8%		8.3%		7.0%
Persistency:					
Individual Disability	91.3%		91.8%		92.5%
Long-term Care	95.4%		95.5%		95.8%

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Total premium income decreased in 2014 compared to 2013 due to expected policy terminations and maturities. The premium decrease resulting from persistency trends in the long-term care line of business was partially offset by the favorable impact of premium rate increases on certain of these policies. We continue to file requests with various state insurance departments for premium rate increases on certain of our individual and group long-term care policies. The rate increases reflect current interest rates and claim experience, higher expected future claims, longevity, persistency, and other factors related to pricing long-term care coverage. In states for which a rate increase is submitted and approved, customers are also given options for coverage changes or other approaches that might fit their current financial and insurance needs.

Net investment income was higher in 2014 relative to 2013 due to increased invested asset levels and higher miscellaneous income, partially offset by a decrease in yield on invested assets. Other income, which includes the underlying results of certain blocks of individual disability reinsured business and the net investment income of portfolios held by those ceding companies to support the block we have reinsured, was lower in 2014 compared to 2013 primarily due to lower investment income from the investment portfolios held by the ceding companies.

Individual disability risk results for 2014 were unfavorable relative to 2013 due primarily to higher claim incidence rates. Long-term care risk results were unfavorable in 2014 relative to the prior year due to the reserve charge, as previously discussed. Excluding this charge, long-term care risk results were favorable compared to 2013 due to lower claim incidence rates.

Commissions decreased in 2014 compared to 2013 due to a lower level of accrued commissions in 2014 as well as the expected run-off of these blocks of business. Interest and debt expense in 2014 was lower than 2013 due to principal repayments on the outstanding debt issued by Northwind Holdings, LLC (Northwind Holdings) and a decrease in the floating rate of interest. The other expense ratio was higher compared to 2013 due to lower premium income and an increase in expenses attributable to our long-term care product line.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Total premium income decreased in 2013 compared to 2012 due to expected policy terminations and maturities, partially offset by the favorable impact of premium rate increases on certain of our long-term care policies as well as the issuance of group long-term care certificates on in-force cases.

Net investment income was higher in 2013 compared to 2012 due primarily to higher invested asset levels, partially offset by a decrease in the yield on invested assets. Other income was lower in 2013 compared to 2012 due in part to lower investment income in the portfolios held by the ceding companies to which we have ceded certain blocks of individual disability business.

Individual disability risk results for 2013 were slightly favorable compared to 2012 due primarily to lower claim incidence rates. Long-term care risk results were slightly favorable in 2013 compared to 2012 due to more favorable development in active life reserves.

Interest and debt expense in 2013 was lower than 2012 due to principal repayments on the outstanding debt issued by Northwind Holdings and a decrease in the floating rate of interest. The other expense ratio was consistent in 2013 compared to 2012.

Segment Outlook

We intend to continue our focus on operational effectiveness, rate increases, enhancement of our experience analysis tools, and capital management. We expect operating revenue to decline over time as these closed blocks of business wind down, although we anticipate additional premium income associated with long-term care rate increases. We also expect a small amount of group long-term care certificates may continue to be issued where we are required to do so under the terms of existing group policies. We will likely experience volatility in net investment income due to fluctuations of miscellaneous investment income. We continuously monitor key indicators to assess our risks and attempt to adjust our business plans accordingly. We expect the low interest rate environment and the tightening of credit spreads to continue to place pressure on our earnings and reserve levels.

Profitability of our long-tailed products is affected by claims experience related to mortality and morbidity, investment returns, premium rate increases, and persistency. We believe that the interest adjusted loss ratios for the individual disability and long-term care lines of business will be relatively flat over the long term, but these product lines may continue to experience quarterly volatility, particularly in the near term for our long-term care product lines as our claim block matures. Claim resolution rates, which measure the resolution of claims from recovery, deaths, settlements, and benefit expirations, are very sensitive to operational and external factors and can be volatile. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period. It is possible that variability in any of our reserve assumptions, including, but not limited to, interest rates, mortality, morbidity, premium rate increases, and persistency, could result in a material impact on our reserve levels, including adjustments to reserves established under loss recognition.

Corporate Segment

The Corporate segment includes investment income on corporate assets not specifically allocated to a line of business, interest expense on corporate debt other than non-recourse debt, and certain other corporate income and expense not allocated to a line of business.

Operating Results

	Year Ended December 31				
(in millions of dollars)	2014	% Change	2013	% Change	2012
Operating Revenue					
Net Investment Income	$ 5.3	N.M.	$ (3.7)	N.M.	$ 23.0
Other Income	5.0	(35.1)	7.7	175.0	2.8
Total	10.3	157.5	4.0	(84.5)	25.8
Interest and Other Expenses	157.9	7.1	147.5	9.8	134.3
Operating Loss Including Costs Related to Early Retirement of Debt	(147.6)	(2.9)	(143.5)	(32.3)	(108.5)
Costs Related to Early Retirement of Debt	13.2	—	—	—	—
Operating Loss	$(134.4)	6.3	$(143.5)	(32.3)	$(108.5)

N.M. = not a meaningful percentage

Year Ended December 31, 2014 Compared with Year Ended December 31, 2013

Net investment income increased in 2014 relative to 2013 due to higher levels of invested assets, partially offset by a decrease in yield on invested assets. Also impacting the year over year comparison for all years presented is the negative impact on reported net investment income attributable to the amortization of tax credit partnerships, the amounts of which are generally offset in income tax expense by a lower income tax rate due to the tax benefits recognized as a result of these investments. An accounting guidance update which is effective January 1, 2015 permits us to account for tax credit partnerships using proportional amortization and allows us to recognize that amortization as a component of income tax expense rather than as negative net investment income. See Note 1 of the "Notes to Consolidated Financial Statements" contained herein for discussion of this update.

Other income declined in 2014 relative to the prior year due primarily to the recognition of income in 2013 related to a settlement of an appeal to the IRS for tax years 2005 to 2006.

Interest and other expenses were higher in 2014 compared to 2013 due to $13.2 million of costs related to the 2014 retirement of a portion of debt and due to increased interest expense on debt, partially offset by a higher level of retirement-related costs allocated from Corporate to our other segments.

Year Ended December 31, 2013 Compared with Year Ended December 31, 2012

Net investment income was lower in 2013 compared to 2012 due to a decrease in the yield on invested assets, a decrease in reported investment income attributable to tax credit partnerships, and lower short-term interest rates.

Other income was higher in 2013 compared to 2012 due primarily to the IRS settlement.

Interest and other expenses were higher in 2013 compared to 2012 due primarily to an increase in interest expense on debt and a higher level of expense accruals in 2013 relative to the prior year.

Segment Outlook

We are currently holding capital at our insurance subsidiaries and holding companies at levels that exceed our long-term requirements, and we expect to continue to generate excess capital on an annual basis through our statutory earnings. While we intend to maintain our disciplined approach to risk management, we believe we are well positioned with substantial flexibility to preserve our capital strength and at the same time explore opportunities to deploy the excess capital that is generated.

Investments

Overview

Our investment portfolio is well diversified by type of investment and industry sector. We have established an investment strategy that we believe will provide for adequate cash flows from operations and allow us to hold our securities through periods where significant decreases in fair value occur. We believe our emphasis on risk management in our investment portfolio, including credit and interest rate management, has positioned us well and generally reduced the volatility in our results.

Below is a summary of our formal investment policy, including the overall quality and diversification objectives:

- The majority of investments are in high quality publicly traded securities to ensure the desired liquidity and preserve the capital value of our portfolios.
- The long-term nature of our insurance liabilities also allows us to invest in less liquid investments to obtain superior returns. A maximum of 10 percent of the total investment portfolio may be invested in below-investment-grade securities, 2 percent in equity securities, 3 percent in tax credit partnerships, 35 percent in private placements, and 10 percent in commercial mortgage loans. The remaining assets can be held in publicly traded investment-grade corporate securities, mortgage/asset backed securities, bank loans, government and government agency securities, and municipal securities.
- We intend to manage the risk of losses due to changes in interest rates by matching asset duration with liabilities, in the aggregate.
- The weighted average credit quality rating of the portfolio should be Baa1 or higher.
- The maximum investment per issuer group is limited based on internal limits reviewed by the risk and finance committee of Unum Group's board of directors and approved by the boards of directors of our insurance subsidiaries and is more restrictive than the five percent limit generally allowed by the state insurance departments which regulate the type of investments our insurance subsidiaries are allowed to own. These internal limits are as follows:

Rating	Internal Limit
	($ in millions)
AAA/AA	$200
A	175
BBB+	150
BBB	125
BBB-	90
BB+	75
BB	60
BB-	50
B+	30
B/B-	20
CCC	10

- The portfolio is to be diversified across industry classification and geographic lines.
- Derivative instruments may be used to replicate permitted asset classes, hedge interest rate risk, credit risk, and foreign currency risk, and match liability duration and cash flows consistent with the plan reviewed by the risk and finance committee of Unum Group's board of directors and approved by the boards of directors of our insurance subsidiaries.
- Asset mix guidelines and limits are established by us, reviewed by the risk and finance committee of Unum Group's board of directors, and approved by the boards of directors of our insurance subsidiaries.
- The allocation of assets and the selection and timing of the acquisition and disposition of investments are subject to ratification, on a weekly basis, by an investment subcommittee appointed by the boards of directors of our insurance subsidiaries. These actions are also reviewed by the risk and finance committee of Unum Group's board of directors on a quarterly basis.
- We review these investment policies and guidelines annually, or more frequently if deemed necessary, and recommend adjustments, as appropriate. Any revisions or exceptions are reviewed by the risk and finance committee of Unum Group's board of directors and must be approved by the boards of directors of our insurance subsidiaries.

See "Critical Accounting Estimates" contained herein for further discussion of our valuation of investments.

Fixed Maturity Securities

The fair values and associated unrealized gains and losses of our fixed maturity securities portfolio, by industry classification, are as follows:

Fixed Maturity Securities — By Industry Classification
As of December 31, 2014

(in millions of dollars)

Classification	Fair Value	Net Unrealized Gain	Fair Value of Fixed Maturity Securities with Gross Unrealized Loss	Gross Unrealized Loss	Fair Value of Fixed Maturity Securities with Gross Unrealized Gain	Gross Unrealized Gain
Basic Industry	$ 2,666.8	$ 244.0	$ 366.4	$ 29.1	$ 2,300.4	$ 273.1
Capital Goods	3,946.5	523.0	113.8	4.1	3,832.7	527.1
Communications	3,110.4	502.5	106.4	3.0	3,004.0	505.5
Consumer Cyclical	1,284.9	172.6	24.7	0.4	1,260.2	173.0
Consumer Non-Cyclical	5,961.6	814.2	486.2	12.7	5,475.4	826.9
Energy	6,117.3	690.4	952.5	68.9	5,164.8	759.3
Financial Institutions	3,389.0	396.4	—	—	3,389.0	396.4
Mortgage/Asset-Backed	2,431.8	206.9	29.9	0.1	2,401.9	207.0
Sovereigns	1,307.4	206.3	—	—	1,307.4	206.3
Technology	1,211.8	93.5	282.1	3.6	929.7	97.1
Transportation	1,676.9	269.8	63.5	0.4	1,613.4	270.2
U.S. Government Agencies and Municipalities	3,360.0	631.5	51.0	1.6	3,309.0	633.1
Public Utilities	8,550.6	1,504.5	63.3	0.9	8,487.3	1,505.4
Redeemable Preferred Stocks	49.9	5.9	—	—	49.9	5.9
Total	$45,064.9	$6,261.5	$2,539.8	$124.8	$42,525.1	$6,386.3

Our investment portfolio has exposure to companies whose businesses are negatively impacted by lower oil and natural gas prices. These include exploration and production companies, refineries, midstream and pipeline companies, and oilfield service businesses. The recent sharp drop in the price of oil is putting pressure on the earnings and cash flows of some of these businesses. The midstream and pipeline subsector represents our largest exposure within the energy sector. Demand for products in this subsector tends to be more correlated to product volume sales as opposed to the commodity price. We have very little exposure to the oilfield service subsector where demand for products is highly correlated with oil and gas prices. The degree to which a business is affected by oil and gas prices can vary greatly depending on, among other things, its energy subsector, exposure to different types of oil and gas within a subsector, geographic locations, cost structure flexibility, capital structure, and hedging policies. The majority of our energy sector holdings are investment-grade fixed maturity securities. We perform stress testing on all energy-related investments in our portfolios, using different oil and gas price scenarios, and we continue to closely monitor this situation. Currently, we expect downward ratings pressure on some of our securities, but we do not expect material losses in our energy sector investments.

The following two tables show the length of time our investment-grade and below-investment-grade fixed maturity securities had been in a gross unrealized loss position as of December 31, 2014 and at the end of the prior four quarters. The relationships of the current fair value to amortized cost are not necessarily indicative of the fair value to amortized cost relationships for the securities throughout the entire time that the securities have been in an unrealized loss position nor are they necessarily indicative of the relationships after December 31, 2014. The decrease in the unrealized loss on investment-grade fixed maturity securities during 2014 was due primarily to a decrease in U.S. Treasury rates which occurred during the period. The increase in the unrealized loss on below-investment-grade fixed maturity securities during 2014 was due primarily to an increase in credit spreads in certain industries or sectors. We held no fixed maturity securities at December 31, 2014 with a gross unrealized loss of $10.0 million or greater.

Unrealized Loss on Investment-Grade Fixed Maturity Securities
Length of Time in Unrealized Loss Position

	2014				2013
(in millions of dollars)	December 31	September 30	June 30	March 31	December 31
Fair Value < 100% >= 70% of Amortized Cost					
<= 90 days	$23.2	$10.1	$ 2.2	$ 4.6	$ 20.0
> 90 <= 180 days	0.7	0.2	—	0.3	11.5
> 180 <= 270 days	0.1	—	0.1	2.9	183.3
> 270 days <= 1 year	—	—	1.0	85.6	12.6
> 1 year <= 2 years	20.4	34.2	43.6	13.8	11.0
> 2 years <= 3 years	2.2	—	—	0.1	—
> 3 years	0.9	3.1	3.4	6.2	6.9
Sub-total	47.5	47.6	50.3	113.5	245.3
Fair Value < 70% >= 40% of Amortized Cost					
> 3 years	—	—	—	—	2.5
Total	$47.5	$47.6	$50.3	$113.5	$247.8

Unrealized Loss on Below-Investment-Grade Fixed Maturity Securities
Length of Time in Unrealized Loss Position

	2014				2013
(in millions of dollars)	December 31	September 30	June 30	March 31	December 31
Fair Value < 100% >= 70% of Amortized Cost					
<= 90 days	$20.2	$20.8	$ 0.1	$ 1.2	$ 2.6
> 90 <= 180 days	31.4	0.4	—	0.7	2.5
> 180 <= 270 days	—	—	0.6	0.9	29.9
> 270 days <= 1 year	—	0.5	—	8.1	1.7
> 1 year <= 2 years	12.8	8.4	6.2	1.4	0.9
> 2 years <= 3 years	0.4	0.3	0.5	2.4	4.1
> 3 years	5.7	6.6	7.3	11.3	14.1
Sub-total	70.5	37.0	14.7	26.0	55.8
Fair Value < 70% >= 40% of Amortized Cost					
<= 90 days	6.8	—	—	—	—
> 3 years	—	—	—	0.3	0.3
Sub-total	6.8	—	—	0.3	0.3
Total	$77.3	$37.0	$14.7	$26.3	$56.1

During 2014, we recognized an other-than-temporary impairment loss of $13.5 million on fixed maturity securities issued by a U.S.-based oil and natural gas exploration and production company. The company has a high debt-to-equity ratio, and its projected liquidity has recently decreased significantly as a result of the declines in oil and natural gas prices. We believe the company will need to sell non-core assets to maintain liquidity and to build and develop its core assets. This process will be more difficult if the low oil price environment persists for an extended period of time. At the time of the impairment loss, these securities had been in an unrealized loss position for a period of greater than 90 days but less than 180 days. We had no individual realized investment losses of $10.0 million or greater from other-than-temporary impairments during 2013 or 2012.

We had no individual realized investment losses of $10.0 million or greater from the sale of fixed maturity securities during 2014 or 2013. During 2012, we recognized a loss of $11.2 million on the sale of securities issued by a large U.S. department store chain. In 2011, the company's management was replaced by a new team of executives that embarked on a radically different retailing strategy. While the company had ample liquidity and sizable value in real estate assets, initial operating results under this new strategy had been significantly below market expectations, and there was uncertainty as to whether this new strategy would be successful. Because of this, we had concerns that liquidity could be compromised over an extended period of time. At the time of disposition, these securities had been in an unrealized loss position for a period of greater than three years.

At December 31, 2014, we had minimal exposure to investments for which the payment of interest and principal is guaranteed under a financial guaranty insurance policy, and the securities in aggregate have a weighted average credit rating of investment-grade absent the guaranty insurance policy. At December 31, 2014, we held $191.1 million fair value ($169.7 million amortized cost) of perpetual debentures, or "hybrid" securities, that generally have no fixed maturity date. Interest on these securities due on any payment date may be deferred by the issuer. The interest payments are generally deferrable only to the extent that the issuer has suspended dividends or other distributions or payments to any of its shareholders or any other perpetual debt instrument.

At December 31, 2014, our mortgage/asset-backed securities had an average life of 4.85 years, effective duration of 4.14 years, and a weighted average credit rating of Aaa. The mortgage/asset-backed securities are valued on a monthly basis using valuations supplied by the brokerage firms that are dealers in these securities as well as independent pricing services. One of the risks involved in investing in mortgage/asset-backed securities is the uncertainty of the timing of cash flows from the underlying loans due to prepayment of principal with the possibility of reinvesting the funds in a lower interest rate environment. We use models which incorporate economic variables and possible future interest rate scenarios to predict future prepayment rates. The timing of prepayment cash flows may also cause volatility in our recognition of investment income. We recognize investment income on these securities using a constant effective yield based on projected prepayments of the underlying loans and the estimated economic life of the securities. Actual prepayment experience is reviewed periodically, and effective yields are recalculated when differences arise between prepayments originally projected and the actual prepayments received and currently projected. The effective yield is recalculated on a retrospective basis, and the adjustment is reflected in net investment income.

We have no exposure to subprime mortgages, "Alt-A" loans, or collateralized debt obligations in our investment portfolios. We have not invested in mortgage-backed derivatives, such as interest-only, principal-only, or residuals, where market values can be highly volatile relative to changes in interest rates. The credit quality of our mortgage-backed securities portfolio has not been negatively impacted by the issues in the market concerning subprime mortgage loans. The change in value of our mortgage-backed securities portfolio has moved in line with that of prime agency-backed mortgage-backed securities.

As of December 31, 2014, the amortized cost and fair value of our below-investment-grade fixed maturity securities was $3,454.2 million and $3,525.2 million, respectively. Below-investment-grade securities are inherently more risky than investment-grade securities since the risk of default by the issuer, by definition and as exhibited by bond rating, is higher. Also, the secondary market for certain below-investment-grade issues can be highly illiquid. Additional downgrades may occur, but we do not anticipate any liquidity problems resulting from our investments in below-investment-grade securities, nor do we expect these investments to adversely affect our ability to hold our other investments to maturity.

Our investments in issuers in foreign countries are chosen for specific portfolio management purposes, including asset and liability management and portfolio diversification across geographic lines and sectors to minimize non-market risks. In our approach to investing in fixed maturity securities, specific investments within approved countries and industry sectors are evaluated for their market position and specific strengths and potential weaknesses. For each security, we consider the political, legal, and financial environment of the sovereign entity in which an issuer is domiciled and operates. The country of domicile is based on consideration of the issuer's headquarters, in addition to location of the assets and the country in which the majority of sales and earnings are derived. We do not have exposure to foreign currency risk, as the cash flows from these investments are either denominated in currencies or hedged into currencies to match the related liabilities. We continually evaluate our foreign investment risk exposure. Our monitoring is heightened for investments in certain countries due to our concerns over the current economic and political environments as well as the banking crisis, and we believe these investments are more vulnerable to potential credit problems. At December 31, 2014, we had minimal exposure in those countries and had no direct exposure to financial institutions of those countries.

Mortgage Loans

Our mortgage loan portfolio was $1,856.6 million and $1,815.1 million on an amortized cost basis at December 31, 2014 and 2013, respectively. Our mortgage loan portfolio is comprised entirely of commercial mortgage loans. We believe our mortgage loan portfolio is well diversified geographically and among property types. The incidence of problem mortgage loans and foreclosure activity continues to be low. Due to conservative underwriting, we expect the level of problem loans to remain low relative to the industry.

We held one mortgage loan at December 31, 2014 and 2013 that was considered impaired and was carried at the estimated net realizable value of $13.1 million, net of a valuation allowance of $1.5 million.

Derivative Financial Instruments

We use derivative financial instruments primarily to manage reinvestment, duration, foreign currency, and credit risks. Historically, we have utilized current and forward interest rate swaps and options on forward interest rate swaps and U.S. Treasury rates, current and forward currency swaps, forward treasury locks, currency forward contracts, forward contracts on specific fixed income securities, and credit default swaps. Our current credit exposure on derivatives, which is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held, was $13.6 million at December 31, 2014. We held $15.4 million of cash collateral from our counterparties at December 31, 2014. The carrying value of fixed maturity securities posted as collateral to our counterparties was $67.0 million at December 31, 2014. We had no cash collateral posted to our counterparties at December 31, 2014. We believe that our credit risk is mitigated by our use of multiple counterparties, all of which have a median credit rating of A3 or better, and by our use of cross-collateralization agreements.

Other

Our exposure to non-current investments, defined as foreclosed real estate and invested assets which are delinquent as to interest and/or principal payments, totaled $40.4 million and $39.9 million on a fair value basis at December 31, 2014 and 2013, respectively.

See Notes 3 and 4 of the "Notes to Consolidated Financial Statements" contained herein for further discussion of our investments and our derivative financial instruments.

Liquidity and Capital Resources

Overview

Our liquidity requirements are met primarily by cash flows provided from operations, principally in our insurance subsidiaries. Premium and investment income, as well as maturities and sales of invested assets, provide the primary sources of cash. Debt and/or securities offerings provide additional sources of liquidity. Cash is applied to the payment of policy benefits, costs of acquiring new business (principally commissions), operating expenses, and taxes, as well as purchases of new investments.

We have established an investment strategy that we believe will provide for adequate cash flows from operations. We attempt to match our asset cash flows and durations with expected liability cash flows and durations to meet the funding requirements of our business. However, deterioration in the credit market may delay our ability to sell our positions in certain of our fixed maturity securities in a timely manner and adversely impact the price we receive for such securities, which may negatively impact our cash flows. Furthermore, if we experience defaults on securities held in the investment portfolios of our insurance subsidiaries, this will negatively impact statutory capital, which could reduce our insurance subsidiaries' capacity to pay dividends to our holding companies. A reduction in dividends to our holding companies could force us to seek external financing to avoid impairing our ability to pay dividends to our stockholders or meet our debt and other payment obligations. As requirements of Dodd-Frank continue to take effect in 2015 and in subsequent years, to the extent that we enter into derivatives that are subject to centralized exchanges and cleared through a regulated clearinghouse, we may be subject to stricter collateral requirements which could have an adverse effect on our overall liquidity.

Our policy benefits are primarily in the form of claim payments, and we have minimal exposure to the policy withdrawal risk associated with deposit products such as individual life policies or annuities. A decrease in demand for our insurance products or an increase in the incidence of new claims or the duration of existing claims could negatively impact our cash flows from operations. However, our historical pattern of benefits paid to revenues is consistent, even during cycles of economic downturns, which serves to minimize liquidity risk.

Cash equivalents and marketable securities held at Unum Group and our intermediate holding companies are a significant source of liquidity for us and were approximately $575 million and $514 million at December 31, 2014 and 2013, respectively. The change was driven primarily by increases from dividends from subsidiaries and our debt issuance in March, less decreases resulting from debt repayments and repurchases of our common stock. The December 31, 2014 balance, of which approximately $176 million was held in certain of our foreign subsidiaries in the U.K., was comprised primarily of commercial paper, fixed maturity securities with a current average maturity of 1.8 years, and various money-market funds. No significant restrictions exist on our ability to use or access these funds. We currently have no intent, nor do we foresee a need, to repatriate funds from our foreign subsidiaries in the U.K. We believe we hold domestic resources sufficient to fund our liquidity requirements for the next 12 months. If we repatriate additional funds from our subsidiaries in the U.K., the amounts repatriated would be subject to repatriation tax effects which generally equal the difference in the U.S. tax rate and the U.K. tax rate.

As part of our capital deployment strategy, we have in recent years repurchased shares of Unum Group's common stock, as authorized by our board of directors. Our current share repurchase program was approved by our board of directors in December 2013 and authorizes the repurchase of up to $750 million of common stock through June 2015, with the pace of repurchase activity to depend upon various factors such as the level of available cash, alternative uses for cash, and our stock price. The dollar value of shares remaining under the current repurchase program was approximately $430 million at December 31, 2014. During 2014, we repurchased 8.7 million shares at a cost of approximately $301 million.

Cash Available from Subsidiaries

Unum Group and certain of its intermediate holding company subsidiaries depend on payments from subsidiaries to pay dividends to stockholders, to pay debt obligations, and/or to pay expenses. These payments by our insurance and non-insurance subsidiaries may take the form of dividends, operating and investment management fees, and/or interest payments on loans from the parent to a subsidiary.

Restrictions under applicable state insurance laws limit the amount of dividends that can be paid to a parent company from its insurance subsidiaries in any 12-month period without prior approval by regulatory authorities. For life insurance companies domiciled in the U.S., that limitation generally equals, depending on the state of domicile, either ten percent of an insurer's statutory surplus with respect to policyholders as of the preceding year end or the statutory net gain from operations, excluding realized investment gains and losses, of the preceding year. The payment of dividends to a parent company from a life insurance subsidiary is generally further limited to the amount of unassigned funds.

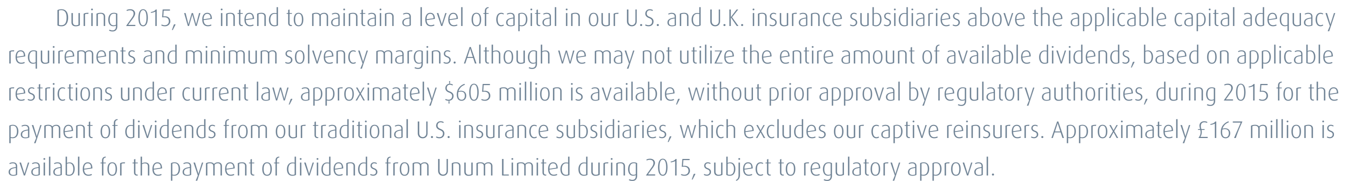
Certain of our domestic insurance subsidiaries cede blocks of business to Northwind Reinsurance Company (Northwind Re), Tailwind Reinsurance Company (Tailwind Re), and Fairwind Insurance Company (Fairwind), all of which are affiliated captive reinsurance subsidiaries domiciled in the United States with Unum Group as the ultimate parent. The ability of Northwind Re, Tailwind Re, and Fairwind to pay dividends to their respective parent companies will depend on their satisfaction of applicable regulatory requirements and on the performance of the business reinsured by Northwind Re, Tailwind Re, and Fairwind.

The ability of Unum Group and certain of its intermediate holding company subsidiaries to continue to receive dividends from their insurance subsidiaries also depends on additional factors such as RBC ratios and capital adequacy and/or solvency requirements, funding growth objectives at an affiliate level, and maintaining appropriate capital adequacy ratios to support desired ratings. Unum Group's RBC ratio for its traditional U.S. insurance subsidiaries, calculated on a weighted average basis using the NAIC Company Action Level formula, was in excess of 400 percent at December 31, 2014, and generally consistent with the prior year. The capital adequacy and/or individual RBC ratios for each of our U.S. insurance subsidiaries, including our captive reinsurers, is above the range that would require state regulatory action.

Unum Group and/or certain of its intermediate holding company subsidiaries may also receive dividends from our U.K. subsidiaries, the payment of which may be subject to applicable insurance company regulations and capital guidance in the U.K. Our European holding company and its subsidiaries, including Unum Limited, will be impacted by new capital requirements and risk management standards under Solvency II, which is expected to be adopted January 1, 2016. Solvency II proposals, which are expected to be finalized during the first quarter of 2015, contain amended requirements on capital adequacy and risk management for insurers. The impact of Solvency II on our U.K. subsidiaries cannot be fully determined at this time, but the adoption of Solvency II will likely result in an increase in supervisory and disclosure requirements and could also result in increased capital requirements.

The payment of dividends to the parent company from our subsidiaries also requires the approval of the individual subsidiary's board of directors.

The amount available during 2014 for the payment of ordinary dividends from Unum Group's traditional U.S. insurance subsidiaries, which excludes our captive reinsurers, was $591.0 million, of which $564.0 million was declared and paid. The amount available during 2014 from Unum Limited was £187.8 million, of which £60.0 million was declared and paid to one of our U.K. holding companies. During 2014, Tailwind Re and Northwind Re paid dividends of $12.8 million and $41.3 million to Tailwind Holdings and Northwind Holdings, respectively. Fairwind paid no dividends during 2014.



During 2015, we intend to maintain a level of capital in our U.S. and U.K. insurance subsidiaries above the applicable capital adequacy requirements and minimum solvency margins. Although we may not utilize the entire amount of available dividends, based on applicable restrictions under current law, approximately $605 million is available, without prior approval by regulatory authorities, during 2015 for the payment of dividends from our traditional U.S. insurance subsidiaries, which excludes our captive reinsurers. Approximately £167 million is available for the payment of dividends from Unum Limited during 2015, subject to regulatory approval.

Insurance regulatory restrictions do not limit the amount of dividends available for distribution from non-insurance subsidiaries except where the non-insurance subsidiaries are held directly or indirectly by an insurance subsidiary and only indirectly by Unum Group.

Funding for Employee Benefit Plans

We made contributions of approximately $65.1 million and £3.1 million to our U.S. and U.K. defined contribution plans, respectively, in 2014. We expect to make contributions of approximately $68.9 million and £4.6 million during 2015. We contribute to our U.K. defined benefit pension plan sufficient to meet the minimum funding requirement under U.K. legislation and accordingly made required contributions of £1.4 million to our U.K. defined benefit pension plan during 2014. We do not expect to make contributions in 2015 to our U.K. defined benefit pension plan. We made no contributions to our U.S. qualified defined benefit pension plan during 2014, nor do we expect to make any contributions during 2015. We have met all minimum pension funding requirements set forth by the Employee Retirement Income Security Act. We have estimated our future funding requirements under the Pension Protection Act of 2006 and under applicable U.K. law, and do not believe that any future funding requirements will cause a material adverse effect on our liquidity. See Note 9 of the "Notes to Consolidated Financial Statements" contained herein for further discussion of our employee benefit plans.

Debt

There are no significant financial covenants associated with any of our outstanding debt obligations. We continually monitor our compliance with our debt covenants and remain in compliance. We have not observed any current trends that would cause a breach of any debt covenants.

Purchases and Retirement of Debt

In 2014, we purchased and retired $145.0 million principal of our outstanding 6.85% notes, including a make-whole amount of $13.2 million, for a total cost of $158.2 million.

In 2013, we purchased and retired the outstanding principal of $62.5 million on the floating rate, senior secured non-recourse notes issued by Tailwind Holdings, resulting in a before-tax gain of $4.0 million. During 2012, Tailwind Holdings made principal payments of $10.0 million.

Northwind Holdings made principal payments on its floating rate, senior secured notes of $41.6 million in 2014 and $60.0 million in both 2013 and 2012.

Issuance of Debt

In 2014, we issued $350.0 million of unsecured 10-year senior notes in a public offering. These notes, due 2024, bear interest at a fixed rate of 4.00% and are payable semi-annually. The notes are callable at or above par and rank equally in right of payment with all of our other unsecured and unsubordinated debt.

In 2012, we issued $250.0 million of unsecured senior notes in a public offering. These notes, due 2042, bear interest at a fixed rate of 5.75% and are payable semi-annually. The notes are callable at or above par and rank equally in right of payment with all of our other unsecured and unsubordinated debt.

Credit Facility

In 2013, we entered into a five-year, $400 million unsecured revolving credit facility. Under the terms of the agreement, we may request that the credit facility be increased up to $600 million. Borrowings under the credit facility are for general corporate uses and are subject to financial covenants, negative covenants, and events of default that are customary. The credit facility provides for borrowing at an interest rate based either on the prime rate or LIBOR. In addition, the credit facility provides for the issuance of letters of credit subject to certain terms and limitations. At December 31, 2014, letters of credit totaling $2.1 million had been issued from the credit facility, but there was no borrowed amount outstanding. Our credit facility's financial covenants contain provisions regarding our leverage and net worth. We do not anticipate any violation of these covenants. However, if economic conditions worsen and we incur unexpected losses, we could violate certain of the financial covenants imposed by the credit facility and lose access to available funds or lines of credit through the facility. While maintenance of the unsecured, revolving credit facility provides a valuable source of contingent liquidity, we believe operating cash flows are sufficient to support our short-term liquidity needs.

Shelf Registration

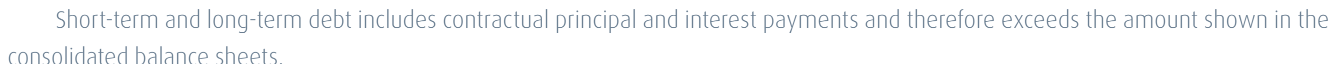
We filed a shelf registration with the Securities and Exchange Commission in 2014 to issue various types of securities, including common stock, preferred stock, debt securities, depository shares, stock purchase contracts, units and warrants, or preferred securities of wholly-owned finance trusts. The shelf registration enables us to raise funds from the offering of any securities covered by the shelf registration as well as any combination thereof, subject to market conditions and our capital needs.

See Note 8 of the "Notes to Consolidated Financial Statements" contained herein for additional information on our debt.

Commitments

The following table summarizes contractual obligations and our reinsurance recoverable by period as of December 31, 2014:

(in millions of dollars)	Total	In 1 Year or Less	After 1 Year up to 3 Years	After 3 Years up to 5 Years	After 5 Years
Payments Due					
Short-term Debt	$ 161.0	$ 161.0	$ —	$ —	$ —
Long-term Debt	4,321.8	136.1	597.9	412.8	3,175.0
Policyholder Liabilities	43,358.3	4,685.3	6,864.5	5,394.8	26,413.7
Pension and OPEB	725.7	19.5	38.2	37.3	630.7
Miscellaneous Liabilities	687.8	613.6	18.0	11.8	44.4
Operating Leases	227.1	40.2	75.6	35.7	75.6
Purchase Obligations	256.7	254.6	2.1	—	—
Total	$49,738.4	$5,910.3	$7,596.3	$5,892.4	$30,339.4
Receipts Due					
Reinsurance Recoverable	$ 7,704.9	$ 348.9	$ 605.5	$ 615.3	$ 6,135.2



Short-term and long-term debt includes contractual principal and interest payments and therefore exceeds the amount shown in the consolidated balance sheets.

Policyholder liability maturities and the related reinsurance recoverable represent the projected payout of the current in-force policyholder liabilities and the expected cash inflows from reinsurers for liabilities ceded and therefore incorporate uncertainties as to the timing and amount of claim payments. We utilize extensive liability modeling to project future cash flows from the in-force business. The primary assumptions used to project future cash flows are claim incidence rates for mortality and morbidity, claim resolution rates, persistency rates, and interest rates. These cash flows are discounted to determine the current value of the projected claim payments. The timing and amount of payments on policyholder liabilities may vary significantly from the projections above.

Pensions and OPEB commitments represent the expected benefit payments related to our U.S. non-qualified defined benefit pension and other postretirement benefit plans as it is our policy to pay those benefits, as incurred, from our general assets. Our funding policy for our U.S. qualified defined benefit and our U.K. defined benefit pension plans is to make only contributions necessary to meet minimum funding requirements under U.S. and U.K. legislation. We do not currently expect to make any contributions to either of these plans and therefore have not included amounts in the preceding chart. However, to the extent contributions are required, we will make the necessary contributions to these plans.

Miscellaneous liabilities include commissions due and accrued, deferred compensation liabilities, state premium taxes payable, amounts due to reinsurance companies, obligations to return unrestricted cash collateral to our securities lending and derivatives counterparties, legally binding commitments to fund investments, and various other liabilities that represent contractual obligations. Obligations where the timing of the payment is uncertain are included in the one year or less category.

See "Critical Accounting Estimates" and Notes 3, 4, 6, 8, 9, and 14 of the "Notes to Consolidated Financial Statements" contained herein for additional information on our various commitments and obligations.

Off-Balance Sheet Arrangements

Operating leases include noncancelable obligations on certain office space, equipment, and software. Purchase obligations include non-binding commitments of $238.4 million to fund certain of our investments. These are included in the preceding table based on the expiration date of the commitments. The funds are due upon satisfaction of contractual notice from appropriate external parties and may or may not be funded. Also included are obligations with outside parties for computer data processing services, software maintenance agreements, and consulting services. The aggregate obligation remaining under these agreements was $16.8 million at December 31, 2014.

As part of our regular investing strategy, we receive collateral from unaffiliated third parties through transactions which include both securities lending and also short-term agreements to purchase securities with the agreement to resell them at a later specified date. For both types of transactions, we require that a minimum of 102 percent of the fair value of the securities loaned or securities purchased under repurchase agreements be maintained as collateral. Generally, cash is received as collateral under these agreements. In the event that securities are received as collateral, we are not permitted to sell or re-post them. We also post our fixed maturity securities as collateral to unaffiliated third parties through transactions including both securities lending and also short-term agreements to sell securities with the agreement to repurchase them at a later specified date. See "Transfers of Financial Assets" as follows for further discussion.

To help limit the credit exposure of derivatives, we enter into master netting agreements with our counterparties whereby contracts in a gain position can be offset against contracts in a loss position. We also typically enter into bilateral, cross-collateralization agreements with our counterparties to help limit the credit exposure of the derivatives. These agreements require the counterparty in a loss position to submit acceptable collateral with the other counterparty in the event the net loss position meets or exceeds an agreed upon amount. Our current credit exposure on derivatives, which is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held, was $13.6 million at December 31, 2014. We held cash collateral from our counterparties of $15.4 million at December 31, 2014 and had posted fixed maturity securities with a carrying value of $67.0 million as collateral to our counterparties.

See Notes 3, 4, and 14 of the "Notes to Consolidated Financial Statements" contained herein for additional information.

Transfers of Financial Assets

Our investment policy permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements, which increase our investment income with minimal risk. We account for all of our securities lending agreements and repurchase agreements as secured borrowings. We had $58.4 million of securities lending agreements outstanding which were collateralized by cash at December 31, 2014 and were reported as other liabilities in our consolidated balance sheets. The cash received as collateral was reinvested in short-term investments. The average balance during the year ended December 31, 2014 was $65.5 million, and the maximum amount outstanding at any month end was $94.0 million. In addition, at December 31, 2014, we had $128.5 million of off-balance sheet securities lending agreements which were collateralized by securities that we were neither permitted to sell nor control. The average balance of these off-balance sheet transactions during the year ended December 31, 2014 was $116.5 million, and the maximum amount outstanding at any month end was $153.6 million.

We had no repurchase agreements outstanding at December 31, 2014. The average balance during the year ended December 31, 2014 was $1.6 million, and the maximum amount outstanding at any month end was $12.8 million. Our use of repurchase agreements and securities lending agreements can fluctuate during any given period and will depend on our liquidity position, the availability of long-term investments that meet our purchasing criteria, and our general business needs.

During 2014, we were approved for membership of the Federal Home Loan Bank System (FHLB). As a member, we obtain access to low-cost funding and also receive dividends based on our stock ownership. Membership requires that we purchase a minimum amount of FHLB common stock based on a percentage of our total assets. Additional common stock purchases are required based upon the amount of funds borrowed from the FHLB. We will be required to post mortgage-related assets, U.S. Treasury securities, or other acceptable forms of collateral for any borrowings we make from the FHLB. As of December 31, 2014 we had not funded any FHLB common stock purchases or obtained any advances from the FHLB. Our initial common stock membership purchase will be funded in the first quarter of 2015.

See Note 3 of the "Notes to Consolidated Financial Statements" contained herein for additional information.

Consolidated Cash Flows

(in millions of dollars)	Year Ended December 31 2014	2013	2012
Net Cash Provided by Operating Activities	$1,223.6	$1,031.5	$1,379.6
Net Cash Used by Investing Activities	(886.6)	(419.2)	(969.9)
Net Cash Used by Financing Activities	(328.6)	(595.5)	(449.0)
Net Increase (Decrease) in Cash and Bank Deposits	$ 8.4	$ 16.8	$ (39.3)

Operating Cash Flows

Operating cash flows are primarily attributable to the receipt of premium and investment income, offset by payments of claims, commissions, expenses, and income taxes. Premium income growth is dependent not only on new sales, but on policy renewals and growth of existing business, renewal price increases, and persistency. Investment income growth is dependent on the growth in the underlying assets supporting our insurance reserves and capital and on the earned yield. The level of commissions and operating expenses is attributable to the level of sales and the first year acquisition expenses associated with new business as well as the maintenance of existing business. The level of paid claims is affected partially by the growth and aging of the block of business and also by the general economy, as previously discussed in the operating results by segment.

The variance in the change in insurance reserves and liabilities to reconcile net income to net cash provided by operating activities as reported in our consolidated statements of cash flows for 2014 compared to the prior two years was due primarily to the 2014 reserve increase for our long-term care line of business.

Investing Cash Flows

Investing cash inflows consist primarily of the proceeds from the sales and maturities of investments. Investing cash outflows consist primarily of payments for purchases of investments. Our investment strategy is to match the cash flows and durations of our assets with the cash flows and durations of our liabilities to meet the funding requirements of our business. When market opportunities arise we may sell selected securities and reinvest the proceeds to improve the yield and credit quality of our portfolio, as was the case during 2013 when we sold lower yielding fixed maturity securities to take advantage of the higher interest rate environment by reinvesting the proceeds into higher yielding mortgage-backed and corporate securities with a higher credit quality. We may at times also sell selected securities and reinvest the proceeds to improve the duration matching of our assets and liabilities and/or re-balance our portfolio. As a result, sales before maturity may vary from period to period. The sale and purchase of short-term investments is influenced by our securities lending program and by the amount of cash which is at times held in short-term investments to facilitate the availability of cash to fund the purchase of appropriate long-term investments and/or to fund our capital deployment program.

See Notes 3 and 4 of the "Notes to Consolidated Financial Statements" contained herein for further information.

Financing Cash Flows

Financing cash flows consist primarily of borrowings and repayments of debt, issuance or repurchase of common stock, and dividends paid to stockholders.

During 2014, we retired $145.0 million principal of our outstanding 6.85% notes, including a make-whole amount of $13.2 million, for a total cash outflow of $158.2 million. During 2014, 2013, and 2012 we made principal payments of $41.6 million, $60.0 million, and $60.0 million, respectively, on our senior secured non-recourse notes issued by Northwind Holdings. During 2013, we purchased and retired the outstanding principal of $62.5 million on our floating rate, senior secured non-recourse notes issued by Tailwind Holdings for $56.2 million. During 2012, we made principal payments of $10.0 million on the Tailwind Holdings notes.

During 2014, we issued $350.0 million of 4.00% unsecured 10-year senior notes in a public offering and received proceeds of $347.2 million, excluding the associated debt issuance costs and discounts. During 2012, we issued $250.0 million of 5.75% senior notes and received proceeds of $246.4 million, excluding the associated debt issuance costs and discounts.

Cash used to repurchase shares of Unum Group's common stock during 2014, 2013, and 2012 was $306.0 million, $317.2 million, and $496.7 million, respectively. During 2014, 2013, and 2012 we paid dividends of $159.4 million, $146.5 million, and $133.8 million, respectively, to holders of Unum Group's common stock.

See "Debt" and Notes 8 and 10 of the "Notes to Consolidated Financial Statements" contained herein for further information.

Ratings

AM Best, Fitch, Moody's, and S&P are among the third parties that assign issuer credit ratings to Unum Group and financial strength ratings to our insurance subsidiaries. We compete based in part on the financial strength ratings provided by rating agencies. A downgrade of our financial strength ratings can be expected to adversely affect us and could potentially, among other things, adversely affect our relationships with distributors of our products and services and retention of our sales force, negatively impact persistency and new sales, particularly large case group sales and individual sales, and generally adversely affect our ability to compete. A downgrade in the issuer credit rating assigned to Unum Group can be expected to adversely affect our cost of capital or our ability to raise additional capital.

The table below reflects the outlook as well as the issuer credit ratings for Unum Group and the financial strength ratings for each of our traditional insurance subsidiaries as of the date of this filing.

	AM Best	Fitch	Moody's	S&P
Outlook	Stable	Stable	Stable	Stable
Issuer Credit Ratings	bbb	BBB	Baa2	BBB
Financial Strength Ratings				
Provident Life and Accident	A	A	A2	A
Provident Life and Casualty	A	A	NR	NR
Unum Life of America	A	A	A2	A
First Unum Life	A	A	A2	A
Colonial Life & Accident	A	A	A2	A
Paul Revere Life	A	A	A2	A
Paul Revere Variable	B++	A	A2	NR
Unum Limited	NR	NR	NR	A-

NR = not rated

We maintain an ongoing dialogue with the four rating agencies that evaluate us in order to inform them of progress we are making regarding our strategic objectives and financial plans as well as other pertinent issues. A significant component of our communications involves our annual review meeting with each of the four agencies. We hold other meetings throughout the year regarding our business, including, but not limited to, quarterly updates.

On December 16, 2014, Fitch affirmed its A rating of our domestic insurance subsidiaries and affirmed the BBB issuer credit rating for Unum Group following our 2015 Outlook Meeting held that day during which we discussed our expected long-term care reserve charge. On December 19, 2014, AM Best also affirmed its A rating of our primary domestic insurance subsidiaries and affirmed the senior debt rating of Unum Group at bbb. There have been no changes in any of the rating agencies' outlook statements or ratings during 2014 or 2015 prior to the date of this filing.

Agency ratings are not directed toward the holders of our securities and are not recommendations to buy, sell, or hold our securities. Each rating is subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be regarded as an independent assessment, not conditional on any other rating. Given the dynamic nature of the ratings process, changes by these or other rating agencies may or may not occur in the near-term. Based on our ongoing dialogue with the rating agencies concerning our insurance risk profile, our financial flexibility, our operating performance, and the quality of our investment portfolio, we do not expect any negative actions from any of the four rating agencies related to either Unum Group's current issuer credit ratings or the financial strength ratings of our insurance subsidiaries. However, in the event that we are unable to meet the rating agency specific guideline values to maintain our current ratings, including but not limited to maintenance of our capital management metrics at the threshold values stated and maintenance of our financial flexibility and operational consistency, we could be placed on a negative credit watch, with a potential for a downgrade to both our issuer credit ratings and our financial strength ratings.

See "Ratings" contained in Item 1 and "Risk Factors" contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, for further discussion.

Quantitative and Qualitative Disclosures About Market Risk

We are subject to various market risk exposures, including interest rate risk and foreign exchange rate risk. The following discussion regarding our risk management activities includes forward-looking statements that involve risk and uncertainties. Estimates of future performance and economic conditions are reflected assuming certain changes in market rates and prices were to occur (sensitivity analysis). Caution should be used in evaluating our overall market risk from the information presented below, as actual results may differ. See "Risk Factors" contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, and "Investments" and Notes 2, 3, and 4 of the "Notes to Consolidated Financial Statements" contained herein for further discussion of the qualitative aspects of market risk, including derivative financial instrument activity.

Interest Rate Risk

Our exposure to interest rate changes results from our holdings of financial instruments such as fixed rate investments, derivatives, and interest-sensitive liabilities. Fixed rate investments include fixed maturity securities, mortgage loans, policy loans, and short-term investments. Fixed maturity securities include U.S. and foreign government bonds, securities issued by government agencies, public utility bonds, corporate bonds, mortgage-backed securities, and redeemable preferred stock, all of which are subject to risk resulting from interest rate fluctuations. Certain of our financial instruments, fixed maturity securities and derivatives, are carried at fair value in our consolidated balance sheets. The fair value of these financial instruments may be adversely affected by changes in interest rates. A rise in interest rates may decrease the net unrealized gain related to these financial instruments, but may improve our ability to earn higher rates of return on new purchases of fixed maturity securities. Conversely, a decline in interest rates may increase the net unrealized gain, but new securities may be purchased at lower rates of return. Although changes in fair value of fixed maturity securities and derivatives due to changes in interest rates may impact amounts reported in our consolidated balance sheets, these changes will not cause an economic gain or loss unless we sell investments, terminate derivative positions, determine that an investment is other than temporarily impaired, or determine that a derivative instrument is no longer an effective hedge.

Other fixed rate investments, such as mortgage loans and policy loans, are carried at amortized cost and unpaid balances, respectively, rather than fair value in our consolidated balance sheets. These investments may have fair values substantially higher or lower than the carrying values reflected in our balance sheets. A change in interest rates could impact our financial position if we sold our mortgage loan investments at times of low market value. A change in interest rates would not impact our financial position at repayment of policy loans, as ultimately the cash surrender values or death benefits would be reduced for the carrying value of any outstanding policy loans. Carrying amounts for short-term investments approximate fair value, and we believe we have minimal interest rate risk exposure from these investments.

We believe that the risk of being forced to liquidate investments or terminate derivative positions is minimal, primarily due to the level of capital at our insurance subsidiaries, the level of cash and marketable securities at our holding companies, and our investment strategy which we believe provides for adequate cash flows to meet the funding requirements of our business. We may in certain circumstances, however, need to sell investments due to changes in regulatory or capital requirements, changes in tax laws, rating agency decisions, and/or unexpected changes in liquidity needs.

Although our policy benefits are primarily in the form of claim payments and we therefore have minimal exposure to the policy withdrawal risk associated with deposit products such as individual life policies or annuities, 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 cash flows with amounts due under insurance contracts. Changes in interest rates and individuals' behavior affect the amount and timing of asset and liability cash flows. We actively manage our asset and liability cash flow match and our asset and liability duration match to limit interest rate risk. Due to the long duration of our long-term care product, the timing and/or amount of our investment cash flows may not match those of our maturing liabilities. We model and test asset and liability portfolios to improve interest rate risk management and net yields. Testing the asset and liability portfolios under various interest rate and economic scenarios enables us to choose what we believe to be the most appropriate investment strategy, as well as to limit the risk of disadvantageous outcomes. We use this analysis in determining hedging strategies and utilizing derivative financial instruments. We use current and forward interest rate swaps, options on forward interest rate swaps, and forward treasury locks to hedge interest rate risks and to match asset durations and cash flows with corresponding liabilities.

Debt is not carried at fair value in our consolidated balance sheets. If we modify or replace existing debt instruments at current market rates, we may incur a gain or loss on the transaction. We believe our debt-related risk to changes in interest rates is relatively minimal. In the near term, we expect that our need for external financing is small, but changes in our business could increase our need.

We measure our financial instruments' market risk related to changes in interest rates using a sensitivity analysis. This analysis estimates potential changes in fair values as of December 31, 2014 and 2013 based on a hypothetical immediate increase of 100 basis points in interest rates from year end levels. The selection of a 100 basis point immediate parallel change in interest rates should not be construed as our prediction of future market events, but only as an illustration of the potential effect of such an event.

The hypothetical potential changes in fair value of our financial instruments at December 31, 2014 and 2013 are shown as follows:

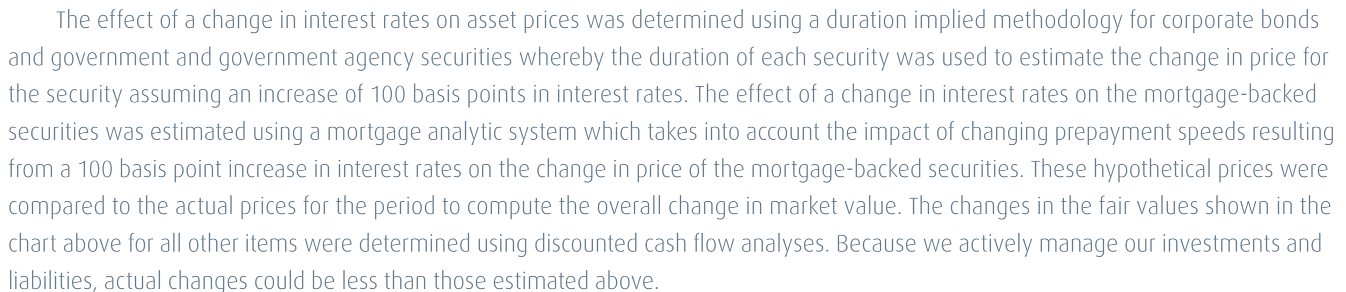
	December 31, 2014			
			Hypothetical	
(in millions of dollars)	Notional Amount of Derivatives	Fair Value	FV + 100 BP	Change in FV
Assets				
Fixed Maturity Securities [1]		$45,064.9	$41,394.8	$(3,670.1)
Mortgage Loans		2,024.2	1,931.3	(92.9)
Policy Loans, Net of Reinsurance Ceded		339.2	313.2	(26.0)
Liabilities				
Unrealized Adjustment to Reserves, Net of Reinsurance Ceded and Deferred Acquisition Costs [2]		$ (5,836.1)	$ (3,071.9)	$ 2,764.2
Short-term Debt		(158.9)	(157.8)	1.1
Long-term Debt		(2,912.6)	(2,745.6)	167.0
Derivatives [1]				
Swaps	$1,687.4	$ (64.9)	$ (86.8)	$ (21.9)
Embedded Derivative in Modified Coinsurance Arrangement		(49.9)	(55.6)	(5.7)

	December 31, 2013			
			Hypothetical	
(in millions of dollars)	Notional Amount of Derivatives	Fair Value	FV + 100 BP	Change in FV
Assets				
Fixed Maturity Securities [1]		$42,344.4	$39,009.2	$(3,335.2)
Mortgage Loans		1,980.2	1,889.9	(90.3)
Policy Loans, Net of Reinsurance Ceded		295.9	278.0	(17.9)
Liabilities				
Unrealized Adjustment to Reserves, Net of Reinsurance Ceded and Deferred Acquisition Costs [2]		$ (3,886.3)	$ (1,568.7)	$ 2,317.6
Long-term Debt		(2,824.4)	(2,660.5)	163.9
Derivatives [1]				
Swaps	$1,477.4	$ (124.8)	$ (139.7)	$ (14.9)
Embedded Derivative in Modified Coinsurance Arrangement		(53.2)	(62.1)	(8.9)

(1) These financial instruments are carried at fair value in our consolidated balance sheets. Changes in fair value resulting from changes in interest rates may affect the fair value at which the item is reported in our consolidated balance sheets. The corresponding offsetting change is reported in other comprehensive income or loss, net of deferred taxes, except for changes in the fair value of derivatives accounted for as fair value hedges or derivatives not designated as hedging instruments, the offset of which is reported as a component of net realized investment gain or loss.

(2) The adjustment to reserves and deferred acquisition costs for unrealized investment gains and losses reflects the adjustments to policyholder liabilities and deferred acquisition costs that would be necessary if the unrealized investment gains and losses related to the fixed maturity securities and derivatives had been realized. Changes in this adjustment are also reported as a component of other comprehensive income or loss, net of deferred taxes.

Quantitative and Qualitative Disclosures About Market Risk



The effect of a change in interest rates on asset prices was determined using a duration implied methodology for corporate bonds and government and government agency securities whereby the duration of each security was used to estimate the change in price for the security assuming an increase of 100 basis points in interest rates. The effect of a change in interest rates on the mortgage-backed securities was estimated using a mortgage analytic system which takes into account the impact of changing prepayment speeds resulting from a 100 basis point increase in interest rates on the change in price of the mortgage-backed securities. These hypothetical prices were compared to the actual prices for the period to compute the overall change in market value. The changes in the fair values shown in the chart above for all other items were determined using discounted cash flow analyses. Because we actively manage our investments and liabilities, actual changes could be less than those estimated above.

Sustained periods of low interest rates may result in lower than expected profitability. Assuming interest rates and credit spreads remained constant throughout 2015 at the January 2015 market levels, our net investment income would decrease by approximately $1 million in 2015 and $7 million in 2016 relative to our current expectations. This interest rate scenario does not give consideration to the effect of other factors which could impact these results, such as changes in the bond market and changes in hedging strategies and positions, nor does it consider the potential change to our discount rate reserve assumptions and any mitigating factors such as pricing adjustments. In addition, a continued low or declining interest rate environment may also result in an increase in the net periodic benefit costs for our pension plans, but we do not believe it would materially affect net income in 2015 or 2016.

Foreign Currency Risk

The functional currency of our U.K. operations is the British pound sterling. We are exposed to foreign currency risk arising from fluctuations in the British pound sterling to U.S. dollar exchange rates primarily as they relate to the translation of the financial results of our U.K. operations. Fluctuations in the pound to dollar exchange rate have an effect on our reported financial results. We do not hedge against the possible impact of this risk. Because we do not actually convert pounds into dollars except for a limited number of transactions, we view foreign currency translation as a financial reporting issue and not a reflection of operations or profitability in our U.K. operations.

Assuming the pound to dollar exchange rate decreased 10 percent from the December 31, 2014 and 2013 levels, stockholders' equity as reported in U.S. dollars would have been lower by approximately $100 million at each of those year end periods. Assuming the pound to dollar average exchange rate decreased 10 percent from the actual average exchange rates for 2014 and 2013, before-tax operating income, as reported in U.S. dollars, would have decreased approximately $15 million in each of those two years.

Dividends paid by Unum Limited are generally held at our U.K. finance subsidiary or our U.K. holding company. If these funds are repatriated to our U.S. holding company, we would at that time be subject to foreign currency risk as the value of the dividend, when converted into U.S. dollars, would be dependent upon the foreign exchange rate at the time of conversion.

We are also exposed to foreign currency risk related to certain foreign investment securities denominated in local currencies and U.S. dollar-denominated debt issued by one of our U.K. subsidiaries. We use current and forward currency swaps to hedge or minimize the foreign exchange risk associated with these instruments.

See "Risk Factors" contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, and "Consolidated Operating Results" and "Unum UK Segment" contained herein for further information concerning foreign currency translation.

Risk Management

Effectively taking and managing risks is essential to the success of our Company. To facilitate this effort, we have a formal Enterprise Risk Management (ERM) program, with a framework comprising the following key components:

- Risk culture and governance
- Risk appetite policy
- Risk identification and prioritization
- Risk and capital modeling
- Risk management activities
- Risk reporting

Our ERM framework is the ongoing system of people, processes, and tools across our Company under which we intend to function consistently and collectively to identify and assess risks and opportunities, to manage all material risks within our risk appetite, and to contribute to strategic decision making. With the goal of maximizing shareholder value, the primary objectives of our ERM framework are to support Unum Group in meeting its operational and financial objectives, maintaining liquidity, optimizing capital, and protecting franchise value.

Risk Culture and Governance

We employ a decentralized risk management model under which risk-based decisions are made daily on a local level. To achieve long-term success, we believe risk management must be the responsibility of all employees. The individual and collective decisions of our employees play a key role in successfully managing our overall risk profile. We strive for a culture of accountability, risk management, and strict compliance, and we believe these values allow our employees to feel comfortable identifying issues as well as taking ownership for addressing potential problems.

Our risk culture is reinforced by our system of risk governance. We employ a multi-layered risk control system. Our three lines of defense model is depicted below.

1st Line: Own and Manage	2nd Line: Oversee	3rd Line: Independent Assurance
Business processes and procedures employed throughout the Company through which management assumes and monitors significant risks	Management committees chartered with oversight of activities within the 1st and 2nd lines of defense, mitigation of substantial exposures, and management of emerging risks	Independent review of ERM framework and risk mitigation

Business units are primarily responsible for managing their principal risks. Our risk committees and other management committees serve risk and control functions responsible for providing risk oversight, or the second line of risk control. The internal audit team provides a second level of independent review, or our third line of risk control. The risk and finance committee of Unum Group's board of directors (the board) oversees the entire ERM governance process, effectively providing independent review for our third line of risk control.

The board has an active role, as a whole and through its committees, in overseeing management of our risks. The board is responsible for managing strategic risk and regularly reviews information regarding our capital, liquidity, and operations, as well as the risks associated with each. The risk and finance committee of the board is responsible for oversight of our risk management process, including financial risk, operational risk, and any other risk not specifically assigned to another board committee. It also is responsible for oversight of risks associated with investments, capital and financing plans and activities, and related financial matters, including matters pertaining to our Closed Block segment. The audit committee of the board is responsible for oversight of risks relating to financial reporting risk and certain operational risks. The human capital committee of the board is responsible for oversight of risks relating to our compensation plans and programs. The regulatory compliance committee of the board is responsible for oversight of risks related to regulatory, compliance, policy, and legal matters, both current and emerging, and whether of a local, state, federal, or international nature. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire board is regularly informed through committee reports about such risks in addition to the risk information it receives directly.

The executive risk management committee is responsible for overseeing our enterprise-wide risk management program. The chief risk officer, who is a member of the executive risk management committee, has primary responsibility for our ERM program and is supported by corporate risk committees and by the risk committees of our primary operating segments.

Operating segment risk committees for Unum US, Unum UK, Colonial Life, and Closed Block are responsible for oversight of risks specific to their businesses. These committees are responsible for identifying, measuring, reporting, and managing insurance and operational risks within their respective areas, consistent with enterprise risk management guidance. Corporate risk committees and other management committees oversee the operational, global technology services, investment, and capital management risks on a corporate level.

Quantitative and Qualitative Disclosures About Market Risk

Risk Appetite Policy

Our risk appetite policy describes the types of risks we are willing to take, as well as the amount of enterprise risk exposure we deem acceptable in pursuit of our goals, with an objective of clearly defining boundaries for our risk-taking activities.

The starting point of our philosophy and approach to our ERM strategy is our corporate strategy. In contrast to many multi-line peer companies, we do not offer retirement savings, traditional medical benefits, or property and casualty insurance. Our corporate strategy is focused on providing group, individual, and voluntary benefits, either as stand-alone products or combined with other coverages, that create comprehensive benefits solutions for employers. We have market leadership positions in the product lines we offer and believe this combination of focused expertise and experience is a competitive advantage and forms the foundation of our approach to risk management.

We believe our sound and consistent business practices, strong internal compliance program, and comprehensive risk management strategy enable us to operate efficiently and to identify and address potential areas of risk in our business. We take and manage risks to achieve our business and strategic objectives, and our risk appetite statement sets boundaries for risk-taking activities that link earnings, capital, and operational processes, as well as summarizes our most material risk limits and controls. We monitor our risk profile against our established risk tolerance and limits. Risks falling outside our risk tolerance and limits are reported to the applicable governance group, where decisions are made pertaining to acceptance of the risk or implementation of remediation plans or corrective actions as deemed appropriate by that governance group.

Risk Identification and Prioritization

Risk identification and prioritization is an ongoing process, whereby we identify and assess our risk positions and exposures, including notable risk events. Additionally, we identify emerging risks and analyze how material future risks might affect us. Knowing the potential risks we face allows us to monitor and manage their potential effects including adjusting our strategies as appropriate and holding capital levels which provide financial flexibility. Risk and other management committees have primary responsibility for identifying and prioritizing risks within their respective areas.

We face a wide range of risks, and our continued success depends on our ability to identify and appropriately manage our risk exposures. For additional information on certain risks that may adversely affect our business, operating results, or financial condition see "Cautionary Statement Regarding Forward-Looking Statements" contained herein and "Risk Factors" contained in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Risk and Capital Modeling

We assess material risks, including how they affect us and how individual risks interrelate, to provide valuable information to management in order that they may effectively manage our risks. We use qualitative and quantitative approaches to assess existing and emerging risks and to develop mitigating strategies to limit our exposure to both.

We utilize stress testing and scenario analysis for risk management and to shape our business, financial, and strategic planning activities. Both are key components of our risk appetite policy and play an important role in monitoring, assessing, managing, and mitigating our primary risk exposures.

In particular, stress testing of our capital and liquidity management strategies enables us to identify areas of high exposure, assess mitigating actions, develop contingency plans, and guide decisions around our target capital and liquidity levels. For example, we periodically perform stress tests on certain categories of assets or liabilities to support development of capital and liquidity risk contingency plans. These tests help ensure that we have a buffer to support our operations in uncertain times and financial flexibility to respond to market opportunities. Stress testing is also central to reserve adequacy testing, cash flow testing, and asset and liability management.

In addition, we aim to constantly improve our capital modeling techniques and methodologies that are used to determine a level of capital that is commensurate with our risk profile and to ensure compliance with evolving regulatory and rating agency requirements. Our capital modeling reflects appropriate aggregation of risks and diversification benefits resulting from our mix of products and business units.

Our internal capital modeling and allocation aids us in making significant business decisions including strategic planning, capital management, risk limit determination, reinsurance purchases, hedging activities, asset allocation, pricing, and corporate development.

Risk Management Activities

We accept and manage strategic, credit, and insurance risks in accordance with our corporate strategy, investment policy, and annual business plans. The following fundamental principles are embedded in our risk management efforts across our Company.

- We believe in the benefits of specialization and a focused business strategy. We seek profitable risk-taking in areas where we have established risk management skills and capabilities.
- We seek to manage our exposure to insurance risk through a combination of prudent underwriting with effective risk selection, maintaining pricing discipline, sound reserving practices, and claims operational effectiveness. Detailed underwriting guidelines and claim policies are tools used to manage our insurance risk exposure. We also monitor exposures against internally prescribed limits, and we diversify to reduce potential concentration risk and volatility.
- We maintain a detailed set of investment policies and guidelines, including fundamental credit analysis, that are used to manage our credit risk exposure and diversify our risks across asset classes and issuers.
- Finally, we foster a risk culture that embeds our corporate values and our code of conduct in our daily operations and preserves our reputation with customers and other key stakeholders. We monitor a composite set of operational risk metrics that measure operating effectiveness from the customer perspective.

Risk Reporting

Regular internal and external risk reporting is an integral part of our ERM framework. Internally, ERM reports are a standard part of our quarterly senior management and board meetings. The reports summarize our existing and emerging risk exposures, as well as report against the tolerances and limits defined by our risk appetite policy.

Externally, we are subject to a number of regulatory and rating agency risk examinations, and risk reports are often included. During 2015, we must comply with the ORSA requirements, which are intended to become a regular part of reviews of insurers' ERM programs. We believe the ORSA will provide strong evidence of the strengths of our ERM framework, measurement approaches, key assumptions utilized in assessing our risks, and prospective solvency assessments under both normal and stressed conditions. We have implemented, and will continue to implement, actions to prepare for compliance with this standard. See "Regulation" contained in Item 1 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2014, for additional information regarding the ORSA.

Consolidated Balance Sheets

(in millions of dollars)	December 31 2014	2013
Assets		
Investments		
Fixed Maturity Securities — at fair value (amortized cost: $38,803.4; $38,289.6)	$45,064.9	$42,344.4
Mortgage Loans	1,856.6	1,815.1
Policy Loans	3,306.6	3,276.0
Other Long-term Investments	591.9	566.0
Short-term Investments	974.3	913.4
Total Investments	51,794.3	48,914.9
Other Assets		
Cash and Bank Deposits	102.5	94.1
Accounts and Premiums Receivable	1,634.7	1,647.8
Reinsurance Recoverable	4,906.4	4,806.5
Accrued Investment Income	696.1	700.2
Deferred Acquisition Costs	1,901.3	1,829.2
Goodwill	198.7	200.9
Property and Equipment	531.7	511.9
Income Tax Receivable	69.5	50.3
Other Assets	661.9	647.8
Total Assets	$62,497.1	$59,403.6

See notes to consolidated financial statements.

(in millions of dollars)	December 31 2014	2013
Liabilities and Stockholders' Equity		
Liabilities		
Policy and Contract Benefits	$ 1,529.3	$ 1,511.0
Reserves for Future Policy and Contract Benefits	45,929.4	43,099.1
Unearned Premiums	396.6	413.8
Other Policyholders' Funds	1,657.8	1,658.4
Deferred Income Tax	78.4	144.3
Short-term Debt	151.9	—
Long-term Debt	2,628.7	2,612.0
Other Liabilities	1,572.6	1,305.9
Total Liabilities	53,944.7	50,744.5
Commitments and Contingent Liabilities — Note 14		
Stockholders' Equity		
Common Stock, $0.10 par		
Authorized: 725,000,000 shares		
Issued: 301,834,556 and 360,802,426 shares	30.2	36.1
Additional Paid-in Capital	2,221.2	2,634.1
Accumulated Other Comprehensive Income	166.4	255.0
Retained Earnings	7,332.8	8,083.2
Treasury Stock — at cost: 49,524,849 and 100,785,012 shares	(1,198.2)	(2,349.3)
Total Stockholders' Equity	8,552.4	8,659.1
Total Liabilities and Stockholders' Equity	$62,497.1	$59,403.6

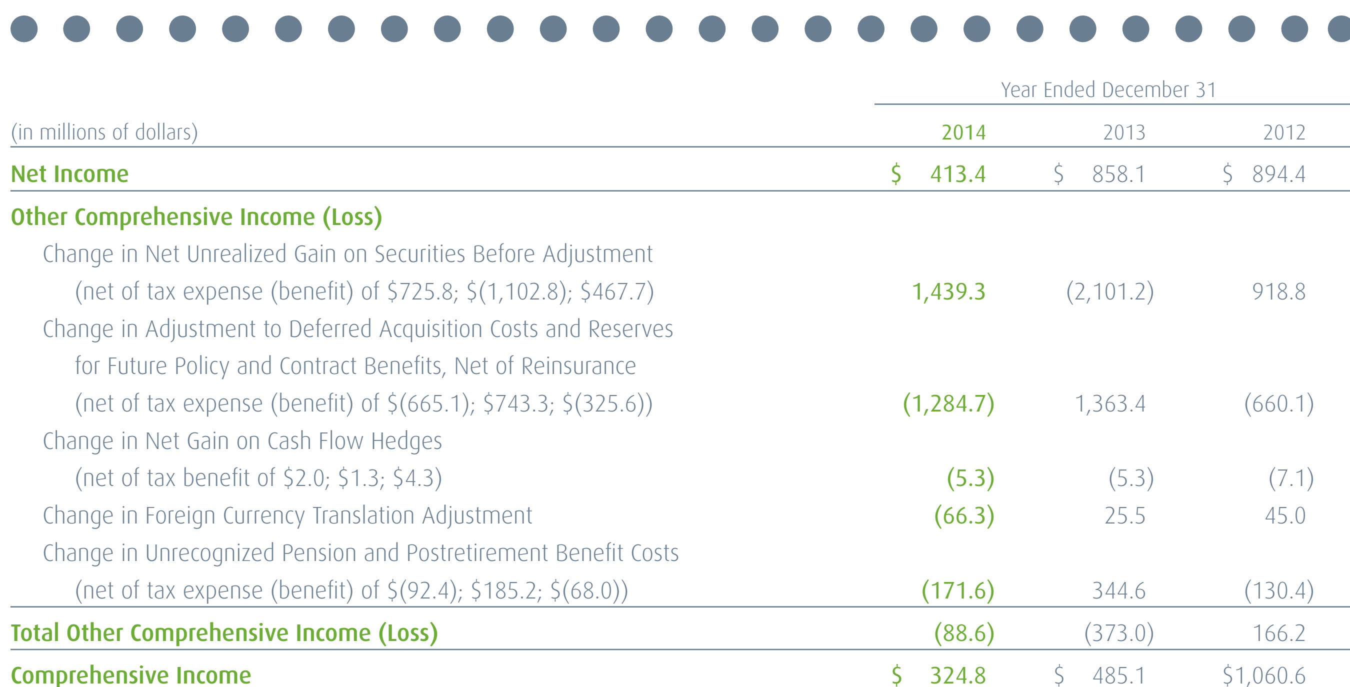
See notes to consolidated financial statements.

Consolidated Statements of Income

(in millions of dollars, except share data)	Year Ended December 31 2014	2013	2012
Revenue			
Premium Income	$ 7,797.2	$ 7,624.7	$ 7,716.1
Net Investment Income	2,477.4	2,492.1	2,515.2
Realized Investment Gain (Loss)			
Other-Than-Temporary Impairment Loss on Fixed Maturity Securities	(13.5)	(0.8)	—
Other Net Realized Investment Gain	29.6	7.6	56.2
Net Realized Investment Gain	16.1	6.8	56.2
Other Income	219.0	230.2	227.9
Total Revenue	10,509.7	10,353.8	10,515.4
Benefits and Expenses			
Benefits and Change in Reserves for Future Benefits	7,310.8	6,595.7	6,722.2
Commissions	935.3	909.5	917.2
Interest and Debt Expense	167.5	149.4	145.4
Deferral of Acquisition Costs	(524.0)	(466.8)	(467.3)
Amortization of Deferred Acquisition Costs	440.8	418.9	378.7
Compensation Expense	820.9	790.4	786.8
Other Expenses	831.2	751.5	782.9
Total Benefits and Expenses	9,982.5	9,148.6	9,265.9
Income Before Income Tax	527.2	1,205.2	1,249.5
Income Tax			
Current	103.3	296.6	206.6
Deferred	10.5	50.5	148.5
Total Income Tax	113.8	347.1	355.1
Net Income	$ 413.4	$ 858.1	$ 894.4
Net Income Per Common Share			
Basic	$ 1.62	$ 3.24	$ 3.18
Assuming Dilution	$ 1.61	$ 3.23	$ 3.17

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income



(in millions of dollars)	Year Ended December 31 2014	2013	2012
Net Income	$ 413.4	$ 858.1	$ 894.4
Other Comprehensive Income (Loss)			
Change in Net Unrealized Gain on Securities Before Adjustment (net of tax expense (benefit) of $725.8; $(1,102.8); $467.7)	1,439.3	(2,101.2)	918.8
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance (net of tax expense (benefit) of $(665.1); $743.3; $(325.6))	(1,284.7)	1,363.4	(660.1)
Change in Net Gain on Cash Flow Hedges (net of tax benefit of $2.0; $1.3; $4.3)	(5.3)	(5.3)	(7.1)
Change in Foreign Currency Translation Adjustment	(66.3)	25.5	45.0
Change in Unrecognized Pension and Postretirement Benefit Costs (net of tax expense (benefit) of $(92.4); $185.2; $(68.0))	(171.6)	344.6	(130.4)
Total Other Comprehensive Income (Loss)	(88.6)	(373.0)	166.2
Comprehensive Income	$ 324.8	$ 485.1	$1,060.6

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(in millions of dollars)	Year Ended December 31 2014	2013	2012
Common Stock			
Balance at Beginning of Year	$ 36.1	$ 36.0	$ 35.9
Common Stock Activity	0.1	0.1	0.1
Retirement of Treasury Stock	(6.0)	—	—
Balance at End of Year	30.2	36.1	36.0
Additional Paid-in Capital			
Balance at Beginning of Year	2,634.1	2,607.7	2,591.1
Common Stock Activity	28.4	26.4	16.6
Retirement of Treasury Stock	(441.3)	—	—
Balance at End of Year	2,221.2	2,634.1	2,607.7
Accumulated Other Comprehensive Income			
Balance at Beginning of Year	255.0	628.0	461.8
Other Comprehensive Income (Loss)	(88.6)	(373.0)	166.2
Balance at End of Year	166.4	255.0	628.0
Retained Earnings			
Balance at Beginning of Year	8,083.2	7,371.6	6,611.0
Net Income	413.4	858.1	894.4
Dividends to Stockholders (per common share: $0.62; $0.55; $0.47)	(159.4)	(146.5)	(133.8)
Retirement of Treasury Stock	(1,004.4)	—	—
Balance at End of Year	7,332.8	8,083.2	7,371.6
Treasury Stock			
Balance at Beginning of Year	(2,349.3)	(2,030.7)	(1,530.1)
Purchases of Treasury Stock	(300.6)	(318.6)	(500.6)
Retirement of Treasury Stock	1,451.7	—	—
Balance at End of Year	(1,198.2)	(2,349.3)	(2,030.7)
Total Stockholders' Equity at End of Year	$ 8,552.4	$ 8,659.1	$ 8,612.6

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(in millions of dollars)	Year Ended December 31 2014	2013	2012
Cash Flows from Operating Activities			
Net Income	$ 413.4	$ 858.1	$ 894.4
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities			
Change in Receivables	(21.5)	(196.7)	40.4
Change in Deferred Acquisition Costs	(83.2)	(47.9)	(88.6)
Change in Insurance Reserves and Liabilities	972.2	572.5	508.4
Change in Income Taxes	(44.7)	(49.4)	168.0
Change in Other Accrued Liabilities	105.2	21.2	18.6
Non-cash Components of Net Investment Income	(180.9)	(211.5)	(221.3)
Net Realized Investment Gain	(16.1)	(6.8)	(56.2)
Depreciation	87.9	84.8	84.3
Other, Net	(8.7)	7.2	31.6
Net Cash Provided by Operating Activities	1,223.6	1,031.5	1,379.6
Cash Flows from Investing Activities			
Proceeds from Sales of Fixed Maturity Securities	450.1	1,040.5	595.9
Proceeds from Maturities of Fixed Maturity Securities	1,819.4	2,146.4	2,160.5
Proceeds from Sales and Maturities of Other Investments	235.0	243.4	182.2
Purchase of Fixed Maturity Securities	(2,918.4)	(3,553.6)	(3,512.8)
Purchase of Other Investments	(285.2)	(363.7)	(353.8)
Net Sales (Purchases) of Short-term Investments	(69.3)	551.3	(34.5)
Net Increase (Decrease) in Payables for Collateral on Investments	(3.8)	(378.2)	97.9
Net Purchases of Property and Equipment	(114.5)	(105.5)	(105.4)
Other, Net	0.1	0.2	0.1
Net Cash Used by Investing Activities	(886.6)	(419.2)	(969.9)
Cash Flows from Financing Activities			
Issuance of Long-term Debt	347.2	—	246.4
Long-term Debt Repayments	(186.6)	(116.2)	(70.0)
Cost Related to Early Retirement of Debt	(13.2)	—	—
Issuance of Common Stock	12.3	11.4	4.9
Repurchase of Common Stock	(306.0)	(317.2)	(496.7)
Dividends Paid to Stockholders	(159.4)	(146.5)	(133.8)
Other, Net	(22.9)	(27.0)	0.2
Net Cash Used by Financing Activities	(328.6)	(595.5)	(449.0)
Net Increase (Decrease) in Cash and Bank Deposits	8.4	16.8	(39.3)
Cash and Bank Deposits at Beginning of Year	94.1	77.3	116.6
Cash and Bank Deposits at End of Year	$ 102.5	$ 94.1	$ 77.3

See notes to consolidated financial statements.

Notes To Consolidated Financial Statements

Note 1. Significant Accounting Policies

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). Such accounting principles differ from statutory accounting principles (see Note 15). Intercompany transactions have been eliminated.

Description of Business: We are the largest provider of group and individual disability products in the United States and the United Kingdom. We also provide a complementary portfolio of other insurance products, including life insurance, employer- and employee-paid group benefits, and other related services. We market our products primarily to employers interested in providing benefits to their employees.

We have three principal operating business segments: Unum US, Unum UK, and Colonial Life. Our other reporting segments are Closed Block and Corporate. See Note 13 for further discussion of our operating segments.

Use of Estimates: The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Fixed Maturity Securities: Fixed maturity securities include long-term bonds and redeemable preferred stocks. Fixed maturity securities not bought and held for the purpose of selling in the near term but for which we do not have the positive intent and ability to hold to maturity are classified as available-for-sale and reported at fair value. Changes in the fair value of available-for-sale fixed maturity securities, except for amounts related to other-than-temporary impairment losses recognized in earnings, are reported as a component of other comprehensive income. These amounts are net of income tax and valuation adjustments to deferred acquisition costs and reserves for future policy and contract benefits which would have been recorded had the related unrealized gain or loss on these securities been realized.

Interest income is recorded as part of net investment income when earned, using an effective yield method giving effect to amortization of premium and accretion of discount. Included within fixed maturity securities are mortgage-backed and asset-backed securities. We recognize investment income on these securities using a constant effective yield based on projected prepayments of the underlying loans and the estimated economic life of the securities. Actual prepayment experience is reviewed periodically, and effective yields are recalculated when differences arise between prepayments originally projected and the actual prepayments received and currently projected. The effective yield is recalculated on a retrospective basis, and the adjustment is reflected in net investment income. For fixed maturity securities on which collection of investment income is uncertain, we discontinue the accrual of investment income and recognize investment income when interest and dividends are received. Payment terms specified for fixed maturity securities may include a prepayment penalty for unscheduled payoff of the investment. Prepayment penalties are recognized as investment income when received.

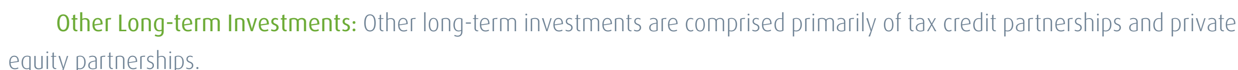
In determining when a decline in fair value below amortized cost of a fixed maturity security is other than temporary, we evaluate available information, both positive and negative, in reaching our conclusions. In particular, we consider the strength of the issuer's balance sheet, its debt obligations and near-term funding requirements, cash flow and liquidity, the profitability of its core businesses, the availability of marketable assets which could be sold to increase liquidity, its industry fundamentals and regulatory environment, and its access to capital markets. Although all available and applicable factors are considered in our analysis, our expectation of recovering the entire amortized cost basis of the security, whether we intend to sell the security, whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost, and whether the security is current on principal and interest payments are the most critical factors in determining whether impairments are other than temporary. The significance of the decline in value and the length of time during which there has been a significant decline are also important factors, but we generally do not record an impairment loss based solely on these two factors, since often other more relevant factors will impact our evaluation of a security.

If we determine that the decline in value of an investment is other than temporary, the investment is written down to fair value, and an impairment loss is recognized in the current period, either in earnings or in both earnings and other comprehensive income, as applicable. Other-than-temporary impairment losses on fixed maturity securities which we intend to sell or more likely than not will be required to sell before recovery in value are recognized in earnings and equal the entire difference between the security's amortized cost basis and its fair value. For securities which we do not intend to sell and it is not more likely than not that we will be required to sell before recovery in value, other-than-temporary impairment losses recognized in earnings generally represent the difference between the amortized cost of the security and the present value of our best estimate of cash flows expected to be collected, discounted using the effective interest rate implicit in the security at the date of acquisition. For fixed maturity securities for which we have recognized an other-than-temporary impairment loss through earnings, if through subsequent evaluation there is a significant increase in expected cash flows, the difference between the new amortized cost basis and the cash flows expected to be collected is accreted as net investment income over the remaining life of the investment. See Notes 2 and 3.

Mortgage Loans: Mortgage loans are generally held for investment and are carried at amortized cost less an allowance for probable losses. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Prepayment penalties are recognized as investment income when received. For mortgage loans on which collection of interest income is uncertain, we discontinue the accrual of interest and recognize it in the period when an interest payment is received. We typically do not resume the accrual of interest on mortgage loans on nonaccrual status until there are significant improvements in the underlying financial condition of the borrower. We consider a loan to be delinquent if full payment is not received in accordance with the contractual terms of the loan.

We evaluate each of our mortgage loans individually for impairment and assign an internal credit quality rating based on a comprehensive rating system used to evaluate the credit risk of the loan. Although all available and applicable factors are considered in our analysis, loan-to-value and debt service coverage ratios are the most critical factors in determining impairment. If we determine that it is probable we will be unable to collect all amounts due under the contractual terms of a mortgage loan, we establish an allowance for credit loss. If we expect to foreclose on the property, the amount of the allowance typically equals the excess carrying value of the mortgage loan over the fair value of the underlying collateral. If we expect to retain the mortgage loan until payoff, the allowance equals the excess carrying value of the mortgage loan over the expected future cash flows of the loan. Additions and reductions to our allowance for credit losses on mortgage loans are reported as a component of net realized investment gains and losses. We do not purchase mortgage loans with existing credit impairments. See Note 3.

Policy Loans: Policy loans are presented at unpaid balances directly related to policyholders. Interest income is accrued on the principal amount of the loan based on the loan's contractual interest rate. Included in policy loans are $3,068.4 million and $3,043.7 million of policy loans ceded to reinsurers at December 31, 2014 and 2013, respectively.



Other Long-term Investments: Other long-term investments are comprised primarily of tax credit partnerships and private equity partnerships.

Tax credit partnerships in which we have invested were formed for the purpose of investing in the construction and rehabilitation of low-income housing. Because the partnerships are structured such that there is no return of principal, the primary sources of investment return from our tax credit partnerships are tax credits and tax benefits derived from passive losses on the investments, both of which may exhibit variability over the life of the investment. These partnerships are accounted for using either the equity or the effective yield method, depending primarily on whether the tax credits are guaranteed through a letter of credit, a tax indemnity agreement, or another similar arrangement. Tax credits received from these partnerships are reported in our consolidated statements of income as either a reduction of state premium taxes, which are a component of other expenses, or a reduction of income tax. For those partnerships accounted for under the equity method, the amortization of the principal amount invested in these partnerships is reported as a component of net investment income. For those partnerships accounted for under the effective yield method, amortization of the principal amount invested is reported as a component of income tax or other expenses. We will adopt updated accounting guidance for tax credit partnerships, where applicable, effective January 1, 2015. See "Accounting Updates Outstanding" as follows for further discussion.

Our investments in private equity partnerships are passive in nature. The underlying investments held by these partnerships include both equity and debt securities and are accounted for using the equity or cost method, depending on the level of ownership and the degree of our influence over partnership operating and financial policies. For partnerships accounted for under the equity method, our portion of partnership earnings is reported as a component of net investment income in our consolidated statements of income. For those partnerships accounted for under the cost method, we record income received from partnership distributions as either a component of net investment income or net realized investment gain or loss, in accordance with the source of the funds distributed from the partnership. See Notes 2 and 3.

Short-term Investments: Short-term investments are carried at cost. Short-term investments include investments maturing within one year, such as corporate commercial paper and U.S. Treasury bills, bank term deposits, and other cash accounts and cash equivalents earning interest. See Note 2.

Cash and Bank Deposits: Cash and bank deposits include cash on hand and non-interest bearing cash and deposit accounts.

Derivative Financial Instruments: Derivative financial instruments (including certain derivative instruments embedded in other contracts) are recognized as either other long-term investments or other liabilities in our consolidated balance sheets and are reported at fair value. The accounting for a derivative depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. To qualify for hedge accounting, at the inception of the hedging transaction, we formally document the risk management objective and strategy for undertaking the hedging transaction, as well as the designation of the hedge as either a fair value hedge or a cash flow hedge. Included in this documentation is how the hedging instrument is expected to hedge the designated risk(s) related to specific assets or liabilities on the balance sheet or to specific forecasted transactions as well as a description of the method that will be used to retrospectively and prospectively assess the hedging instrument's effectiveness and the method that will be used to measure ineffectiveness.

A derivative designated as a hedging instrument must be assessed as being highly effective in offsetting the designated risk(s) of the hedged item. Hedge effectiveness is formally assessed at inception and periodically throughout the life of the designated hedging relationship, using qualitative and quantitative methods. Qualitative methods include comparison of critical terms of the derivative to the hedged item. Quantitative methods include regression or other statistical analysis of changes in fair value or cash flows associated with the hedge relationship.

Changes in the fair value of a derivative designated as a fair value hedge, including amounts measured as ineffectiveness, and changes in the fair value of the hedged item attributable to the risk being hedged are recognized in earnings as a component of net realized investment gain or loss during the period of change in fair value. The gain or loss on the termination of a fair value hedge is recognized in earnings as a component of net realized investment gain or loss during the period in which the termination occurs. When interest rate swaps are used in hedge accounting relationships, periodic settlements are recorded in the same income statement line as the related settlements of the hedged items.

To the extent it is effective, changes in the fair value of a derivative designated as a cash flow hedge are reported in other comprehensive income and reclassified into earnings and reported on the same income statement line item as the hedged item and in the same period or periods during which the hedged item affects earnings. The ineffective portion of the hedge, if any, is recognized in earnings as a component of net realized investment gain or loss during the period of change in fair value. The gain or loss on the termination of an effective cash flow hedge is reported in other comprehensive income and reclassified into earnings and reported on the same income statement line item as the hedged item and in the same period or periods during which the hedged item affects earnings.

Gains or losses on the termination of ineffective fair value or cash flow hedges are reported in earnings as a component of net realized investment gain or loss. In the event a hedged item is disposed of or the anticipated transaction being hedged is no longer likely to occur, we will terminate the related derivative and recognize the gain or loss on termination in current earnings as a component of net realized investment gain or loss. In the event a hedged item is disposed of subsequent to the termination of the hedging transaction, we reclassify any remaining gain or loss on the cash flow hedge out of accumulated other comprehensive income into earnings as a component of the same income statement line item wherein we report the gain or loss on disposition of the hedged item.

For a derivative not designated as a hedging instrument, changes in the fair value of the derivative, together with the payment of periodic fees, if applicable, are recognized in earnings as a component of net realized investment gain or loss during the period of change in fair value.

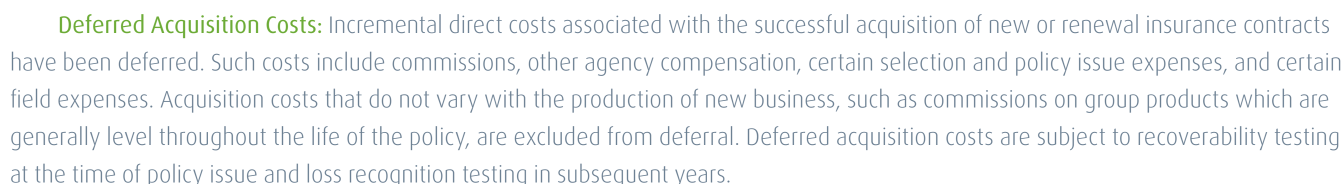
Cash flow activity from the settlement of derivative contracts is reported in the consolidated statements of cash flows as a component of proceeds from sales and maturities of other investments.

In our consolidated balance sheets, we do not offset fair value amounts recognized for derivatives executed with the same counterparty under a master netting agreement and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from those master netting agreements. See Notes 2, 3 and 4.

Fair Value Measurement: Certain assets and liabilities are reported at fair value in our consolidated balance sheets and in our notes to our consolidated financial statements. We define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Therefore, fair value represents an exit price, not an entry price. The exit price objective applies regardless of our intent and/or ability to sell the asset or transfer the liability at the measurement date. Assets or liabilities with readily available actively 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. When actively quoted prices are not available, fair values are based on quoted prices in markets that are not active, quoted prices for similar but not identical assets or liabilities, or other observable inputs. If observable inputs are not available, unobservable inputs and/or adjustments to observable inputs requiring management judgment are used to determine fair value. We categorize our assets and liabilities measured at estimated fair value into a three-level hierarchy, based on the significance of the inputs. The fair value hierarchy gives the highest priority to inputs which are unadjusted and represent quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). See Note 2.

Realized Investment Gains and Losses: Realized investment gains and losses are reported as a component of revenue in the consolidated statements of income and are based upon specific identification of the investments sold. See Note 3.

Notes To Consolidated Financial Statements



Deferred Acquisition Costs: Incremental direct costs associated with the successful acquisition of new or renewal insurance contracts have been deferred. Such costs include commissions, other agency compensation, certain selection and policy issue expenses, and certain field expenses. Acquisition costs that do not vary with the production of new business, such as commissions on group products which are generally level throughout the life of the policy, are excluded from deferral. Deferred acquisition costs are subject to recoverability testing at the time of policy issue and loss recognition testing in subsequent years.

Deferred acquisition costs related to non interest-sensitive policies are amortized in proportion to the premium income we expect to receive over the life of the policies. Deferred acquisition costs related to interest-sensitive policies are amortized over the lives of the policies in relation to the present value of estimated gross profits from surrender charges, mortality margins, investment returns, and expense margins. Deviations from projections result in a change to the rate of amortization in the period during which such events occur. Generally, the amortization periods for these policies approximate the estimated lives of the policies.

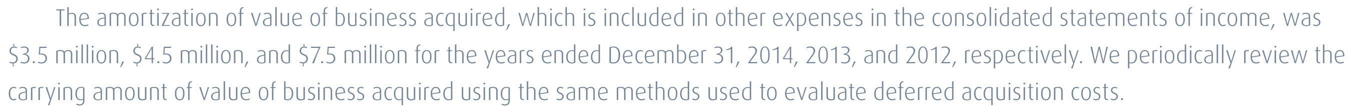
For certain products, policyholders can elect to modify product benefits, features, rights, or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacement transactions. Internal replacement transactions wherein the modification does not substantially change the policy are accounted for as continuations of the replaced contracts. Unamortized deferred acquisition costs from the original policy continue to be amortized over the expected life of the new policy, and the costs of replacing the policy are accounted for as policy maintenance costs and expensed as incurred. Internal replacement transactions, principally on group contracts, that result in a policy that is substantially changed are accounted for as an extinguishment of the original policy and the issuance of a new policy. Unamortized deferred acquisition costs on the original policy that was replaced are immediately expensed, and the costs of acquiring the new policy are capitalized and amortized in accordance with our accounting policies for deferred acquisition costs.

Loss recognition is performed on an annual basis, or more frequently if appropriate, using best estimate assumptions as to future experience as of the date of the test. Insurance contracts are grouped for each major product line within a segment when we perform the loss recognition tests. If loss recognition testing indicates that deferred acquisition costs are not recoverable, the deficiency is charged to expense.

Goodwill: Goodwill is the excess of the amount paid to acquire a business over the fair value of the net assets acquired. We review the carrying amount of goodwill for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the carrying amount might not be recoverable. Goodwill impairment testing compares the fair value of a reporting unit with its carrying amount, including goodwill. The fair values of the reporting units are determined using discounted cash flow models. The critical estimates necessary in determining fair value are projected earnings and the discount rate. We set our discount rate assumption based on an expected risk adjusted cost of capital. If the fair value of the reporting unit to which the goodwill relates is less than the carrying amount of the unamortized goodwill, the carrying amount is reduced with a corresponding charge to expense.

Property and Equipment: Property and equipment is reported at cost less accumulated depreciation, which is calculated on the straight-line method over the estimated useful life. The accumulated depreciation for property and equipment was $823.3 million and $760.8 million as of December 31, 2014 and 2013, respectively.

Value of Business Acquired: Value of business acquired represents the present value of future profits recorded in connection with the acquisition of a block of insurance policies. The asset is amortized based upon expected future premium income for non interest-sensitive insurance policies and estimated future gross profits from surrender charges, mortality margins, investment returns, and expense margins for interest-sensitive insurance policies. The value of business acquired, which is included in other assets in our consolidated balance sheets, was $15.2 million and $19.0 million at December 31, 2014 and 2013, respectively. The accumulated amortization for value of business acquired was $134.7 million and $138.2 million as of December 31, 2014 and 2013, respectively.



The amortization of value of business acquired, which is included in other expenses in the consolidated statements of income, was $3.5 million, $4.5 million, and $7.5 million for the years ended December 31, 2014, 2013, and 2012, respectively. We periodically review the carrying amount of value of business acquired using the same methods used to evaluate deferred acquisition costs.

Policy and Contract Benefits: Policy and contract benefits represent amounts paid and expected to be paid based on reported losses and estimates of incurred but not reported losses for non interest-sensitive life and accident and health products. For interest-sensitive products, benefits are the amounts paid and expected to be paid on insured claims in excess of the policyholders' policy fund balances.

Reserves for Policy and Contract Benefits: Policy reserves represent future policy and contract benefits for claims not yet incurred. Policy reserves for non interest-sensitive life and accident and health products are determined using the net level premium method. The reserves are calculated based upon assumptions as to interest, persistency, morbidity, and mortality that were appropriate at the date of issue. Discount rate assumptions are based on actual and expected net investment returns. Persistency assumptions are based on our actual historical experience adjusted for future expectations. Claim incidence and claim resolution rate assumptions related to morbidity and mortality are based on actual experience or industry standards adjusted as appropriate to reflect our actual experience and future expectations. The assumptions vary by plan, year of issue, and policy duration and include a provision for adverse deviation.

Policy reserves for group single premium annuities are developed on a net single premium method. The reserves are calculated based on assumptions as to interest, mortality, and retirement that were appropriate at the date of issue. Mortality assumptions are based upon industry standards adjusted as appropriate to reflect our actual experience and future expectations. The assumptions vary by year of issue.

Policy reserves for interest-sensitive products are principally policyholder account values.

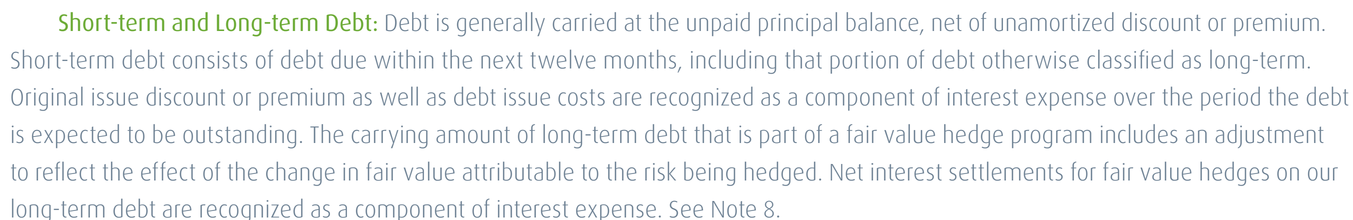
Policy reserves require ongoing loss recognition testing. We perform loss recognition tests on our policy reserves annually, or more frequently if appropriate, using best estimate assumptions as of the date of the test, without a provision for adverse deviation. We group the policy reserves for each major product line within a segment when we perform the loss recognition tests. If the policy reserves determined using these best estimate assumptions are higher than our existing policy reserves net of any deferred acquisition cost balance, the existing policy reserves are increased or deferred acquisition costs are reduced to immediately recognize the deficiency. This becomes the new basis for policy reserves going forward, subject to future loss recognition testing.

Claim reserves represent future policy and contract benefits for claims that have been incurred or are estimated to have been incurred but not yet reported to us. Our claim reserves relate primarily to disability policies and are calculated based on assumptions as to interest and claim resolution rates that are currently appropriate. Claim resolution rate assumptions are based on our actual experience. The interest rate assumptions used for discounting claim reserves are based on projected portfolio yield rates, after consideration for defaults and investment expenses, for the assets supporting the liabilities for the various product lines. Unlike policy reserves for which assumptions are generally established and locked in at the time of policy issuance, claim reserves are subject to revision as current claim experience and projections of future factors affecting claim experience change. See Note 6.

Policyholders' Funds: Policyholders' funds represent customer deposits plus interest credited at contract rates. We control interest rate risk by investing in quality assets which have an aggregate duration that closely matches the expected duration of the liabilities.

Income Tax: Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. Deferred taxes have been measured using enacted statutory income tax rates and laws that are currently in effect. We record deferred tax assets for tax positions taken in the U.S. and other tax jurisdictions based on our assessment of whether a position is more likely than not to be sustained upon examination based solely on its technical merits. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized. See Note 7.

Notes To Consolidated Financial Statements



Short-term and Long-term Debt: Debt is generally carried at the unpaid principal balance, net of unamortized discount or premium. Short-term debt consists of debt due within the next twelve months, including that portion of debt otherwise classified as long-term. Original issue discount or premium as well as debt issue costs are recognized as a component of interest expense over the period the debt is expected to be outstanding. The carrying amount of long-term debt that is part of a fair value hedge program includes an adjustment to reflect the effect of the change in fair value attributable to the risk being hedged. Net interest settlements for fair value hedges on our long-term debt are recognized as a component of interest expense. See Note 8.

Treasury Stock and Retirement of Common Stock: Treasury stock is reflected as a reduction of stockholders' equity at cost. When shares are retired, the par value is removed from common stock, and the excess of the repurchase price over par is allocated between additional paid-in capital and retained earnings. See Note 10.

Revenue Recognition: Our non interest-sensitive life and accident and health products are long-duration contracts, and premium income is recognized as revenue when due from policyholders. If the contracts are experience rated, the estimated ultimate premium is recognized as revenue over the period of the contract. The estimated ultimate premium, which is revised to reflect current experience, is based on estimated claim costs, expenses, and profit margins.

For interest-sensitive products, the amounts collected from policyholders are considered deposits, and only the deductions during the period for cost of insurance, policy administration, and surrenders are included in revenue. Policyholders' funds represent funds deposited by contract holders and are not included in revenue.

Fees from our administrative-services only and family medical leave products are reported as other income when services are rendered.

Reinsurance: We routinely enter into reinsurance agreements with other insurance companies to spread risk and thereby limit losses from large exposures. For each of our reinsurance agreements, we determine if the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. If we determine that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, we record the agreement using the deposit method of accounting.

Reinsurance activity is accounted for on a basis consistent with the terms of the reinsurance contracts and the accounting used for the original policies issued. Premium income and benefits and change in reserves for future benefits are presented in our consolidated statements of income net of reinsurance ceded. Ceded liabilities for policy and contract benefits, future policy and contract benefits, and unearned premiums are reported on a gross basis in our consolidated balance sheets, as are ceded policy loans. Our reinsurance recoverable includes the balances due from reinsurers under the terms of the reinsurance agreements for these ceded balances as well as settlement amounts currently due.

Where applicable, gains or losses on reinsurance transactions are deferred and amortized into earnings based upon expected future premium income for non interest-sensitive insurance policies and estimated future gross profits for interest-sensitive insurance policies. The deferred gain on reinsurance included in other liabilities in our consolidated balance sheets at December 31, 2014 and 2013 was $41.7 million and $53.6 million, respectively.

Under ceded reinsurance agreements wherein we are not relieved of our legal liability to our policyholders, if the assuming reinsurer is unable to meet its obligations, we remain contingently liable. We evaluate the financial condition of reinsurers and monitor concentration of credit risk to minimize this exposure. We may also require assets in trust, letters of credit, or other acceptable collateral to support our reinsurance recoverable balances. In the event that reinsurers do not meet their obligations to us under the terms of the reinsurance agreements, certain amounts reported in our reinsurance recoverable could become uncollectible, in which case the reinsurance recoverable balances are stated net of allowances for uncollectible reinsurance. See Note 12.

Premium Tax Expense: Premium tax expense is included in other expenses in the consolidated statements of income. For the years ended December 31, 2014, 2013, and 2012, premium tax expense was $139.2 million, $137.0 million, and $136.0 million, respectively.

Stock-Based Compensation: The cost of stock-based compensation is generally measured based on the grant-date fair value of the award. The Black-Scholes options valuation model is used for estimating the fair value of stock options, and the Monte-Carlo valuation model is used for estimating the fair value of performance share units. Restricted stock units are valued based on the fair value of common stock at the grant date, and cash-settled awards are measured each reporting period based on the current stock price. Stock-based awards are expensed over the requisite service period, or for performance share units over the requisite service period, or remaining service period, if and when it becomes probable that the performance conditions will be satisfied, with an offsetting increase to additional paid-in capital in stockholders' equity. See Note 11.

Earnings Per Share: We compute basic earnings per share by dividing net income by the weighted average number of common shares outstanding for the period. Earnings per share assuming dilution is computed by dividing net income by the weighted average number of shares outstanding for the period plus the shares representing the dilutive effect of stock-based awards. In computing earnings per share assuming dilution, only potential common shares resulting from stock-based awards that are dilutive (those that reduce earnings per share) are included. We use the treasury stock method to account for the effect of outstanding stock options and nonvested stock awards on the computation of earnings per share assuming dilution. See Note 10.

Translation of Foreign Currency: Revenues and expenses of our foreign operations are translated at average exchange rates. Assets and liabilities are translated at the rate of exchange on the balance sheet dates. The translation gain or loss is generally reported in accumulated other comprehensive income, net of deferred tax. We do not provide for deferred taxes to the extent unremitted foreign earnings are deemed permanently invested.

Accounting for Participating Individual Life Insurance: Participating policies issued by one of our subsidiaries prior to its 1986 conversion from a mutual to a stock life insurance company will remain participating as long as the policies remain in-force. A Participation Fund Account (PFA) was established for the benefit of all such individual participating life and annuity policies and contracts. The assets of the PFA provide for the benefit, dividend, and certain expense obligations of the participating individual life insurance policies and annuity contracts. The assets of the PFA were $358.6 million and $339.2 million at December 31, 2014 and 2013, respectively.

Notes To Consolidated Financial Statements

Accounting Updates Outstanding:

Accounting Standards Codification (ASC)	Description	Date of Adoption	Effect on Financial Statements
ASC 606 "Revenue from Contracts with Customers"	This update supersedes virtually all existing guidance regarding the recognition of revenue from customers. Specifically excluded from the scope of this update are insurance contracts, although our fee-based service products are included within the scope. The core principal of this guidance is that revenue recognition should depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The guidance is to be applied retrospectively.	January 1, 2017	The adoption of this update will not have a material effect on our financial position or results of operations.
ASC 860 "Transfers and Servicing"	This update changes the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The update also requires disclosures for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions. The guidance is to be applied retrospectively for transactions outstanding on the effective date of the update.	January 1, 2015, except for certain disclosures, which will be effective April 1, 2015	The adoption of this update will expand our disclosures but will not impact our financial position or results of operations.
ASC 323 "Investments — Equity Method and Joint Ventures"	This update permits entities to make an accounting policy election to account for investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). Additional disclosures concerning investments in qualified affordable housing projects are also required. We have elected to adopt this guidance, which will be applied retrospectively.	January 1, 2015	See table as follows.

Our retrospective adoption of the update to ASC 323 as of January 1, 2015 will result in a cumulative effect decrease in stockholders' equity as of January 1, 2015, 2014, and 2013 of approximately $30 million, $19 million, and $8 million, respectively. Our net income and earnings per share assuming dilution will be impacted as follows:

	Year Ended December 31					
(in millions, except per share data)	2014		2013		2012	
		per share		per share		per share
Net Income, Before Adoption	$413.4	$ 1.61	$858.1	$ 3.23	$894.4	$ 3.17
After-tax Impact of Adoption	(11.3)	(0.04)	(11.1)	(0.04)	(6.3)	(0.02)
Net Income, After Adoption	$402.1	$ 1.57	$847.0	$ 3.19	$888.1	$ 3.15

Note 2. 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, accrued investment income, and securities lending agreements approximate fair value due to the short-term nature of the instruments. As such, these financial instruments are not included in the following chart.

	December 31			
	2014		2013	
(in millions of dollars)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Fixed Maturity Securities	$45,064.9	$45,064.9	$42,344.4	$42,344.4
Mortgage Loans	1,856.6	2,024.2	1,815.1	1,980.2
Policy Loans	3,306.6	3,407.6	3,276.0	3,339.6
Other Long-term Investments				
Derivatives	28.0	28.0	10.8	10.8
Equity Securities	12.5	12.5	16.4	16.4
Miscellaneous Long-term Investments	485.5	485.5	475.2	475.2
Liabilities				
Policyholders' Funds				
Deferred Annuity Products	$ 621.4	$ 621.4	$ 631.5	$ 631.5
Supplementary Contracts without Life Contingencies	600.4	600.4	563.1	563.1
Short-term Debt	151.9	158.9	—	—
Long-term Debt	2,628.7	2,912.6	2,612.0	2,824.4
Other Liabilities				
Derivatives	92.9	92.9	135.6	135.6
Embedded Derivative in Modified Coinsurance Arrangement	49.9	49.9	53.2	53.2
Unfunded Commitments to Investment Partnerships	12.8	12.8	27.2	27.2

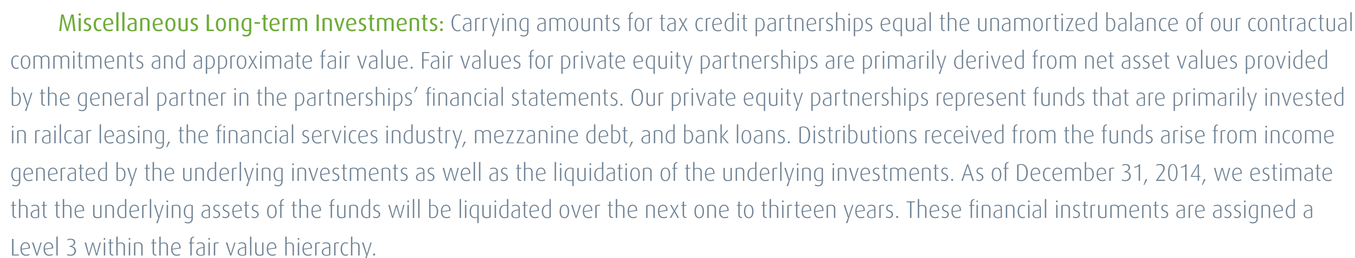
The methods and assumptions used to estimate fair values of financial instruments are discussed as follows.

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. These financial instruments are assigned a Level 2 within the fair value hierarchy.

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. Carrying amounts for ceded policy loans, which equal $3,068.4 million and $3,043.7 million as of December 31, 2014 and 2013, respectively, approximate fair value and are reported on a gross basis in our consolidated balance sheets. A change in interest rates for ceded policy loans will not impact our financial position because the benefits and risks are fully ceded to reinsuring counterparties. These financial instruments are assigned a Level 3 within the fair value hierarchy.

Notes To Consolidated Financial Statements



Miscellaneous Long-term Investments: Carrying amounts for tax credit partnerships equal the unamortized balance of our contractual commitments and approximate fair value. Fair values for private equity partnerships are primarily derived from net asset values provided by the general partner in the partnerships' financial statements. Our private equity partnerships represent funds that are primarily invested in railcar leasing, the financial services industry, mezzanine debt, and bank loans. Distributions received from the funds arise from income generated by the underlying investments as well as the liquidation of the underlying investments. As of December 31, 2014, we estimate that the underlying assets of the funds will be liquidated over the next one to thirteen years. These financial instruments are assigned a Level 3 within the fair value hierarchy.

Policyholders' Funds: Policyholders' funds are comprised primarily of deferred annuity products and supplementary contracts without life contingencies and represent customer deposits plus interest credited at contract rates. Carrying amounts approximate fair value. These financial instruments are assigned a Level 3 within the fair value hierarchy.

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 seeks to minimize exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts.

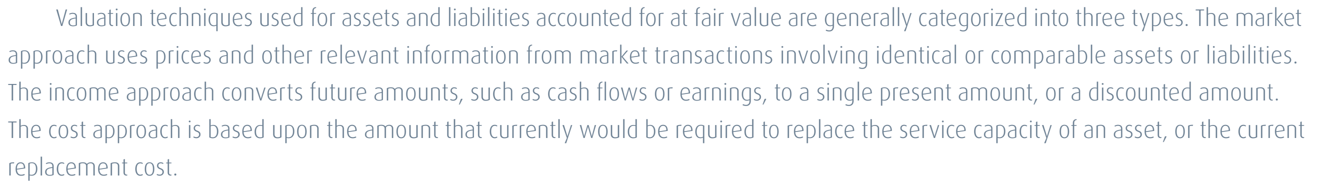
Short-term Debt: Fair values for short-term debt were determined based on prices from independent pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques. These financial instruments are assigned a Level 2.

Long-term Debt: Fair values for long-term debt are obtained from independent pricing services or discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements. Debt instruments which are valued using active trades from independent pricing services for which there was current market activity in that specific debt instrument have fair values of $849.7 million and $1,329.2 million as of December 31, 2014 and 2013, respectively, and are assigned a Level 1 within the fair value hierarchy. Debt instruments which are valued based on prices from pricing services that generally use observable inputs for securities or comparable securities in active markets in their valuation techniques have fair values of $2,062.9 million and $1,495.2 million as of December 31, 2014 and 2013, respectively, and are assigned a Level 2.

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. These financial instruments are assigned a Level 2 within the fair value hierarchy.

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.



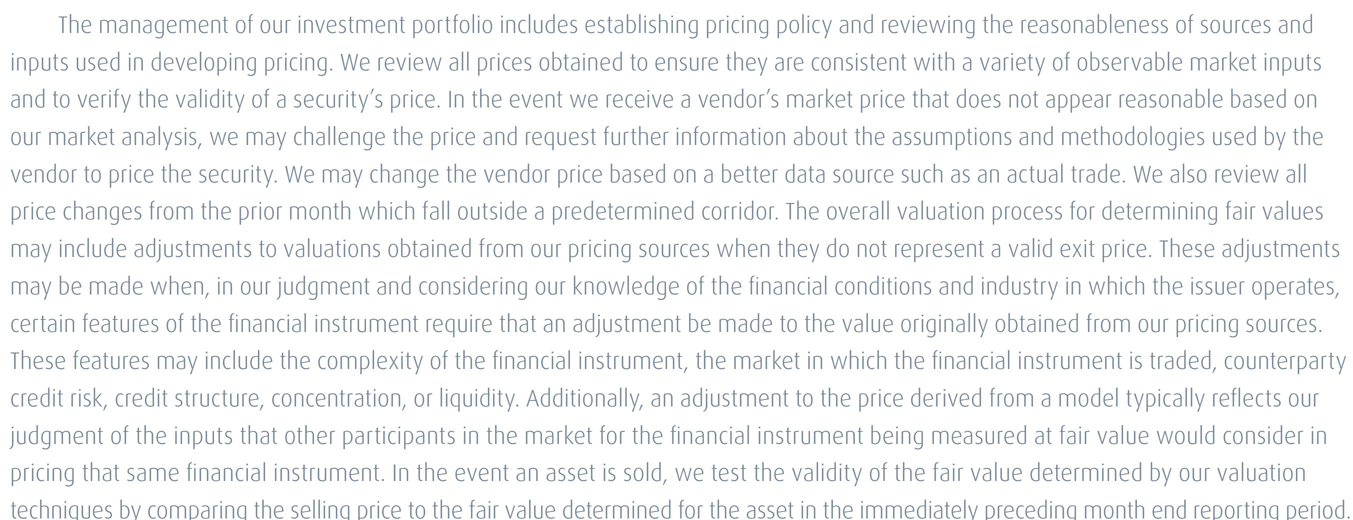
Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types. The market approach uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities. The income approach converts future 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.

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 using a pricing service, we obtain the vendor's pricing documentation to ensure we understand their methodologies. We periodically review and approve the selection of our pricing vendors to ensure we are in agreement with their current methodologies. When markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. Our internal investment management professionals, which include portfolio managers and analysts, monitor securities priced by brokers and evaluate their prices for reasonableness based on benchmarking to available primary and secondary market information. 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 2014, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2013.

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



The management of our investment portfolio includes establishing pricing policy and reviewing the reasonableness of sources and inputs used in developing pricing. 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. In the event we receive a vendor's market price that does not appear reasonable based on our market analysis, we may challenge the price and request further information about the assumptions and methodologies used by the vendor to price the security. We may change the vendor price based on a better data source such as an actual trade. We also review all price changes from the prior month which fall outside a predetermined corridor. 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. In the event an asset is sold, we test the validity of the fair value determined by our valuation techniques by comparing the selling price to the fair value determined for the asset in the immediately preceding month end reporting period.

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 LIBOR-setting syndicate in determining the effect of credit risk on our derivatives' fair values. If net 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. For purposes of valuing net counterparty risk, we measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position or transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. 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 December 31, 2014, approximately 6.6 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 93.4 percent of our fixed maturity securities were valued based on non-binding quotes or other observable and unobservable inputs, as discussed below.

- Approximately 78.1 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.
- Approximately 3.5 percent of our fixed maturity securities were valued based on one or more non-binding broker quotes, 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.
- Approximately 11.8 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.

In the following charts, prior year amounts have been reclassified, where applicable, between public utilities and all other corporate bonds to conform to the current year categorization of certain securities.

Fair value measurements by input level for financial instruments carried at fair value are as follows:

	December 31, 2014			
(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	$ 297.5	$ 941.0	$ —	$ 1,238.5
States, Municipalities, and Political Subdivisions	—	1,981.4	140.1	2,121.5
Foreign Governments	—	1,238.1	69.3	1,307.4
Public Utilities	106.2	8,129.4	315.0	8,550.6
Mortgage/Asset-Backed Securities	—	2,431.8	—	2,431.8
All Other Corporate Bonds	2,556.6	25,383.3	1,425.3	29,365.2
Redeemable Preferred Stocks	—	25.0	24.9	49.9
Total Fixed Maturity Securities	2,960.3	40,130.0	1,974.6	45,064.9
Other Long-term Investments				
Derivatives				
Interest Rate Swaps	—	5.7	—	5.7
Foreign Exchange Contracts	—	22.3	—	22.3
Total Derivatives	—	28.0	—	28.0
Equity Securities	—	11.1	1.4	12.5
Liabilities				
Other Liabilities				
Derivatives				
Interest Rate Swaps	$ —	$ 20.8	$ —	$ 20.8
Foreign Exchange Contracts	—	70.9	—	70.9
Credit Default Swaps	—	1.2	—	1.2
Embedded Derivative in Modified Coinsurance Arrangement	—	—	49.9	49.9
Total Derivatives	—	92.9	49.9	142.8

(in millions of dollars)	December 31, 2013 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	$ 144.5	$ 1,051.6	$ —	$ 1,196.1
States, Municipalities, and Political Subdivisions	—	1,608.1	175.1	1,783.2
Foreign Governments	—	1,294.7	78.5	1,373.2
Public Utilities	246.0	7,611.9	139.3	7,997.2
Mortgage/Asset-Backed Securities	—	2,038.8	0.5	2,039.3
All Other Corporate Bonds	2,132.8	23,861.6	1,923.3	27,917.7
Redeemable Preferred Stocks	—	13.9	23.8	37.7
Total Fixed Maturity Securities	2,523.3	37,480.6	2,340.5	42,344.4
Other Long-term Investments				
Derivatives				
Interest Rate Swaps	—	9.2	—	9.2
Foreign Exchange Contracts	—	1.6	—	1.6
Total Derivatives	—	10.8	—	10.8
Equity Securities	—	11.8	4.6	16.4
Liabilities				
Other Liabilities				
Derivatives				
Interest Rate Swaps	$ —	$ 35.0	$ —	$ 35.0
Foreign Exchange Contracts	—	98.7	—	98.7
Credit Default Swaps	—	1.9	—	1.9
Embedded Derivative in Modified				
Coinsurance Arrangement	—	—	53.2	53.2
Total Derivatives	—	135.6	53.2	188.8

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

	Year Ended December 31			
	2014		2013	
	Transfers into			
(in millions of dollars)	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	$ 163.2	$ —	$ 62.2	$ —
States, Municipalities, and Political Subdivisions	—	—	—	53.0
Public Utilities	81.8	253.4	248.4	20.8
All Other Corporate Bonds	1,592.1	1,598.3	1,296.5	1,117.9
Total Fixed Maturity Securities	$1,837.1	$1,851.7	$1,607.1	$1,191.7

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.

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

	Year Ended December 31, 2014							
		Total Realized and Unrealized Investment Gains (Losses) Included in				Level 3 Transfers		
(in millions of dollars)	Beginning of Year	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Into	Out of	End of Year
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	$ 175.1	$ —	$21.0	$ —	$ (1.4)	$ —	$ (54.6)	$ 140.1
Foreign Governments	78.5	1.1	0.8	—	(11.1)	—	—	69.3
Public Utilities	139.3	—	6.9	—	(0.8)	199.9	(30.3)	315.0
Mortgage/Asset-Backed Securities	0.5	(0.2)	0.3	—	(0.6)	—	—	—
All Other Corporate Bonds	1,923.3	0.7	44.8	91.1	(147.7)	626.9	(1,113.8)	1,425.3
Redeemable Preferred Stocks	23.8	—	1.1	—	—	—	—	24.9
Total Fixed Maturity Securities	2,340.5	1.6	74.9	91.1	(161.6)	826.8	(1,198.7)	1,974.6
Equity Securities	4.6	10.5	(0.2)	—	(13.5)	—	—	1.4
Embedded Derivative in Modified Coinsurance Arrangement	(53.2)	3.3	—	—	—	—	—	(49.9)

(in millions of dollars)	Year Ended December 31, 2013							
		Total Realized and Unrealized Investment Gains (Losses) Included in						
	Beginning of Year	Earnings	Other Comprehensive Income or Loss	Purchases	Sales	Level 3 Transfers Into	Level 3 Transfers Out of	End of Year
Fixed Maturity Securities								
States, Municipalities, and Political Subdivisions	$ 128.7	$ —	$ (13.1)	$ —	$ (1.0)	$ 60.5	$ —	$ 175.1
Foreign Governments	82.1	—	(3.6)	—	—	—	—	78.5
Public Utilities	226.4	—	(1.1)	—	(3.1)	101.9	(184.8)	139.3
Mortgage/Asset-Backed Securities	0.5	—	0.1	—	(0.1)	—	—	0.5
All Other Corporate Bonds	1,525.8	1.1	(156.8)	186.7	(122.0)	1,511.9	(1,023.4)	1,923.3
Redeemable Preferred Stocks	24.8	—	(1.0)	—	—	—	—	23.8
Total Fixed Maturity Securities	1,988.3	1.1	(175.5)	186.7	(126.2)	1,674.3	(1,208.2)	2,340.5
Equity Securities	4.3	—	0.3	—	—	—	—	4.6
Embedded Derivative in Modified Coinsurance Arrangement	(83.9)	30.7	—	—	—	—	—	(53.2)

Realized and unrealized investment gains and losses presented in the preceding tables represent gains and losses only for the time during which the applicable financial instruments were classified as Level 3. The transfers between levels resulted primarily from a change in observability of three inputs used to determine fair values of the securities transferred: (1) transactional data for new issuance and secondary trades, (2) broker/dealer quotes and pricing, primarily related to changes in the level of activity in the market and whether the market was considered orderly, and (3) comparable bond metrics from which to perform an analysis. For fair value measurements of financial instruments that were transferred either into or out of Level 3, we reflect the transfers using the fair value at the beginning of the period. We believe this allows for greater transparency, as all changes in fair value that arise during the reporting period of the transfer are disclosed as a component of our Level 3 reconciliation. Gains for the years ended December 31, 2014 and 2013 which are included in earnings and are attributable to the change in unrealized gains or losses relating to assets or liabilities valued using significant unobservable inputs and still held at each year end were $3.3 million and $30.7 million, respectively. These amounts relate entirely to the changes in fair value of an embedded derivative in a modified coinsurance arrangement which are reported as realized investment gains and losses.

The table below provides quantitative information regarding the significant unobservable inputs used in Level 3 fair value measurements derived from internal models. Certain securities classified as Level 3 are excluded from the table below due to limitations in our ability to obtain the underlying inputs used by external pricing sources.

	December 31, 2014		
(in millions of dollars)	Fair Value	Unobservable Input	Range/Weighted Average
Fixed Maturity Securities			
States, Municipalities, and Political Subdivisions — Private	$101.0	Comparability Adjustment	(b) 0.25%–1.00%/0.71%
All Other Corporate Bonds — Private	432.8	Comparability Adjustment	(b) 0.50%–0.70%/0.60%
		Discount for Size	(c) 0.50%–0.50%/0.50%
		Lack of Marketability	(d) 0.48%–0.48%/0.48%
		Volatility of Credit	(e) 0.20%–2.00%/0.64%
		Market Convention	(f) Priced at Par
All Other Corporate Bonds — Public	128.7	Comparability Adjustment	(b) 0.10%–0.50%/0.40%
		Lack of Marketability	(d) 0.20%–0.35%/0.29%
		Volatility of Credit	(e) (0.30)%–0.50%/(0.05)%
Equity Securities — Private	1.1	Market Convention	(f) Priced at Cost or Owner's Equity
Embedded Derivative in Modified Coinsurance Arrangement	(49.9)	Projected Liability Cash Flows	(g) Actuarial Assumptions

(in millions of dollars)	December 31, 2013 Fair Value	Unobservable Input	Range/Weighted Average
Fixed Maturity Securities			
States, Municipalities, and Political Subdivisions — Private	$142.7	Comparability Adjustment	(b) 0.25%–1.25%/0.65%
Mortgage/Asset-Backed Securities — Private	0.5	Discount for Size	(c) 4.93%–5.03%/5.01%
All Other Corporate Bonds — Private	371.3	Change in Benchmark Reference	(a) 3.36%–3.36%/3.36%
		Comparability Adjustment	(b) (0.70)%–(0.40)%/(0.60)%
		Discount for Size	(c) 0.50%–0.50%/0.50%
		Lack of Marketability	(d) 0.20%–1.00%/0.55%
		Volatility of Credit	(e) 0.07%–4.00%/0.85%
		Market Convention	(f) Priced at Par
All Other Corporate Bonds — Public	514.4	Change in Benchmark Reference	(a) (0.32)%–0.25%/0.04%
		Comparability Adjustment	(b) (0.23)%–1.00%/0.41%
		Lack of Marketability	(d) 0.20%–0.20%/0.20%
		Volatility of Credit	(e) (0.88)%–0.46%/(0.26)%
Equity Securities — Private	4.2	Market Convention	(f) Priced at Cost or Owner's Equity
Embedded Derivative in Modified Coinsurance Arrangement	(53.2)	Projected Liability Cash Flows	(g) Actuarial Assumptions

(a) Represents basis point adjustments for changes in benchmark spreads associated with various ratings categories
(b) Represents basis point adjustments for changes in benchmark spreads associated with various industry sectors
(c) Represents basis point adjustments based on issue/issuer size relative to the benchmark
(d) Represents basis point adjustments to apply a discount due to the illiquidity of an investment
(e) Represents basis point adjustments for credit-specific factors
(f) Represents a decision to price based on par value, cost, or owner's equity when limited data is available
(g) Represents various actuarial assumptions required to derive the liability cash flows including incidence, termination, and lapse rates

Isolated increases in unobservable inputs other than market convention will result in a lower fair value measurement, whereas isolated decreases will result in a higher fair value measurement. The unobservable input for market convention is not sensitive to input movements. The projected liability cash flows used in the fair value measurement of our Level 3 embedded derivative are based on expected claim payments. If claim payments increase, the projected liability cash flows will increase, resulting in a decrease in the fair value of the embedded derivative. Decreases in projected liability cash flows will result in an increase in the fair value of the embedded derivative.

Note 3. Investments

Fixed Maturity Securities

At December 31, 2014 and 2013, all fixed maturity securities were classified as available-for-sale. In the following charts, prior year amounts have been reclassified, where applicable, between public utilities and all other corporate bonds to conform to the current year categorization of certain securities.

The amortized cost and fair values of securities by security type are shown as follows.

(in millions of dollars)	December 31, 2014 Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
United States Government and Government Agencies and Authorities	$ 983.5	$ 255.5	$ 0.5	$ 1,238.5
States, Municipalities, and Political Subdivisions	1,745.0	377.6	1.1	2,121.5
Foreign Governments	1,101.1	206.3	—	1,307.4
Public Utilities	7,046.1	1,505.4	0.9	8,550.6
Mortgage/Asset-Backed Securities	2,224.9	207.0	0.1	2,431.8
All Other Corporate Bonds	25,658.8	3,828.6	122.2	29,365.2
Redeemable Preferred Stocks	44.0	5.9	—	49.9
Total Fixed Maturity Securities	$38,803.4	$6,386.3	$124.8	$45,064.9

(in millions of dollars)	December 31, 2013 Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
United States Government and Government Agencies and Authorities	$ 1,028.6	$ 173.1	$ 5.6	$ 1,196.1
States, Municipalities, and Political Subdivisions	1,706.0	117.2	40.0	1,783.2
Foreign Governments	1,226.4	149.6	2.8	1,373.2
Public Utilities	7,121.7	901.2	25.7	7,997.2
Mortgage/Asset-Backed Securities	1,858.7	184.6	4.0	2,039.3
All Other Corporate Bonds	25,315.2	2,828.3	225.8	27,917.7
Redeemable Preferred Stocks	33.0	4.7	—	37.7
Total Fixed Maturity Securities	$38,289.6	$4,358.7	$303.9	$42,344.4

The following charts indicate the length of time our fixed maturity securities have been in a gross unrealized loss position.

	December 31, 2014			
	Less Than 12 Months		12 Months or Greater	
(in millions of dollars)	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
United States Government and Government Agencies and Authorities	$ —	$ —	$ 7.4	$ 0.5
States, Municipalities, and Political Subdivisions	1.6	—	42.0	1.1
Public Utilities	5.1	0.2	58.2	0.7
Mortgage/Asset-Backed Securities	28.0	—	1.9	0.1
All Other Corporate Bonds	1,666.2	82.2	729.4	40.0
Total Fixed Maturity Securities	$1,700.9	$82.4	$838.9	$42.4

	December 31, 2013			
	Less Than 12 Months		12 Months or Greater	
(in millions of dollars)	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss
United States Government and Government Agencies and Authorities	$ 41.1	$ 3.1	$ 5.2	$ 2.5
States, Municipalities, and Political Subdivisions	412.5	33.5	37.2	6.5
Foreign Governments	87.2	2.8	—	—
Public Utilities	506.0	23.7	27.5	2.0
Mortgage/Asset-Backed Securities	341.0	3.6	2.5	0.4
All Other Corporate Bonds	3,776.9	197.4	238.6	28.4
Total Fixed Maturity Securities	$5,164.7	$264.1	$311.0	$39.8

The following is a distribution of the maturity dates for fixed maturity securities. The maturity dates have not been adjusted for possible calls or prepayments.

	December 31, 2014				
	Total Amortized Cost	Unrealized Gain Position		Unrealized Loss Position	
(in millions of dollars)		Gross Gain	Fair Value	Gross Loss	Fair Value
1 year or less	$ 1,372.0	$ 34.3	$ 1,406.3	$ —	$ —
Over 1 year through 5 years	6,871.2	719.3	7,434.0	9.4	147.1
Over 5 years through 10 years	9,532.9	1,003.3	8,792.3	80.9	1,663.0
Over 10 years	18,802.4	4,422.4	22,490.6	34.4	699.8
	36,578.5	6,179.3	40,123.2	124.7	2,509.9
Mortgage/Asset-Backed Securities	2,224.9	207.0	2,401.9	0.1	29.9
Total Fixed Maturity Securities	$38,803.4	$6,386.3	$42,525.1	$124.8	$2,539.8

	December 31, 2013				
	Total Amortized Cost	Unrealized Gain Position		Unrealized Loss Position	
(in millions of dollars)		Gross Gain	Fair Value	Gross Loss	Fair Value
1 year or less	$ 903.9	$ 20.6	$ 915.5	$ —	$ 9.0
Over 1 year through 5 years	7,098.2	727.1	7,678.5	0.6	146.2
Over 5 years through 10 years	9,492.6	940.2	8,137.4	95.8	2,199.6
Over 10 years	18,936.2	2,486.2	18,441.5	203.5	2,777.4
	36,430.9	4,174.1	35,172.9	299.9	5,132.2
Mortgage/Asset-Backed Securities	1,858.7	184.6	1,695.8	4.0	343.5
Total Fixed Maturity Securities	$38,289.6	$4,358.7	$36,868.7	$303.9	$5,475.7

At December 31, 2014, the fair value of investment-grade fixed maturity securities was $41,539.7 million, with a gross unrealized gain of $6,238.0 million and a gross unrealized loss of $47.5 million. The gross unrealized loss on investment-grade fixed maturity securities was 38.1 percent of the total gross unrealized loss on fixed maturity securities. Unrealized losses on investment-grade fixed maturity securities principally relate to changes in interest rates or changes in market or sector credit spreads which occurred subsequent to the acquisition of the securities.

At December 31, 2014, the fair value of below-investment-grade fixed maturity securities was $3,525.2 million, with a gross unrealized gain of $148.3 million and a gross unrealized loss of $77.3 million. The gross unrealized loss on below-investment-grade fixed maturity securities was 61.9 percent of the total gross unrealized loss on fixed maturity securities. Generally, below-investment-grade fixed maturity securities are more likely to develop credit concerns than investment-grade securities. At December 31, 2014, the unrealized losses in our below-investment-grade fixed maturity securities were generally due to credit spreads in certain industries or sectors and, to a lesser extent, credit concerns related to specific securities. For each specific security in an unrealized loss position, we believe that there are positive factors which mitigate credit concerns and that the securities for which we have not recorded an other-than-temporary impairment will recover in value.

As of December 31, 2014, we held 75 individual investment-grade fixed maturity securities and 68 individual below-investment-grade fixed maturity securities that were in an unrealized loss position, of which 31 investment-grade fixed maturity securities and 15 below-investment-grade fixed maturity securities had been in an unrealized loss position continuously for over one year.

In determining when a decline in fair value below amortized cost of a fixed maturity security is other than temporary, we evaluate the following factors:

- Whether we expect to recover the entire amortized cost basis of the security
- Whether we intend to sell the security or will be required to sell the security before the recovery of its amortized cost basis
- Whether the security is current as to principal and interest payments
- The significance of the decline in value
- The time period during which there has been a significant decline in value
- Current and future business prospects and trends of earnings
- The valuation of the security's underlying collateral
- Relevant industry conditions and trends relative to their historical cycles
- Market conditions
- Rating agency and governmental actions
- Bid and offering prices and the level of trading activity
- Adverse changes in estimated cash flows for securitized investments
- Changes in fair value subsequent to the balance sheet date
- Any other key measures for the related security

While determining other-than-temporary impairments is a judgmental area, we utilize a formal, well-defined, and disciplined process to monitor and evaluate our fixed income investment portfolio, supported by issuer specific research and documentation as of the end of each period. The process results in a thorough evaluation of problem investments and the recording of losses on a timely basis for investments determined to have an other-than-temporary impairment.

We held no fixed maturity securities as of December 31, 2014 and 2013, for which a portion of an other-than-temporary impairment was recognized in accumulated other comprehensive income.

At December 31, 2014, we had non-binding commitments of $15.0 million to fund private placement fixed maturity securities.

Variable Interest Entities

We invest in variable interests issued by variable interest entities. These investments include tax credit partnerships, private equity partnerships, and special purpose entities. For those variable interests that are not consolidated in our financial statements, we are not the primary beneficiary because we have neither the power to direct the activities that are most significant to economic performance nor the responsibility to absorb a majority of the expected losses. The determination of whether we are the primary beneficiary is performed at the time of our initial investment and at the date of each subsequent reporting period.

As of December 31, 2014, the carrying amount of our variable interest entity investments that are not consolidated in our financial statements was $484.1 million, comprised of $289.0 million of tax credit partnerships and $195.1 million of private equity partnerships. These variable interest entity investments are reported as other long-term investments in our consolidated balance sheets.

Additionally, we recognize a liability for all legally binding unfunded commitments to these partnerships, with a corresponding recognition of an invested asset. Our liability for legally binding unfunded commitments to the tax credit partnerships was $12.8 million at December 31, 2014. Contractually, we are a limited partner in these investments, and our maximum exposure to loss is limited to the carrying value of our investment. We also had non-binding commitments of $161.6 million to fund certain private equity partnerships at December 31, 2014, the amount of which may or may not be funded.

We are the sole beneficiary of a special purpose entity which is consolidated in our financial statements. This entity is a securitized asset trust containing a highly rated bond for principal protection and a private equity partnership investment which we contributed into the trust at the time it was established. There are no restrictions on the assets held in this trust, and the trust is free to dispose of the assets at any time. The fair values of the bond and partnership were $143.9 million and $1.4 million, respectively, as of December 31, 2014 and $136.2 million and $4.4 million, respectively, as of December 31, 2013. The bond is reported as a component of fixed maturity securities, and the partnership is reported as a component of other long-term investments in our consolidated balance sheets. At December 31, 2014, we had no commitments to fund the underlying partnership, nor did we fund any amounts to the partnership during the years ended December 31, 2014, 2013, and 2012.

Mortgage Loans

Our mortgage loan portfolio is well diversified by both geographic region and property type to reduce risk of concentration. All of our mortgage loans are collateralized by commercial real estate. When issuing a new loan, our general policy is not to exceed a loan-to-value ratio, or the ratio of the loan balance to the estimated fair value of the underlying collateral, of 75 percent. We update the loan-to-value ratios at least every three years for each loan, and properties undergo a general inspection at least every two years. Our general policy for newly issued loans is to have a debt service coverage ratio greater than 1.25 times on a normalized 25 year amortization period. We update our debt service coverage ratios annually.

Mortgage loans by property type and geographic region are presented below.

	December 31			
	2014		2013	
(in millions of dollars)	Carrying Amount	Percent of Total	Carrying Amount	Percent of Total
Property Type				
Apartment	$ 110.1	5.9%	$ 61.1	3.3%
Industrial	542.9	29.2	567.8	31.3
Office	794.0	42.8	776.5	42.8
Retail	409.6	22.1	409.7	22.6
Total	$1,856.6	100.0%	$1,815.1	100.0%
Region				
New England	$ 105.6	5.7%	$ 100.9	5.6%
Mid-Atlantic	179.4	9.7	191.5	10.5
East North Central	210.6	11.4	244.3	13.5
West North Central	166.2	8.9	162.3	8.9
South Atlantic	453.6	24.4	447.7	24.7
East South Central	75.3	4.1	67.7	3.7
West South Central	215.6	11.6	190.9	10.5
Mountain	116.0	6.2	101.9	5.6
Pacific	334.3	18.0	307.9	17.0
Total	$1,856.6	100.0%	$1,815.1	100.0%

We evaluate each of our mortgage loans individually for impairment and assign an internal credit quality rating based on a comprehensive rating system used to evaluate the credit risk of the loan. The factors we use to derive our internal credit ratings may include the following:

- Loan-to-value ratio
- Debt service coverage ratio based on current operating income
- Property location, including regional economics, trends and demographics
- Age, condition, and construction quality of property
- Current and historical occupancy of property
- Lease terms relative to market
- Tenant size and financial strength
- Borrower's financial strength
- Borrower's equity in transaction
- Additional collateral, if any

Although all available and applicable factors are considered in our analysis, loan-to-value and debt service coverage ratios are the most critical factors in determining whether we will initially issue the loan and also in assigning values and determining impairment. We assign an overall rating to each loan using an internal rating scale of Aa (highest quality) to B (lowest quality). We review and adjust, as needed, our internal credit quality ratings on an annual basis. This review process is performed more frequently for mortgage loans deemed to have a higher risk of delinquency.

Mortgage loans, sorted by the applicable credit quality indicators, are as follows:

	December 31	
(in millions of dollars)	2014	2013
Internal Rating		
Aa	$ 7.7	$ 10.8
A	666.0	683.1
Baa	1,156.7	1,094.6
Ba	13.1	13.5
B	13.1	13.1
Total	$1,856.6	$1,815.1
Loan-to-Value Ratio		
<= 65%	$ 898.7	$ 777.4
> 65% <= 75%	818.0	867.5
> 75% <= 85%	102.3	107.6
> 85%	37.6	62.6
Total	$1,856.6	$1,815.1

A summary of our troubled debt restructurings is as follows:

(in millions of dollars)	Year Ended December 31 2014	2013	2012
Foreclosure			
Carrying Amount	$18.1	$4.3	$17.3
Number of Loans	1	1	3

We had no realized losses on loan foreclosures for the years ended December 31, 2014, 2013, and 2012 other than the initial impairment losses recognized prior to foreclosure. During 2014, we modified the terms of a mortgage loan with a carrying value of $18.1 million, recognized a $3.0 million realized loss on the troubled debt restructuring, and foreclosed on the property in a subsequent quarter of 2014.

At December 31, 2014 and 2013, we held no mortgage loans that were on nonaccrual status or past due regarding principal and/or interest payments.

There have been no changes to our accounting policies or methodology from the prior period regarding estimating the allowance for credit losses on our mortgage loans. The activity in the allowance for credit losses is as follows:

(in millions of dollars)	Year Ended December 31 2014	2013	2012
Balance at Beginning of Year	$ 1.5	$1.5	$ 1.5
Provision	3.0	—	1.8
Charge-offs, Net of Recoveries	(3.0)	—	(1.8)
Balance at End of Year	$ 1.5	$1.5	$ 1.5

As of December 31, 2014 and 2013 we held one impaired mortgage loan with an unpaid principal balance of $14.6 million, a related allowance for credit losses of $1.5 million, and a carrying value of $13.1 million.

Our average investment in impaired mortgage loans was $26.7 million, $14.9 million, and $19.1 million for the years ended December 31, 2014, 2013, and 2012, respectively. For the years ended December 31, 2014, 2013, and 2012, we recognized $1.0 million, $0.8 million, and $0.8 million, respectively, of interest income on mortgage loans subsequent to impairment.

At December 31, 2014, we had non-binding commitments of $49.3 million to fund certain commercial mortgage loans, the amount of which may or may not be funded.

Transfers of Financial Assets

To manage our cash position more efficiently, we may enter into repurchase agreements with unaffiliated financial institutions. We generally use repurchase agreements as a means to finance the purchase of invested assets or for short-term general business purposes until projected cash flows become available from our operations or existing investments. Our repurchase agreements are typically outstanding for less than 30 days. We post collateral through our repurchase agreement transactions whereby the counterparty commits to purchase securities with the agreement to resell them to us at a later, specified date. The fair value of collateral posted is generally 102 percent of the cash received.

Our investment policy also permits us to lend fixed maturity securities to unaffiliated financial institutions in short-term securities lending agreements. These agreements increase our investment income with minimal risk. Our securities lending policy requires that a minimum of 102 percent of the fair value of the securities loaned be maintained as collateral. Generally, cash is received as collateral under these agreements and is typically reinvested in short-term investments. In the event that securities are received as collateral, we are not permitted to sell or re-post them.

As of December 31, 2014, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was $176.5 million, for which we received collateral in the form of cash and securities of $58.4 million and $128.5 million, respectively. As of December 31, 2013, the carrying amount of fixed maturity securities loaned to third parties under our securities lending program was $201.6 million, for which we received collateral in the form of cash and securities of $76.5 million and $132.9 million, respectively. We had no outstanding repurchase agreements at December 31, 2014 or 2013.

During 2014, we were approved for membership of the Federal Home Loan Bank System (FHLB). As a member, we obtain access to low-cost funding and also receive dividends based on our stock ownership. Membership requires that we purchase a minimum amount of FHLB common stock based on a percentage of our total assets. Additional common stock purchases are required based upon the amount of funds borrowed from the FHLB. We will be required to post mortgage-related assets, U.S. Treasury securities, or other acceptable forms of collateral for any borrowings we make from the FHLB. As of December 31, 2014 we had not funded any FHLB common stock purchases or obtained any advances from the FHLB. We expect to fund our initial common stock membership purchase in the first quarter of 2015 at a cost of approximately $17.7 million, $12.5 million of which was a non-binding commitment as of December 31, 2014.

Offsetting of Financial Instruments

We enter into master netting agreements with each of our derivatives counterparties. These agreements provide for conditional rights of set-off upon the occurrence of an early termination event. An early termination event is considered a default, and it allows the non-defaulting party to offset its contracts in a loss position against any gain positions or payments due to the defaulting party. Under our agreements, default type events are defined as failure to pay or deliver as contractually agreed, misrepresentation, bankruptcy, or merger without assumption. See Note 4 for further discussion of collateral related to our derivative contracts.

We have securities lending agreements with unaffiliated financial institutions that post collateral to us in return for the use of our fixed maturity securities. A right of set-off exists that allows us to keep and apply collateral received in the event of default by the counterparty. Default within a securities lending agreement would typically occur if the counterparty failed to return the securities borrowed from us as contractually agreed. In addition, if we default by not returning collateral received, the counterparty has a right of set-off against our securities or any other amounts due to us.

Shown below are our financial instruments that either meet the accounting requirements that allow them to be offset in our balance sheets or that are subject to an enforceable master netting arrangement or similar agreement. Our accounting policy is to not offset these financial instruments in our balance sheets. Net amounts disclosed below have been reduced by the amount of collateral pledged to or received from our counterparties.

	December 31, 2014					
				Gross Amount Not Offset in Balance Sheet		
(in millions of dollars)	Gross Amount of Recognized Financial Instruments	Gross Amount Offset in Balance Sheet	Net Amount Presented in Balance Sheet	Financial Instruments	Cash Collateral	Net Amount
Financial Assets:						
Derivatives	$ 28.0	$—	$ 28.0	$ (7.2)	$(15.4)	$ 5.4
Securities Lending	176.5	—	176.5	(118.1)	(58.4)	—
Total	$204.5	$—	$204.5	$(125.3)	$(73.8)	$ 5.4
Financial Liabilities:						
Derivatives	$ 92.9	$—	$ 92.9	$ (67.0)	$ —	$25.9
Securities Lending	58.4	—	58.4	(58.4)	—	—
Total	$151.3	$—	$151.3	$(125.4)	$ —	$25.9

	December 31, 2013					
				Gross Amount Not Offset in Balance Sheet		
(in millions of dollars)	Gross Amount of Recognized Financial Instruments	Gross Amount Offset in Balance Sheet	Net Amount Presented in Balance Sheet	Financial Instruments	Cash Collateral	Net Amount
Financial Assets:						
Derivatives	$ 10.8	$—	$ 10.8	$ (9.5)	$ (1.1)	$ 0.2
Securities Lending	201.6	—	201.6	(125.1)	(76.5)	—
Total	$212.4	$—	$212.4	$(134.6)	$(77.6)	$ 0.2
Financial Liabilities:						
Derivatives	$135.6	$—	$135.6	$ (98.6)	$ —	$37.0
Securities Lending	76.5	—	76.5	(76.5)	—	—
Total	$212.1	$—	$212.1	$(175.1)	$ —	$37.0

Net Investment Income

Net investment income reported in our consolidated statements of income is as follows:

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Fixed Maturity Securities	$2,344.4	$2,371.6	$2,404.0
Derivatives	40.4	35.2	28.9
Mortgage Loans	109.8	109.2	107.1
Policy Loans	16.3	15.7	14.8
Other Long-term Investments	23.0	18.0	15.2
Short-term Investments	2.4	2.4	4.3
Gross Investment Income	2,536.3	2,552.1	2,574.3
Less Investment Expenses	29.0	29.5	26.9
Less Investment Income on Participation Fund Account Assets	15.1	15.7	16.1
Less Amortization of Tax Credit Partnerships	14.8	14.8	16.1
Net Investment Income	$2,477.4	$2,492.1	$2,515.2

Realized Investment Gain and Loss

Realized investment gains and losses are as follows:

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Fixed Maturity Securities			
Gross Gains on Sales	$ 9.3	$ 15.8	$ 29.3
Gross Losses on Sales	(7.5)	(45.7)	(20.4)
Other-Than-Temporary Impairment Loss	(13.5)	(0.8)	—
Mortgage Loans and Other Invested Assets			
Gross Gains on Sales	21.2	15.6	5.0
Gross Losses on Sales	(0.8)	—	(4.3)
Impairment Loss	(3.4)	(2.0)	(1.9)
Embedded Derivative in Modified Coinsurance Arrangement	3.3	30.7	51.8
All Other Derivatives	11.0	(1.9)	—
Foreign Currency Transactions	(3.5)	(4.9)	(3.3)
Net Realized Investment Gain	$ 16.1	$ 6.8	$ 56.2

Note 4. Derivative Financial Instruments

Purpose of Derivatives

We are exposed to certain risks relating to our ongoing business operations. The primary risks managed by using derivative instruments are interest rate risk, risk related to matching duration for our assets and liabilities, foreign currency risk, and credit risk. Historically, we have utilized current and forward interest rate swaps and options on forward interest rate swaps and U.S. Treasury rates, current and forward currency swaps, forward treasury locks, currency forward contracts, forward contracts on specific fixed income securities, and credit default swaps. Transactions hedging interest rate risk are primarily associated with our individual and group long-term care and individual and group disability products. All other product portfolios are periodically reviewed to determine if hedging strategies would be appropriate for risk management purposes. We do not use derivative financial instruments for speculative purposes.

Derivatives designated as cash flow hedges and used to reduce our exposure to interest rate and duration risk are as follows:

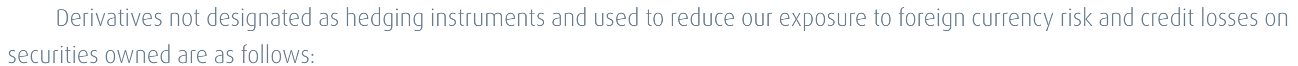
- *Interest rate swaps* are used to hedge interest rate risks and to improve the matching of assets and liabilities. An interest rate swap is an agreement in which we agree with other parties to exchange, at specified intervals, the difference between fixed rate and variable rate interest amounts. We use interest rate swaps to hedge the anticipated purchase of fixed maturity securities thereby protecting us from the potential adverse impact of declining interest rates on the associated policy reserves. We also use interest rate swaps to hedge the potential adverse impact of rising interest rates in anticipation of issuing fixed rate long-term debt.
- *Forward treasury locks* are used to minimize interest rate risk associated with the anticipated purchase or disposal of fixed maturity securities. A forward treasury lock is a derivative contract without an initial investment where we and the counterparty agree to purchase or sell a specific U.S. Treasury bond at a future date at a pre-determined price.
- *Options on U.S. Treasury rates* are used to hedge the interest rate risk associated with the anticipated purchase of fixed maturity securities. These options give us the right, but not the obligation, to receive a specific interest rate for a specified period of time. These options enable us to lock in a minimum investment yield to hedge the potential adverse impact of declining interest rates.

Derivatives designated as fair value hedges and used to reduce our exposure to interest rate and duration risk are as follows:

- *Interest rate swaps* are used to effectively convert certain of our fixed rate securities into floating rate securities which are used to fund our floating rate long-term debt. Under these swap agreements, we receive a variable rate of interest and pay a fixed rate of interest. Additionally, we use interest rate swaps to effectively convert certain fixed rate, long-term debt into floating rate long-term debt. Under these swap agreements, we receive a fixed rate of interest and pay a variable rate of interest.

Derivatives designated as cash flow hedges and used to reduce our exposure to foreign currency risk are as follows:

- *Foreign currency interest rate swaps* have historically been used to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for portfolio diversification and to hedge the currency risk associated with certain of the principal and interest payments of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries. For hedges of fixed maturity securities, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments in exchange for fixed rate payments in the functional currency of the operating segment. For hedges of debt issued, we agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments to the counterparty in exchange for fixed rate U.S. dollar-denominated principal and interest payments.



Derivatives not designated as hedging instruments and used to reduce our exposure to foreign currency risk and credit losses on securities owned are as follows:

- *Foreign currency interest rate swaps* previously designated as hedges were used to hedge the currency risk of certain foreign currency-denominated fixed maturity securities owned for portfolio diversification. We agree to pay, at specified intervals, fixed rate foreign currency-denominated principal and interest payments in exchange for fixed rate payments in the functional currency of the operating segment. We hold offsetting swaps wherein we agree to pay fixed rate principal and interest payments in the functional currency of the operating segment in exchange for fixed rate foreign currency-denominated payments.
- *Credit default swaps* are used as economic hedges against credit risk but do not qualify for hedge accounting. A credit default swap is an agreement in which we agree with another party to pay, at specified intervals, a fixed-rate fee in exchange for insurance against a credit event on a specific investment. If a defined credit event occurs, our counterparty may either pay us a net cash settlement, or we may surrender the specific investment to them in exchange for cash equal to the full notional amount of the swap. Credit events typically include events such as bankruptcy, failure to pay, or certain types of debt restructuring.

Derivative Risks

The basic types of risks associated with derivatives are market risk (that the value of the derivative will be adversely impacted by changes in the market, primarily the change in interest and exchange rates) and credit risk (that the counterparty will not perform according to the terms of the contract). The market risk of the derivatives should generally offset the market risk associated with the hedged financial instrument or liability. To help limit the credit exposure of the derivatives, we enter into master netting agreements with our counterparties whereby contracts in a gain position can be offset against contracts in a loss position. We also typically enter into bilateral, cross-collateralization agreements with our counterparties to help limit the credit exposure of the derivatives. These agreements require the counterparty in a loss position to submit acceptable collateral with the other counterparty in the event the net loss position meets or exceeds an agreed upon amount. Our current credit exposure on derivatives, which is limited to the value of those contracts in a net gain position, including accrued interest receivable less collateral held, was $13.6 million at December 31, 2014. We held cash collateral from our counterparties of $15.4 million and $1.1 million at December 31, 2014 and 2013, respectively. We post either fixed maturity securities or cash as collateral to our counterparties. The carrying value of fixed maturity securities posted as collateral to our counterparties was $67.0 million and $95.6 million at December 31, 2014 and 2013, respectively. We had no cash posted as collateral to our counterparties at December 31, 2014 and 2013. See Note 3 for further discussion of our master netting agreements.

The majority of our derivative instruments contain provisions that require us to maintain specified issuer credit ratings and financial strength ratings. Should our ratings fall below these specified levels, we would be in violation of the provisions, and our derivatives counterparties could terminate our contracts and request immediate payment. The aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a liability position was $92.9 million and $135.6 million at December 31, 2014 and 2013, respectively.

Derivative Transactions

The table below summarizes, by notional amounts, the activity for each category of derivatives. The notional amounts represent the basis upon which our counterparty pay and receive amounts are calculated.

	Swaps						
(in millions of dollars)	Receive Variable/Pay Fixed	Receive Fixed/Pay Fixed	Receive Fixed/Pay Variable	Credit Default	Forwards	Options	Total
Balance at December 31, 2011	$174.0	$554.0	$685.0	$ —	$ —	$ —	$1,413.0
Additions	—	—	250.0	—	86.0	—	336.0
Terminations	—	45.2	185.0	—	86.0	—	316.2
Balance at December 31, 2012	174.0	508.8	750.0	—	—	—	1,432.8
Additions	—	160.0	—	97.0	24.0	10.0	291.0
Terminations	24.0	38.4	150.0	—	24.0	10.0	246.4
Balance at December 31, 2013	150.0	630.4	600.0	97.0	—	—	1,477.4
Additions	—	250.1	—	—	68.0	—	318.1
Terminations	—	40.1	—	—	68.0	—	108.1
Balance at December 31, 2014	$150.0	$840.4	$600.0	$97.0	$ —	$ —	$1,687.4

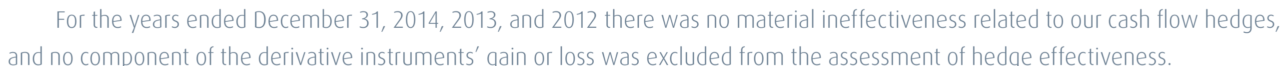
Cash Flow Hedges

As of December 31, 2014 and 2013, we had $618.0 million and $630.4 million, respectively, notional amount of receive fixed, pay fixed, open current and forward foreign currency interest rate swaps to hedge fixed income foreign currency-denominated securities and U.S. dollar-denominated debt issued by one of our U.K. subsidiaries.

During 2014, we novated certain of our foreign currency interest rate swaps with a notional amount of $97.0 million and a fair value of $(29.5) million to a new counterparty. At the time of novation, these derivatives were effective hedges, and we therefore deferred the unrealized loss into other comprehensive income and will recognize the loss in earnings during the periods in which the hedged items affect earnings. In conjunction with the novation, these derivatives were de-designated as hedges, and subsequent changes in their fair value will be reported in earnings as a component of net realized investment gain or loss. To establish a new effective hedging relationship with the fixed income foreign currency denominated securities previously hedged, we entered into $124.7 million notional amount of foreign currency interest rate swaps during 2014 whereby we receive fixed rate functional currency principal and interest in exchange for fixed rate payments in foreign currency.

During 2014, we redeemed a portion of the outstanding principal of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries. In conjunction with this redemption, we reclassified $13.1 million of the deferred gain on cash flow hedges from accumulated other comprehensive income to realized investment gain in our consolidated statements of income. This amount represents the applicable portion of the deferred gain from previously terminated derivatives associated with the hedge of this debt. See Note 8.

During 2013, we entered into $150.0 million notional amount of foreign currency swaps to hedge the currency risk on a portion of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries. Also during 2013, we terminated, as scheduled, $150.0 million notional amount of received fixed, pay variable forward starting interest rate swaps used to hedge the anticipated purchase of fixed maturity securities.



For the years ended December 31, 2014, 2013, and 2012 there was no material ineffectiveness related to our cash flow hedges, and no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness.

As of December 31, 2014, we expect to amortize approximately $50.2 million of net deferred gains on derivative instruments during the next twelve months. This amount will be reclassified from accumulated other comprehensive income into earnings and reported on the same income statement line item as the hedged item. The income statement line items that will be affected by this amortization are net investment income and interest and debt expense. The remaining principal balance of the U.S. dollar-denominated debt issued by one of our U.K. subsidiaries is scheduled to mature during the fourth quarter of 2015, at which time we will reclassify the remaining deferred cash flow hedge gain of approximately $28.4 million from accumulated other comprehensive income to realized investment gain in our consolidated statements of income. Additional amounts that may be reclassified from accumulated other comprehensive income into earnings to offset the earnings impact of foreign currency translation of hedged items are not estimable.

As of December 31, 2014, we are hedging the variability of future cash flows associated with forecasted transactions through the year 2038.

Fair Value Hedges

As of December 31, 2014 and 2013, we had $150.0 million notional amount of receive variable, pay fixed interest rate swaps to hedge the changes in fair value of certain fixed rate securities held. These swaps effectively convert the associated fixed rate securities into floating rate securities, which are used to fund our floating rate long-term debt. The change in fair value of the hedged fixed maturity securities attributable to the hedged benchmark interest rate resulted in a loss of $5.3 million, $11.5 million, and $1.2 million for the years ended December 31, 2014, 2013, and 2012, respectively, with an offsetting gain on the related interest rate swaps.

As of December 31, 2014 and 2013, we had $600.0 million notional amount of receive fixed, pay variable interest rate swaps to hedge the changes in the fair value of certain fixed rate long-term debt. These swaps effectively convert the associated fixed rate long-term debt into floating rate debt and provide for a better matching of interest rates with our short-term investments, which have frequent interest rate resets similar to a floating rate security. The change in fair value of the hedged debt attributable to the hedged benchmark interest rate resulted in a gain (loss) of $(5.5) million, $21.1 million, and $(6.6) million for the years ended December 31, 2014, 2013, and 2012, respectively, with an offsetting gain or loss on the related interest rate swaps.

For the years ended December 31, 2014, 2013, and 2012, there was no material ineffectiveness related to our fair value hedges, and no component of the derivative instruments' gain or loss was excluded from the assessment of hedge effectiveness. There were no instances wherein we discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

Derivatives not Designated as Hedging Instruments

During 2014, we entered into $125.4 million notional amount of foreign currency interest rate swaps in conjunction with the previously discussed transaction wherein we de-designated foreign currency interest rate swaps with a notional amount of $97.0 million. The derivatives were not designated as hedges, and as such, changes in fair value related to these derivatives will be reported in earnings as a component of net realized investment gain or loss. We expect the changes in fair value of these derivatives to materially offset the changes in fair value related to the de-designated derivatives.

As of December 31, 2014 and 2013, we held $97.0 million notional amount of single name credit default swaps. We entered into these swaps in order to mitigate the credit risk associated with specific securities owned.

We have an embedded derivative in a modified coinsurance arrangement for which we include in our realized investment gains and losses a calculation intended to estimate the value of the option of our reinsurance counterparty to cancel the reinsurance contract with us. However, neither party can unilaterally terminate the reinsurance agreement except in extreme circumstances resulting from regulatory supervision, delinquency proceedings, or other direct regulatory action. Cash settlements or collateral related to this embedded derivative are not required at any time during the reinsurance contract or at termination of the reinsurance contract. There are no credit-related counterparty triggers, and any accumulated embedded derivative gain or loss reduces to zero over time as the reinsured business winds down.

Locations and Amounts of Derivative Financial Instruments

The following tables summarize the location and fair values of derivative financial instruments, as reported in our consolidated balance sheets.

	December 31, 2014			
	Asset Derivatives		Liability Derivatives	
(in millions of dollars)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Designated as Hedging Instruments				
Interest Rate Swaps	Other L-T Investments	$ 5.7	Other Liabilities	$20.8
Foreign Exchange Contracts	Other L-T Investments	22.3	Other Liabilities	39.6
Total		$28.0		$60.4
Not Designated as Hedging Instruments				
Credit Default Swaps			Other Liabilities	$ 1.2
Foreign Exchange Contracts			Other Liabilities	31.3
Embedded Derivative in Modified Coinsurance Arrangement			Other Liabilities	49.9
Total				$82.4

	December 31, 2013			
	Asset Derivatives		Liability Derivatives	
(in millions of dollars)	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Designated as Hedging Instruments				
Interest Rate Swaps	Other L-T Investments	$ 9.2	Other Liabilities	$ 35.0
Foreign Exchange Contracts	Other L-T Investments	1.6	Other Liabilities	98.7
Total		$10.8		$133.7
Not Designated as Hedging Instruments				
Credit Default Swaps			Other Liabilities	$ 1.9
Embedded Derivative in Modified Coinsurance Arrangement			Other Liabilities	53.2
Total				$55.1

The following table summarizes the location of gains and losses on the effective portion of derivative financial instruments designated as cash flow hedging instruments, as reported in our consolidated statements of income and consolidated statements of comprehensive income.

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Gain (Loss) Recognized in Other Comprehensive Income (Loss) on Derivatives			
Interest Rate Swaps and Forwards	$ (0.1)	$ (7.2)	$ 77.9
Options	—	(0.1)	—
Foreign Exchange Contracts	16.2	22.6	3.5
Total	$16.1	$ 15.3	$ 81.4
Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income			
Net Investment Income			
Interest Rate Swaps and Forwards	$47.8	$ 43.1	$ 40.0
Foreign Exchange Contracts	(4.2)	(5.9)	(5.3)
Net Realized Investment Gain (Loss)			
Interest Rate Swaps	4.3	1.3	4.1
Foreign Exchange Contracts	6.9	(13.8)	(17.0)
Interest and Debt Expense			
Interest Rate Swaps	(1.8)	(1.7)	(1.7)
Total	$53.0	$ 23.0	$ 20.1

The following table summarizes the location of gains and losses on our derivatives not designated as hedging instruments, as reported in our consolidated statements of income.

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Net Realized Investment Gain (Loss)			
Credit Default Swaps	$(0.3)	$ (1.9)	$ —
Foreign Exchange Contracts	(1.8)	—	—
Embedded Derivative in Modified Coinsurance Arrangement	3.3	30.7	51.8
Total	$ 1.2	$28.8	$51.8

Note 5. Accumulated Other Comprehensive Income

Components of our accumulated other comprehensive income, after tax, and related changes are as follows:

(in millions of dollars)	Net Unrealized Gain on Securities	Net Gain on Cash Flow Hedges	Foreign Currency Translation Adjustment	Unrecognized Pension and Postretirement Benefit Costs	Total
Balance at December 31, 2012	$ 873.5	$401.6	$ (72.6)	$(574.5)	$ 628.0
Other Comprehensive Income (Loss) Before Reclassifications	(746.4)	9.7	25.5	328.6	(382.6)
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	8.6	(15.0)	—	16.0	9.6
Net Other Comprehensive Income (Loss)	(737.8)	(5.3)	25.5	344.6	(373.0)
Balance at December 31, 2013	135.7	396.3	(47.1)	(229.9)	255.0
Other Comprehensive Income (Loss) Before Reclassifications	154.3	31.1	(66.3)	(216.1)	(97.0)
Amounts Reclassified from Accumulated Other Comprehensive Income or Loss	0.3	(36.4)	—	44.5	8.4
Net Other Comprehensive Income (Loss)	154.6	(5.3)	(66.3)	(171.6)	(88.6)
Balance at December 31, 2014	$ 290.3	$391.0	$(113.4)	$(401.5)	$ 166.4

The net unrealized gain on securities consists of the following components:

	December 31			Change for the Year Ended December 31	
(in millions of dollars)	2014	2013	2012	2014	2013
Fixed Maturity Securities	$ 6,261.5	$ 4,054.8	$ 7,221.5	$ 2,206.7	$ (3,166.7)
Other Investments	13.9	55.5	92.8	(41.6)	(37.3)
Deferred Acquisition Costs	(50.8)	(41.6)	(67.0)	(9.2)	25.4
Reserves for Future Policy and Contract Benefits	(6,150.3)	(4,108.5)	(6,277.5)	(2,041.8)	2,169.0
Reinsurance Recoverable	365.0	263.8	351.5	101.2	(87.7)
Income Tax	(149.0)	(88.3)	(447.8)	(60.7)	359.5
Total	$ 290.3	$ 135.7	$ 873.5	$ 154.6	$ (737.8)

Amounts reclassified from accumulated other comprehensive income were recognized in our consolidated statements of income as follows:

(in millions of dollars)	Year Ended December 31 2014	2013
Net Unrealized Gain on Securities		
Net Realized Investment Gain (Loss)		
Gain (Loss) on Sales of Securities and Other Invested Assets	$ 12.6	$(12.6)
Other-Than-Temporary Impairment Loss	(13.5)	(0.8)
	(0.9)	(13.4)
Income Tax Benefit	(0.6)	(4.8)
Total	$ (0.3)	$ (8.6)
Net Gain on Cash Flow Hedges		
Net Investment Income		
Gain on Interest Rate Swaps and Forwards	$ 47.8	$ 43.1
Loss on Foreign Exchange Contracts	(4.2)	(5.9)
Net Realized Investment Gain (Loss)		
Gain on Interest Rate Swaps	4.3	1.3
Gain (Loss) on Foreign Exchange Contracts	6.9	(13.8)
Interest and Debt Expense		
Loss on Interest Rate Swaps	(1.8)	(1.7)
	53.0	23.0
Income Tax Expense	16.6	8.0
Total	$ 36.4	$ 15.0
Unrecognized Pension and Postretirement Benefit Costs		
Other Expenses		
Amortization of Net Actuarial Loss	$ (5.6)	$(32.9)
Amortization of Prior Service Credit	1.7	5.0
Curtailment Gain	—	3.0
Settlement Loss	(64.4)	—
	(68.3)	(24.9)
Income Tax Benefit	(23.8)	(8.9)
Total	$(44.5)	$(16.0)

Note 6. Liability for Unpaid Claims and Claim Adjustment Expenses

Changes in the liability for unpaid claims and claim adjustment expenses are as follows:

(in millions of dollars)	2014	2013	2012
Balance at January 1	$24,535.6	$24,567.1	$24,586.5
Less Reinsurance Recoverable	2,072.8	2,006.0	2,042.6
Net Balance at January 1	22,462.8	22,561.1	22,543.9
Incurred Related to			
Current Year	4,851.5	4,751.9	4,946.2
Prior Years			
Interest	1,214.7	1,230.0	1,247.6
All Other Incurred	(13.5)	(44.7)	(175.7)
Foreign Currency	(138.7)	41.2	101.1
Total Incurred	5,914.0	5,978.4	6,119.2
Paid Related to			
Current Year	(1,702.3)	(1,657.3)	(1,715.4)
Prior Years	(4,547.4)	(4,419.4)	(4,386.6)
Total Paid	(6,249.7)	(6,076.7)	(6,102.0)
Net Balance at December 31	22,127.1	22,462.8	22,561.1
Plus Reinsurance Recoverable	2,066.9	2,072.8	2,006.0
Balance at December 31	$24,194.0	$24,535.6	$24,567.1

The majority of the net balances are related to disability claims with long-tail payouts on which interest earned on assets backing liabilities is an integral part of pricing and reserving. Interest accrued on prior year reserves has been calculated on the opening reserve balance less one-half year's cash payments at our average reserve discount rate used during 2014, 2013, and 2012.

"Incurred Related to Prior Years — All Other Incurred" for the years shown in the preceding chart includes the reserve adjustments as discussed in the following paragraphs, which create variances year over year. Excluding those adjustments, the variability exhibited year over year is caused primarily by the level of claim resolutions in the period relative to the long-term expectations reflected in the reserves. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period, both favorably and unfavorably.

2014 Long-term Care Reserve Increase

Policy reserves for our long-term care block of business are determined using the gross premium valuation method and, prior to the fourth quarter of 2014, were valued based on assumptions established as of December 31, 2011, the date of the initial loss recognition. Gross premium valuation assumptions do not change after the date of loss recognition unless reserves are again determined to be deficient. We undertake a review of policy reserve adequacy annually during the fourth quarter of each year, or more frequently if appropriate, using best estimate assumptions as of the date of the review.

Included in our fourth quarter of 2014 review was an analysis of our reserve assumptions, including those for the discount rate, mortality and morbidity rates, persistency, and premium rate increases. Our analysis of reserve discount rate assumptions considered the continued historic low interest rate environment, future market expectations, and our view of future portfolio yields. The assumptions we established in 2011 were set at a level that we estimated would be sustainable in a low interest rate environment for three to five years, with improvements in market yields beginning after the third year. Since that time, however, interest rates have continued to hover near historic lows, and credit spreads have tightened. Our assumption update for mortality incorporates the last three years of Company-specific experience and emerging trends as well as industry data, where available and appropriate, and reflects improvements in life expectancies beyond what was initially anticipated in 2011. Our morbidity assumptions were updated to reflect trends from our own emerging Company experience in claim incidence and terminations, as well as trends based on available and appropriate industry data and studies. Our premium rate increase assumptions were updated to reflect progress-to-date and our on-going rate increase strategy.

Based on our analysis, as of December 31, 2014 we lowered the discount rate assumption to reflect the low interest rate environment and our revised expectation of future investment portfolio yield rates. Our revised assumptions anticipate the low interest rate environment persisting for the next three to five years, with a return to more historical averages over the following five year period. We updated our mortality assumptions to reflect emerging experience due to an increase in life expectancies which increases the ultimate number of people who will utilize long-term care benefits and also lengthens the amount of time a claimant may receive long-term care benefits. We changed our morbidity assumptions to reflect emerging industry experience as well as our own Company experience, and we updated our projection of future premium rate increase approvals. Using our revised best estimate assumptions, as of December 31, 2014 we determined that our policy and claim reserves should be increased $698.2 million to reflect our current estimate of future benefit obligations. Of this amount, $85.8 million was related to claim reserves, which can be attributed to prior year incurred claims, thereby impacting the results shown in the preceding chart.

2013 Unclaimed Death Benefits Reserve Increase

Beginning in 2011, a number of state regulators began requiring insurers to cross-check specified insurance policies with the Social Security Administration’s Death Master File to identify potential matches. If a potential match was identified, insurers were requested to determine if benefits were due, locate beneficiaries, and make payments where appropriate. We initiated this process where requested, and in 2012 we began implementing this process in all states on a forward-looking basis. In addition to implementing this on a forward-looking basis, in 2013 we began an initiative to search for potential claims from previous years. During 2013, we completed our assessment of benefits which we estimate will be paid under this initiative, and as such, established $95.5 million of additional claim reserves for payment of these benefits. Claim reserves were increased $49.1 million for Unum US group life, $26.3 million for Unum US voluntary life, and $20.1 million for Colonial Life voluntary life. The reserves established were attributed to prior year incurred claims, thereby impacting the results shown in the preceding chart.

2013 Group Life Waiver of Premium Benefit Reserve Reduction

Within our Unum US segment, we offer group life insurance coverage which consists primarily of renewable term life insurance and includes a provision for waiver of premium, if disabled. The group life waiver of premium benefit (group life waiver) provides for continuation of life insurance coverage when an insured, or the employer on behalf of the insured, is no longer paying premium because the employee is not actively at work due to a disability. The group life waiver claim reserve is the present value of future anticipated death benefits reflecting the probability of death while remaining disabled. Claim reserves are calculated using assumptions based on past experience adjusted for current trends and any other factors that would modify past experience and are subject to revision as current claim experience emerges and alters our view of future expectations. The two fundamental assumptions in the development of the group life waiver reserve are mortality and recovery. Our emerging experience and that which continues to emerge within the industry indicate an increase in life expectancies, which decreases the ultimate anticipated death benefits to be paid under the group life waiver benefit. Emerging experience also reflects an improvement in claim recovery rates, which also lessens the likelihood of payment of a death benefit while the insured is disabled. During 2013, we completed a review of our assumptions and modified our mortality and claim recovery assumptions for our Unum US group life waiver reserves and, as a result, reduced claim reserves by $85.0 million. Of this amount, approximately $78.0 million was attributed to prior year incurred claims, thereby impacting the results shown in the preceding chart.

Reconciliation

A reconciliation of policy and contract benefits and reserves for future policy and contract benefits as reported in our consolidated balance sheets to the liability for unpaid claims and claim adjustment expenses is as follows:

	December 31		
(in millions of dollars)	2014	2013	2012
Policy and Contract Benefits	$ 1,529.3	$ 1,511.0	$ 1,484.6
Reserves for Future Policy and Contract Benefits	45,929.4	43,099.1	44,694.4
Total	47,458.7	44,610.1	46,179.0
Less:			
Life Reserves for Future Policy and Contract Benefits	7,850.9	7,740.5	7,571.1
Accident and Health Active Life Reserves	9,263.5	8,225.5	7,763.3
Unrealized Adjustment to Reserves for Future Policy and Contract Benefits	6,150.3	4,108.5	6,277.5
Liability for Unpaid Claims and Claim Adjustment Expenses	$24,194.0	$24,535.6	$24,567.1

The unrealized adjustment to reserves for future policy and contract benefits reflects the changes that would be necessary to policyholder liabilities if the unrealized investment gains and losses related to the corresponding available-for-sale securities had been realized. Changes in this adjustment are reported as a component of other comprehensive income or loss.

Note 7. Income Tax

Total income tax expense (benefit) is allocated as follows:

(in millions of dollars)	Year Ended December 31 2014	2013	2012
Net Income	$ 113.8	$ 347.1	$ 355.1
Stockholders' Equity — Additional Paid-in Capital			
Stock-Based Compensation	(3.0)	(0.8)	3.5
Stockholders' Equity — Accumulated Other Comprehensive Income (Loss)			
Change in Net Unrealized Gain on Securities Before Adjustment	725.8	(1,102.8)	467.7
Change in Adjustment to Deferred Acquisition Costs and Reserves for Future Policy and Contract Benefits, Net of Reinsurance	(665.1)	743.3	(325.6)
Change in Net Gain on Cash Flow Hedges	(2.0)	(1.3)	(4.3)
Change in Unrecognized Pension and Postretirement Benefit Costs	(92.4)	185.2	(68.0)
Total	$ 77.1	$ 170.7	$ 428.4

A reconciliation of the income tax expense (benefit) attributable to income from operations before income tax, computed at U.S. federal statutory tax rates, to the income tax expense (benefit) as included in our consolidated statements of income, is as follows. Certain prior year amounts have been reclassified to conform to current year reporting.

	Year Ended December 31 2014	2013	2012
Statutory Income Tax	35.0%	35.0%	35.0%
Foreign Items	(4.3)	(1.8)	(1.9)
Tax Credits	(8.1)	(3.4)	(2.7)
Tax-exempt Investment Income	(2.3)	(1.0)	(0.9)
Other Items, Net	1.3	—	(1.1)
Effective Tax	21.6%	28.8%	28.4%

Our net deferred tax liability consists of the following:

(in millions of dollars)	December 31 2014	2013
Deferred Tax Liability		
Deferred Acquisition Costs	$ 97.4	$ 70.0
Fixed Assets	93.0	80.3
Invested Assets	1,999.2	1,274.3
Other	64.6	54.4
Gross Deferred Tax Liability	2,254.2	1,479.0
Deferred Tax Asset		
Reserves	1,919.2	1,180.1
Employee Benefits	254.0	151.2
Other	2.6	3.4
Gross Deferred Tax Asset	2,175.8	1,334.7
Total Net Deferred Tax Liability	$ 78.4	$ 144.3

Our consolidated statements of income include amounts subject to both domestic and foreign taxation. The income and related tax expense (benefit) are as follows:

(in millions of dollars)	Year Ended December 31 2014	2013	2012
Income Before Tax			
United States — Federal	$376.9	$1,072.0	$1,128.4
Foreign	150.3	133.2	121.1
Total	$527.2	$1,205.2	$1,249.5
Current Tax Expense (Benefit)			
United States — Federal	$128.4	$ 277.9	$ 164.4
Foreign	(25.1)	18.7	42.2
Total	103.3	296.6	206.6
Deferred Tax Expense (Benefit)			
United States — Federal	(44.4)	47.3	173.5
Foreign	54.9	3.2	(25.0)
Total	10.5	50.5	148.5
Total	$113.8	$ 347.1	$ 355.1

The U.K. government enacted income tax rate reductions during each of the years 2010 through 2013. During 2013, the rate was reduced from 23 percent to 21 percent effective April 2014, and to 20 percent effective April 2015. Although the rate reductions in each instance became or will become effective during a subsequent year, we are required to adjust deferred tax assets and liabilities through income on the date of enactment of a rate change. As a result, we recorded income tax benefits of $6.3 million and $9.3 million for the tax rate reductions enacted during 2013 and 2012, respectively.

We consider the unremitted earnings of our foreign operations to be permanently invested and therefore have not provided U.S. deferred taxes on the cumulative earnings of our non-U.S. affiliates. Deferred taxes are provided for earnings of non-U.S. affiliates when we plan to remit those earnings. As of December 31, 2014, we have not made a provision for U.S. taxes on approximately $1 billion of the excess of the carrying amount for financial reporting over the tax basis of investments in foreign subsidiaries that are essentially permanent in duration. The determination of a deferred tax liability related to investments in these foreign subsidiaries is not practicable.

Our consolidated statements of income include the following changes in unrecognized tax benefits:

(in millions of dollars)	December 31 2014	2013	2012
Balance at Beginning of Year	$ 18.4	$ 17.5	$ 86.9
Tax Positions Taken During Prior Years			
Additions	1.7	5.7	13.3
Subtractions	—	—	(0.6)
Settlements with Tax Authorities	(0.6)	(4.8)	(23.5)
Lapses of Statute of Limitations	—	—	(61.1)
Tax Positions Taken During Current Year	0.3	—	2.5
Balance at End of Year	19.8	18.4	17.5
Less Tax Attributable to Temporary Items Included Above	(10.4)	(10.2)	(15.0)
Total Unrecognized Tax Benefits that if Recognized Would Affect the Effective Tax Rate	$ 9.4	$ 8.2	$ 2.5

Included in the balances at December 31, 2014, 2013, and 2012 are $10.4 million, $10.2 million, and $15.0 million, respectively, of unrecognized tax benefits for tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Other than potential interest and penalties, the disallowance of the shorter deductibility period would not affect our results of operations but would accelerate the payment of cash to the taxing authority.

We recognize interest expense and penalties, if applicable, related to unrecognized tax benefits in tax expense net of federal income tax. We recognized an increase (reduction) in interest expense related to unrecognized tax benefits of $0.2 million, $(1.1) million, and $(10.4) million during 2014, 2013, and 2012, respectively. The total amounts of accrued interest and penalties related to unrecognized tax benefits in our consolidated balance sheets as of December 31, 2014 and 2013 were $1.0 million and $0.8 million, respectively. It is reasonably possible that unrecognized tax benefits could decrease within the next 12 months by up to $19.3 million as a result of resolution of audit activity with the Internal Revenue Service (IRS).

We file federal and state income tax returns in the United States and in foreign jurisdictions. We are under continuous examination by the IRS with regard to our U.S. federal income tax returns. During 2013, our appeal of tax years 2005 and 2006 was effectively settled with the approval of the Congressional Joint Committee on Taxation. As a result of the settlement, we received a cash refund of taxes and interest of $17.5 million in 2014.

During 2012, the IRS audit of our 2009 and 2010 years commenced, and we also finalized all issues with the IRS related to our 2007 and 2008 years, resulting in a reduction of our federal income taxes of $11.0 million. In the first quarter of 2015, we reached a tentative settlement of our 2009 and 2010 tax years with the IRS and expect to finalize the settlement of these years in 2015. As part of the settlement with the IRS of the 2009 and 2010 tax years, we also resolved claims for refund we filed related to tax credits for years 2003 through 2012 and expect to record an immaterial increase in net income during 2015.

Tax years subsequent to 2008 remain subject to examination by tax authorities in the U.S., and tax years subsequent to 2012 remain subject to examination in major foreign jurisdictions. We believe sufficient provision has been made for all potential adjustments for years that are not closed by the statute of limitations in all major tax jurisdictions and that any such adjustments would not have a material adverse effect on our financial position, liquidity, or results of operations.

In January 2013, the American Taxpayer Relief Act retroactively reinstated the active financing income exemption to the beginning of 2012 which affects the amount of earnings from foreign subsidiaries that is taxed annually, regardless of whether foreign earnings are repatriated. Our 2012 income tax expense reflected the taxation of all active financing income from our foreign subsidiaries as required under the law in place prior to the reinstatement. In 2013, we reversed the amounts recorded in 2012 and recorded a reduction in income tax expense of $0.9 million to reflect the reinstatement of the exemption of active financing income. The active financing income exemption expired again for tax years beginning on or after January 1, 2015, the effect of which is expected to be immaterial in 2015.

As of December 31, 2014 and 2013, we had no net operating loss carryforward for U.S. income taxes. We record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. As of December 31, 2014 and 2013, we had no valuation allowance.

Total income taxes paid net of refunds during 2014, 2013, and 2012 were $155.7 million, $398.1 million, and $185.0 million, respectively.

Note 8. Debt

Debt consists of the following:

(in millions of dollars)	Interest Rates	Maturities	December 31 2014	December 31 2013
Long-term Debt				
Senior Secured Notes issued 2007	Variable	2037	$ 398.4	$ 440.0
Senior Notes issued 1998	7.000%	2018	200.0	200.0
Senior Notes issued 1998	6.750–7.250%	2028	365.8	365.8
Senior Notes issued 2002	7.375%	2032	39.5	39.5
Senior Notes issued 2005	6.850%	2015	—	296.8
Senior Notes issued 2009	7.125%	2016	350.0	350.0
Senior Notes issued 2010	5.625%	2020	399.7	399.7
Senior Notes issued 2012	5.750%	2042	248.7	248.6
Senior Notes issued 2014	4.000%	2024	349.5	—
Medium-term Notes issued 1990–1996	7.000–7.190%	2023–2028	50.8	50.8
Junior Subordinated Debt Securities issued 1998	7.405%	2038	226.5	226.5
Fair Value Hedges Adjustment			(0.2)	(5.7)
Total Long-term Debt			2,628.7	2,612.0
Short-term Debt				
Senior Notes issued 2005	6.850%	2015	151.9	—
Total Short-term Debt			151.9	—
Total Debt			$2,780.6	$2,612.0

The prior year amount for securities lending has been reclassified from short-term debt to other liabilities in our consolidated balance sheets to conform to the current year presentation and is therefore no longer included in the chart above. Cash flows resulting from the change in the securities lending liability in prior years have also been reclassified from financing to investing in our statements of cash flows to conform to the current year presentation.

Collateralized debt is comprised of our senior secured notes and ranks highest in priority, followed by unsecured notes, which consist of senior notes and medium-term notes, followed by junior subordinated debt securities. The senior notes due 2018 and medium-term notes are non-callable and the junior subordinated debt securities are callable under limited, specified circumstances. The remaining debt is callable and may be redeemed, in whole or in part, at any time.

The aggregate contractual principal maturities are $151.9 million in 2015, $350.0 million in 2016, $200.0 million in 2018, and $2,081.0 million in 2020 and thereafter.

Senior Secured Notes

In 2007, Northwind Holdings, LLC (Northwind Holdings), a wholly-owned subsidiary of Unum Group, issued $800.0 million of insured, senior secured notes (the Northwind notes) in a private offering. The Northwind notes bear interest at a floating rate equal to the three-month LIBOR plus 0.78%.

Northwind Holdings' ability to meet its obligations to pay principal, interest, and other amounts due on the Northwind notes will be dependent principally on its receipt of dividends from Northwind Reinsurance Company (Northwind Re), the sole subsidiary of Northwind Holdings. Northwind Re reinsured the risks attributable to specified individual disability insurance policies issued by or reinsured by Provident Life and Accident Insurance Company, Unum Life Insurance Company of America, and The Paul Revere Life Insurance Company (collectively, the ceding insurers) pursuant to separate reinsurance agreements between Northwind Re and each of the ceding insurers. The ability of Northwind Re to pay dividends to Northwind Holdings will depend on its satisfaction of applicable regulatory requirements and the performance of the reinsured policies.

Recourse for the payment of principal, interest, and other amounts due on the Northwind notes is limited to the collateral for the Northwind notes and the other assets, if any, of Northwind Holdings. The collateral consists of a first priority, perfected security interest in (a) the debt service coverage account (DSCA) that Northwind Holdings is required to maintain in accordance with the indenture pursuant to which the Northwind notes were issued (the Northwind indenture), (b) the capital stock of Northwind Re and the dividends and distributions on such capital stock, and (c) Northwind Holdings' rights under the transaction documents related to the Northwind notes to which Northwind Holdings is a party. At December 31, 2014, the amount in the DSCA was $5.4 million. None of Unum Group, the ceding insurers, Northwind Re, or any other affiliate of Northwind Holdings is an obligor or guarantor with respect to the Northwind notes.

Northwind Holdings is required to repay a portion of the outstanding principal under the Northwind notes at par on the quarterly scheduled payment dates under the Northwind notes in an amount equal to the lesser of (i) a targeted amortization amount as defined in the Northwind indenture and (ii) the amount of the remaining available funds in the DSCA minus an amount equal to the minimum balance that is required to be maintained in the DSCA under the Northwind indenture, provided that Northwind Holdings has sufficient funds available to pay its other expenses, including interest payments on the Northwind notes, and to maintain the minimum balance in the DSCA as required under the Northwind indenture. Northwind Holdings made principal payments on the Northwind notes of $41.6 million in 2014 and $60.0 million in both 2013 and 2012.

In 2006, Tailwind Holdings, LLC (Tailwind Holdings) a wholly-owned subsidiary of Unum Group, issued $130.0 million of insured, senior, secured notes due 2036 in a private offering. During 2012, Tailwind Holdings made principal payments of $10.0 million on these notes. In 2013, we purchased and retired the outstanding principal of $62.5 million on these notes, resulting in a before-tax gain of $4.0 million.

Unsecured Notes

In May 2014, we purchased and retired $145.0 million principal of our outstanding 6.85% notes, including a make-whole amount of $13.2 million, for a total cost of $158.2 million. In conjunction with this retirement, we reclassified $13.1 million of the deferred gain on previously terminated derivatives associated with the hedge of this debt from accumulated other comprehensive income to realized investment gain in our consolidated statements of income. These notes were issued by UnumProvident Finance Company plc, a wholly-owned subsidiary of Unum Group, and the outstanding balance is fully and unconditionally guaranteed by Unum Group.

Fair Value Hedges

As of December 31, 2014 and 2013, we had $600.0 million notional amount interest rate swaps which effectively convert certain of our unsecured senior notes into floating rate debt. Under these agreements, we receive fixed rates of interest and pay variable rates of interest, based off of three-month LIBOR. See Note 4 for further information on our interest rate swaps.

Junior Subordinated Debt Securities

In 1998, Provident Financing Trust I (the trust), a 100 percent-owned finance subsidiary of Unum Group, issued $300.0 million of 7.405% capital securities in a public offering. These capital securities are fully and unconditionally guaranteed by Unum Group, have a liquidation value of $1,000 per capital security, and have a mandatory redemption feature under certain circumstances. Unum Group issued 7.405% junior subordinated deferrable interest debentures to the trust in connection with the capital securities offering. The debentures mature in 2038. The sole assets of the trust are the junior subordinated debt securities.

Interest Paid

Interest paid on long-term and short-term debt and related securities during 2014, 2013, and 2012 was $145.9 million, $144.6 million, and $139.6 million, respectively.

Credit Facility

In August 2013, we entered into a five-year, $400.0 million unsecured revolving credit facility. Under the terms of the agreement, we may request that the credit facility be increased up to $600.0 million. Borrowings under the credit facility are for general corporate uses and are subject to financial covenants, negative covenants, and events of default that are customary. The credit facility provides for borrowing at an interest rate based either on the prime rate or LIBOR. In addition, the credit facility provides for the issuance of letters of credit subject to certain terms and limitations. At December 31, 2014, letters of credit totaling $2.1 million had been issued from the credit facility. No letters of credit had been issued from the credit facility at December 31, 2013. At December 31, 2014 and 2013, there were no borrowed amounts outstanding from the credit facility.

Note 9. Employee Benefit Plans

Defined Benefit Pension and Other Postretirement Benefit (OPEB) Plans

We sponsor several defined benefit pension and OPEB plans for our employees, including non-qualified pension plans. The U.S. qualified and non-qualified defined benefit pension plans comprise the majority of our total benefit obligation and benefit cost. We maintain a separate defined benefit plan for eligible employees in our U.K. operation. The U.S. defined benefit pension plans were closed to new entrants on December 31, 2013, and the U.K. plan was closed to new entrants on December 31, 2002.

Amendments to U.S. Pension Plans

In 2014, we amended our U.S. qualified defined benefit pension plan to allow a limited-time offer of benefit payouts to eligible former employees with a vested right to a pension benefit. The offer provided eligible former employees, regardless of age, with an option to elect to receive a lump-sum settlement of his or her entire accrued pension benefit in December 2014 or to elect receipt of monthly pension benefits commencing in January 2015. For those who elected to receive lump-sum settlements, we made payments totaling $214.5 million from plan assets in December 2014. We recognized a before-tax settlement loss of $64.4 million in earnings during 2014, with a corresponding reduction in the unrecognized actuarial loss included in accumulated other comprehensive income that pertained to the settled benefit obligation.

In 2013, we adopted plan amendments which froze participation and benefit accruals in our U.S. qualified and non-qualified defined benefit pension plans, effective December 31, 2013. Because the amendments eliminated all future service accruals subsequent to December 31, 2013 for active participants in these plans, we were required to remeasure the benefit obligations during 2013. The discount rate assumption increased from 4.50 percent at December 31, 2012 to 5.00 percent at the remeasurement date, reflecting the change in market interest rates during that period. The expected long-term rate of return on plan assets of 7.50 percent remained unchanged from December 31, 2012. The remeasurement resulted in a decrease in our net pension liability of $327.4 million at the remeasurement date, with a corresponding increase in other comprehensive income, less applicable income tax of $114.6 million. The decrease in the net pension liability resulted primarily from the curtailment of benefits under the plan amendments as well as the increase in the discount rate assumption used to remeasure the benefit obligations. As a result of the 2013 plan amendments, we recognized a before-tax curtailment loss of $0.7 million in earnings during 2013, with a corresponding reduction in the prior service cost included in accumulated other comprehensive income and associated with years of service no longer expected to be rendered.

Amendments to U.K. Pension Plan

In 2013, we adopted amendments to our U.K. pension plan which froze participation in our plan and which reduced the maximum rate of inflation indexation from 5.0 percent to 2.5 percent for pension benefits which were earned prior to April 1997. The amendment to reduce the maximum rate of inflation indexation was effective September 12, 2013, and the amendment to freeze participation became effective June 30, 2014. Although all future service accruals were eliminated for active participants, pension payments to participants currently employed are based on the higher of (i) pensionable earnings at a participant's retirement age or the date a participant's employment ceases, subject to the inflation indexation provisions in the plan, or (ii) pensionable earnings as of June 30, 2014, also subject to the inflation indexation provisions. Because the amendments eliminated all future service accruals subsequent to June 30, 2014 for active participants in the plan, we were required to remeasure the benefit obligation of the plan during 2013. The discount rate assumption increased from 4.50 percent at December 31, 2012 to 4.60 percent at the remeasurement date, reflecting the change in market interest rates during that period. The expected long-term rate of return on plan assets changed from 6.20 percent at December 31, 2012 to 6.35 percent at the remeasurement date. The remeasurement resulted in a $2.3 million, or £1.5 million, increase in our net pension asset at the remeasurement date. As a result of these plan amendments, we recognized a before-tax curtailment gain of $3.7 million, or £2.3 million, in earnings during 2013, with a corresponding decrease in the prior service credit included in accumulated other comprehensive income and associated with years of service no longer expected to be rendered. The majority of the prior service credit was related to the amendment to reduce the rate of inflation indexation.

Amendments to OPEB Plan

We discontinued offering retiree life insurance to future retirees effective December 31, 2012 but continue to provide this benefit to employees who retired prior to that date. As a result of this plan amendment, we recognized a curtailment gain of $4.2 million and a prior service credit of $5.0 million in accumulated other comprehensive income during 2012.

Amortization Period of Actuarial Gain or Loss

Because all participants in the U.S. and U.K. pension plans are considered inactive as a result of the 2013 plan amendments, we are required to amortize the net actuarial loss for these plans over the average remaining life expectancy of the plan participants. As of December 31, 2014, the estimate of the average remaining life expectancy of plan participants was approximately 35 years for U.S. participants and 34 years for U.K. participants.

The following tables provide the changes in the benefit obligation and fair value of plan assets and statements of the funded status of the plans.

	Pension Benefits					
	U.S. Plans		U.K. Plan		OPEB	
(in millions of dollars)	2014	2013	2014	2013	2014	2013
Change in Benefit Obligation						
Benefit Obligation at Beginning of Year	$1,718.7	$1,967.9	$208.7	$197.4	$165.3	$198.8
Service Cost	3.7	59.4	2.3	4.3	0.3	0.7
Interest Cost	89.9	86.3	9.1	8.6	7.9	8.0
Plan Participant Contributions	—	—	—	—	4.1	3.9
Actuarial (Gain) Loss	343.5	(225.9)	25.2	2.6	12.9	(30.2)
Benefits and Expenses Paid	(48.7)	(42.2)	(4.3)	(4.1)	(16.6)	(15.9)
Curtailment	—	(126.8)	—	(3.7)	—	—
Settlements	(214.5)	—	—	—	—	—
Change in Foreign Exchange Rates	—	—	(14.1)	3.6	—	—
Benefit Obligation at End of Year	$1,892.6	$1,718.7	$226.9	$208.7	$173.9	$165.3
Accumulated Benefit Obligation at December 31	$1,892.6	$1,718.7	$215.3	$197.7	N/A	N/A
Change in Fair Value of Plan Assets						
Fair Value of Plan Assets at Beginning of Year	$1,590.7	$1,353.6	$225.7	$205.6	$ 11.4	$ 11.5
Actual Return on Plan Assets	140.9	224.6	37.8	15.6	0.4	0.2
Employer Contributions	5.3	54.7	2.3	4.0	12.0	11.7
Plan Participant Contributions	—	—	—	—	4.1	3.9
Benefits and Expenses Paid	(48.7)	(42.2)	(4.3)	(4.1)	(16.6)	(15.9)
Settlements	(214.5)	—	—	—	—	—
Change in Foreign Exchange Rates	—	—	(15.2)	4.6	—	—
Fair Value of Plan Assets at End of Year	$1,473.7	$1,590.7	$246.3	$225.7	$ 11.3	$ 11.4
Underfunded (Overfunded) Status	$ 418.9	$ 128.0	$ (19.4)	$ (17.0)	$162.6	$153.9

The amounts recognized in our consolidated balance sheets for our pension and OPEB plans at December 31, 2014 and 2013 are as follows.

	Pension Benefits					
	U.S. Plans		U.K. Plan		OPEB	
(in millions of dollars)	2014	2013	2014	2013	2014	2013
Current Liability	$ 5.4	$ 5.2	$ —	$ —	$ 13.7	$ 14.6
Noncurrent Liability	413.5	136.2	—	—	148.9	139.3
Noncurrent Asset	—	(13.4)	(19.4)	(17.0)	—	—
Underfunded (Overfunded) Status	$ 418.9	$ 128.0	$(19.4)	$(17.0)	$162.6	$153.9
Unrecognized Pension and Postretirement Benefit Costs						
Net Actuarial Gain (Loss)	$(593.0)	$(342.1)	$(35.4)	$(36.9)	$ (2.6)	$ 10.3
Prior Service Credit	—	—	—	—	0.7	2.4
	(593.0)	(342.1)	(35.4)	(36.9)	(1.9)	12.7
Deferred Income Tax Asset	207.5	119.7	10.4	10.9	10.9	5.8
Total Included in Accumulated Other Comprehensive Income (Loss)	$(385.5)	$(222.4)	$(25.0)	$(26.0)	$ 9.0	$ 18.5

The following table provides the changes recognized in other comprehensive income for the years ended December 31, 2014 and 2013.

	Pension Benefits					
	U.S. Plans		U.K. Plan		OPEB	
(in millions of dollars)	2014	2013	2014	2013	2014	2013
Accumulated Other Comprehensive Income (Loss) at Beginning of Year	$(222.4)	$(549.9)	$(26.0)	$(27.0)	$ 18.5	$ 2.4
Net Actuarial Gain (Loss)						
Amortization	5.2	31.7	0.4	1.2	—	—
Curtailment	—	126.8	—	—	—	—
Settlements	64.4	—	—	—	—	—
All Other Changes	(320.5)	344.8	1.1	(0.2)	(12.9)	29.6
Prior Service Credit (Cost)						
Amortization	—	(0.1)	—	—	(1.7)	(4.9)
Curtailment	—	0.7	—	(3.7)	—	—
Plan Amendment	—	—	—	3.9	—	—
Change in Deferred Income Tax Asset	87.8	(176.4)	(0.5)	(0.2)	5.1	(8.6)
Accumulated Other Comprehensive Income (Loss) at End of Year	$(385.5)	$(222.4)	$(25.0)	$(26.0)	$ 9.0	$18.5

Plan Assets

The objective of our U.S. pension and OPEB plans is to maximize long-term return, within acceptable risk levels, in a manner that is consistent with the fiduciary standards of the Employee Retirement Income Security Act (ERISA), while maintaining sufficient liquidity to pay current benefits and expenses.

During 2014, we modified our target allocation for invested asset classes for our U.S. qualified defined benefit pension plan to add opportunistic credit and real estate asset classes. The opportunistic credit asset class consists of investments in funds that hold varied fixed income investments purchased at depressed values with the intention to later sell those investments for a gain. The real estate asset class consists primarily of commercial real estate investments. The international equity funds may allocate a certain percentage of assets to forward currency contracts. The fixed income securities include U.S. government and agency asset-backed securities, corporate investment-grade bonds, private placement securities, and bonds issued by states or other municipalities. Alternative investments utilize proprietary strategies that are intended to have a low correlation to the U.S. stock market. Prohibited investments include, but are not limited to, unlisted securities, futures contracts, options, short sales, and investments in securities issued by Unum Group or its affiliates. The invested asset classes, asset types, and benchmark indices for our U.S. qualified defined benefit pension plan is as follows. We target approximately 35 percent to equity securities, 40 percent to fixed income securities, and 25 percent to opportunistic credit, alternative, and real estate investments.

Asset Class	Asset Type	Benchmark Indices
Equity Securities	Collective fund; Individual holdings	Standard & Poor's 400 and 500 Midcap; Russell 2000 Value and Growth; Morgan Stanley Capital International (MSCI) All Country World Excluding U.S.; MSCI Europe Australasia Far East; and MSCI Emerging Markets
Fixed Income; Opportunistic Credits	Collective fund; Individual holdings	Custom Index
Alternative Investments (Hedge and Private Equity)	Fund of funds; Direct investments	Hedge Fund Research Institute Fund of Funds; Russell 2000
Real Estate	Collective fund	National Council of Real Estate Investment Fund Open-end Diversified Core Equity Index

Assets for our U.K. pension plan are primarily invested in a pooled diversified growth fund. This fund invests in assets such as global equities, hedge funds, commodities, below-investment-grade fixed income securities, and currencies. The objectives of the fund are to generate capital appreciation over the course of a complete economic and market cycle and to deliver equity-like returns in the medium-to-long term while maintaining approximately two thirds of the volatility of equity markets. Performance of this fund is measured against the U.K. inflation rate plus four percent. The remaining assets in the U.K. plan are invested in leveraged interest rate and inflation swap funds of varying durations designed to broadly match the interest rate and inflation sensitivities of the plan's liabilities. The current target allocation for the assets is 75 percent diversified growth assets and 25 percent interest rate and inflation swap funds. There are no categories of investments that are specifically prohibited by the U.K. plan, but there are general guidelines that ensure prudent investment action is taken. Such guidelines include the prevention of the plan from using derivatives for speculative purposes and limiting the concentration of risk in any one type of investment.

Assets for the OPEB plan are invested in life insurance contracts issued by one of our insurance subsidiaries. The assets support life insurance benefits payable to certain former retirees covered under the OPEB plan. The terms of these contracts are consistent in all material respects with those the subsidiary offers to unaffiliated parties that are similarly situated. There are no categories of investments specifically prohibited by the OPEB plan.

We believe our investment portfolios are well diversified by asset class and sector, with no potential risk concentrations in any one category.

The categorization of fair value measurements by input level for the invested assets in our U.S. pension plans is as follows:

	December 31, 2014			
(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
Invested Assets				
Equity Securities:				
U.S. Large Cap	$ —	$181.4	$ —	$ 181.4
U.S. Mid Cap	—	88.3	—	88.3
U.S. Small Cap	118.7	—	—	118.7
International	71.0	63.5	—	134.5
Emerging Markets	—	40.0	—	40.0
Fixed Income Securities:				
U.S. Government and Agencies	243.5	14.6	—	258.1
Corporate	1.6	321.2	—	322.8
State and Municipal Securities	—	2.9	—	2.9
Opportunistic Credits	62.8	85.0	—	147.8
Alternative Investments:				
Private Equity Direct Investments	—	—	17.2	17.2
Private Equity Funds of Funds	—	—	34.9	34.9
Hedge Funds of Funds	—	—	70.0	70.0
Cash Equivalents	52.8	—	—	52.8
Total Invested Assets	$550.4	$796.9	$122.1	$1,469.4

	December 31, 2013			
(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
Invested Assets				
Equity Securities:				
U.S. Large Cap	$ —	$343.9	$ —	$ 343.9
U.S. Mid Cap	—	139.6	—	139.6
U.S. Small Cap	231.9	—	—	231.9
International	134.5	131.7	—	266.2
Emerging Markets	—	76.3	—	76.3
Fixed Income Securities:				
U.S. Government and Agencies	105.7	7.4	—	113.1
Corporate	97.8	172.6	—	270.4
State and Municipal Securities	—	12.9	—	12.9
Alternative Investments:				
Private Equity Direct Investments	—	—	7.2	7.2
Private Equity Funds of Funds	—	—	29.6	29.6
Hedge Funds of Funds	—	—	66.9	66.9
Cash Equivalents	28.4	—	—	28.4
Total Invested Assets	$598.3	$884.4	$103.7	$1,586.4

Level 1 equity, fixed income, and opportunistic credit securities consist of individual holdings and funds that are valued based on unadjusted quoted prices from active markets for identical securities. Level 2 equity and opportunistic credit securities consist of funds that are valued based on the net asset value (NAV) of the underlying holdings. These investments have no unfunded commitments and no specific redemption restrictions. Level 2 fixed income securities are valued using observable inputs through market corroborated pricing.

Alternative investments, which include private equity direct investments, private equity funds of funds, and hedge funds of funds, are valued based on the NAV of the underlying holdings in a period ranging from one month to one quarter in arrears. We evaluate the need for adjustments to the NAV based on market conditions and discussions with fund managers in the period subsequent to the valuation date and prior to issuance of the financial statements. We made no adjustments to the NAV for 2014 or 2013. The private equity direct investments and private equity funds of funds generally cannot be redeemed by investors, and distributions are received following the maturity of the underlying assets. It is estimated that these underlying assets will begin to mature between five and eight years from the date of initial investment. We have assigned a Level 3 classification to the private equity direct investments and private equity funds of funds due to the redemption restrictions on the investments. Redemptions on the hedge funds of funds can be made on either a quarterly or bi-annual basis, depending on the fund, with prior notice of at least 90 calendar days. Because of these redemption restrictions, we have classified the hedge funds of funds as Level 3.

Changes in our U.S. pension plans' assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2014 and 2013 are as follows:

	Year Ended December 31, 2014							
		Actual Return on Plan Assets				Level 3 Transfers		
(in millions of dollars)	Beginning of Year	Held at Year End	Sold During the Year	Purchases	Sales	Into	Out of	End of Year
Private Equity Direct Investments	$ 7.2	$1.7	$ 0.1	$ 9.0	$ (0.8)	$—	$—	$ 17.2
Private Equity Funds of Funds	29.6	4.8	2.6	3.9	(6.0)	—	—	34.9
Hedge Funds of Funds	66.9	3.2	(0.1)	25.9	(25.9)	—	—	70.0
Total	$103.7	$9.7	$ 2.6	$38.8	$(32.7)	$—	$—	$122.1

	Year Ended December 31, 2013							
		Actual Return on Plan Assets				Level 3 Transfers		
(in millions of dollars)	Beginning of Year	Held at Year End	Sold During the Year	Purchases	Sales	Into	Out of	End of Year
Private Equity Direct Investments	$ —	$0.3	$ —	$ 8.4	$(1.5)	$—	$—	$ 7.2
Private Equity Funds of Funds	28.7	0.9	1.1	2.1	(3.2)	—	—	29.6
Hedge Funds of Funds	56.1	6.3	—	4.9	(0.4)	—	—	66.9
Total	$84.8	$7.5	$1.1	$15.4	$(5.1)	$—	$—	$103.7

The categorization of fair value measurements by input level for the assets in our U.K. pension plan is as follows.

(in millions of dollars)	December 31, 2014			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Plan Assets				
Diversified Growth Assets	$ —	$167.6	$—	$167.6
Fixed Interest and Index-linked Securities	78.0	—	—	78.0
Cash Equivalents	0.7	—	—	0.7
Total Plan Assets	$78.7	$167.6	$—	$246.3

(in millions of dollars)	December 31, 2013			
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Plan Assets				
Diversified Growth Assets	$ —	$172.0	$—	$172.0
Fixed Interest and Index-linked Securities	52.6	0.4	—	53.0
Cash Equivalents	0.7	—	—	0.7
Total Plan Assets	$53.3	$172.4	$—	$225.7

Level 1 fixed interest and index-linked securities consist of individual funds that are valued based on unadjusted quoted prices from active markets for identical securities. Level 2 assets consist of funds that are valued based on the NAV of the underlying holdings. These investments have no unfunded commitments and no specific redemption restrictions.

The categorization of fair value measurements by input level for the assets in our OPEB plan is as follows:

(in millions of dollars)	December 31, 2014			
	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				
Life Insurance Contracts	$—	$—	$11.3	$11.3

(in millions of dollars)	December 31, 2013			
	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				
Life Insurance Contracts	$—	$—	$11.4	$11.4

The fair value is represented by the actuarial present value of future cash flows of the contracts.

Changes in our OPEB plan assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years ended December 31, 2014 and 2013 are as follows:

	Year Ended December 31, 2014				
(in millions of dollars)	Beginning of Year	Actual Return on Plan Assets	Contributions	Net Benefits and Expenses Paid	End of Year
Life Insurance Contracts	$11.4	$0.4	$16.1	$(16.6)	$11.3

	Year Ended December 31, 2013				
(in millions of dollars)	Beginning of Year	Actual Return on Plan Assets	Contributions	Net Benefits and Expenses Paid	End of Year
Life Insurance Contracts	$11.5	$0.2	$15.6	$(15.9)	$11.4

For the years ended December 31, 2014 and 2013, the actual return on plan assets relates solely to investments still held at the reporting date. There were no transfers into or out of Level 3 during 2014 or 2013.

Measurement Assumptions

We use a December 31 measurement date for each of our plans. The weighted average assumptions used in the measurement of our benefit obligations as of December 31 and our net periodic benefit costs for the years ended December 31 are as follows:

	Pension Benefits					
	U.S. Plans		U.K. Plan		OPEB	
	2014	2013	2014	2013	2014	2013
Benefit Obligations						
Discount Rate	4.40%	5.30%	3.60%	4.40%	4.30%	5.00%
Rate of Compensation Increase	N/A	4.00%	3.60%	3.90%	N/A	N/A
Net Periodic Benefit Cost						
Discount Rate	5.30%	4.50%/ 5.00%*	4.40%	4.50%/ 4.60%**	5.00%	4.20%
Expected Return on Plan Assets	7.50%	7.50%	6.10%	6.20%/ 6.35%**	5.75%	5.75%
Rate of Compensation Increase	N/A	4.00%	3.90%	3.75%	N/A	N/A

*In conjunction with the remeasurement due to the 2013 plan amendment, a discount rate of 4.50% was used for the period January 1, 2013 through the date of remeasurement, and a discount rate of 5.00% was used for the period subsequent to the date of remeasurement through December 31, 2013.

**In conjunction with the remeasurement due to the 2013 plan amendment, a discount rate of 4.50% and expected return on plan assets of 6.20% were used for the period January 1, 2013 through the date of remeasurement, and a discount rate of 4.60% and expected return on plan assets of 6.35% were used for the period subsequent to the date of remeasurement through December 31, 2013.

We set the discount rate assumption annually for each of our retirement-related benefit plans at the measurement date to reflect the yield on a portfolio of high quality fixed income corporate debt instruments matched against the projected cash flows for future benefits.

Our long-term rate of return on plan assets assumption is an estimate, based on statistical analysis, of the average annual assumed return that will be produced from the plan assets until current benefits are paid. The market-related value equals the fair value of assets, determined as of the measurement date. Our expectations for the future investment returns of the asset categories are based on a combination of historical market performance, evaluations of investment forecasts obtained from external consultants and economists, and current market yields. The methodology underlying the return assumption includes the various elements of the expected return for each asset class such as long-term rates of return, volatility of returns, and the correlation of returns between various asset classes. The expected return for the total portfolio is calculated based on the plan's strategic asset allocation. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition.

Our mortality rate assumption reflects our best estimate, as of the measurement date, of the life expectancies of plan participants in order to determine the expected length of time for benefit payments. We derive our assumptions from industry mortality tables. The Society of Actuaries released updated mortality tables during the fourth quarter of 2014 which show that longevity in the United States is increasing, thereby establishing a new benchmark for mortality rates of private pension plan participants in the United States. Our mortality assumptions for our U.S. plans reflect the updated mortality tables. These updated tables did not impact the calculation of the benefit obligation for our U.K. defined benefit pension plan.

The expected return assumption for the life insurance reserve for our OPEB plan at December 31, 2014 and 2013 is 5.75 percent, which is based on full investment in fixed income securities with an average book yield of 5.46 percent and 5.58 percent in 2014 and 2013, respectively.

Our rate of compensation increase assumption is generally based on periodic studies of compensation trends.

At December 31, 2014 and 2013, the annual rate of increase in the per capita cost of covered postretirement health care benefits assumed for the next calendar year is 7.50 percent for each year for benefits payable to both retirees prior to Medicare eligibility as well as Medicare eligible retirees. The rate is assumed to change gradually to 5.00 percent by 2020 for measurement at December 31, 2014 and remain at that level thereafter.

The medical and dental premiums used to determine the per retiree employer subsidy are capped. Certain of the current retirees and all future retirees are subject to the cap.

Net Periodic Benefit Cost

The following table provides the components of the net periodic benefit cost for the plans described above for the years ended December 31.

	Pension Benefits								
	U.S. Plans			U.K. Plan			OPEB		
(in millions of dollars)	2014	2013	2012	2014	2013	2012	2014	2013	2012
Service Cost	$ 3.7	$ 59.4	$ 48.8	$ 2.3	$ 4.3	$ 4.2	$ 0.3	$ 0.7	$ 1.6
Interest Cost	89.9	86.3	84.4	9.1	8.6	8.5	7.9	8.0	9.6
Expected Return on Plan Assets	(117.8)	(105.5)	(88.8)	(13.7)	(12.5)	(11.1)	(0.7)	(0.6)	(0.7)
Amortization of:									
Net Actuarial Loss	5.2	31.7	45.9	0.4	1.2	0.5	—	—	—
Prior Service Credit	—	(0.1)	(0.4)	—	—	—	(1.7)	(4.9)	(2.6)
Curtailment	—	0.7	—	—	(3.7)	—	—	—	—
Settlement	64.4	—	—	—	—	—	—	—	—
Total Net Periodic Benefit Cost	$ 45.4	$ 72.5	$ 89.9	$ (1.9)	$ (2.1)	$ 2.1	$ 5.8	$ 3.2	$ 7.9

A one percent increase or decrease in the assumed health care cost trend rate at December 31, 2014 would have increased (decreased) the service cost and interest cost by $0.1 million and $(0.1) million, respectively, and the postretirement benefit obligation by $4.7 million and $(3.4) million, respectively.

The unrecognized net actuarial loss included in accumulated other comprehensive income and expected to be amortized and included in net periodic pension cost for our pension plans during 2015 is $11.9 million before tax.

Benefit Payments

The following table provides expected benefit payments, which reflect expected future service, as appropriate.

(in millions of dollars)	Pension Benefits		OPEB		
Year	U.S. Plans	U.K. Plan	Gross	Subsidy Payments	Net
2015	$ 49.8	$ 5.5	$15.9	$ 1.9	$14.0
2016	54.1	6.0	15.6	2.1	13.5
2017	58.2	6.2	15.3	2.3	13.0
2018	62.6	6.4	14.9	2.4	12.5
2019	67.0	7.0	14.6	2.7	11.9
2020–2024	409.6	39.4	65.4	15.5	49.9

Funding Policy

The funding policy for our U.S. qualified defined benefit plan is to contribute annually an amount at least equal to the minimum annual contribution required under ERISA and other applicable laws, but generally not greater than the maximum amount that can be deducted for federal income tax purposes. We had no regulatory contribution requirements for our U.S. qualified defined benefit plan in 2014 and made no voluntary contributions during 2014. We do not expect to make any contributions in 2015. The funding policy for our U.S. non-qualified defined benefit pension plan is to contribute the amount of the benefit payments made during the year. Our expected return on plan assets and discount rate will not affect the cash contributions we are required to make to our U.S. pension and OPEB plans because we have met all minimum funding requirements required under ERISA.

We made required contributions to our U.K. plan of $2.3 million, or approximately £1.4 million, during 2014. Effective October 1, 2013, we increased contributions to our U.K. plan from 24.8 percent to 30.0 percent of pensionable earnings for plan participants. We do not expect to make any contributions in 2015, either voluntary or those required to meet the minimum funding requirements under U.K. legislation.

Our OPEB plan represents a non-vested, non-guaranteed obligation, and current regulations do not require specific funding levels for these benefits, which are comprised of retiree life, medical, and dental benefits. It is our practice to use general assets to pay medical and dental claims as they come due in lieu of utilizing plan assets for the medical and dental benefit portions of our OPEB plan.

Defined Contribution Plans

We offer a 401(k) plan to all eligible U.S. employees under which a portion of employee contributions is matched. Effective January 1, 2014, we began matching dollar-for-dollar up to 5.0 percent of base salary and any recognized sales and performance-based incentive compensation for employee contributions into the plan. Also effective January 1, 2014, we began making an additional non-elective contribution of 4.5 percent of earnings for all eligible employees and a separate transition contribution for eligible employees who met certain age and years of service criteria as of December 31, 2013. Prior to January 1, 2014, we matched dollar-for-dollar up to 3.0 percent of base salary and $0.50 on the dollar for each of the next 2.0 percent of base salary for employee contributions into the plan. The 401(k) plan remains in compliance with ERISA guidelines and continues to qualify for a “safe harbor” from annual discrimination testing.

We also offer a defined contribution plan to all eligible U.K. employees under which a portion of employee contributions is matched. Effective July 1, 2014, we increased benefits under the defined contribution plan wherein we match two pounds for every one pound on the first 1.0 percent of employee contributions into the plan and match additional employee contributions pound-for-pound up to 5.0 percent of base salary. We previously matched pound-for-pound up to 5.0 percent of base salary for employee contributions into the defined contribution plan and made an additional non-elective contribution of 5.0 percent of base salary. Also effective July 1, 2014, we increased the non-elective contribution to 6.0 percent of base salary for all eligible employees, and a separate transition contribution is made for all eligible employees through March 31, 2016.

During the years ended December 31, 2014, 2013, and 2012, we recognized costs of $76.0 million, $18.8 million, and $18.9 million, respectively, for our U.S. defined contribution plan and $5.0 million, $2.9 million, and $2.9 million, respectively, for our U.K. defined contribution plan.

Note 10. Stockholders' Equity and Earnings Per Common Share

Earnings Per Common Share

Net income per common share is determined as follows:

	Year Ended December 31		
(in millions of dollars, except share data)	2014	2013	2012
Numerator			
Net Income	**$413.4**	$858.1	$894.4
Denominator (000s)			
Weighted Average Common Shares — Basic	255,525.9	264,725.8	281,355.9
Dilution for Assumed Exercises of Stock Options and Nonvested Stock Awards	1,126.9	1,223.4	400.9
Weighted Average Common Shares — Assuming Dilution	256,652.8	265,949.2	281,756.8
Net Income Per Common Share			
Basic	$ 1.62	$ 3.24	$ 3.18
Assuming Dilution	$ 1.61	$ 3.23	$ 3.17

We use the treasury stock method to account for the effect of outstanding stock options, nonvested restricted stock units, and nonvested performance share units on the computation of diluted earnings per share. Under this method, these potential common shares will each have a dilutive effect, as individually measured, when the average market price of Unum Group common stock during the period exceeds the exercise price of the stock options and the grant price of the nonvested restricted stock units and the nonvested performance share units. The outstanding stock options have exercise prices ranging from $11.37 to $26.29; the nonvested restricted stock units have grant prices ranging from $19.38 to $35.47; and the nonvested performance share units have grant prices ranging from $23.97 to $33.86. See Note 11.

In computing earnings per share assuming dilution, only potential common shares that are dilutive (those that reduce earnings per share) are included. Potential common shares not included in the computation of diluted earnings per share because the impact would be antidilutive, based on then current market prices, approximated 0.1 million, 0.1 million, and 2.5 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Notes To Consolidated Financial Statements

Common Stock

Our board of directors has authorized the repurchase of Unum Group's common stock under the following repurchase programs:

(in millions of dollars)	Share Repurchase Program Authorized During		
	December 2013	July 2012	February 2011
Authorized Repurchase Amount	$750.0	$750.0	$1,000.0
Remaining Repurchase Amount at Year End 2014	$429.5	$ —	$ —

The December 2013 share repurchase program has an expiration date of June 12, 2015.

Common stock repurchases, which are classified as treasury stock until otherwise retired, were as follows:

(in millions of dollars)	Year Ended December 31		
	2014	2013	2012
Shares Repurchased	8.7	11.2	23.6
Cost of Shares Repurchased [1]	$300.6	$318.6	$500.6

(1) Includes commissions of $0.1 million, $0.2 million, and $0.6 million for the years ended December 31, 2014, 2013, and 2012, respectively.

In December 2014, we retired 60.0 million shares of our treasury stock with an average total cost of $1,451.7 million.

Preferred Stock

Unum Group has 25.0 million shares of preferred stock authorized with a par value of $0.10 per share. No preferred stock has been issued to date.

Note 11. Stock-Based Compensation

Description of Stock Plans

Under the stock incentive plan of 2012 (the 2012 Plan), up to 20 million shares of common stock are available for awards to our employees, officers, consultants, and directors. Awards may be in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance share units, and other stock-based awards. Each full-value award, defined as any award other than a stock option or stock appreciation right, is counted as 1.76 shares. The exercise price for stock options issued cannot be less than the fair value of the underlying common stock as of the grant date. Stock options generally have a term of eight years after the date of grant and fully vest after three years. At December 31, 2014, approximately 17.05 million shares were available for future grants under the 2012 Plan.

Under the stock incentive plan of 2007 (the 2007 Plan), which was terminated in May 2012 for purposes of any further grants, up to 35 million shares of common stock were available for awards to our employees, officers, consultants, and directors. Awards could be in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, performance share units, and other stock-based awards. Each full-value award, defined as any award other than a stock option or stock appreciation right, is counted as 2.7 shares. Awards granted before the termination of the 2007 Plan remain outstanding in accordance with the plan's terms. Stock options generally have a term of eight years after the date of grant and fully vest after three years.

We issue new shares of common stock for all of our stock plan vestings and exercises.

Performance Share Units (PSUs)

Activity for PSUs classified as equity is as follows:

	Shares (000s)	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2013	116	$25.26
Granted	166	34.72
Forfeited	(1)	34.84
Outstanding at December 31, 2014	281	30.83

During 2014 and 2013, we issued PSUs with a weighted average grant date fair value per share of $34.72 and $25.26, respectively. Vesting for the PSUs occurs at the end of a three-year period and is contingent upon our achievement of prospective company performance goals and our total shareholder return relative to a particular peer group during the three-year period. Forfeitable dividend equivalents on PSUs are accrued in the form of additional PSUs.

At December 31, 2014, we had approximately $5.2 million of unrecognized compensation cost related to PSUs that will be recognized over a weighted average period of 1.7 years. The expense and unrecognized compensation cost assume the performance goals are attained at 100 percent. Actual performance, including modification for relative total shareholder return, may result in 0 to 180 percent of the PSUs ultimately being earned. The estimated compensation expense is adjusted for actual performance experience and is recognized ratably during the service period, or remaining service period, if and when it becomes probable that the performance conditions will be satisfied. Compensation cost for PSUs subject to accelerated vesting at the date of retirement eligibility is recognized over the implicit service period.

The fair value of PSUs is estimated on the date of initial grant using the Monte-Carlo simulation model. The assumptions used to value PSUs granted during the years shown are as follows:

	Year Ended December 31	
	2014	2013
Expected Volatility (based on historical daily stock prices)	31%	35%
Expected Life (equals the performance period)	3.0 years	3.0 years
Risk Free Interest Rate (based on U.S. Treasury yields at the date of grant)	0.65%	0.38%

Restricted Stock Units (RSUs)

Activity for RSUs classified as equity is as follows:

	Shares (000s)	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2013	1,322	$24.35
Granted	568	33.77
Vested	(782)	25.24
Forfeited	(27)	29.07
Outstanding at December 31, 2014	1,081	28.41

During 2014, 2013, and 2012, we issued RSUs with a weighted average grant date fair value per share of $33.77, $24.68, and $22.96, respectively. RSUs vest over a one to three-year service period, beginning at the date of grant, and the compensation cost is recognized ratably during the vesting period. Forfeitable dividend equivalents on RSUs are accrued in the form of additional RSUs. Compensation cost for RSUs subject to accelerated vesting at the date of retirement eligibility is recognized over the implicit service period.

The total fair value of shares vested during 2014, 2013, and 2012 was $19.8 million, $18.3 million, and $19.5 million, respectively. At December 31, 2014, we had $10.9 million of unrecognized compensation cost related to RSUs that will be recognized over a weighted average period of 0.8 years.

Cash-Settled Awards

Activity for cash-settled awards classified as a liability is as follows:

	Shares (000s)	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2013	165	$24.09
Granted	46	33.85
Vested	(88)	24.47
Outstanding at December 31, 2014	123	27.31

Cash-settled awards vest over a one to three-year service period, beginning at the date of grant, and the compensation cost is recognized ratably during the vesting period. Forfeitable dividend equivalents on cash-settled awards are accrued in the form of additional units. Compensation cost for cash-settled awards subject to accelerated vesting at the date of retirement eligibility is recognized over the implicit service period.

The amount payable per unit awarded is equal to the price per share of Unum Group's common stock at settlement of the award, and as such, we measure the value of the award each reporting period based on the current stock price. The effects of changes in the stock price during the service period are recognized as compensation cost over the service period. Changes in the amount of the liability due to stock price changes after the service period are recognized as compensation cost during the period in which the changes occur.

	Year Ended December 31		
(in millions of dollars, except per unit data)	2014	2013	2012
Weighted Average Grant Date Fair Value per Unit Granted	$33.85	$24.22	$23.23
Total Fair Value of Units Vested	$ 2.1	$ 2.4	$ 1.5
Total Fair Value of Units Paid	$ 2.9	$ 2.5	$ 1.5

There is no unrecognized compensation cost related to the cash-settled awards, other than future changes in the liability due to future stock price changes, as the units do not require additional future service.

Stock Options

Stock option activity is summarized as follows:

	Shares (000s)	Weighted Average Exercise Price	Remaining Contractual Term (in years)	Intrinsic Value (in millions)
Outstanding at December 31, 2013	1,395	$21.17		
Exercised	(396)	23.55		
Outstanding at December 31, 2014	999	20.23	3.8	$14.6
Exercisable at December 31, 2014	874	$19.73	3.5	$13.2

All outstanding stock options at December 31, 2014 are expected to vest. Stock options vest over a one to three-year service period, beginning at the date of grant, and the compensation cost is recognized ratably during the vesting period. Compensation cost for stock options subject to accelerated vesting at the date of retirement eligibility is recognized over the implicit service period.

The intrinsic value of options exercised and fair value of options vested are as follows:

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Total Intrinsic Value of Options Exercised	$4.0	$4.4	$0.6
Total Fair Value of Options Vested	$2.4	$2.4	$2.3

—

At December 31, 2014, we had $0.2 million of unrecognized compensation cost related to stock options that will be recognized over a weighted average period of 0.3 years.

The fair value of stock options is estimated on the date of initial grant using the Black-Scholes valuation model. The grant date fair value and the assumptions used to value stock options granted during the years shown are as follows. There were no stock options granted in 2014.

	Year Ended December 31	
	2013	2012
Weighted Average Grant Date Fair Value per Option	$9.77	$9.78
Expected Volatility (based on historical daily stock prices)	52%	52%
Expected Life (based on historical average years to exercise)	6.0 years	6.0 years
Expected Dividend Yield (based on the dividend rate at the date of grant)	2.14%	1.80%
Risk Free Interest Rate (based on U.S. Treasury yields at the date of grant)	1.12%	1.13%

Expense

Compensation expense for the stock plans, as reported in our consolidated statements of income, is as follows:

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Performance Share Units	$ 2.5	$ 1.1	$ —
Restricted Stock Units and Cash-Settled Awards	19.0	21.0	20.9
Stock Options	0.6	1.0	2.7
Other	0.5	0.5	0.6
Total Compensation Expense, Before Income Tax	$22.6	$23.6	$24.2
Total Compensation Expense, Net of Income Tax	$14.9	$15.6	$15.6

Cash received under all share-based payment arrangements for the years ended December 31, 2014, 2013, and 2012 was $12.3 million, $11.4 million, and $4.9 million, respectively.

Note 12. Reinsurance

Fourteen major companies account for approximately 92 percent of our reinsurance recoverable at December 31, 2014, and are all companies rated A or better by A.M. Best Company (AM Best) or are fully securitized by letters of credit or investment-grade fixed maturity securities held in trust. Approximately seven percent of our reinsurance recoverable relates to business reinsured either with companies rated A- or better by AM Best, with overseas entities with equivalent ratings or backed by letters of credit or trust agreements, or through reinsurance arrangements wherein we retain the assets in our general account. The remaining one percent of our reinsurance recoverable is held by companies either rated below A- by AM Best or not rated.

Reinsurance data is as follows:

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Direct Premium Income	$7,899.3	$7,777.3	$7,736.0
Reinsurance Assumed	189.8	203.2	210.9
Reinsurance Ceded	(291.9)	(355.8)	(230.8)
Net Premium Income	$7,797.2	$7,624.7	$7,716.1
Ceded Benefits and Change in Reserves for Future Benefits	$ 662.7	$ 728.7	$ 591.7

Note 13. Segment Information

We have three principal operating business segments: Unum US, Unum UK, and Colonial Life. Our other segments are the Closed Block and the Corporate segments.

The Unum US segment includes group long-term and short-term disability insurance, group life and accidental death and dismemberment products, and supplemental and voluntary lines of business, which are comprised of individual disability and voluntary benefits products. These products are marketed through our field sales personnel who work in conjunction with independent brokers and consultants.

The Unum UK segment includes insurance for group long-term disability, group life, and supplemental lines of business, which include individual disability and critical illness products. Unum UK's products are sold primarily in the United Kingdom through field sales personnel and independent brokers and consultants.

The Colonial Life segment includes insurance for accident, sickness, and disability products, life products, and cancer and critical illness products marketed to employees at the workplace through an independent contractor agency sales force and brokers.

The Closed Block segment consists of individual disability, group and individual long-term care, and other insurance products no longer actively marketed. The individual disability line of business in this segment generally consists of policies we sold prior to the mid-1990s and entirely discontinued selling in 2004, other than update features contractually allowable on existing policies. We discontinued offering individual long-term care in 2009 and group long-term care in 2012. Other insurance products include group pension, individual life and corporate-owned life insurance, reinsurance pools and management operations, and other miscellaneous product lines.

The Corporate segment includes investment income on corporate assets not specifically allocated to a line of business, interest expense on corporate debt other than non-recourse debt, and certain other corporate income and expense not allocated to a line of business.

We measure and analyze our segment performance using non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. The non-GAAP financial measures of "operating revenue" and "operating income" or "operating loss" differ from total revenue and income before income tax as presented in our consolidated statements of income due to the exclusion of net realized investment gains and losses, non-operating retirement-related gains or losses, and certain other items as specified in the reconciliations below. We believe operating revenue and operating income or loss are better performance measures and better indicators of the revenue and profitability and underlying trends in our business.

Realized investment gains or losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains or losses. Although we may experience realized investment gains or losses which will affect future earnings levels, a long-term focus is necessary to maintain profitability over the life of the business since our underlying business is long-term in nature, and we need to earn the interest rates assumed in calculating our liabilities.

The amortization of prior period actuarial gains or losses, a component of the net periodic benefit cost for our pensions and other postretirement benefit plans, is driven by market performance as well as plan amendments and is not indicative of the operational results of our businesses. We believe that excluding the amortization of prior period gains or losses, as well as the settlement loss from our 2014 pension plan amendment, from operating income or loss provides investors with additional information for comparison and analysis of our operating results. Although we manage our non-operating retirement-related gains or losses separately from the operational performance of our business, these gains or losses impact the overall profitability of our company and have historically increased or decreased over time, depending on plan amendments and market conditions and the resulting impact on the actuarial gains or losses in our pensions and other postretirement benefit plans.

We believe that excluding the 2014 costs related to the early retirement of debt is appropriate because in conjunction with the debt redemption, we recognized in realized investment gains and losses a deferred gain from previously terminated derivatives which were associated with the hedge of the debt. The amount recognized as a realized investment gain, which basically offsets the cost of the debt redemption, is also excluded from our non-GAAP financial measures since we analyze our performance excluding amounts reported as realized investment gains or losses. We believe it provides investors with a more realistic view of our overall profitability if we are consistent in excluding both the cost of the debt retirement as well as the gain on the hedge of the debt.

We may at other times exclude certain other items from our discussion of financial ratios and metrics in order to enhance the understanding and comparability of our operational performance and the underlying fundamentals, but this exclusion is not an indication that similar items may not recur and does not replace net income or net loss as a measure of our overall profitability.

A reconciliation of “operating revenue” to total revenue and “operating income” to income before income tax is as follows:

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Operating Revenue	$10,493.6	$10,347.0	$10,459.2
Net Realized Investment Gain	16.1	6.8	56.2
Total Revenue	$10,509.7	$10,353.8	$10,515.4
Operating Income	$ 1,292.5	$ 1,241.8	$ 1,239.7
Net Realized Investment Gain	16.1	6.8	56.2
Non-operating Retirement-related Loss	(70.0)	(32.9)	(46.4)
Costs Related to Early Retirement of Debt for Corporate	(13.2)	—	—
Long-term Care Reserve Increase for Closed Block	(698.2)	—	—
Unclaimed Death Benefits Reserve Increase for Unum US	—	(75.4)	—
Unclaimed Death Benefits Reserve Increase for Colonial Life	—	(20.1)	—
Group Life Waiver of Premium Benefit Reserve Reduction for Unum US	—	85.0	—
Income Before Income Tax	$ 527.2	$ 1,205.2	$ 1,249.5

Premium income by major line of business within each of our segments is presented as follows:

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Unum US			
Group Disability			
Group Long-term Disability	$1,553.5	$1,553.9	$1,578.8
Group Short-term Disability	558.1	519.6	476.7
Group Life and Accidental Death & Dismemberment			
Group Life	1,262.3	1,213.9	1,182.1
Accidental Death & Dismemberment	125.9	121.6	115.3
Supplemental and Voluntary			
Individual Disability	466.1	465.3	477.6
Voluntary Benefits	693.8	642.8	626.0
	4,659.7	4,517.1	4,456.5
Unum UK			
Group Long-term Disability	418.9	389.9	409.7
Group Life	133.2	106.4	221.3
Supplemental	55.1	60.3	63.6
	607.2	556.6	694.6
Colonial Life			
Accident, Sickness, and Disability	759.8	738.7	724.5
Life	231.8	221.1	209.7
Cancer and Critical Illness	282.1	272.4	260.3
	1,273.7	1,232.2	1,194.5
Closed Block			
Individual Disability	624.8	687.5	736.4
Long-term Care	630.9	630.6	631.9
All Other	0.9	0.7	2.2
	1,256.6	1,318.8	1,370.5
Total	$7,797.2	$7,624.7	$7,716.1

Selected operating statement data by segment is presented as follows:

(in millions of dollars)	Unum US	Unum UK	Colonial Life	Closed Block	Corporate	Total
Year Ended December 31, 2014						
Premium Income	$4,659.7	$607.2	$1,273.7	$1,256.6	$ —	$ 7,797.2
Net Investment Income	890.3	151.0	146.7	1,284.1	5.3	2,477.4
Other Income	122.1	—	0.1	91.8	5.0	219.0
Operating Revenue	$5,672.1	$758.2	$1,420.5	$2,632.5	$ 10.3	$10,493.6
Operating Income (Loss)	$ 856.3	$147.8	$ 300.2	$ 122.6	$(134.4)	$ 1,292.5
Interest and Debt Expense Excluding Costs Related to Early Retirement of Debt	$ —	$ —	$ —	$ 7.3	$ 147.0	$ 154.3
Depreciation and Amortization	$ 314.2	$ 19.2	$ 194.1	$ 5.9	$ 1.0	$ 534.4
Year Ended December 31, 2013						
Premium Income	$4,517.1	$556.6	$1,232.2	$1,318.8	$ —	$ 7,624.7
Net Investment Income	929.6	148.5	145.4	1,272.3	(3.7)	2,492.1
Other Income	128.3	0.1	0.2	93.9	7.7	230.2
Operating Revenue	$5,575.0	$705.2	$1,377.8	$2,685.0	$ 4.0	$10,347.0
Operating Income (Loss)	$ 859.0	$132.0	$ 284.9	$ 109.4	$(143.5)	$ 1,241.8
Interest and Debt Expense	$ 0.1	$ —	$ —	$ 8.4	$ 140.9	$ 149.4
Depreciation and Amortization	$ 292.5	$ 22.5	$ 188.7	$ 5.2	$ 0.9	$ 509.8
Year Ended December 31, 2012						
Premium Income	$4,456.5	$694.6	$1,194.5	$1,370.5	$ —	$ 7,716.1
Net Investment Income	952.3	170.8	138.6	1,230.5	23.0	2,515.2
Other Income	124.6	0.1	0.3	100.1	2.8	227.9
Operating Revenue	$5,533.4	$865.5	$1,333.4	$2,701.1	$ 25.8	$10,459.2
Operating Income (Loss)	$ 847.1	$131.3	$ 274.3	$ 95.5	$(108.5)	$ 1,239.7
Interest and Debt Expense	$ 1.1	$ —	$ —	$ 10.4	$ 133.9	$ 145.4
Depreciation and Amortization	$ 255.6	$ 27.2	$ 181.0	$ 3.9	$ 0.8	$ 468.5

The following table provides the changes in deferred acquisition costs by segment:

(in millions of dollars)	Unum US	Unum UK	Colonial Life	Total
Year Ended December 31, 2014				
Beginning of Year	$1,051.5	$ 34.3	$ 743.4	$1,829.2
Capitalization	292.7	10.5	220.8	524.0
Amortization	(248.1)	(12.5)	(180.2)	(440.8)
Adjustment Related to Unrealized Investment Gains	0.4	—	(9.6)	(9.2)
Foreign Currency	—	(1.9)	—	(1.9)
End of Year	$1,096.5	$ 30.4	$ 774.4	$1,901.3
Year Ended December 31, 2013				
Beginning of Year	$1,024.3	$ 38.8	$ 692.4	$1,755.5
Capitalization	252.0	9.8	205.0	466.8
Amortization	(230.0)	(14.7)	(174.2)	(418.9)
Adjustment Related to Unrealized Investment Losses	5.2	—	20.2	25.4
Foreign Currency	—	0.4	—	0.4
End of Year	$1,051.5	$ 34.3	$ 743.4	$1,829.2
Year Ended December 31, 2012				
Beginning of Year	$ 971.8	$ 40.9	$ 664.4	$1,677.1
Capitalization	249.2	11.8	206.3	467.3
Amortization	(196.5)	(15.7)	(166.5)	(378.7)
Adjustment Related to Unrealized Investment Gains	(0.2)	—	(11.8)	(12.0)
Foreign Currency	—	1.8	—	1.8
End of Year	$1,024.3	$ 38.8	$ 692.4	$1,755.5

Assets by segment are as follows:

	December 31	
(in millions of dollars)	2014	2013
Unum US	$18,676.5	$18,384.3
Unum UK	3,702.5	3,654.1
Colonial Life	3,692.2	3,482.9
Closed Block	33,960.2	31,564.2
Corporate	2,465.7	2,318.1
Total Assets	$62,497.1	$59,403.6

Revenue is primarily derived from sources in the United States and the United Kingdom. There are no material revenues or assets attributable to foreign operations other than those reported in our Unum UK segment.

We report goodwill in our Unum US segment and in our Unum UK segment, which are the segments expected to benefit from the originating business combinations. At December 31, 2014 and 2013, goodwill was $198.7 million and $200.9 million, with $187.6 million and $189.0 million, respectively, attributable to Unum US and the remainder attributable to Unum UK.

Stockholders' equity is allocated to the operating segments on the basis of an internal allocation formula that reflects the volume and risk components of each operating segment's business and aligns allocated equity with our target capital levels for regulatory and rating agency purposes. We modify this formula periodically to recognize changes in the views of capital requirements.

Note 14. Commitments and Contingent Liabilities

Commitments

We have noncancelable lease obligations on certain office space and equipment. As of December 31, 2014, the aggregate net minimum lease payments were $227.1 million payable as follows: $40.2 million in 2015, $39.6 million in 2016, $36.0 million in 2017, $18.8 million in 2018, $16.9 million in 2019, and $75.6 million thereafter. Rental expense for the years ended December 31, 2014, 2013, and 2012 was $44.2 million, $44.1 million, and $41.6 million, respectively.

At December 31, 2014, we had unfunded commitments of $238.4 million for certain of our investments. The commitments are not legally binding and may or may not be funded during the term of the investments.

Contingent Liabilities

We are a defendant in a number of litigation matters. In some of these matters, no specified amount is sought. In others, very large or indeterminate amounts, including punitive and treble damages, are asserted. There is a wide variation of pleading practice permitted in the United States courts with respect to requests for monetary damages, including some courts in which no specified amount is required and others which allow the plaintiff to state only that the amount sought is sufficient to invoke the jurisdiction of that court. Further, some jurisdictions permit plaintiffs to allege damages well in excess of reasonably possible verdicts. Based on our extensive experience and that of others in the industry with respect to litigating or resolving claims through settlement over an extended period of time, we believe that the monetary damages asserted in a lawsuit or claim bear little relation to the merits of the case, or the likely disposition value. Therefore, the specific monetary relief sought is not stated.

Unless indicated otherwise in the descriptions below, reserves have not been established for litigation and contingencies. An estimated loss is accrued when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

Claims Handling Matters

We and our insurance subsidiaries, in the ordinary course of our business, are engaged in claim litigation where disputes arise as a result of a denial or termination of benefits. Most typically these lawsuits are filed on behalf of a single claimant or policyholder, and in some of these individual actions punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. For our general claim litigation, we maintain reserves based on experience to satisfy judgments and settlements in the normal course. We expect that the ultimate liability, if any, with respect to general claim litigation, after consideration of the reserves maintained, will not be material to our consolidated financial condition. Nevertheless, given the inherent unpredictability of litigation, it is possible that an adverse outcome in certain claim litigation involving punitive damages could, from time to time, have a material adverse effect on our consolidated results of operations in a period, depending on the results of operations for the particular period.

From time to time class action allegations are pursued where the claimant or policyholder purports to represent a larger number of individuals who are similarly situated. Since each insurance claim is evaluated based on its own merits, there is rarely a single act or series of actions which can properly be addressed by a class action. Nevertheless, we monitor these cases closely and defend ourselves appropriately where these allegations are made.

Miscellaneous Matters

In October 2010, Denise Merrimon, Bobby S. Mowery, and all others similarly situated vs. Unum Life Insurance Company of America, was filed in the United States District Court for the District of Maine. This class action alleged that we breached fiduciary duties owed to certain beneficiaries under certain group life insurance policies when we paid life insurance proceeds by establishing interest-bearing retained asset accounts rather than by mailing checks. In September 2013, the District Court awarded damages to the plaintiffs based on a benchmark it created by averaging the interest rates paid on money market mutual funds and money market checking accounts. Both parties appealed to the United States Court of Appeals for the First Circuit, which overturned the District Court's decision in July 2014, finding our payment of benefits by retained asset accounts was in full compliance with the policy terms and therefore ERISA. The United States Supreme Court denied the plaintiffs' petition for a writ of certiorari in January 2015. Thus the opinion of the Court of Appeals stands, and this case is effectively concluded.

Beginning in 2011, a number of state regulators began requiring insurers to cross-check specified insurance policies with the Social Security Administration's Death Master File to identify potential matches. If a potential match was identified, insurers were requested to determine if benefits were due, locate beneficiaries, and make payments where appropriate. We initiated this process where requested, and in 2012 we began implementing this process in all states on a forward-looking basis. In addition to implementing this on a forward-looking basis, in 2013 we began an initiative to search for potential claims from previous years. During 2013, we completed our assessment of benefits which we estimate will be paid under this initiative, and as such, established additional reserves for payment of these benefits. Similar to other insurers, we are undergoing an examination by a third party acting on behalf of a number of state treasurers concerning our compliance with the unclaimed property laws of the participating states. We are cooperating fully with this examination, as well as with a Delaware Market Conduct examination and a Voluntary Disclosure Agreement process with the state of Minnesota. The legal and regulatory environment around unclaimed death benefits continues to evolve. It is possible that the current examination and/or similar investigations by other state jurisdictions may result in additional payments to beneficiaries, the payment of abandoned funds under state law, and/or administrative penalties, the total of which may be in excess of the reserves established.

In December 2012, State of West Virginia ex rel. John D. Perdue v. Provident Life and Accident Insurance Company and State of West Virginia ex rel. John D. Perdue v. Colonial Life & Accident Insurance Company were filed in the Circuit Court of Putnam County, West Virginia. These two separate complaints alleged violations of the West Virginia Uniform Unclaimed Property Act by failing to identify and report all unclaimed insurance policy proceeds due to be escheated to West Virginia. The complaints sought to examine company records and assess penalties and costs in an undetermined amount. In December 2013, the court dismissed both complaints, holding that the West Virginia Uniform Unclaimed Property Act does not require insurance companies to periodically search the Social Security Administrations' Death Master File or escheat unclaimed life insurance benefits until a claim has been submitted. In January 2014, the plaintiff appealed the dismissal of both complaints. The appeal is now fully briefed, with oral argument set for April 2015.

In May 2013, a purported class action complaint was filed in the Superior Court of California, County of Los Angeles. The plaintiff sought to represent a class of California insureds who were issued long-term care policies containing an inflation protection feature. The plaintiff alleged we incorrectly administered the inflation protection feature, resulting in an underpayment of benefits. The complaint made allegations against us for breach of contract, bad faith, fraud, violation of Business and Professions Code 17200, and injunctive relief. We removed the case to the United States District Court for the Central District of California and filed a motion to dismiss. Rather than oppose the motion, the plaintiff filed an amended complaint, and we filed another motion to dismiss. In August 2014, the District Court dismissed the fraud claim as well as plaintiff's requests for injunctive and declaratory relief, but granted plaintiff leave to file an amended complaint. In August 2014, the plaintiff filed a second amended purported class action complaint entitled Michael Don, Executor of The Estate of Ruben Don v. Unum Group, and Unum Life Insurance Company of America in the United States District Court for the Central District of California. The complaint alleges breach of contract, bad faith, fraud, and violation of Business and Professions Code 17200 on behalf of a nationwide class of insureds who were issued long-term care policies containing an inflation protection feature. In October 2014, we answered the second amended complaint. In December 2014, the court ordered plaintiff to show cause why he was an adequate representative with claims typical of the putative class. Briefing on those issues is complete, and we are awaiting the court's ruling.

Summary

Various lawsuits against us, in addition to those discussed above, have arisen in the normal course of business. Further, state insurance regulatory authorities and other federal and state authorities regularly make inquiries and conduct investigations concerning our compliance with applicable insurance and other laws and regulations.

Given the complexity and scope of our litigation and regulatory matters, it is not possible to predict the ultimate outcome of all pending investigations or legal proceedings or provide reasonable estimates of potential losses, except if noted in connection with specific matters. It is possible that our results of operations or cash flows in a particular period could be materially affected by an ultimate unfavorable outcome of pending litigation or regulatory matters depending, in part, on our results of operations or cash flows for the particular period. We believe, however, that the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, should not have a material adverse effect on our financial position.

Note 15. Statutory Financial Information

Statutory Net Income, Capital and Surplus, and Dividends

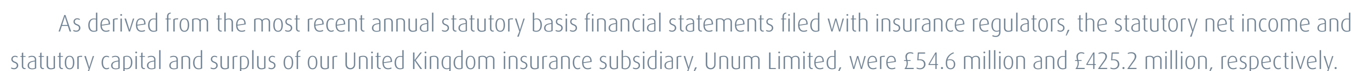
Statutory net income for U.S. life insurance companies is reported in conformity with statutory accounting principles prescribed by the National Association of Insurance Commissioners (NAIC) and adopted by applicable domiciliary state laws. The commissioners of the states of domicile have the right to permit other specific practices that may deviate from prescribed practices. Our traditional U.S. life insurance subsidiaries have no prescribed or permitted statutory accounting practices that differ materially from statutory accounting principles prescribed by the NAIC.

Certain of our traditional U.S. life insurance subsidiaries cede blocks of business to Northwind Re, Tailwind Reinsurance Company, and Fairwind Insurance Company (Fairwind), all of which are affiliated captive reinsurance subsidiaries (captive reinsurers) domiciled in the United States, with Unum Group as the ultimate parent. These captive reinsurers were established for the limited purpose of reinsuring risks attributable to specified policies issued or reinsured by our life insurance subsidiaries. Our captive reinsurers have no material state prescribed accounting practices, except for Fairwind, which was re-domesticated from Bermuda to the state of Vermont during 2013. Vermont reporting requirements for pure captive insurance companies follow GAAP, unless the commissioner permits the use of some other basis of accounting. Fairwind has permission from Vermont to follow accounting practices that are generally consistent with current NAIC statutory accounting principles for its insurance reserves and invested assets supporting reserves. All other assets and liabilities are accounted for in accordance with GAAP, as prescribed by Vermont, which allows for the full recognition of deferred tax assets which are more likely than not to be realized. Statutory accounting principles have a stricter limitation for the recognition of deferred tax assets. The impact of following the prescribed and permitted practices of Vermont rather than statutory accounting principles prescribed by the NAIC resulted in higher capital and surplus for Fairwind of approximately $200 million and $176 million as of December 31, 2014 and 2013, respectively.

The operating results and capital and surplus of our traditional U.S. life insurance subsidiaries and our captive reinsurers, prepared in accordance with prescribed or permitted accounting practices of the NAIC or states of domicile, are presented separately below. Results for 2012 include those for Fairwind as filed with insurance regulators in Bermuda.

	Year Ended December 31		
(in millions of dollars)	2014	2013	2012
Combined Net Income (Loss)			
Traditional U.S. Life Insurance Subsidiaries	$ 623.1	$584.5	$624.5
Captive Reinsurers	$(123.0)	$ 13.3	$ 40.8
Combined Net Gain (Loss) from Operations			
Traditional U.S. Life Insurance Subsidiaries	$ 618.1	$617.5	$649.8
Captive Reinsurers	$(123.8)	$ 13.6	$ 37.4

	December 31	
(in millions of dollars)	2014	2013
Combined Capital and Surplus		
Traditional U.S. Life Insurance Subsidiaries	$3,462.8	$3,450.5
Captive Reinsurers	$1,668.3	$1,679.4



As derived from the most recent annual statutory basis financial statements filed with insurance regulators, the statutory net income and statutory capital and surplus of our United Kingdom insurance subsidiary, Unum Limited, were £54.6 million and £425.2 million, respectively.

Risk based capital (RBC) standards for U.S. life insurance companies are prescribed by the NAIC. The domiciliary states of our U.S. insurance subsidiaries have all adopted a version of the RBC model formula of the NAIC, which prescribes a system for assessing the adequacy of statutory capital and surplus for all life and health insurers. The basis of the system is a risk-based formula that applies prescribed factors to the various risk elements in a life and health insurer's business to report a minimum capital requirement proportional to the amount of risk assumed by the insurer. The life and health RBC formula is designed to measure annually (i) the risk of loss from asset defaults and asset value fluctuations, (ii) the risk of loss from adverse mortality and morbidity experience, (iii) the risk of loss from mismatching of asset and liability cash flow due to changing interest rates, and (iv) business risks. The formula is used as an early warning tool to identify companies that are potentially inadequately capitalized. State insurance laws grant insurance regulators the authority to require various actions by, or take various actions against, insurers whose total adjusted capital does not meet or exceed certain RBC levels. The total adjusted capital of each of our U.S. insurance subsidiaries at December 31, 2014 is in excess of those RBC levels.

Restrictions under applicable state insurance laws limit the amount of dividends that can be paid to a parent company from its insurance subsidiaries in any 12-month period without prior approval by regulatory authorities. For life insurance companies domiciled in the U.S., that limitation generally equals, depending on the state of domicile, either ten percent of an insurer's statutory surplus with respect to policyholders as of the preceding year end or the statutory net gain from operations, excluding realized investment gains and losses, of the preceding year. The payment of dividends to a parent company from a life insurance subsidiary is generally further limited to the amount of unassigned funds.

Based on the restrictions under current law, $604.9 million is available, without prior approval by regulatory authorities, during 2015 for the payment of dividends to Unum Group from its traditional U.S. life insurance subsidiaries. The ability of our captive insurers to pay dividends to their respective parent companies will depend on their satisfaction of applicable regulatory requirements and on the performance of the business reinsured.

We also have the ability to receive dividends from Unum Limited, subject to applicable insurance company regulations and capital guidance in the United Kingdom. Approximately £166.6 million is available for the payment of dividends from Unum Limited during 2015, subject to regulatory approval.

Deposits

At December 31, 2014 and 2013, our U.S. insurance subsidiaries had on deposit with U.S. regulatory authorities securities with a book value of $279.1 million and $280.5 million, respectively, held for the protection of policyholders.

Note 16. Quarterly Results of Operations (Unaudited)

The following is a summary of our unaudited quarterly results of operations for 2014 and 2013:

	2014			
(in millions of dollars, except share data)	4th	3rd	2nd	1st
Premium Income	$1,967.9	$1,947.2	$1,943.6	$1,938.5
Net Investment Income	629.4	606.4	629.1	612.5
Net Realized Investment Gain (Loss)	(17.3)	1.2	25.9	6.3
Total Revenue	2,635.7	2,609.4	2,653.5	2,611.1
Income (Loss) Before Income Tax	(457.9)	312.1	346.5	326.5
Net Income (Loss)	(279.1)	221.1	242.5	228.9
Net Income (Loss) Per Common Share				
Basic	(1.11)	0.87	0.94	0.88
Assuming Dilution	(1.11)	0.87	0.94	0.88

	2013			
(in millions of dollars, except share data)	4th	3rd	2nd	1st
Premium Income	$1,890.7	$1,897.3	$1,905.8	$1,930.9
Net Investment Income	629.4	615.5	626.1	621.1
Net Realized Investment Gain (Loss)	9.3	(26.1)	13.3	10.3
Total Revenue	2,586.2	2,540.9	2,601.9	2,624.8
Income Before Income Tax	305.8	284.1	311.5	303.8
Net Income	221.2	205.7	218.6	212.6
Net Income Per Common Share				
Basic	0.85	0.78	0.82	0.79
Assuming Dilution	0.84	0.78	0.82	0.79

Items affecting the comparability of our financial results are as follows:

- Fourth quarter of 2014 reserve increase of $698.2 million before tax and $453.8 million after tax related to long-term care.
- Fourth quarter of 2014 settlement loss of $64.4 million before tax and $41.9 million after tax related to a pension plan amendment.
- Fourth quarter of 2013 reserve increase of $95.5 million before tax and $62.1 million after tax related to unclaimed death benefits.
- Fourth quarter of 2013 reserve reduction of $85.0 million before tax and $55.2 million after tax related to group life waiver of premium benefits.

See Notes 6, 9, and 14 for further discussion of the above items.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Unum Group

We have audited the accompanying consolidated balance sheets of Unum Group and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

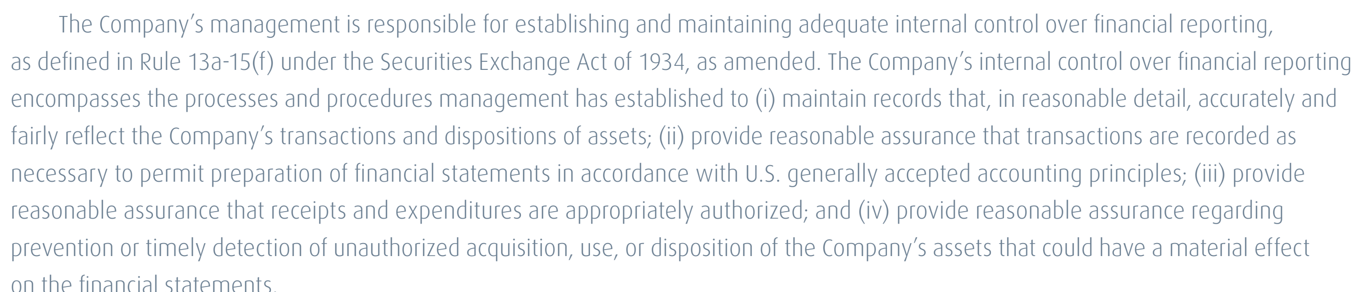
We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unum Group and subsidiaries at December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Unum Group and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 25, 2015 expressed an unqualified opinion thereon.

Chattanooga, Tennessee
February 25, 2015

Management's Annual Report on Internal Control Over Financial Reporting



The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting encompasses the processes and procedures management has established to (i) maintain records that, in reasonable detail, accurately and fairly reflect the Company's transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles; (iii) provide reasonable assurance that receipts and expenditures are appropriately authorized; and (iv) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, any projection of the evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of our internal control over financial reporting, based on criteria established in the 2013 Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, and concluded that, as of December 31, 2014, we maintained effective internal control over financial reporting.

Attestation Report of the Company's Registered Public Accounting Firm

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included herein, audited the effectiveness of our internal control over financial reporting, as of December 31, 2014, and issued the attestation report included as follows.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Unum Group

We have audited Unum Group and subsidiaries' internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Unum Group and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying "Management's Annual Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Unum Group and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Unum Group and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014, and our report dated February 25, 2015 expressed an unqualified opinion thereon.

Chattanooga, Tennessee
February 25, 2015

Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 (the Act) 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 Annual Report 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 statements within the meaning of the Act. Forward-looking statements are those not based on historical information, but rather relate to our outlook, future operations, strategies, financial results, or other developments. Forward-looking statements 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," "plans," "assumes," "intends," "projects," "goals," "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:

- Sustained periods of low interest rates.
- Fluctuation in insurance reserve liabilities and claim payments due to changes in claim incidence, recovery rates, mortality and morbidity rates, and policy benefit 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 our claims operational processes, and changes in government programs.
- 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.
- Investment results, including, but not limited to, changes in interest rates, defaults, changes in credit spreads, impairments, and the lack of appropriate investments in the market which can be acquired to match our liabilities.
- The failure of cyber or other information security systems, as well as the occurrence of events unanticipated in our disaster recovery systems.
- Increased competition from other insurers and financial services companies due to industry consolidation, new entrants to our markets, or other factors.
- Changes in our financial strength and credit ratings.
- Damage to our reputation due to, among other factors, regulatory investigations, legal proceedings, external events, and/or inadequate or failed internal controls and procedures.
- Actual experience that deviates from our assumptions used in pricing, underwriting, and reserving.
- Actual persistency and/or sales growth that is higher or lower than projected.
- Changes in demand for our products due to, among other factors, changes in societal attitudes, the rate of unemployment, consumer confidence, and/or legislative and regulatory changes, including healthcare reform.
- Effectiveness of our risk management program.
- Contingencies and the level and results of litigation.
- Availability of reinsurance in the market and the ability of our reinsurers to meet their obligations to us.
- Ineffectiveness of our derivatives hedging programs due to changes in the economic environment, counterparty risk, ratings downgrades, capital market volatility, changes in interest rates, and/or regulation.
- Changes in accounting standards, practices, or policies.
- Fluctuation in foreign currency exchange rates.
- Ability to generate sufficient internal liquidity and/or obtain external financing.
- Recoverability and/or realization of the carrying value of our intangible assets, long-lived assets, and deferred tax assets.
- Terrorism, both within the U.S. and abroad, ongoing military actions, and heightened security measures in response to these types of threats.

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.

Appendix

Reconciliation of Non-GAAP Financial Measures

(per diluted common share)	Year Ended December 31				
	2009	2008	2007*	2006*	2005*
After-tax Operating Income	$2.64	$2.54	$2.25	$1.85	$1.69
Net Realized Investment Gain (Loss), Net of Tax	—	(0.89)	(0.12)	0.01	(0.02)
Non-operating Retirement-related Loss, Net of Tax	(0.09)	(0.03)	(0.04)	(0.05)	(0.05)
Regulatory Reassessment Charges, Net of Tax	—	—	(0.10)	(0.79)	(0.16)
Special Tax Items and Debt Extinguishment Costs, Net of Tax	—	—	(0.10)	0.23	0.14
Other, Net of Tax	—	—	—	(0.04)	0.01
Income from Continuing Operations	2.55	1.62	1.89	1.21	1.61
Income from Discontinued Operations	—	—	0.02	0.02	0.03
Net Income	$2.55	$1.62	$1.91	$1.23	$1.64

*Does not reflect the impact of ASU 2010–26.

(in millions)	After-tax Operating Income (Loss)	Average Allocated Equity	Operating Return on Equity
Year Ended December 31, 2014			
Principal Operating Businesses	$873.9	$5,955.8	14.7%
Closed Block	80.9	2,756.3	
Corporate	(44.4)	(713.0)	
Total	$910.4	$7,999.1	11.4%

(in millions)	After-tax Operating Income	Average Allocated Equity	Operating Return on Equity
Year Ended December 31, 2013	$882.5	$7,732.3	11.4%
Year Ended December 31, 2012	887.5	7,241.8	12.3%
Year Ended December 31, 2011	905.4	7,427.0	12.2%
Year Ended December 31, 2010	894.3	7,499.7	11.9%

(in millions)	December 31					
	2014	2013	2012	2011	2010	2009
Total Stockholders' Equity, As Reported	$8,552.4	$8,659.1	$8,612.6	$8,169.7	$8,484.9	$8,045.0
Net Unrealized Gain on Securities	290.3	135.7	873.5	614.8	416.1	382.7
Net Gain on Cash Flow Hedges	391.0	396.3	401.6	408.7	361.0	370.8
Total Stockholders' Equity, As Adjusted	$7,871.1	$8,127.1	$7,337.5	$7,146.2	$7,707.8	$7,291.5
Average Equity, As Adjusted	$7,999.1	$7,732.3	$7,241.8	$7,427.0	$7,499.7	

(per share)	December 31	
	2009	2008
Total Stockholders' Equity (Book Value)	$24.25	$17.94
Net Unrealized Gain (Loss) on Securities	1.16	(2.53)
Net Gain on Cash Flow Hedges	1.12	1.38
Foreign Currency Translation Adjustment	(0.23)	(0.52)
Unrecognized Pension and Postretirement Benefit Costs	(1.00)	(1.23)
Total Stockholders' Equity, Excluding Accumulated Other Comprehensive Income	$23.20	$20.84

Shareholder Information

Corporate Offices

1 Fountain Square
Chattanooga, TN 37402
423 294 1011

2211 Congress Street
Portland, ME 04122
207 575 2211

1200 Colonial Life Blvd.
Columbia, SC 29210
803 798 7000

Milton Court
Dorking, Surrey RH4 3LZ
England
011 44 1306 887766

1 Mercantile Street
Worcester, MA 01608
774 437 4441

Principal Subsidiaries

Provident Life and
Accident Insurance Company
Chattanooga, Tennessee

Unum Life Insurance
Company of America
Portland, Maine

Colonial Life & Accident
Insurance Company
Columbia, South Carolina

Unum Limited
Dorking, England

The Paul Revere Life
Insurance Company
Worcester, Massachusetts

First Unum Life Insurance Company
New York, New York

Contact Information

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Senior Vice President, Investor Relations
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Chattanooga, TN 37402
423 294 8996

Corporate Information
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Corporate Secretary
1 Fountain Square
Chattanooga, TN 37402
800 718 8824

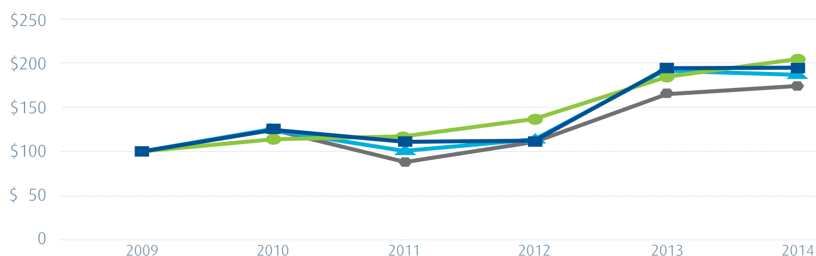
Transfer Agent
Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
800 446 2617

Common Stock Information

Common stock of Unum Group is traded on the New York Stock Exchange. The stock symbol is UNM.

Stock Performance

The following graph shows a five-year comparison of cumulative total returns for our common stock's historical performance, the S&P 500 Index, and the Insurance Index (non-weighted average of "total returns" from the S&P Life & Health Index and the S&P Multi-line Index). Past performance is not an indication of future results.



	2009	2010	2011	2012	2013	2014
Unum Group	$100	$126.00	$111.35	$112.51	$193.31	$195.76
S&P 500 Index	$100	$115.06	$117.49	$136.30	$180.44	$205.14
S&P 500 Life & Health Insurance Index	$100	$125.25	$ 99.31	$113.80	$186.04	$189.66
S&P 500 Multi-Line Insurance Index	$100	$123.23	$ 89.85	$113.84	$168.37	$176.40

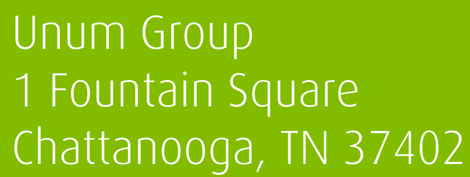
Market Prices and Dividends

Quarterly market prices and dividends declared and paid per share of common stock are as follows:

2014	High	Low	Dividend
1st Quarter	$36.30	$30.66	$0.145
2nd Quarter	35.78	32.07	0.145
3rd Quarter	37.15	33.60	0.165
4th Quarter	35.77	31.25	0.165

2013	High	Low	Dividend
1st Quarter	$28.34	$21.18	$0.130
2nd Quarter	29.92	25.55	0.130
3rd Quarter	32.94	29.14	0.145
4th Quarter	35.40	29.45	0.145

As of March 18, 2015, there were 11,508 registered holders of common stock.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