HARTFORD FINANCIAL SERVICES GROUP INC/DE
Form 10-K
February 12, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission file number 001-13958

THE HARTFORD FINANCIAL SERVICES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**13-3317783**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

One Hartford Plaza, Hartford, Connecticut 06155

(Address of principal executive offices) (Zip Code)

(860) 547-5000

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: the following, all of which are listed on the New York Stock Exchange, Inc.

Common Stock, par value $0.01 per share

6.1% Notes due October 1, 2041

Securities registered pursuant to Section 12(g) of the Act:

7.9% Notes due June 15, 2010	5.375% Notes due March 15, 2017
5.25% Notes due October 15, 2011	5.95% Notes due October 15, 2036
4.625% Notes due July 15, 2013	6.3% Notes due March 15, 2018
4.75% Notes due March 1, 2014	6.0% Notes due January 15, 2019
7.3% Debentures due November 1, 2015	8.125% Junior Subordinated Debentures due June 15, 2068
5.5% Notes due October 15, 2016	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
The aggregate market value of the shares of Common Stock held by non-affiliates of the registrant as of June 30, 2008 was approximately $19.4 billion, based on the closing price of $64.57 per share of the Common Stock on the New York Stock Exchange on June 30, 2008.
As of February 5, 2009, there were outstanding 325,229,417 shares of Common Stock, $0.01 par value per share, of the registrant.

Documents Incorporated by Reference

Portions of the registrant s definitive proxy statement for its 2009 annual meeting of shareholders are incorporated by reference in Part III of this Form 10-K.

THE HARTFORD FINANCIAL SERVICES GROUP, INC.
ANNUAL REPORT ON FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008
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PART I

Item 1. BUSINESS

(Dollar amounts in millions, except for per share data, unless otherwise stated)

General

The Hartford Financial Services Group, Inc. (together with its subsidiaries, The Hartford or the Company) is an insurance and financial services company. The Hartford, headquartered in Connecticut, is among the largest providers of investment products, individual life, group life and group disability insurance products, and property and casualty insurance products in the United States. Hartford Fire Insurance Company, founded in 1810, is the oldest of The Hartford s subsidiaries. The Hartford writes insurance in the United States and internationally. At December 31, 2008, total assets and total stockholders equity of The Hartford were $287.6 billion and $9.3 billion, respectively.

Organization

The Hartford strives to maintain and enhance its position as a market leader within the financial services industry. The Company sells diverse and innovative products through multiple distribution channels to consumers and businesses. The Company is continuously seeking to develop and expand its distribution channels, achieve cost efficiencies through improved technology, and capitalize on its brand name and The Hartford Stag Logo, one of the most recognized symbols in the financial services industry.

As a holding company that is separate and distinct from its subsidiaries, The Hartford Financial Services Group, Inc. has no significant business operations of its own. Therefore, it relies on the dividends from its insurance companies and other subsidiaries as the principal source of cash flow to meet its obligations. Additional information regarding the cash flow and liquidity needs of The Hartford Financial Services Group, Inc. may be found in the Capital Resources and Liquidity section of Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A).

The Company maintains a retail mutual fund operation, whereby the Company, through wholly-owned subsidiaries, provides investment management and administrative services to The Hartford Mutual Funds, Inc. and The Hartford Mutual Funds II, Inc (The mutual funds), families of 62 mutual funds and 1 closed end fund. The Company charges fees to the shareholders of the mutual funds, which are recorded as revenue by the Company. Investors can purchase shares in the mutual funds, all of which are registered with the Securities and Exchange Commission (SEC), in accordance with the Investment Company Act of 1940.

The mutual funds are owned by the shareholders of those funds and not by the Company. As such, the mutual fund assets and liabilities and related investment returns are not reflected in the Company s consolidated financial statements since they are not assets, liabilities and operations of the Company.

Reporting Segments

The Hartford is organized into two major operations: Life and Property & Casualty, each containing reporting segments. Within the Life and Property & Casualty operations, The Hartford conducts business principally in eleven reporting segments. Corporate primarily includes the Company s debt financing and related interest expense, as well as other capital raising activities and purchase accounting adjustments.

Life is organized into four groups which are comprised of six reporting segments: The Retail Products Group (Retail) and Individual Life segments make up the Individual Markets Group. The Retirement Plans and Group Benefits segments make up the Employer Markets Group. The International and Institutional Solutions Group (Institutional) segments each make up their own group.

Life includes in an Other category its leveraged private placement life insurance (PPLI) product line of business; corporate items not directly allocated to any of its reportable operating segments; inter-segment eliminations; and the mark-to-market adjustment for the International variable annuity account assets that are classified as equity securities held for trading reported in net investment income and the related change in interest credited reported as a component of benefits, losses and loss adjustment expenses.

Property & Casualty is organized into five reporting segments: the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial (collectively Ongoing Operations); and the Other Operations segment.

A measure of profit or loss used by The Hartford s management in evaluating the performance of its Life segments is net income (loss). Likewise, within Property & Casualty, net income (loss) is a measure of profit or loss used in evaluating the performance of Total Property & Casualty, Ongoing Operations and the Other Operations segment. Within Ongoing Operations, the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial are evaluated by The Hartford s management primarily based upon underwriting results. Underwriting results represent premiums earned less incurred losses, loss adjustment expenses and underwriting expenses. The sum of underwriting results, other revenues, net investment income, net realized capital gains and losses, other expenses, and related income taxes is net income (loss).

Life

Life s business is conducted by Hartford Life, Inc. (Hartford Life or Life), an indirect wholly-owned subsidiary of The Hartford, headquartered in Simsbury, Connecticut. Life provides (i) retail and institutional investment products, including variable annuities, fixed market value adjusted (Fixed MVA) annuities, mutual funds, private placement life insurance, which includes life insurance products purchased by a company on the lives of its employees, and retirement plan services for the savings and retirement needs of over 7 million customers, (ii) life insurance for wealth protection, accumulation and transfer needs for approximately 760,000 customers, (iii) group benefits products such as group life and group disability insurance for the benefit of millions of individuals, and (iv) fixed and variable annuity products through its international operations for the savings and retirement needs of approximately 490,000 customers. Life is a large seller of individual variable annuities, variable universal life insurance and group life and disability insurance in the United States. Life s position in each of its core businesses provides an opportunity to sell Life s products and services as individuals save and plan for retirement, protect themselves and their families against the financial uncertainties associated with disability or death and engage in estate planning.

In the past year, primarily as a result of effects of the financial crisis, Life s total assets under management declined to $298.0 billion at December 31, 2008 from $371.7 billion and $327.3 billion as of December 31, 2007 and 2006, respectively, which include $50.1 billion, $55.5 billion and $43.7 billion of third party assets invested in Life s mutual funds and 529 College Savings Plans for the same respective periods. The effects of the financial crisis, primarily due to declines in net investment income on equity securities held for trading and investment impairments, also impacted revenues which were $(1.1) billion in 2008, declining from $13.4 billion and $14.1 billion in 2007 and 2006, respectively, and net income (loss) of $(2.4) billion in 2008, declining from $1.6 billion and $1.4 billion in 2007 and 2006, respectively.

Customer Service, Technology and Efficiencies

Life currently maintains operating efficiencies due to Life s attention to expense and claims management and commitment to customer service and technology. In addition, Life utilizes technology to enhance communications within Life and throughout its distribution network in order to improve Life s efficiency in marketing, selling and servicing its products and, as a result, provides high-quality customer service. In recognition of excellence in customer service for individual annuities, Hartford Life was awarded the 2008 Annuity Service Award by DALBAR Inc., a recognized independent financial services research organization, for the thirteenth consecutive year. Hartford Life has received this prestigious award in every year of the award s existence. Also, in 2008 Life earned its sixth DALBAR Award for Mutual Fund and Retirement Plan Service. Continuing the trend of service excellence, Life s Individual Life segment won its eighth consecutive DALBAR award for service of life insurance customers, where they finished the year ranked number one and was the only life insurance company to win the service award this year. Additionally, Life s Individual Life segment also won its seventh consecutive DALBAR Financial Intermediary Service Quality Evaluation Award in 2008, where they finished the year ranked number nine and was the only life insurance company to win the service award this year. In 2008, Life s International segment received two 5-Star Financial Adviser Service Awards, voted by independent financial advisers, for providing service excellence for their United Kingdom operations.

Risk Management

Life s product designs, prudent underwriting standards and risk management techniques are intended to mitigate against disintermediation risk, greater than expected mortality and morbidity experience, foreign currency risk and risks associated with certain product features, specifically the guaranteed minimum death benefit (GMDB), guaranteed minimum withdrawal benefit (GMWB), guaranteed minimum income benefit (GMIB) and the guaranteed minimum accumulation benefit (GMAB) offered with variable annuity products. Life seeks to effectively utilize prudent underwriting to select and price insurance risks and regularly monitors mortality and morbidity assumptions to determine if experience remains consistent with these assumptions and to ensure that its product pricing remains appropriate. Life also employs disciplined claims management to protect itself against greater than expected morbidity experience. Life uses reinsurance structures and has modified benefit features to mitigate the mortality exposure associated with GMDB. Life also uses reinsurance and derivative instruments to attempt to mitigate risks associated with GMWB, GMIB and GMAB liabilities. In managing the various aspects of these risks, during the fourth quarter

2008, the Company placed a greater relative emphasis on protection of statutory surplus, which will likely result in greater U.S. GAAP earnings volatility. See Item 1A, Risk Factors, for a further discussion on the Company s risks and Capital Markets Risk Management for a discussion of Life Equity Risk Management.

Retail

The Retail segment focuses, through the sale of individual variable and fixed annuities, mutual funds and other investment products to customers principally in the U.S., on the savings and retirement needs of the growing number of individuals who are preparing for retirement or who have already retired. This segment s total assets were $97.2 billion, $136.0 billion and $130.0 billion at December 31, 2008, 2007 and 2006, respectively, excluding mutual funds of $32.7 billion, $50.5 billion and $40.0 billion for the same respective periods. Retail generated revenues of $1.6 billion, $3.5 billion and $3.4 billion in 2008, 2007 and 2006, respectively, of which individual annuities accounted for $797, $2.7 billion and $2.7 billion for 2008, 2007 and 2006, respectively. Net income (loss) in Retail was $(1.4) billion, $812 and $536 in 2008, 2007 and 2006, respectively.

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Life sells both variable and fixed individual annuity products through a wide distribution network of national and regional broker-dealer organizations, banks and other financial institutions and independent financial advisors. Life had annuity deposits of $9.5 billion, $14.3 billion and $13.1 billion in 2008, 2007 and 2006, respectively. Life had individual retail variable annuity deposits in the United States of $7.9 billion, $13.2 billion and $12.1 billion in 2008, 2007 and 2006, respectively. Annuity deposits declined in 2008 due to equity market volatility and increased competition.

Life s total account value related to individual annuity products was $85.9 billion as of December 31, 2008. Of this total account value, $74.6 billion, or 87%, related to individual variable annuity products and $11.3 billion, or 13%, related primarily to fixed MVA annuity products. As of December 31, 2007, Life s total account value related to individual annuity products was $129.3 billion. Of this total account value, $119.1 billion, or 92%, related to individual variable annuity products and $10.2 billion, or 8%, related primarily to fixed MVA annuity products. As of December 31, 2006, Life s total account value related to individual annuity products was $124.3 billion. Of this total account value, $114.4 billion, or 92%, related to individual variable annuity products and $9.9 billion, or 8%, related primarily to fixed MVA annuity products. Individual variable annuity account values declined in 2008 due primarily to declining equity markets.

The mutual fund business continues to be a significant business to the Life Company. Retail mutual fund assets were $31.0 billion, $48.4 billion and $38.5 billion as of December 31, 2008, 2007 and 2006, respectively. The decline in Retail mutual fund assets during 2008 was primarily related to declining equity markets. Retail mutual fund deposits were $14.1 billion, $14.4 billion and $11.1 billion in 2008, 2007 and 2006, respectively.

Principal Products

Individual Variable Annuities Life earns fees, based on policyholders account values, for managing variable annuity assets, providing various death and living benefits, and maintaining policyholder accounts. Life uses specified portions of the periodic deposits paid by a customer to purchase units in one or more mutual funds as directed by the customer, who then assumes the investment performance risks and rewards. As a result, variable annuities permit policyholders to choose aggressive or conservative investment strategies, as they deem appropriate, without affecting the composition and quality of assets in Life s general account. These products offer the policyholder a variety of equity and fixed income options, as well as the ability to earn a guaranteed rate of interest in the general account of Life. Life offers an enhanced guaranteed rate of interest for a specified period of time (no longer than twelve months) if the policyholder elects to dollar-cost average funds from Life s general account into one or more separate accounts. The assets underlying Life s variable annuities are managed both internally and by independent money managers, while Life provides all policy administration services. Furthermore, each money manager is compensated on sales of Life s products and enhances the marketability of Life s annuities and the strength of its product offerings.

Policyholders may make deposits of varying amounts at regular or irregular intervals and the value of these assets fluctuates in accordance with the investment performance of the funds selected by the policyholder. To encourage persistency, many of Life s individual variable annuities are subject to withdrawal restrictions and surrender charges. Surrender charges range up to 8% of the contract s deposits less withdrawals, and reduce to zero on a sliding scale, usually within seven years from the deposit date.

Many of the individual variable annuity contracts issued by Retail also offer a living benefit (i.e., GMWB) feature. The GMWB provides the policyholder with a guaranteed remaining balance (GRB) if their account value is reduced to zero through a combination of market declines and withdrawals. The GRB is generally equal to premiums less withdrawals. However, certain withdrawal provisions and reset features could cause the GRB to fluctuate from year to year. Retail s total account value related to individual variable annuity products with GMWB features was $38.1 billion, $56.4 billion and $48.3 billion at December 31, 2008, 2007 and 2006, respectively. The decline in account value during 2008 was primarily due to declines in equity markets.

All variable annuity contracts are issued with a GMDB feature. GMDB features include (1) the sum of all premium payments less prior withdrawals; (2) the maximum anniversary value of the contract, plus any premium payments since the contract anniversary, minus any withdrawals following the contract anniversary and (3) the maximum anniversary value; not to exceed the account value plus the greater of (a) 25% of premium payments, or (b) 25% of the maximum anniversary value of the contract.

Fixed MVA Annuities Fixed MVA annuities are fixed rate annuity contracts which guarantee a specific sum of money to be paid in the future, either as a lump sum or as monthly income. In the event that a policyholder surrenders a policy prior to the end of the guarantee period, the MVA feature increases or decreases the cash surrender value of the annuity as a function of decreases or increases, respectively, in crediting rates for newly issued contracts thereby protecting Life from losses due to higher interest rates (but, not necessarily widening credit spreads) at the time of surrender. The amount of the lump sum or monthly income payment will not fluctuate due to adverse changes in other components of Life s investment return, mortality experience or expenses. Retail s primary fixed MVA annuities have terms varying from one to ten years with an average term to maturity of approximately four years.

Mutual Funds Life offers a family of retail mutual funds for which Life provides investment management and administrative services. The fund family has grown significantly from 8 funds at inception to the current offering of 62 mutual funds and 1 closed end fund. Life s funds are managed by Wellington Management Company, LLP (Wellington) and Hartford Investment Management Company (HIMCO). Life has entered into agreements with over 1,000 financial services firms to distribute these mutual funds.

Life charges fees to the shareholders of the mutual funds, which are recorded as revenue by Life. Investors can purchase shares in the mutual funds, all of which are registered with the SEC, in accordance with the Investment Company Act of 1940. The mutual funds are owned by the shareholders of those funds and not by Life. Therefore, the mutual fund assets and liabilities, as well as related investment returns, are not reflected in The Hartford s consolidated financial statements.

Marketing and Distribution

Life s distribution network is based on management s strategy of utilizing multiple and competing distribution channels to achieve the broadest distribution to reach target customers. The success of Life s marketing and distribution system depends on its product offerings, fund performance, successful utilization of wholesaling organizations, quality of customer service, and relationships with national and regional broker-dealer firms, banks and other financial institutions, and independent financial advisors (through which the sale of Life s retail investment products to customers is consummated).

Life periodically negotiates provisions and terms of its relationships with unaffiliated parties, and there can be no assurance that such terms will remain acceptable to Life or such third parties. Life s primary wholesaler of its individual annuities is PLANCO Financial Services, LLC and its affiliate, PLANCO, LLC (collectively PLANCO) which are indirect wholly-owned subsidiaries of Hartford Life. PLANCO is one of the leading wholesalers of individual annuities and has played a significant role in The Hartford s growth over the past decade. As a wholesaler, PLANCO distributes Life s fixed and variable annuities, mutual funds, 529 plans and offshore products by providing sales support to registered representatives, financial planners and broker-dealers at brokerage firms and banks across the United States. Owning PLANCO secures an important distribution channel for Life and gives Life a wholesale distribution platform which it can expand in terms of both the number of individuals wholesaling its products and the portfolio of products which they wholesale.

Competition

Retail competes with numerous other insurance companies as well as certain banks, securities brokerage firms, independent financial advisors and other financial intermediaries marketing annuities, mutual funds and other retirement-oriented products. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service.

Near-term, the industry and the Company are experiencing lower variable annuity deposits as a result of recent market turbulence and uncertainty in the U.S. financial system. Current market pressures are also increasing the expected claim costs, the cost and volatility of hedging programs, and the level of capital needed to support living and death benefit guarantees. Some companies have already begun to increase the price of their guaranteed living benefits and change the level of guarantees offered. The new economic landscape has focused the Company s attention to reconsider the structure and scope of the variable annuity product line. In 2009, the Company intends to increase pricing levels and take certain actions with respect to its variable annuity product features in an effort to reduce risks and costs associated with variable annuity benefit features in the current economic environment and explore other risk-limiting techniques such as increased hedging or other reinsurance structures. Competitor reactions, including the extent of competitor risk limiting techniques, to these actions by the Company is difficult to predict and may result in a decline in Retail s market share.

The retail mutual fund market continues to be highly competitive, with mutual fund companies looking to differentiate themselves through product solutions, performance, expenses, wholesaling and service. In this non-proprietary broker sold space, The Hartford and its competitors compete aggressively for net flows. As this business continues to evolve, success will be driven by diversifying net sales across the mutual fund platform, delivering superior investment performance and creating new investment solutions for current and future mutual fund shareholders.

Another source of competition for the Company s retail mutual funds is products that are seen as mutual fund alternatives, such as exchange traded funds (ETFs). An ETF is a fund that tracks an index but can be traded like a stock and is available to virtually any investor.

Individual Life

The Individual Life segment provides life insurance strategies to a wide array of business intermediaries and partners to solve the wealth protection, accumulation and transfer needs of its affluent, emerging affluent and business life insurance clients. Life insurance in-force was $195.5 billion, $179.5 billion and $164.2 billion as of December 31, 2008, 2007 and 2006, respectively. Account values were $10.2 billion, $12.3 billion and $11.4 billion as of December 31, 2008, 2007 and 2006, respectively. Individual Life total assets were $13.8 billion, $15.6 billion and $14.2 billion as of December 31, 2008, 2007 and 2006, respectively. Revenues were $914, $1.1 billion and $1.1 billion in 2008, 2007 and 2006, respectively. Net income (loss) in Individual Life was $(43), $182 and $150 in 2008, 2007 and 2006, respectively.

Principal Products

Life holds a significant market share in the variable universal life product market and is a leading seller of variable universal life insurance according to the Tillinghast VALUE Survey as of September 30, 2008. Sales in the Individual Life segment were $274, $286 and $284 in 2008, 2007 and 2006, respectively.

Variable Universal Life Variable universal life provides life insurance with an investment return linked to underlying investments as policyholders are allowed to invest premium dollars among a variety of underlying mutual funds. As the return on the investment portfolios increase or decrease, the surrender value of the variable universal life policy will increase or decrease, and, under certain policyholder options or market conditions, the death benefit may also increase or decrease. Life s second-to-die products are distinguished from other products in that two lives are insured rather than one, and the policy proceeds are paid upon the deaths of both insureds. Second-to-die policies are frequently used in estate planning for a married couple as the policy proceeds are paid out at the time an estate tax liability is incurred. Variable universal life account values were $4.8 billion, $7.3 billion and $6.6 billion as of December 31, 2008, 2007 and 2006, respectively.

Universal Life and Interest Sensitive Whole Life Universal life and interest sensitive whole life insurance coverages provide life insurance with adjustable rates of return based on current interest rates and on the returns of the underlying investment portfolios. Universal life provides policyholders with flexibility in the timing and amount of premium payments and the amount of the death benefit, provided there are sufficient policy funds to cover all policy charges for the coming period, unless guaranteed no-lapse coverage is in effect. At December 31, 2008 and 2007, guaranteed no-lapse universal life represented approximately 9% and 8% of life insurance in-force, respectively. Life also sells second-to-die universal life insurance policies.

Term Life Term life provides basic life insurance coverage at guaranteed level premium payments for a specific period of time and generally has no cash value. As of December 31, 2008 and 2007, term life accounted for 32% and 29% of life insurance in-force, respectively.

Marketing and Distribution

Consistent with Life s strategy to access multiple distribution outlets, the Individual Life distribution organization has been developed to penetrate multiple retail sales channels. Life sells both variable and fixed individual life products through a wide distribution network of national and regional broker-dealer organizations, banks and independent financial advisors. Life is a market leader in selling individual life insurance through national stockbroker and financial institutions channels. In addition, Life distributes individual life products through independent life and property-casualty agents and Woodbury Financial Services, an indirect and wholly-owned subsidiary retail broker-dealer. To wholesale Life s products, Life has a group of highly qualified life insurance professionals with specialized training in sophisticated life insurance sales. These individuals are generally employees of Life who are managed through a regional sales office system.

Competition

Individual Life competes with approximately 1,000 life insurance companies in the United States, as well as other financial intermediaries marketing insurance products. Competitive factors related to this segment are primarily the breadth and quality of life insurance products offered, pricing, relationships with third-party distributors, effectiveness of wholesaling support, pricing and availability of reinsurance, and the quality of underwriting and customer service.

The individual life industry continues to see a move in distribution away from the traditional life insurance sales agents, to the consultative financial advisor as the place people go to buy their life insurance. In 2008, traditional career agents accounted for approximately thirty percent of sales, while the independent channels, including brokerage, financial institutions and banks, and stockbrokers, sold the remainder. Companies who distribute products through financial advisors and independent agents have increased commissions or offered additional incentives to attract new business. Competition is most intense among the largest brokerage general agencies. Individual Life s regional sales office system is a differentiator in the market and allows it to compete across multiple distribution outlets.

The individual life market has seen a shift in product mix towards universal life products over the past few years, which now represents 42% of life insurance sales as of September 30, 2008 as reported through LIMRA. Both consumers and producers have been demanding fixed products and more guarantees, which can be demonstrated by the shift in the mix of products being sold. Due to this shifting market demand, enhanced product features are becoming an increasingly important factor in competition. The Company has updated its universal life product set and sales of universal life have increased. The Company is ranked number two in total variable universal life sales according to LIMRA as of September 30, 2008.

As of September 30, 2008 The Hartford is ranked number seven in total premium sales of life insurance and number fourteen in annualized premium according to LIMRA s quarterly U.S. Individual Life Insurance Sales Survey.

Retirement Plans

Life is among the top providers of retirement products and services. Products and services offered by Retirement Plans include asset management and plan administration sold to municipalities and not-for-profit organizations pursuant to Section 457 and 403(b) of the Internal Revenue Code of 1986, as amended (referred to as Section 457 and 403(b) , respectively). Life also provides retirement products and services, including asset management and plan administration sold to small and medium-size corporations pursuant to Section 401(k) of the Internal Revenue Code of 1986, as amended (referred to as 401(k)).

In the first quarter of 2008, the Company completed three Retirement Plans acquisitions. The acquisition of part of the defined contribution record keeping business of Princeton Retirement Group gives Life a foothold in the business of providing recordkeeping services to large financial firms which offer defined contribution plans to their clients and at acquisition added $2.9 billion in mutual funds to Retirement Plans assets under management and $5.7 billion of assets under administration. The acquisition of Sun Life Retirement Services, Inc., at acquisition added $15.8 billion in Retirement Plans assets under management across 6,000 plans and provides new service locations in Boston, Massachusetts and Phoenix, Arizona. The acquisition of TopNoggin LLC., provides web-based technology to address data management, administration and benefit calculations.

403(b)/457 account values were $10.2 billion, $12.4 billion and $11.5 billion as of December 31, 2008, 2007 and 2006, respectively. 401(k) products account values were $12.0 billion, $14.7 billion and $12.0 billion as of December 31, 2008, 2007 and 2006, respectively. Retirement Plans total assets were $22.6 billion, $28.0 billion and $24.4 billion as of December 31, 2008, 2007 and 2006, respectively, excluding mutual funds of $14.8 billion, $1.5 billion and $1.1 billion for the same respective periods. Retirement Plans generated revenues of $408, $556 and $522 in 2008, 2007 and 2006, respectively, and net income (loss) of $(157), $61 and $101 in 2008, 2007 and 2006, respectively.

Principal Products

403(b)/457 Life sells retirement plan products and services to municipalities under Section 457 plans and to not-for-profits under Section 403(b) plans. Life offers a number of different investment products, including group variable annuities and fixed products, to the employees in Section 457 and 403(b) plans. Generally, with the variable products, Life manages the fixed income funds and certain other outside money managers act as advisors to the equity funds offered in Section 457 and 403(b) plans administered by Life. As of December 31, 2008, Life administered over 4,300 plans under Sections 457 and 403(b). Total assets under management were $10.3 billion, $12.4 billion and $11.5 billion as of December 31, 2008, 2007 and 2006, respectively.

401(k) Life sells retirement plan products and services to corporations under 401(k) plans targeting the small and medium case markets. Life believes these markets are under-penetrated in comparison to the large case market. The number of 401(k) plans administered as of December 31, 2008 was over 25,400. Total assets under management were $26.7 billion, $16.2 billion and $13.2 billion as of December 31, 2008, 2007 and 2006, respectively.

Marketing and Distribution

In the Section 457, 403(b) and 401(k) markets, Retirement Plans distribution network uses internal personnel with extensive experience to sell its products and services in the retirement plan and institutional markets. The success of Life s marketing and distribution system depends on its product offerings, fund performance, successful utilization of wholesaling organizations, quality of customer service, and relationships with national and regional broker-dealer firms, banks and other financial institutions.

Competition

Retirement Plans competes with numerous other insurance companies as well as certain banks, securities brokerage firms, independent financial advisors and other financial intermediaries marketing annuities, mutual funds and other retirement-oriented products. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation and customer service.

For the Section 457 and 403(b) as well as the 401(k) markets, which offer mutual funds wrapped in a variable annuity, variable funding agreement, or mutual fund retirement program, the variety of available funds and their performance is most important to plan sponsors. The competitors tend to be the major mutual fund companies.

The competitive landscape for providers of group retirement plans has, and will continue to, intensify. The past few years have seen consolidation among industry providers seeking to increase scale, improve cost efficiencies, and enter new market segments. The consolidation of providers is expected to continue as smaller providers exit the market.

In addition, many providers are attempting to expand their market share by extending their target markets across plan size and tax code segments (401(k), 457, 403(b)), some of which they may not have previously served. Competition increases as the number of providers selling business in each segment grows.

The long-awaited, landmark 403(b) regulations, finalized in July 2007, have contributed to the increased activity in the 403(b) market. The regulations, in general, align an employer s responsibilities more closely with those of a 401(k), making 403(b) plans more attractive to providers who have experience with 401(k) plans. Final Pension Provider Act regulations have also increased competition over features key to those regulations, such as automatic enrollment capabilities and differentiation of target date fund offerings, when used as qualified default investment alternatives.

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Group Benefits

The Group Benefits segment provides individual members of employer groups, associations, affinity groups and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits, and group retiree health. Life ranks number two in fully-insured group disability premium and number three in fully-insured life premium of U.S. group carriers (according to LIMRA data as of June 30, 2008). The Company also offers disability underwriting, administration, claims processing services and reinsurance to other insurers and self-funded employer plans. Generally, policies sold in this segment are term insurance. This allows the Company to adjust the rates or terms of its policies in order to minimize the adverse effect of various market trends, including declining interest rates and other factors. Typically policies are sold with one-, two- or three-year rate guarantees depending upon the product. In the disability market, the Company focuses on its risk management expertise and on efficiencies and economies of scale to derive a competitive advantage. Group Benefits generated fully insured ongoing premiums of $4.4 billion, $4.2 billion and $4.1 billion in 2008, 2007 and 2006, respectively, of which group disability insurance accounted for $2.0 billion, $1.9 billion and $1.8 billion in 2008, 2007 and 2006, respectively, and group life insurance accounted for $2.1 billion, $1.9 billion and $1.8 billion for the year ended December 31, 2008, 2007 and 2006, respectively. The Company held group disability reserves of $4.7 billion, $4.6 billion and $4.5 billion and group life reserves of $1.3 billion, $1.3 billion and $1.3 billion as of December 31, 2008, 2007 and 2006, respectively. Total assets for Group Benefits were $9.0 billion, $9.3 billion and $9.0 billion as of December 31, 2008, 2007 and 2006, respectively. Total revenues in Group Benefits were $4.3 billion, $4.7 billion and $4.6 billion, during 2008, 2007 and 2006, respectively. Net income (loss) in Group Benefits was $(6), $315 and $298 in 2008, 2007 and 2006, respectively.

Principal Products

Group Disability Life is one of the largest carriers in the large case market of the group disability insurance business. Life s strong market presence in the group disability markets is the result of its well known brand and reputation, financial strength and stability and Life s approach to claims management. Life also offers voluntary, or employee-paid, short-term and long-term disability group benefits. Life s efforts in the group disability market focus on early intervention, return-to-work programs and successful rehabilitation, which offer the support to help claimants return to an active, productive life after a disability. Life also works with disability claimants to improve their approval rate for Social Security Assistance (i.e., reducing payment of benefits by the amount of Social Security payments received).

Life s short-term disability benefit plans provide a weekly benefit amount (typically 60% to 70% of the insured s earned income up to a specified maximum benefit) to insureds when they are unable to work due to an accident or illness. Long-term disability insurance provides a monthly benefit for those extended periods of time not covered by a short-term disability benefit plan when insureds are unable to work due to disability. Insureds may receive total or partial disability benefits. Most of these policies begin providing benefits following a 90- or 180-day waiting period and generally continue providing benefits until the insured reaches age 65. Long-term disability benefits are paid monthly and are limited to a portion, generally 50-70%, of the insured s earned income up to a specified maximum benefit.

Group Life and Accident Group term life insurance provides term coverage to employees and members of associations, affinity groups and financial institutions and their dependents for a specified period and has no accumulation of cash values. Life offers options for its basic group life insurance coverage, including portability of coverage and a living benefit and critical illness option, whereby terminally ill policyholders can receive death benefits in advance. Life also offers voluntary, or employee-paid, life group benefits and accidental death and dismemberment coverage either packaged with life insurance or on a stand-alone basis.

Other Life offers a host of other products and services, such as Family and Medical Leave Act Administration, group retiree health, and specialized insurance products for physicians. Life also provides travel accident, hospital indemnity, supplemental health insurance for military personnel and their families and other coverages to individual members of various associations, affinity groups, financial institutions and employee groups. Prior to the second quarter of 2007, Life provided excess of loss medical coverage (known as medical stop loss insurance) to employers who self-fund their medical plans and pay claims using the services of a third party administrator. In the second

quarter of 2007, Life entered into a renewal rights arrangement on its medical stop loss coverage business. As a result of this transaction, the existing policies in-force will diminish as contracts expire.

Marketing and Distribution

Life uses an experienced group of Company employees, managed through a regional sales office system, to distribute its group insurance products and services through a variety of distribution outlets, including brokers, consultants, third-party administrators and trade associations.

Competition

The Group Benefits business remains highly competitive. Competitive factors primarily affecting Group Benefits are the variety and quality of products and services offered, the price quoted for coverage and services, Life s relationships with its third-party distributors, and the quality of customer service. In addition, there has been an increase in the length of rate guarantee periods being offered in the market and top tier carriers are offering on-line and self service capabilities to agents and consumers. Group Benefits competes with numerous other insurance companies and other financial intermediaries marketing insurance products. However, many of these businesses have relatively high barriers to entry and there have been few new entrants into the group benefits insurance market over the past few years.

Based on LIMRA market share data for in-force premiums as of June 30, 2008, Group Benefits is the second largest group disability carrier and the third largest group life insurance carrier. The relatively large size and underwriting capacity of this business provides opportunities not available to smaller companies.

International

International, which has operations located in Japan, Brazil, Ireland and the United Kingdom, and plans to open operations in Germany in 2009, provides investments, retirement savings and other insurance and savings products to individuals and groups outside the United States and Canada. International revenues were $617, $847 and $736 in 2008, 2007 and 2006, respectively. Net income (loss) for International was $(325), $223 and $231 in 2008, 2007 and 2006, respectively. International s total assets were $41.5 billion, $41.6 billion and $33.8 billion as of December 31, 2008, 2007 and 2006, respectively. The Company s Japan operation, Hartford Life Insurance K.K. (HLIKK), remains the largest distributor of variable annuities in Japan, based on assets under management. The Company also sells yen and U.S. dollar denominated fixed annuities in Japan. With assets under management of $34.5 billion, $37.6 billion and $31.3 billion as of December 31, 2008, 2007 and 2006, respectively, the Japan operation is the largest component of International with net income (loss) of $(263), $253 and $252 in 2008, 2007 and 2006, respectively.

The Company s Japan operation sells both variable and fixed individual annuity products through a wide distribution network of Japan s broker-dealer organizations, banks and other financial institutions and independent financial advisors. Individual retail variable annuity deposits in Japan were $3.0 billion, $6.3 billion and $5.8 billion in 2008, 2007 and 2006, respectively. Deposits have declined in 2008 due to increased competition from Japanese domestic firms as well as equity market volatility.

During the second and third quarters of 2008, the Company launched a new product called Rising Income/Care Story, which is a GMWB variable annuity combined with a nursing care rider, as well as the new product Plus 5, which is a 10-year GMAB variable annuity with a 5% bonus at year 10. The success of the Company s product offerings will ultimately be based on customer acceptance in an increasingly competitive environment.

Due to significant market declines in the fourth quarter of 2008, approximately 97% of the Company s in-force 3 Win policies, or $3.1 billion in account value, have triggered the associated GMIB. 3 Win is a variable annuity product offered in Japan with a GMIB and GMAB rider. The GMIB trigger occurred as a result of policyholder account values falling below 80% of their initial deposit. As a result of the GMIB trigger, the majority of the Company s 3 Win policies annuitized or surrendered free of charge in the fourth quarter of 2008. This significantly and negatively impacted fourth quarter net flows and will continue to reduce future profitability. For further details on the trigger of the GMIB associated with the 3 Win product, see Unlock and Sensitivity Analysis within Critical Accounting Estimates.

International s other operations include a 50% owned joint venture in Brazil and startup operations in Europe. The Brazil joint venture operates under the name Icatu-Hartford and distributes pension, life insurance and other insurance and savings products through broker-dealer organizations and various partnerships. The Company s European operation, Hartford Life Limited, began selling unit-linked investment bonds and pension products in the United Kingdom in April 2005. Unit-linked bonds and pension products are similar to variable annuities marketed in the United States and Japan, and are distributed through independent financial advisors. Hartford Life Limited established its operations in Dublin, Ireland with a branch office in London to help market and service its business in the United Kingdom.

Principal Products

Individual Variable Annuities The Company earns fees, based on policyholders account values, for managing variable annuity assets and maintaining policyholder accounts. The Company uses specified portions of the periodic deposits paid by a customer to purchase units in one or more mutual funds as directed by the customer, as long as asset allocation limits, where applicable, are not exceeded, who then assumes the investment performance risks and rewards. These products offer the policyholder a variety of equity and fixed income options. Additionally, International sells variable annuity contracts that offer various guaranteed minimum death and living benefits.

Policyholders may make deposits of varying amounts at regular or irregular intervals, and the value of these assets fluctuates in accordance with the investment performance of the funds selected by the policyholder. To encourage persistency, many of the Company s individual variable annuities are subject to withdrawal restrictions and surrender

charges. Surrender charges range up to 7% of the contract s deposits, less withdrawals, and reduce to zero on a sliding scale, usually within seven years from the deposit date. In Japan, individual variable annuity account values were $29.7 billion, $35.8 billion and $29.7 billion as of December 31, 2008, 2007, and 2006, respectively.

Fixed MVA Annuities and Other Fixed MVA annuities are fixed rate annuity contracts that guarantee a specific sum of money to be paid in the future, either as a lump sum or as monthly income. In the event that a policyholder surrenders a policy prior to the end of the guarantee period, the MVA feature adjusts the contract s cash surrender value with respect to any changes in Japanese LIBOR, thereby protecting the Company from losses due to higher interest rates, but not necessarily widening credit spreads, at the time of surrender. The amount of lump sum or monthly income payments will not fluctuate due to adverse changes in the Company s investment return, mortality experience or expenses. The Company s primary fixed MVA annuities in Japan are yen and dollar denominated with terms varying from five to ten years with an average term to maturity of approximately seven years. In Japan, account values of fixed MVA annuities were $4.8 billion, $1.8 billion and $1.7 billion as of December 31, 2008, 2007 and 2006, respectively. The fixed MVA annuity account value and other as of December 31, 2008 increased by $2.2 billion as a result of 3 Win product customers whose account values triggered the GMIB and who elected the 15 year annuitization option.

Marketing and Distribution

The International distribution network is based on management s strategy of developing and utilizing multiple and competing distribution channels to achieve the broadest distribution to reach target customers. The success of the Company s marketing and distribution system depends on its product offerings, fund performance, successful utilization of wholesaling, quality of customer service, financial regulations or laws that impact distribution and relationships with securities firms, banks and other financial institutions, and independent financial advisors (through which the sale of the Company s retail investment products to customers is consummated). Specifically, in 2008, the Company entered into a new relationship with the second largest variable annuity distributor in Japan for an existing product. As of December 31, 2008, the Japan operation employed a wholesaling network that supports sales through 50 banks and securities firms.

Competition

The International segment competes with a number of domestic and international insurance companies. Product sales are affected by competitive factors such as investment performance ratings, product design, visibility in the marketplace, financial strength ratings, distribution capabilities, levels of charges and credited rates, reputation, customer service and policyholders perception of the Company and its financial strength. Competition has continued to increase, especially in the Japanese market as the result of the strengthening of both domestic and foreign competitors. In addition to seeing new entrants in the Japanese market, our existing competitors are rapidly introducing new products, some of which include shorter guarantee periods as well as ratcheting guarantee features and higher equity asset allocation.

The Hartford is the largest variable annuity provider in Japan with 21.6% market share based on September 30, 2008 assets under management as published in Hoken Mainichi Shimbun newspaper, but its share of new deposits has been declining. In 2009, the Company intends to review its variable annuity product features in an effort to reduce risks and costs associated with variable annuity benefit features in the current economic environment. Competitor reaction, including the extent of competitor risk limiting strategies, is difficult to predict and may result in a further decline in market share.

Institutional

Life provides structured settlement contracts, institutional annuities, longevity assurance, income annuities, institutional mutual funds and stable value investment products. Additionally, Life is a leader in the variable private placement life insurance (PPLI) market, which includes life insurance policies purchased by a company or a trust on the lives of its employees, with Life or a trust sponsored by Life named as the beneficiary under the policy.

Institutional s total account values were $56.5 billion, $57.9 billion and $48.3 billion as of December 31, 2008, 2007 and 2006, respectively. Institutional s total assets were $59.9 billion, $78.8 billion and $66.2 billion as of December 31, 2008, 2007 and 2006, respectively, excluding mutual funds of $2.6 billion, $3.6 billion and $2.6 billion, respectively. Institutional generated revenues of $1.3 billion, $2.3 billion and $1.7 billion in 2008, 2007 and 2006, respectively and net income (loss) of $(502), $17 and $78 in 2008, 2007 and 2006, respectively.

Principal Products

PPLI Products PPLI products are typically utilized by employers to fund non-qualified benefits or other post-employment benefit liabilities. Plan sponsors have the opportunity to select from a range of tax advantaged investment allocations. PPLI has also been widely used in the high net worth marketplace due to its low costs and range of investment choices.

Structured Settlements Structured settlement annuity contracts provide periodic payments to an injured person or survivor, typically in settlement of a claim under a liability policy in lieu of a lump sum settlement. Contracts pay either life contingent and/or period certain benefits, at the discretion of the contract holder.

Institutional Annuities Institutional annuities arrangements are group annuity contracts used to fund pension liabilities that exist when a qualified retirement plan sponsor decides to terminate some or all of its liabilities under an existing defined benefit pension plan. In addition, institutional annuities are used when a qualified retirement plan sponsor purchases a group annuity contract to offer annuitization benefit options to retiring plan participants. Group annuity contracts are usually very long-term in nature and typically pay monthly benefits to participants covered under the pension plan which is being terminated.

Longevity assurance Longevity assurance is an individual fixed deferred payout annuity that provides life contingent benefits to individuals with the purpose of providing individuals with protection from the risk of outliving retirement income.

Income Annuities Income annuities are individual contracts that provide a fixed payout. Contracts pay either life contingent or period certain benefits, at the discretion of the contract holder.

Institutional Mutual Funds Life sells institutional shares of The Hartford Mutual Funds to both qualified (i.e., section 401(k) and 457 plans) and non-qualified (i.e., endowments and foundations) institutional investors on an investment only basis. The funds are sold individually, with no recordkeeping services included and not as a part of any bundled retirement program. The Hartford s indirect wholly-owned subsidiary, HL Investment Advisors, LLC, serves as the investment advisor to these funds and contracts with sub-advisors to perform the day-to-day management of the funds. The two primary sub-advisors to the Hartford HLS Funds are Wellington for most of the equity funds and HIMCO for the fixed income funds.

Stable Value Products Guaranteed investment contracts (GICs) are group annuity contracts issued to sponsors of qualified pension or profit-sharing plans or stable value pooled fund managers. Under these contracts, the client deposits a lump sum with The Hartford for a specified period of time for a guaranteed interest rate. At the end of the specified period, the client receives principal plus interest earned. Funding agreements are investment contracts that provide a contractually-obligated rate of interest or return. The Company has issued fixed and variable rate funding agreements to Hartford Life Global Funding trusts, that in turn issue registered notes to institutional and retail investors. Certain of these contracts allow an investor to accelerate principal payments after a defined notice period. During 2008, Life ceased issuance of retail and institutional funding agreement backed notes, largely due to the change in customer preference to FDIC-insured products. Prospectively, the Company will issue only GICs, and on a limited basis, funding agreements.

Marketing and Distribution

In the PPLI market, specialized brokers with expertise in the large case market assist in the placement of many cases. High net worth PPLI is often placed with the assistance of investment banking and wealth management specialists.

In the institutional annuities market, Life sells its group annuity products to retirement plan sponsors through three different channels: (1) a small number of specialty brokers; (2) large benefits consulting firms; and (3) directly, using Hartford employees.

In the structured settlement market, the Institutional segment sells individual fixed immediate annuity products through a small number of specialty brokerage firms that work closely with The Hartford s Property & Casualty operations. Life also works directly with the brokerage firms on cases that do not involve The Hartford s Property & Casualty operations. Approximately 85 percent of annual sales are through claim settlements not associated with The Hartford s Property & Casualty operations.

In the longevity assurance and income annuities markets, Life sells its individual fixed payout annuity contracts through financial advisors that work with individual investors.

In the institutional mutual fund market, the Institutional segment typically sells its products through investment consulting firms employed by retirement plan sponsors. Institutional s products are also sold through 401(k) record keeping firms that offer a platform of mutual funds to their plan sponsor clients. A third sales channel is direct sales to qualified plan sponsors, using registered representatives employed by Hartford Equity Sales Company, Inc., an indirect wholly-owned subsidiary.

In the stable value marketplace, the Institutional segment typically sells GICs to retirement plan sponsors or stable value portfolio managers either through investment management firms or directly, using Hartford employees.

Competition

Institutional markets are highly competitive from a pricing perspective, and a small number of cases often account for a significant portion of sales. Institutional competes with other life insurance companies and asset managers who provide investment and risk management solutions. Product sales are often affected by competitive factors such as investment performance, company credit ratings, perceived financial strength, product design, marketplace visibility, distribution capabilities, fees, credited rates, and customer service. Recent actions by rating agencies may make competition more challenging for Institutional in several of its businesses.

For PPLI, competition in the large case market comes from other insurance carriers and from specialized agents with expertise in the benefit funding marketplace. Price is a major consideration, but there are other factors such as investment offerings and services. For high net worth programs, the competition is often from investment banking firms allied with other insurance carriers.

For institutional product lines offering fixed annuity products (e.g., institutional annuities, income annuities, structured settlements, and stable value products), price, financial strength, stability and credit ratings are key buying factors. As a result, the competitors in those marketplaces tend to be large, long-established insurance companies.

For institutional mutual funds, the variety of available funds, fee levels, and fund performance are most important to plan sponsors and investment consultants. Competitors tend to be the major mutual fund companies, insurance companies, and asset managers.

Stable value products typically compete on price, financial strength, stability and the Company s credit ratings.

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Property & Casualty

Property & Casualty provides (1) workers compensation, property, automobile, liability, umbrella, specialty casualty, marine, livestock and fidelity and surety coverages to commercial accounts primarily throughout the United States; (2) professional liability coverage and directors and officers liability coverage, as well as excess and surplus lines business not normally written by standard commercial lines insurers; (3) automobile, homeowners and home-based business coverage to individuals throughout the United States; and (4) insurance-related services.

The Hartford seeks to distinguish itself in the property and casualty market through its product depth and innovation, distribution capacity, customer service expertise, and technology for ease of doing business. The Hartford is the eleventh largest property and casualty insurance operation in the United States based on direct written premiums for the year ended December 31, 2007, according to A.M. Best Company, Inc. (A.M. Best). Property & Casualty generated revenues of $10.2 billion, $12.5 billion, and $12.4 billion in 2008, 2007, and 2006, respectively. Revenues include earned premiums, servicing revenue, net investment income and net realized capital gains and losses. Earned premiums for 2008, 2007, and 2006 were $10.3 billion, $10.5 billion, and $10.4 billion, respectively. Additionally, net income was $92, $1.5 billion and $1.5 billion for 2008, 2007 and 2006, respectively. Total assets for Property & Casualty were $36.7 billion, $41.8 billion, and $41.0 billion as of December 31, 2008, 2007, and 2006, respectively.

Ongoing Operations consists of the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial. Ongoing Operations earned premiums for 2008, 2007, and 2006 were $10.3 billion, $10.5 billion, and $10.4 billion, respectively. Additionally, Ongoing Operations net income was $189, $1.5 billion and $1.6 billion for 2008, 2007 and 2006, respectively. Total assets for Ongoing Operations were $31.5 billion, $35.9 billion, and $34.1 billion as of December 31, 2008, 2007, and 2006, respectively.

Personal Lines

Personal Lines sells automobile, homeowners and home-based business coverages directly to the consumer and through a network of independent agents. Most of the Company s personal lines business sold directly to the consumer is to the members of AARP through a direct marketing operation. Until the sale of the business on November 30, 2006, the Company also sold non-standard auto insurance through the Company s Omni Insurance Group, Inc. (Omni) subsidiary. Personal Lines had earned premiums of $3.9 billion, $3.9 billion, and $3.8 billion in 2008, 2007, and 2006, respectively. AARP represents a significant portion of the total Personal Lines business and amounted to earned premiums of $2.8 billion, $2.7 billion, and $2.5 billion in 2008, 2007, and 2006, respectively. The Hartford s exclusive licensing arrangement with AARP continues until January 1, 2020 for automobile, homeowners and home-based business. This agreement provides Personal Lines with an important competitive advantage as management expects favorable baby boom demographics to increase AARP membership during this period. Personal Lines underwriting income for 2008, 2007, and 2006 was $280, $322, and $429, respectively. The Hartford is the twelfth largest personal lines insurer in the United States based on direct written premiums for the year ended December 31, 2007 according to A.M. Best. Personal Lines also operates a member contact center for health insurance products offered through the AARP Health program. The AARP Health program agreement continues through 2009.

Principal Products

Personal Lines provides standard automobile, homeowners and home-based business coverages to individuals across the United States, including a special program designed exclusively for members of AARP. Beginning in 2006, the Company enhanced its new Dimensions automobile and homeowners class plans for insurance sold through independent agents and brokers. Dimensions with Packages , introduced in 2006, is a suite of products that offers coverages and competitive rates tailored to a customer s individual risk. Dimensions uses a large number of interactive rating variables to determine a rate that most accurately reflects the customer s individual characteristics. In 2007 and 2008, The Hartford rolled out a new Next Generation Auto product to AARP customers. Similar to The Hartford s Dimensions with Packages for Agency business, Next Generation Auto offers more coverage options and provides customized pricing based on the AARP policyholder s individualized risk characteristics.

Marketing and Distribution

Personal Lines reaches diverse markets through multiple distribution channels including direct sales to the consumer, brokers and independent agents. In direct sales to the consumer, the Company markets its products through a mix of media, including direct marketing, the internet and advertising in publications. Most of Personal Lines direct sales to

the consumer are through its exclusive licensing arrangement with AARP to market automobile, homeowners and home-based business insurance products to AARP s nearly 39 million members.

The Personal Lines Agency business provides customized products and services to customers through a network of independent agents in the standard personal lines market. Independent agents are not employees of The Hartford. An important strategic objective of the Company is to develop common products and processes for all of its personal lines business regardless of the distribution channel.

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Competition

The personal lines automobile and homeowners businesses are highly competitive. Personal lines insurance is written by insurance companies of varying sizes that sell products through various distribution channels, including independent agents, captive agents and directly to the consumer. The personal lines market competes on the basis of price, product, service (including claims handling), stability of the insurer and name recognition. Companies with recognized brands, direct sales capability and economies of scale will have a competitive advantage. In the past three years, a number of carriers have increased their advertising in an effort to gain new business and retain profitable business. This has been particularly true of carriers that sell directly to the consumer. Sales of personal lines insurance directly to the consumer have been growing faster than sales through agents, particularly for auto insurance, and now sales of auto insurance direct to the consumer represent a little more than 20% of total industry auto premium.

Carriers that distribute products mainly through agents have either increased commissions or offered additional incentives to those agents to attract new business. To distinguish themselves in the marketplace, top tier carriers are offering on-line and self service capabilities to agents and consumers. More agents have been using comparative rater tools that allow the agent to compare premium quotes among several insurance companies. The use of comparative rater tools has further increased price competition.

Carriers with more efficient cost structures will have an advantage in competing for new business through price. The use of data mining and predictive modeling is used by more and more carriers to target the most profitable business and carriers have further segmented their pricing plans to expand market share in what they believe to be the most profitable segments.

Due to the slowdown in the economy and the effect of continued price competition, the total market premium for personal auto insurance is expected to grow at less than 1% in 2009 affected, in part, by a decline in new passenger vehicle sales. Total market premium for personal homeowners insurance is expected to decrease by about 4% in 2009 driven, in part, by an increase in foreclosures and a decrease in construction of new single-family dwellings. Many insurers have reduced their writings of new homeowners business in catastrophe-exposed states which has intensified competition in areas that are not subject to the same level of catastrophes, such as states in the Midwest.

Small Commercial

Small Commercial provides standard commercial insurance coverage to small commercial businesses primarily throughout the United States. Small commercial businesses generally represent companies with up to $5 in annual payroll, $15 in annual revenues or $15 in total property values. Earned premiums for each of the years ended December 31, 2008, 2007, and 2006 were $2.7 billion. The segment had underwriting income of $437, $508, and $422 in 2008, 2007, and 2006, respectively.

Principal Products

Small Commercial offers workers compensation, property, automobile, liability and umbrella coverages under several different products. Some of these coverages are sold together as part of a single multi-peril package policy called Spectrum. The sale of Spectrum business owners package policies and workers compensation policies accounts for most of the written premium in the Small Commercial segment. In the fourth quarter of 2006, The Hartford began to roll out a new Next Generation Auto product to Small Commercial customers. Similar to The Hartford s Next Generation Auto product for AARP business, Next Generation Auto for Small Commercial offers more coverage options and provides customized pricing based on the policyholder s individualized risk characteristics.

Marketing and Distribution

Small Commercial provides insurance products and services through its home office located in Hartford, Connecticut, and multiple domestic regional office locations and insurance centers. The segment markets its products nationwide utilizing brokers and independent agents. Brokers and independent agents are not employees of The Hartford. The Company also has relationships with payroll service providers whereby the Company offers insurance products to customers of the payroll service providers. Agencies are consolidating such that, in the future, a larger share of premium volume will likely be concentrated with the larger agents.

Competition

The insurance market for small commercial businesses is competitive with insurers seeking to differentiate themselves through product, price, service and technology. The Hartford competes against a number of large, national carriers as

well as regional competitors in certain territories. Competitors include other stock companies, mutual companies and other underwriting organizations. Companies writing business for small commercial business distribute their products through agents and other channels.

The market for small commercial business has become more competitive as favorable loss costs in the past few years have led carriers to expand coverage and reduce pricing. Written premium growth rates in the small commercial market have slowed and underwriting margins will likely decrease due to earned pricing decreases and increases in loss cost severity. A number of companies have sought to grow their business by increasing their underwriting appetite, appointing new agents and expanding business with existing agents. Carriers serving middle market-sized accounts are more aggressively competing for small commercial accounts as small commercial business has generally been less price-sensitive. Competition is expected to continue to increase as the slowing economy has reduced the number of new business opportunities.

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Insurance companies have been improving their pricing sophistication and ease of doing business with the agent. Carriers are developing more sophisticated pricing and predictive modeling tools and have invested in technology to speed up the process of evaluating a risk and quoting on new business. Price competition has increased as companies seek to retain profitable business and agents are seeking competitive quotes for renewals more frequently, particularly for larger accounts within small commercial. Carriers also compete on service with agents expecting enhanced automation and faster turnaround on quotes.

The Hartford is the sixth largest commercial lines insurer in the United States based on direct written premiums for the year ended December 31, 2007 according to A.M. Best. The relatively large size and underwriting capacity of The Hartford provide opportunities not available to smaller insurers.

Middle Market

Middle Market provides standard commercial insurance coverage to middle market commercial businesses primarily throughout the United States. Middle market businesses generally represent companies with greater than $5 in annual payroll, $15 in annual revenues or $15 in total property values. Earned premiums for 2008, 2007, and 2006 were $2.3 billion $2.4 billion, and $2.5 billion, respectively. The segment had underwriting income of $169, $157, and $214 in 2008, 2007, and 2006, respectively.

Principal Products

Middle Market offers workers compensation, property, automobile, liability, umbrella, marine and livestock coverages under several different products. Workers compensation insurance accounts for the largest share of the written premium in the Middle Market segment.

Marketing and Distribution

Middle Market provides insurance products and services through its home office located in Hartford, Connecticut, and multiple domestic regional office locations and insurance centers. The segment markets its products nationwide utilizing brokers and independent agents. Brokers and independent agents are not employees of The Hartford. The current pace of consolidation within the independent agent and broker distribution channel will likely continue such that, in the future, a larger share of written premium will likely be concentrated with the larger agents and brokers.

Competition

The middle market commercial insurance marketplace is a highly competitive environment regarding product, price and service. The Hartford competes against a number of large, national carriers as well as regional insurers in certain territories. Competitors include other stock companies, mutual companies and alternative risk sharing groups. These competitors sell primarily through independent agents and brokers across a broad array of product lines, and with a high level of variation regarding geographic, marketing and customer segmentation.

Middle Market business is characterized as high touch with case-by-case underwriting and pricing decisions. Compared to Small Commercial, the pricing of Middle Market accounts is prone to more significant variation or cyclicality from year to year. Legislative reforms in a number of states in recent years have helped to control indemnity costs on workers compensation claims, but these have also led to rate reductions in many states. In addition, companies writing middle market business have continued to experience a reduction in average premium size due to continued price competition. The downturn in the economy and rising unemployment will likely cause soft market conditions to continue into 2009.

Soft market conditions, characterized by highly competitive pricing on new business, have lessened the number of new business opportunities as carriers look to secure their renewals early. In the soft market, we are seeing an increase in industry specialization by agents and brokers which has placed even greater importance on the carrier s need to demonstrate industry expertise to win new business. To gain a competitive advantage, carriers are improving automation with the agent or broker, appointing more agents and enhancing their product offerings. There was some consolidation of carriers within the industry in 2008 and management expects a modest level of consolidation to continue in the industry going forward.

The Hartford is the sixth largest commercial lines insurer in the United States based on direct written premiums for the year ended December 31, 2007 according to A.M. Best. The relatively large size and underwriting capacity of The Hartford provide opportunities not available to smaller companies.

Specialty Commercial

Specialty Commercial provides a wide variety of property and casualty insurance products and services to large commercial clients requiring specialized coverages. Excess and surplus lines coverages not normally written by standard line insurers are also provided, primarily through wholesale brokers. Specialty Commercial had earned premiums of $1.4 billion, $1.4 billion, and $1.5 billion in 2008, 2007, and 2006, respectively. Underwriting income (loss) was $71, $(18), and $46 in 2008, 2007, and 2006, respectively.

Principal Products

Specialty Commercial offers a variety of customized insurance products and risk management services. Specialty Commercial provides standard commercial insurance products including workers compensation, automobile and liability coverages to large-sized companies. Specialty Commercial also provides professional liability, fidelity, surety and specialty casualty coverages as well as property excess and surplus lines coverages not normally written by standard lines insurers. A significant portion of specialty casualty business, including workers compensation business, is written through large deductible programs where the insured typically provides collateral to support loss payments made within their deductible. The specialty casualty business also provides retrospectively-rated programs where the premiums are adjustable based on loss experience. Captive and Specialty Programs, within Specialty Commercial, provides insurance products and services primarily to captive insurance companies, pools and self-insurance groups. In addition, Specialty Commercial provides third-party administrator services for claims administration, integrated benefits and loss control through Specialty Risk Services, LLC, a subsidiary of the Company.

Marketing and Distribution

Specialty Commercial provides insurance products and services through its home office located in Hartford, Connecticut and multiple domestic office locations. The segment markets its products nationwide utilizing a variety of distribution networks including independent retail agents, brokers and wholesalers. Brokers, independents agents and wholesalers are not employees of The Hartford.

Competition

Specialty Commercial is comprised of a diverse group of businesses that operate independently within their specific industries. These businesses, while somewhat interrelated, have different business models and operating cycles. Specialty Commercial is largely considered a transactional business and, therefore, competes with other companies for much of its business on an account by account basis due to the complex nature of each transaction.

For specialty casualty business, written pricing competition continues to be significant, particularly for the larger individual accounts. Written pricing declines and expanded terms and conditions have reduced the profitability of this business. Carriers are trying to protect their in-force casualty business by starting to renew policies well before the policy renewal date. Employing this early renewal practice often prevents other carriers from quoting on the business, resulting in fewer new business opportunities within the marketplace. With national account business, as the market continues to soften, more insureds may opt for guaranteed cost policies in lieu of loss-sensitive products. The market for loss sensitive casualty business in 2009 will likely continue to experience price competition and the use of expanded terms and conditions. For property business, written pricing on catastrophe-exposed business continues to be under pressure as standard market carriers have increased their risk appetite for this business.

For professional liability business, we expect written pricing to firm for financial services companies and related classes of business driven by an increase in federal shareholder class action lawsuits arising from the financial market turmoil. For other classes of business, we expect a moderate decline in written pricing. Carriers writing professional liability business are increasingly more focused on profitable private, middle market companies. This trend has continued as the downturn in the economy has led to a significant drop in the number of initial public offerings and volatility for all public companies. Losses taken on investment portfolios have affected the financial strength ratings of some insurers in the marketplace for directors and officers and errors and omissions insurance and a carrier s new business opportunities can be significantly affected by customer perceptions about its financial strength. In February 2009, rating agencies lowered the insurance financial strength ratings of the Company s group of principal property and casualty subsidiaries.

For surety business, favorable underwriting results in recent years has led to more intense competition for market share. This could lead to written price declines and less favorable terms and conditions. Driven by the upheaval in the credit markets, new private construction activity has declined dramatically, resulting in lower demand for contract surety business. For both professional liability business and fidelity and surety business, the economic downturn and weakened credit environment may increase loss costs in 2009.

Disciplined underwriting and targeted returns are the objectives of Specialty Commercial since premium writings may fluctuate based on the segment s view of perceived market opportunity. Specialty Commercial competes with other stock companies, mutual companies, alternative risk sharing groups and other underwriting organizations. The

relatively large size and underwriting capacity of The Hartford provide opportunities not available to smaller companies.

Other Operations

The Other Operations segment operates under a single management structure, Heritage Holdings, which is responsible for two related activities. The first activity is the management of certain subsidiaries and operations of The Hartford that have discontinued writing new business. The second is the management of claims (and the associated reserves) related to asbestos, environmental and other exposures. Including net realized capital gains (losses) and net investment income, total revenues for Other Operations were $(4) in 2008, $241 in 2007 and $292 in 2006. Other Operations had net income (loss) of $(97), $30 and $(35) in 2008, 2007 and 2006, respectively. Total assets for Other Operations were $5.2 billion, $5.9 billion, and $6.9 billion as of December 31, 2008, 2007, and 2006, respectively.

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Life Reserves

Life insurance subsidiaries of the Company establish and carry as liabilities, predominantly, five types of reserves: (1) a liability equal to the balance that accrues to the benefit of the policyholder as of the financial statement date, otherwise known as the account value, (2) a liability for unpaid losses, including those that have been incurred but not yet reported, (3) a liability for future policy benefits, representing the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums; (4) fair value reserves for living benefits embedded derivative guarantees; and (5) death and living benefit reserves which are computed based on a percentage of revenues less actual claim costs. The liabilities for unpaid losses and future policy benefits are calculated based on actuarially recognized methods using morbidity and mortality tables, which are modified to reflect Life s actual experience when appropriate. Liabilities for unpaid losses include estimates of amounts to fully settle known reported claims as well as claims related to insured events that the Company estimates have been incurred but have not yet been reported. Future policy benefit reserves are computed at amounts that, with additions from estimated net premiums to be received and with interest on such reserves compounded annually at certain assumed rates, are expected to be sufficient to meet Life s policy obligations at their maturities or in the event of an insured s disability or death. Other insurance liabilities include those for unearned premiums and benefits in excess of account value. Reserves for assumed reinsurance are computed in a manner that is comparable to direct insurance reserves. Liabilities for death and living benefit guarantees whose values are dependant upon the equity markets, have significantly increased in 2008 as equity markets declined.

Property & Casualty Reserves

The Hartford establishes property and casualty reserves to provide for the estimated costs of paying claims under insurance policies written by The Hartford. These reserves include estimates for both claims that have been reported to The Hartford and those that have been incurred but not reported (IBNR) and include estimates of all expenses associated with processing and settling these claims. This estimation process involves a variety of actuarial techniques and is primarily based on historical experience and consideration of current trends. Examples of current trends include increases in medical cost inflation rates, the changing use of medical care procedures, the introduction of new products such as the Dimensions product in Personal Lines and the Next Generation auto product in Personal Lines, Small Commercial and Middle Market. Other current trends include changes in internal claim practices, changes in the legislative and regulatory environment for workers compensation claims and evolving exposures to claims asserted against religious institutions and other organizations relating to molestation or abuse and other mass torts.

The Hartford continues to receive claims that assert damages from asbestos-related and environmental-related exposures. Asbestos claims relate primarily to bodily injuries asserted by those who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution-related clean-up costs. As discussed further in the Critical Accounting Estimates and Other Operations sections of the MD&A, significant uncertainty limits the Company s ability to estimate the ultimate reserves necessary for unpaid losses and related expenses with regard to environmental and particularly asbestos claims.

Most of the Company s property and casualty reserves are not discounted. However, the Company has discounted liabilities funded through structured settlements and has discounted certain reserves for indemnity payments due to permanently disabled claimants under workers compensation policies. Structured settlements are agreements that provide fixed periodic payments to claimants and include annuities purchased to fund unpaid losses for permanently disabled claimants and, prior to 2008, agreements that funded loss run-offs for unrelated parties. Most of the annuities have been purchased from Life and these structured settlements are recorded at present value as annuity obligations of Life, either within the reserve for future policy benefits if the annuity benefits are life-contingent or within other policyholder funds and benefits payable if the annuity benefits are not life-contingent. If not funded through an annuity, reserves for certain indemnity payments due to permanently disabled claimants under workers compensation policies are recorded as property and casualty reserves and were discounted to present value at an average interest rate of 5.4% in 2008 and 5.5% in 2007. Reserves for structured settlements that funded loss run-offs for unrelated parties were discounted at an average interest rate of 5.5% in 2007.

As of December 31, 2008 and 2007, property and casualty reserves were discounted by a total of $488 and $568, respectively. The current accident year benefit from discounting property and casualty reserves was $38 in 2008, $46

in 2007 and $63 in 2006. Contributing to the decrease in the current accident year benefit from discounting over the past three years has been a reduction in the discount rate, reflecting a lower risk-free rate of return over that period. Accretion of discounts for prior accident years totaled $26 in 2008, $31 in 2007, and $32 in 2006. For annuities issued by Life to fund certain P&C workers compensation indemnity payments where the claimant has not released the P&C Company of its obligation, Life has recorded annuity obligations totaling $945 as of December 31, 2008 and $962 as of December 31, 2007.

As of December 31, 2008, net property and casualty reserves for losses and loss adjustment expenses reported under accounting principles generally accepted in the United States of America (U.S. GAAP) were approximately equal to net reserves reported on a statutory basis. Under U.S. GAAP, liabilities for unpaid losses for permanently disabled workers compensation claimants are discounted at rates that are no higher than risk-free interest rates and which generally exceed the statutory discount rates set by regulators, such that workers compensation reserves for statutory reporting are higher than the reserves for U.S. GAAP reporting. Largely offsetting the effect of the difference in discounting is that a portion of the U.S. GAAP provision for uncollectible reinsurance is not recognized under statutory accounting.

Further discussion of The Hartford s property and casualty reserves, including asbestos and environmental claims reserves, may be found in the Property and Casualty Reserves, Net of Reinsurance section of the MD&A Critical Accounting Estimates.

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A reconciliation of liabilities for unpaid losses and loss adjustment expenses is herein referenced from Note 11 of Notes to Consolidated Financial Statements. A table depicting the historical development of the liabilities for unpaid losses and loss adjustment expenses, net of reinsurance, follows.

Loss Development Table
Property And Casualty Loss And Loss Adjustment Expense Liability Development Net of Reinsurance
For the Years Ended December 31, [1]

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Liabilities for unpaid losses and loss adjustment expenses, net of reinsurance	$ 12,902	$ 12,476	$ 12,316	$ 12,860	$ 13,141	$ 16,218	$ 16,191	$ 16,863	$ 17,604	$ 18,231	$ 18,347
Cumulative paid losses and loss expenses											
One year later	2,939	2,994	3,272	3,339	3,480	4,415	3,594	3,702	3,727	3,703	
Two years later	4,733	5,019	5,315	5,621	6,781	6,779	6,035	6,122	5,980		
Three years later	6,153	6,437	6,972	8,324	8,591	8,686	7,825	7,755			
Four years later	7,141	7,652	9,195	9,710	10,061	10,075	9,045				
Five years later	8,080	9,567	10,227	10,871	11,181	11,063					
Six years later	9,818	10,376	11,140	11,832	12,015						
Seven years later	10,501	11,137	11,961	12,563							
Eight years later	11,246	11,856	12,616								
Nine years later	11,964	12,432									
Ten years later	12,483										
Liabilities re-estimated											
One year later	12,662	12,472	12,459	13,153	15,965	16,632	16,439	17,159	17,652	18,005	
Two years later	12,569	12,527	12,776	16,176	16,501	17,232	16,838	17,347	17,475		
Three years later	12,584	12,698	15,760	16,768	17,338	17,739	17,240	17,318			
Four years later	12,663	15,609	16,584	17,425	17,876	18,367	17,344				
Five years later	15,542	16,256	17,048	17,927	18,630	18,554					
Six years later	16,076	16,568	17,512	18,686	18,838						
Seven years later	16,290	17,031	18,216	18,892							
Eight years later	16,799	17,655	18,410								
Nine years later	17,440	17,841									
Ten years later	17,616										
Deficiency (redundancy),	**$ 4,714**	**$ 5,365**	**$ 6,094**	**$ 6,032**	**$ 5,697**	**$ 2,336**	**$ 1,153**	**$ 455**	**$ (129)**	**$ (226)**	

net of reinsurance

[1] The above table excludes Hartford Insurance, Singapore as a result of its sale in September 2001, Hartford Seguros as a result of its sale in February 2001 and Zwolsche as a result of its sale in December 2000.

The table above shows the cumulative deficiency (redundancy) of the Company s reserves, net of reinsurance, as now estimated with the benefit of additional information. Those amounts are comprised of changes in estimates of gross losses and changes in estimates of related reinsurance recoveries.

The table below, for the periods presented, reconciles the net reserves to the gross reserves, as initially estimated and recorded, and as currently estimated and recorded, and computes the cumulative deficiency (redundancy) of the Company s reserves before reinsurance.

Property And Casualty Loss And Loss Adjustment Expense Liability Development Gross
For the Years Ended December 31, [1]

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net reserve, as initially estimated	**$ 12,476**	**$ 12,316**	**$ 12,860**	**$ 13,141**	**$ 16,218**	**$ 16,191**	**$ 16,863**	**$ 17,604**	**$ 18,231**	**$ 18,347**
Reinsurance and other recoverables, as initially estimated	3,706	3,871	4,176	3,950	5,497	5,138	5,403	4,387	3,922	3,586
Gross reserve, as initially estimated	**$ 16,182**	**$ 16,187**	**$ 17,036**	**$ 17,091**	**$ 21,715**	**$ 21,329**	**$ 22,266**	**$ 21,991**	**$ 22,153**	**$ 21,933**
Net re-estimated reserve	**$ 17,841**	**$ 18,410**	**$ 18,892**	**$ 18,838**	**$ 18,554**	**$ 17,344**	**$ 17,318**	**$ 17,475**	**$ 18,005**	
Re-estimated and other reinsurance recoverables	5,206	5,342	5,526	5,142	5,083	4,979	5,299	3,891	3,645	

Gross re-estimated reserve	**$ 23,047**	**$ 23,752**	**$ 24,418**	**$ 23,980**	**$ 23,637**	**$ 22,323**	**$ 22,617**	**$ 21,366**	**$ 21,650**
Gross deficiency (redundancy)	**$ 6,865**	**$ 7,565**	**$ 7,382**	**$ 6,889**	**$ 1,922**	**$ 994**	**$ 351**	**$ (625)**	**$ (503)**

[1] *The above table excludes Hartford Insurance, Singapore as a result of its sale in September 2001, Hartford Seguros as a result of its sale in February 2001, Zwolsche as a result of its sale in December 2000 and London & Edinburgh as a result of its sale in November 1998.*

The following table is derived from the Loss Development table and summarizes the effect of reserve re-estimates, net of reinsurance, on calendar year operations for the ten-year period ended December 31, 2008. The total of each column details the amount of reserve re-estimates made in the indicated calendar year and shows the accident years to which the re-estimates are applicable. The amounts in the total accident year column on the far right represent the cumulative reserve re-estimates during the ten year period ended December 31, 2008 for the indicated accident year(s).

Effect of Net Reserve Re-estimates on Calendar Year Operations

					Calendar Year						
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
By Accident year											
1998 & Prior	$ (240)	$ (93)	$ 15	$ 79	$ 2,879	$ 534	$ 214	$ 509	$ 641	$ 176	$ 4,714
1999		89	40	92	32	113	98	(46)	(17)	10	411
2000			88	146	73	177	152	1	80	8	725
2001				(24)	39	(232)	193	38	55	12	81
2002					(199)	(56)	180	36	(5)	2	(42)
2003						(122)	(237)	(31)	(126)	(21)	(537)
2004							(352)	(108)	(226)	(83)	(769)
2005								(103)	(214)	(133)	(450)
2006									(140)	(148)	(288)
2007										(49)	(49)
Total	**$ (240)**	**$ (4)**	**$ 143**	**$ 293**	**$ 2,824**	**$ 414**	**$ 248**	**$ 296**	**$ 48**	**$ (226)**	**$ 3,796**

Reserve changes for accident years 1998 & Prior

During the 2007 calendar year, the Company refined its processes for allocating incurred but not reported (IBNR) reserves by accident year, resulting in a reclassification of $347 of IBNR reserves from the 2003 to 2006 accident years to the 2002 and prior accident years. This reclassification of reserves by accident year had no effect on total recorded reserves within any segment or on total recorded reserves for any line of business within a segment.

The largest impacts of net reserve re-estimates are shown in the 1998 & Prior accident years. The reserve re-estimates in calendar year 2003 include an increase in reserves of $2.6 billion related to reserve strengthening based on the Company s evaluation of its asbestos reserves. The reserve evaluation that led to the strengthening in calendar year 2003 confirmed the Company s view of the existence of a substantial long-term deterioration in the asbestos litigation environment. The reserve re-estimates in calendar years 2004 and 2006 were largely attributable to reductions in the reinsurance recoverable asset associated with older, long-term casualty liabilities. Excluding the impacts of asbestos and environmental strengthening, over the past ten years, reserve re-estimates for total Property & Casualty ranged from (3.0)% to 1.6% of total net recorded reserves.

Apart from the effect of reserve reclassifications by accident year during the 2007 calendar year, the Company strengthened workers compensation and general liability reserves in 2007 by $79 related to accident years prior to 1987 and recorded a charge of $99 in 2007 principally as a result of an adverse arbitration decision involving claims prior to 1993 that were owed to an insurer of the Company s former parent.

Reserve changes for accident years 1999 and 2000

Prior to calendar year 2006, there was reserve deterioration, spread over several calendar years, on accident years 1998-2000 driven, in part, by deterioration of reserves for assumed casualty reinsurance and workers compensation claims. Numerous actuarial assumptions on assumed casualty reinsurance turned out to be low, including loss cost trends, particularly on excess of loss business, and the impact of deteriorating terms and conditions. Workers compensation reserves also deteriorated, as medical inflation trends were above initial expectations.

Reserve changes for accident years 2001 and 2002

Accident years 2001 and 2002 are reasonably close to original estimates. However, each year shows some swings by calendar period, with some favorable development prior to calendar year 2005, largely offset by unfavorable development in calendar years 2005 through 2008. The release for accident year 2001 during calendar year 2004 relates primarily to reserves for September 11. Subsequent adverse developments on accident year 2001 relate to assumed casualty reinsurance and unexpected development on mature claims in both general liability and workers compensation. Reserve releases for accident year 2002 during calendar years 2003 and 2004 come largely from short-tail lines of business, where results emerge quickly and actual reported losses are predictive of ultimate losses. Reserve increases on accident year 2002 during calendar year 2005 were recognized, as unfavorable development on accident years prior to 2002 caused the Company to increase its estimate of unpaid losses for the 2002 accident year. Net favorable reserve development in calendar year 2008 related to the 2001 and 2002 accident years was largely due to a release of workers compensation reserves, partially offset by modest strengthening of reserves for professional liability claims.

Reserve changes for accident years 2003 through 2007

Even after considering the 2007 calendar year reclassification of $347 of IBNR reserves from the 2003 to 2006 accident years to the 2002 and prior accident years, accident years 2003 through 2007 show favorable development in calendar years 2004 through 2008. A portion of the release comes from short-tail lines of business, where results emerge quickly. During calendar year 2005 and 2006, favorable re-estimates occurred in Personal Lines for both loss and allocated loss adjustment expenses. In addition, catastrophe reserves related to the 2004 and 2005 hurricanes developed favorably in 2006. During calendar years 2005 through 2008, the Company recognized favorable re-estimates of both loss and allocated loss adjustment expenses on workers compensation claims driven, in part, by state legal reforms, including in California and Florida, underwriting actions and expense reduction initiatives that have had a greater impact in controlling costs than was originally estimated. In 2007, the Company released reserves for Small Commercial package business claims as reported losses have emerged favorably to previous expectations. In 2007 and 2008, the Company released reserves for Middle Market general liability claims due to the favorable emergence of losses for high hazard and umbrella general liability claims. Reserves for professional liability claims were released in 2008 related to the 2003 through 2006 accident years due to a lower estimate of claim severity on both directors and officers insurance claims and errors and omissions insurance claims. Reserves of Personal Lines auto liability claims were released in 2008 due largely to an improvement in emerged claim severity for the 2005 to 2007 accident years.

Ceded Reinsurance

The Hartford cedes some of its insurance risk to reinsurance companies. Reinsurance does not relieve The Hartford of its primary liability and, therefore, failure of reinsurers to honor their obligations could result in losses to The Hartford. The Hartford evaluates the risk transfer of its reinsurance contracts, the financial condition of its reinsurers and monitors concentrations of credit risk. The Company s monitoring procedures include careful initial selection of its reinsurers, structuring agreements to provide collateral funds where possible, and regularly monitoring the financial condition and ratings of its reinsurers. Reinsurance accounting is followed for ceded transactions when the risk transfer provisions of Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard No. 113, Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts, (SFAS 113) have been met. For further discussion, see Note 6 of Notes to Consolidated Financial Statements.

For Property & Casualty operations, these reinsurance arrangements are intended to provide greater diversification of business and limit The Hartford s maximum net loss arising from large risks or catastrophes. A major portion of The Hartford s property and casualty reinsurance is effected under general reinsurance contracts known as treaties, or, in some instances, is negotiated on an individual risk basis, known as facultative reinsurance. The Hartford also has in-force excess of loss contracts with reinsurers that protect it against a specified part or all of a layer of losses over stipulated amounts.

In accordance with normal industry practice, Life is involved in both the cession and assumption of insurance with other insurance and reinsurance companies. As of December 31, 2008 and 2007, the Company s policy for the largest amount of life insurance retained on any one life by any company comprising the life operations was $10. In addition, Life has reinsured U.S. minimum death benefit guarantees, Japan s guaranteed minimum death benefits, as well as the U.S. guaranteed minimum withdrawal benefits offered in connection with its variable annuity contracts. Reinsurance of the Company s GMWB riders meet the definition of a derivative reported under SFAS 133; the difference in fair value of the reinsurance derivative is reported in earnings. Life also assumes reinsurance from other insurers. For the years ended December 31, 2008, 2007 and 2006, Life did not make any significant changes in the terms under which reinsurance is ceded to other insurers. For further discussion on reinsurance, see Reinsurance in the Capital Markets Risk Management section of the MD&A.

Investment Operations

The Hartford s investment portfolios are primarily divided between Life and Property & Casualty. The investment portfolios of Life and Property & Casualty are managed by HIMCO. HIMCO manages the portfolios to maximize economic value, while attempting to generate the income necessary to support the Company s various product obligations, within internally established objectives, guidelines and risk tolerances. The portfolio objectives and guidelines are developed based upon the asset/liability profile, including duration, convexity and other characteristics

within specified risk tolerances. The risk tolerances considered include, for example, asset and credit issuer allocation limits, maximum portfolio below investment grade holdings and foreign currency exposure. The Company attempts to minimize adverse impacts to the portfolio and the Company s results of operations from changes in economic conditions through asset allocation limits, asset/liability duration matching and through the use of derivatives. During the latter part of 2008, HIMCO initiated certain activities to reduce overall credit risk exposure in the investment portfolios. For further discussion of HIMCO s portfolio management approach, see the Investments General and the Investment Credit Risk sections of the MD&A.

In addition to managing the general account assets of the Company, HIMCO is also a Securities and Exchange Commission (SEC) registered investment advisor for third party institutional clients, a sub-advisor for certain mutual funds and serves as the sponsor and collateral manager for capital markets transactions. HIMCO specializes in investment management that incorporates proprietary research and active management within a disciplined risk framework to provide value added returns versus peers and benchmarks. As of December 31, 2008 and 2007, the fair value of HIMCO s total assets under management was approximately $138.8 billion and $148.7 billion, respectively, of which $9.2 billion and $10.9 billion, respectively, were held in HIMCO managed third party accounts.

Regulation and Premium Rates

Insurance companies are subject to comprehensive and detailed regulation and supervision throughout the United States. The extent of such regulation varies, but generally has its source in statutes which delegate regulatory, supervisory and administrative powers to state insurance departments. Such powers relate to, among other things, the standards of solvency that must be met and maintained; the licensing of insurers and their agents; the nature of and limitations on investments; establishing premium rates; claim handling and trade practices; restrictions on the size of risks which may be insured under a single policy; deposits of securities for the benefit of policyholders; approval of policy forms; periodic examinations of the affairs of companies; annual and other reports required to be filed on the financial condition of companies or for other purposes; fixing maximum interest rates on life insurance policy loans and minimum rates for accumulation of surrender values; and the adequacy of reserves and other necessary provisions for unearned premiums, unpaid losses and loss adjustment expenses and other liabilities, both reported and unreported.

Most states have enacted legislation that regulates insurance holding company systems such as The Hartford. This legislation provides that each insurance company in the system is required to register with the insurance department of its state of domicile and furnish information concerning the operations of companies within the holding company system that may materially affect the operations, management or financial condition of the insurers within the system. All transactions within a holding company system affecting insurers must be fair and equitable. Notice to the insurance departments is required prior to the consummation of transactions affecting the ownership or control of an insurer and of certain material transactions between an insurer and any entity in its holding company system. In addition, certain of such transactions cannot be consummated without the applicable insurance department s prior approval. In the jurisdictions in which the Company s insurance company subsidiaries are domiciled, the acquisition of more than 10% of The Hartford s outstanding common stock would require the acquiring party to make various regulatory filings.

The extent of insurance regulation on business outside the United States varies significantly among the countries in which The Hartford operates. Some countries have minimal regulatory requirements, while others regulate insurers extensively. Foreign insurers in certain countries are faced with greater restrictions than domestic competitors domiciled in that particular jurisdiction. The Hartford s international operations are comprised of insurers licensed in their respective countries.

The Company has also submitted an application to participate in the U.S. Treasury Department s Capital Purchase Program. If the Company s application is approved, and the Company purchases Federal Trust Corporation, it will become a savings and loan holding company subject to regulation by the Office of Thrift Supervision.

Intellectual Property

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property.

We have a worldwide trademark portfolio that we consider important in the marketing of our products and services, including, among others, the trademarks of The Hartford name, the Stag Logo and the combination of these two marks. The duration of trademark registrations varies from country to country and may be renewed indefinitely subject to country-specific use and registration requirements. We regard our trademarks as extremely valuable assets in marketing our products and services and vigorously seek to protect them against infringement.

Employees

The Hartford had approximately 31,000 employees as of December 31, 2008.

Available Information

The Hartford makes available, free of charge, on or through its Internet website (http://www.thehartford.com) The Hartford s annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) of the Exchange Act as soon as reasonably practicable after The Hartford electronically files such material with, or furnishes it to, the SEC.

Item 1A. RISK FACTORS

Investing in The Hartford involves risk. In deciding whether to invest in The Hartford, you should carefully consider the following risk factors, any of which could have a significant or material adverse effect on the business, financial condition, operating results or liquidity of The Hartford. This information should be considered carefully together with the other information contained in this report and the other reports and materials filed by The Hartford with the Securities and Exchange Commission.

We have been materially adversely affected by conditions in the global financial markets and economic conditions generally, and may be materially adversely affected if these conditions persist or deteriorate further in 2009 or if our planned initiatives are not effective.

Markets in the United States and elsewhere have experienced extreme volatility and disruption for more than 12 months, due largely to the stresses affecting the global banking system, which accelerated significantly in the second half of 2008. The United States, Europe and Japan have entered a severe recession that is likely to persist well into and perhaps through and even beyond 2009, despite past and expected governmental intervention in the world s major economies. These circumstances have exerted significant downward pressure on prices of equity securities and virtually all other asset classes and have resulted in substantially increased market volatility, severely constrained credit and capital markets, particularly for financial institutions, and an overall loss of investor confidence. Economic conditions have continued to deteriorate in early 2009.

Like other financial institutions and particularly life insurers, which face significant financial and capital markets risk in their operations, we have been adversely affected, to a significant extent, by these conditions. Among other effects, we incurred significant investment losses and other charges in 2008, notably with respect to deferred acquisition costs and goodwill associated with our variable annuity and international businesses, which resulted in a net loss for the fourth quarter and the full year. Our unrealized loss position also increased substantially in 2008. The unanticipated, severe decline in the equity markets also caused material increases to our liabilities in connection with certain annuity products, a line of business in which we have significant concentration. Concerns related to investment losses, liabilities arising from variable annuity products and capital pressures, which led to severe pressure on our stock price in 2008, are continuing in 2009. As detailed in the following risk factors, we expect to continue to face significant challenges and uncertainties that could materially adversely affect our results, financial condition and prospects.

Our capital position declined in 2008 relative to 2007, notwithstanding our capital-raising transaction with Allianz SE in October 2008. We expect continued pressure on our capital position in 2009. Further significant declines in our capital position could impair our ability to support the scale of our business as currently constituted and to absorb continuing operating losses and liabilities under our customer contracts and our overall competitiveness. We have taken a number of steps to preserve capital and mitigate risk, among them launching a range of initiatives to reduce risks associated with our various lines of business, applying for federal funds under the Emergency Economic Stabilization Act of 2008 (EESA) and looking across the enterprise for additional opportunities to reduce risk. These initiatives include modifying product features, adjusting our hedging activities and mitigating risks in our investment portfolio, and could also include discontinuing or restructuring certain business lines. Like other companies, we are also evaluating our expense base in light of expected contractions in certain of our business lines and have further reduced our dividend rate. Taken as a whole, these actions may not be effective, especially if the global economy experiences further shocks. Even if effective, certain measures may have unintended consequences. For example, rebalancing our hedging program may better protect our statutory surplus, but may also result in greater U.S. GAAP earnings volatility. These actions may also entail additional costs or result in further impairment or other charges or adversely affect our ability to compete successfully in an increasingly difficult consumer market.

On February 6, 2009, Moody s Investor Services downgraded our long-term debt rating to Baa1 and the financial strength ratings of our principal subsidiaries to A1 . On February 9, 2009, Fitch Ratings downgraded our long-term debt rating to BBB and the financial strength ratings of our principal subsidiaries to A (in the case of our life subsidiaries) and A+ (in the case of our property and casualty subsidiaries) and Standard & Poor s downgraded our counterparty credit rating to A- . If our planned initiatives fail to mitigate the impacts on the Company of the current recession, or if the current recession is even more severe than expected, we may also experience further downgrades of our financial strength and credit ratings. See Ratings within Capital Resources and Liquidity of the MD&A. While

reductions in ratings may ease pressure on our capital position, it could also have negative implications for our competitive position. We may also need to raise additional capital or consider other transactions to manage our capital position and liquidity or further reduce our exposure to market and financial risks. We may not be able to raise sufficient capital as and when required if the financial markets remain in turmoil, and any capital we raise may be on terms that are dilutive to existing shareholders or otherwise unfavorable to us. Any sales of securities or other assets that we may carry out may be completed on unfavorable terms or cause us to incur charges, and we would lose the potential for market upside on those assets in a market recovery. If our business continues to experience significant challenges, we may face other pressures, such as employee retention issues and potential loss of distributors for our products.

Other developments relating to the current economic environment and financial crisis may also significantly affect our operations and prospects in ways that we cannot predict. For example, U.S. and overseas governmental or regulatory authorities, including the Securities and Exchange Commission (the SEC), the Office of Thrift Supervision (OTS), the New York Stock Exchange or the Financial Industry Regulatory Authority (FINRA), may implement enhanced or new regulatory requirements intended to prevent future crises or otherwise stabilize the institutions under their supervision. New regulations will likely affect critical matters, including capital requirements, and published proposals by insurance regulatory authorities that could reduce the pressure on our capital position may not be adopted or may be adopted in a form that does not afford as much capital relief as anticipated. If we fail to manage the impact of these developments effectively, our prospects, results and financial condition could be materially adversely affected.

The markets in the United States and elsewhere have been experiencing extreme and unprecedented volatility and disruption. We are exposed to significant financial and capital markets risk, including changes in interest rates, credit spreads, equity prices, and foreign exchange rates which may have a material adverse effect on our results of operations, financial condition and liquidity.

The markets in the United States and elsewhere have been experiencing and are expected to continue to experience extreme and unprecedented volatility and disruption. We are exposed to significant financial and capital markets risk, including changes in interest rates, credit spreads, equity prices and foreign currency exchange rates.

One important exposure to equity risk relates to the potential for lower earnings associated with certain of our Life businesses, such as variable annuities, where fee income is earned based upon the fair value of the assets under management. During the course of 2008, the significant declines in equity markets have negatively impacted assets under management. As a result, fee income earned from those assets has also been negatively impacted. In addition, certain of our Life products offer guaranteed benefits which increase our potential obligation and statutory capital exposure should equity markets decline. Due to declines in equity markets during 2008, our liability for these guaranteed benefits has significantly increased and our statutory capital position has decreased. Further sustained declines in equity markets during 2009 may result in the need to devote significant additional capital to support these products. We are also exposed to interest rate and equity risk based upon the discount rate and expected long-term rate of return assumptions associated with our pension and other post-retirement benefit obligations. Sustained declines in long-term interest rates or equity returns are likely to have a negative effect on the funded status of these plans.

Our exposure to interest rate risk relates primarily to the market price and cash flow variability associated with changes in interest rates. A rise in interest rates, in the absence of other countervailing changes, will increase the net unrealized loss position of our investment portfolio and, if long-term interest rates rise dramatically within a six to twelve month time period, certain of our Life businesses may be exposed to disintermediation risk. Disintermediation risk refers to the risk that our policyholders may surrender their contracts in a rising interest rate environment, requiring us to liquidate assets in an unrealized loss position. Due to the long-term nature of the liabilities associated with certain of our Life businesses, such as structured settlements and guaranteed benefits on variable annuities, sustained declines in long term interest rates may subject us to reinvestment risks and increased hedging costs. In other situations, declines in interest rates or changes in credit spreads may result in reducing the duration of certain Life liabilities, creating asset liability duration mismatches and lower spread income.

Our exposure to credit spreads primarily relates to market price and cash flow variability associated with changes in credit spreads. The recent widening of credit spreads has contributed to the increase in the net unrealized loss position of our investment portfolio of $12.5 billion in 2008, before DAC effects and tax, and has also contributed to the increase in other than temporary impairments. If issuer credit spreads continue to widen significantly over an extended period of time, it would likely exacerbate these effects, resulting in greater and additional other-than-temporary impairments. Increased losses have also occurred associated with credit based non-qualifying derivatives where the Company assumes credit exposure. If credit spreads tighten significantly, it will reduce net investment income associated with new purchases of fixed maturities. In addition, a reduction in market liquidity has made it difficult to value certain of our securities as trading has become less frequent. As such, valuations may include assumptions or estimates that may be more susceptible to significant period to period changes which could have a material adverse effect on our consolidated results of operations or financial condition.

Our statutory surplus is also impacted by widening credit spreads as a result of the accounting for the assets and liabilities on our fixed market value adjusted (MVA) annuities. Statutory separate account assets supporting the fixed MVA annuities are recorded at fair value. In determining the statutory reserve for the fixed MVA annuities we are required to use current crediting rates in the U.S. and Japanese LIBOR in Japan. In many capital market scenarios, current crediting rates in the U.S. are highly correlated with market rates implicit in the fair value of statutory separate account assets. As a result, the change in the statutory reserve from period to period will likely substantially offset the change in the fair value of the statutory separate account assets. However, in periods of volatile credit markets, such as we are now experiencing, actual credit spreads on investment assets may increase sharply for certain sub-sectors of the overall credit market, resulting in statutory separate account asset market value losses. As actual credit spreads are not fully reflected in current crediting rates in the U.S. or Japanese LIBOR in Japan, the calculation of statutory reserves

will not substantially offset the change in fair value of the statutory separate account assets resulting in reductions in statutory surplus. This has resulted and may continue to result in the need to devote significant additional capital to support the product.

Our primary foreign currency exchange risks are related to net income from foreign operations, non U.S. dollar denominated investments, investments in foreign subsidiaries, our yen-denominated individual fixed annuity product, and certain guaranteed benefits associated with the Japan and U.K. variable annuities. These risks relate to potential decreases in value and income resulting from a strengthening or weakening in foreign exchange rates versus the U.S. dollar. In general, the weakening of foreign currencies versus the U.S. dollar will unfavorably affect net income from foreign operations, the value of non-U.S. dollar denominated investments, investments in foreign subsidiaries and realized gains or losses on the yen denominated individual fixed annuity product. In comparison, a strengthening of the Japanese yen or British pound in comparison to the U.S. dollar and other currencies will increase our exposure to the guarantee benefits associated with the Japan or U.K. variable annuities. Correspondingly, a strengthening of the U.S. dollar compared to other currencies will increase our exposure to the U.S. variable annuity guarantee benefits where policyholders have elected to invest in international funds.

If significant, further declines in equity prices, changes in U.S. interest rates, changes in credit spreads and the strengthening or weakening of foreign currencies against the U.S. dollar, individually or in combination, could continue to have a material adverse effect on our consolidated results of operations, financial condition and liquidity both directly and indirectly by creating competitive and other pressures such as employee retention issues and the potential loss of distributors for our products.

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In addition, in the conduct of our business, there could be scenarios where in order to reduce risks, fulfill our obligations or to raise incremental liquidity, we would sell assets at a loss for a variety of reasons including the unrealized loss position in our overall investment portfolio and the lack of liquidity in the credit markets. These scenarios could include selling assets as the Company reduces its securities lending program.

Declines in equity markets and changes in interest rates and credit spreads can also negatively impact the fair values of each of our segments. If a significant decline in the fair value of a segment occurred and this resulted in an excess of that segment s book value over fair value, the goodwill assigned to that segment might be impaired and could cause the Company to record a charge to impair a part or all of the related goodwill assets, as occurred in the fourth quarter of 2008 with respect to our Individual Annuity and International reporting units. See impairment of goodwill risk factor for further information on this risk.

We may be unable to effectively mitigate the impact of equity market volatility arising from obligations under annuity product guarantees, which may have a material adverse effect on our consolidated results of operations, financial condition and cash flows.

Some of the products offered by our life businesses, especially variable annuities, offer certain guaranteed benefits which, as a result of any decline in equity markets would not only result in lower earnings, but may also increase our exposure to liability for benefit claims. During the course of 2008, as equity markets declined, our liability for guaranteed benefits significantly increased. We are also subject to equity market volatility related to these benefits, especially the guaranteed minimum death benefit (GMDB), guaranteed minimum withdrawal benefit (GMWB), guaranteed minimum accumulation benefit (GMAB) and guaranteed minimum income benefit (GMIB) offered with variable annuity products. As of December 31, 2008, the liability for GMWB and GMAB was $6.6 billion and $0, respectively. The liability for GMIB and GMDB was a combined $473, net of reinsurance as of December 31, 2008.

We use reinsurance structures and have modified benefit features to mitigate the exposure associated with GMDB. We also use reinsurance in combination with a modification of benefit features and derivative instruments to minimize the claim exposure and to reduce the volatility of net income associated with the GMWB liability. However, due to the severe economic conditions in the fourth quarter of 2008, we have adjusted our risk management program to place greater relative emphasis on the protection of statutory surplus. This shift in relative emphasis will likely result in greater U.S. GAAP earnings volatility. While we believe that these and other actions we have taken serve to improve the efficiency by which we manage the risks related to these benefits, we remain liable for the guaranteed benefits in the event that reinsurers or derivative counterparties are unable or unwilling to pay, and are subject to the risk that other management procedures prove ineffective or that unanticipated policyholder behavior, combined with adverse market events, produces economic losses beyond the scope of the risk management techniques employed, which individually or collectively may have a material adverse effect on our consolidated results of operations, financial condition and cash flows.

The amount of statutory capital that we have and the amount of statutory capital that we must hold to maintain our financial strength and credit ratings and meet other requirements can vary significantly from time to time and is sensitive to a number of factors outside of our control, including equity market, credit market, interest rate and foreign currency conditions, changes in policyholder behavior and changes in rating agency models.

We conduct the vast majority of our business through licensed insurance company subsidiaries. Accounting standards and statutory capital and reserve requirements for these entities are prescribed by the applicable insurance regulators and the National Association of Insurance Commissioners (NAIC). Insurance regulators have established regulations that provide minimum capitalization requirements based on risk-based capital (RBC) formulas for both life and property and casualty companies. The RBC formula for life companies establishes capital requirements relating to insurance, business, asset and interest rate risks, including equity, interest rate and expense recovery risks associated with variable annuities and group annuities that contain death benefits or certain living benefits. The RBC formula for property and casualty companies adjusts statutory surplus levels for certain underwriting, asset, credit and off-balance sheet risks.

In any particular year, statutory surplus amounts and RBC ratios may increase or decrease depending on a variety of factors the amount of statutory income or losses generated by our insurance subsidiaries (which itself is sensitive to equity market and credit market conditions), the amount of additional capital our insurance subsidiaries must hold to

support business growth, changes in equity market levels, the value of certain fixed-income and equity securities in our investment portfolio, the value of certain derivative instruments, changes in interest rates and foreign currency exchange rates, as well as changes to the NAIC RBC formulas. Most of these factors are outside of the Company s control. The Company s financial strength and credit ratings are significantly influenced by the statutory surplus amounts and RBC ratios of our insurance company subsidiaries. In addition, rating agencies may implement changes to their internal models that have the effect of increasing or decreasing the amount of statutory capital we must hold in order to maintain our current ratings. Also, in extreme scenarios of equity market declines, the amount of additional statutory reserves that we are required to hold for our variable annuity guarantees increases at a greater than linear rate. This reduces the statutory surplus used in calculating our RBC ratios. When equity markets increase, surplus levels and RBC ratios will generally increase, however, as a result of a number of factors and market conditions, including the level of hedging costs and other risk transfer activities, reserve requirements for death and living benefit guarantees and RBC requirements could increase resulting in lower RBC ratios. Due to all of these factors, projecting statutory capital and the related RBC ratios is complex. During February 2009, our financial strength and credit ratings have been downgraded by multiple rating agencies. To the extent that our statutory capital resources are deemed to be insufficient to maintain a particular rating by one or more rating agencies, we may seek to raise additional capital through public or private equity or debt financing. Alternatively, if we were not to raise additional capital in such a scenario, either at our discretion or because we were unable to do so, our financial strength and credit ratings might be further downgraded by one or more rating agencies.

Our application to participate in the CPP may not be approved or, if approved, may subject us to additional restrictions, which could have a material adverse effect on our business.

In order to supplement our capital position, we have applied to the U.S. Treasury Department to receive funds from its Capital Purchase Program (CPP). If approved, we estimate that we may be eligible to receive between $1.1 billion and $3.4 billion in funds. There can be no assurance, however, that we will be approved to participate in the CPP or, if approved, that we will receive an amount consistent with our estimates. If other insurance companies are approved to participate in the CPP but we are not so approved, it could create negative market perceptions of our financial strength and capital position, reduce our available options to raise capital and otherwise have an adverse effect on our results of operations, financial condition and liquidity.

If we do receive approval to participate in the CPP, receipt of CPP funds will subject us to additional regulation and restrictions that may have a negative impact on our operations. In order to be eligible to receive CPP funds, we agreed to acquire (contingent on our approval to participate in the CPP) the parent company of Federal Trust Bank (FTB), a federally chartered, FDIC-insured thrift. As required by the OTS as a condition to consummating that acquisition, we have since been approved by the OTS to become a savings and loan holding company. As a result, if we are approved to participate in the CPP and consummate the acquisition of FTB, we will be subject to supervision and examination by the OTS. New legislation or regulations may also be adopted that would impose additional constraints on the operations of recipients of CPP funds. Such restrictions, combined with OTS oversight, may make it more difficult to recruit and retain key employees and otherwise restrict our flexibility to respond to changing market conditions. In addition, if we consummate the acquisition of FTB, we have agreed with OTS to contribute approximately $100 to the capital of FTB and to serve as a source of strength to FTB, which could require the contribution of additional capital to FTB in the future. These factors could have a material adverse effect on our results of operations, financial condition and liquidity.

We have experienced and may experience additional future downgrades in our financial strength or credit ratings, which may make our products less attractive, increase our cost of capital and inhibit our ability to refinance our debt, which would have a material adverse effect on our business, results of operations, financial condition and liquidity.

Financial strength and credit ratings, including commercial paper ratings, are an important factor in establishing the competitive position of insurance companies. During February 2009, our financial strength and credit ratings have been downgraded by multiple rating agencies. See our ratings in Capital Resources and Liquidity section of the MD&A. Rating agencies assign ratings based upon several factors. While most of the factors relate to the rated company, some of the factors relate to the views of the rating agency, general economic conditions, and circumstances outside the rated company s control. In addition, rating agencies may employ different models and formulas to assess the financial strength of a rated company, and from time to time rating agencies have, in their discretion, altered these models. Changes to the models, general economic conditions, or circumstances outside our control could impact a rating agency s judgment of its rating and the rating it assigns us. We cannot predict what actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which may adversely affect us.

Our financial strength ratings, which are intended to measure our ability to meet policyholder obligations, are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. The recent downgrades we have experienced, a further downgrade, or an announced potential further downgrade, in the rating of our financial strength or of one of our principal insurance subsidiaries could affect our competitive position in the insurance industry and make it more difficult for us to market our products, as potential customers may select companies with higher financial strength ratings thereby reducing future sales of our products and lowering future earnings.

The recent downgrades we have experienced, a further downgrade of our credit ratings, or an announced potential further downgrade, could affect our ability to raise additional debt with terms and conditions similar to our current debt, or at all, and accordingly, would likely increase our cost of capital. The recent downgrades we have experienced, or a further downgrade of our credit ratings could also make it more difficult to raise capital to refinance any maturing debt obligations, to support business growth at our insurance subsidiaries and to maintain or improve the current financial strength ratings of our principal insurance subsidiaries described above. After taking into consideration

rating agency actions through February 10, 2009, a downgrade of three levels below our current insurance financial strength levels could begin to trigger potentially material collateral calls on certain of our derivative instruments and could also trigger counterparty rights to terminate derivative relationships, both of which could limit our ability to purchase additional derivative instruments. If any of these negative events were to occur, our business, results of operations, financial condition and liquidity may be adversely affected.

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Our business, results of operations and financial condition may be adversely affected by general domestic and international economic and business conditions that are less favorable than anticipated.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of business we conduct. For example, in an economic downturn such as the current financial crisis characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for financial and insurance products has been adversely affected. Further, given that we offer our products and services in North America, Japan, Europe and South America, we are exposed to these risks in multiple geographic locations. Our operations are subject to different local political, regulatory, business and financial risks and challenges, which may affect the demand for our products and services, the value of our investment portfolio, the required levels of our capital and surplus and the credit quality of local counterparties. These risks include, for example, political, social or economic instability in countries in which we operate, fluctuations in foreign currency exchange rates, credit risks of our local counterparties, lack of local business experience in certain markets and, in certain cases, risks associated with potential incompatibility with partners. We may not succeed in developing and implementing policies and strategies that are effective in each location where we do business, and we cannot guarantee that the inability to successfully address the risks related to economic conditions in all of the geographic locations where we conduct business will not have a material adverse effect on our business, results of operations and financial condition.

Our valuations of many of our financial instruments include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations and financial condition.

The following financial instruments are carried at fair value in the Company s consolidated financial statements: fixed maturities, equity securities, freestanding and embedded derivatives, and separate account assets. The Company has categorized these securities into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In many situations, inputs used to measure the fair value of an asset or liability position may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value.

The determination of fair values are made at a specific point in time, based on available market information and judgments about financial instruments, including estimates of the timing and amounts of expected future cash flows and the credit standing of the issuer or counterparty. The use of different methodologies and assumptions may have a material effect on the estimated fair value amounts.

During periods of market disruption such as we are currently experiencing, including periods of rapidly widening credit spreads or illiquidity, it has been and will likely continue to be difficult to value certain of our securities, such as Alt-A, subprime mortgage backed and CMBS securities, if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and management judgment. As such, valuations may include inputs and assumptions that are less observable or require greater estimation thereby resulting in values which may differ materially from the value at which the investments may be ultimately sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within our consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value could have a material adverse effect on our results of operations and financial condition. As of December 31, 2008, 14%, 70% and 16% of our available for sale securities were considered to be Level 1, 2 and 3, respectively.

Evaluation of available-for-sale securities for other than temporary impairment involves subjective determinations and could materially impact our results of operations.

The evaluation of impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period

earnings. The risks and uncertainties include changes in general economic conditions, the issuer s financial condition or future recovery prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. For securitized financial assets with contractual cash flows, the Company currently uses its best estimate of cash flows over the life of the security under severe recession scenarios. In addition, estimating future cash flows involves incorporating information received from third party sources and making internal assumptions and judgments regarding the future performance of the underlying collateral and assessing the probability that an adverse change in future cash flows has occurred. The determination of the amount of other than temporary impairments is based upon our quarterly evaluation and assessment of known and inherent risks associated with the respective asset class. Such evaluations and assessments are revised as conditions change and new information becomes available.

Additionally, our management considers a wide range of factors about the security issuer and uses their best judgment in evaluating the cause of the decline in the estimated fair value of the security and in assessing the prospects for recovery. Inherent in management s evaluation of the security are assumptions and estimates about the operations of the issuer and its future earnings potential. Considerations in the impairment evaluation process include, but are not limited to: (i) the length of time and the extent to which the market value has been less than cost or amortized cost; (ii) the potential for impairments of securities when the issuer is experiencing significant financial difficulties; (iii) the potential for impairments in an entire industry sector or sub-sector; (iv) the potential for impairments in certain economically depressed geographic locations; (v) the potential for impairments of securities where the issuer, series of issuers or industry has suffered a catastrophic type of loss or has exhausted natural resources; (vi) our intent and ability to retain the investment for a period of time sufficient to allow for the recovery of its value; (vii) unfavorable changes in forecasted cash flows on mortgage-backed and asset-backed securities; and (viii) other subjective factors, including concentrations and information obtained from regulators and rating agencies. During the year ended December 31, 2008, the Company concluded that approximately $4.0 billion of unrealized losses were other than temporarily impaired. Additional impairments may need to be taken in the future, which could have a material adverse effect on our results of operations and financial condition.

Losses due to nonperformance or defaults by others, including issuers of investment securities (which include structured securities such as commercial mortgage backed securities and residential mortgage backed securities or other high yielding bonds) or reinsurance and derivative instrument counterparties, could have a material adverse effect on the value of our investments, results of operations, financial condition and cash flows.

Issuers or borrowers whose securities or loans we hold, customers, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud government intervention or other reasons. Such defaults could have a material adverse effect on our results of operations, financial condition and cash flows. Additionally, the underlying assets supporting our structured securities may deteriorate causing these securities to incur losses. For example, during the year ended December 31, 2008, the Company incurred losses of $46 on derivative instruments due to counterparty default related to the bankruptcy of Lehman Brothers Holding, Inc.

Our investment portfolio includes investment securities in the financial services sector that have experienced nonperformance or defaults recently. Further nonperformance or defaults could have a material adverse effect on our results of operations, financial condition and cash flows. In addition, the value of our investments in hybrid securities, perpetual preferred securities, or other equity securities in the financial services sector may be significantly impaired if the issuers of such securities defer the payment of optional coupons or dividends, are forced to accept government support or intervention, or grant majority equity stakes to their respective governments.

The Company is not exposed to any credit concentration risk of a single issuer greater than 10% of the Company s stockholders equity other than U.S. government and U.S. government agencies backed by the full faith and credit of the U.S. government and the Japanese government. However, if the Company s creditors are acquired, merge or otherwise consolidate with other creditors of the Company s, the Company s credit concentration risk could increase above the 10% threshold, for a period of time, until the Company is able to sell securities to get back in compliance with the established investment credit policies.

The availability of the Company s commercial paper program is dependent upon a variety of factors including the Company s ratings and market conditions.

The Company s maximum borrowings available under its commercial paper program are $2.0 billion. The Company s ability to borrow under its commercial paper program is dependent upon market conditions. On October 7, 2008, The Federal Reserve Board authorized the Commercial Paper Funding Facility (CPFF) to improve liquidity in short-term funding markets by increasing the availability of term commercial paper funding to issuers and by providing greater assurance to both issuers and investors that firms will be able to roll over their maturing commercial paper. The Company registered with the CPFF in order to sell up to a maximum of $375 to the facility, of which it has issued the full amount as of December 31, 2008. The Company s commercial paper must be rated A-1/P-1/F1 by at least two ratings agencies to be eligible for the program. Moody s, S&P and Fitch all recently downgraded our commercial paper

rating, rendering the Company ineligible to sell additional commercial paper under the CPFF program going forward. As a result, we will be required to pay the maturing commercial paper issued under the CPFF program from existing sources of liquidity. Future deterioration of our capital position at a time when we are unable to access the commercial paper markets due to prevailing market conditions could have a material adverse effect on our liquidity.

If assumptions used in estimating future gross profits differ from actual experience, we may be required to accelerate the amortization of DAC and increase reserves for guaranteed minimum death benefits, which could have a material adverse effect on our results of operations and financial condition.

The Company defers acquisition costs associated with the sales of its universal and variable life and variable annuity products. These costs are amortized over the expected life of the contracts. The remaining deferred but not yet amortized cost is referred to as the Deferred Acquisition Cost (DAC) asset. We amortize these costs in proportion to the present value of estimated gross profits. The Company also establishes reserves for GMDB using components of estimated gross profits (EGPs). The projection of estimated gross profits requires the use of certain assumptions, principally related to separate account fund returns in excess of amounts credited to policyholders, surrender and lapse rates, interest margin, mortality, and hedging costs. Of these factors, we anticipate that changes in investment returns are most likely to impact the rate of amortization of such costs. However, other factors such as those the Company might employ to reduce risk, such as the cost of hedging or other risk mitigating techniques could also significantly reduce estimates of future gross profits. Estimating future gross profits is a complex process requiring considerable judgment and the forecasting of events well into the future. If our assumptions regarding policyholder behavior, hedging costs or costs to employ other risk mitigating techniques prove to be inaccurate or if significant or sustained equity market declines persist, we could be required to accelerate the amortization of DAC related to variable annuity and variable universal life contracts, and increase reserves for GMDB which would result in a charge to net income. Such adjustments could have a material adverse effect on our results of operations and financial condition. During the year ended December 31, 2008, the Company recorded a $932, after-tax, charge related to the unlock. Since September 30, 2008, the date of the last unlock, the actual return on U.S. variable annuity assets has been 21% below our estimated aggregate return. The Company estimates the actual return would need to drop by an additional 6% from December 31, 2008 before EGPs in the Company s models fall outside of the statistical ranges of reasonable EGPs. Since September 30, 2008, the date of the last unlock, the actual return on Japan variable annuity assets has been 15.5% below our estimated aggregate return. The Company estimates the actual return would need to drop by an additional 7.5% from December 31, 2008 before EGPs in the Company s models fall outside of the statistical ranges of reasonable EGPs.

If our businesses do not perform well, we may be required to recognize an impairment of our goodwill or to establish a valuation allowance against the deferred income tax asset, which could have a material adverse effect on our results of operations and financial condition.

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. We test goodwill at least annually for impairment. Impairment testing is performed based upon estimates of the fair value of the reporting unit to which the goodwill relates. The reporting unit is the operating segment or a business one level below that operating segment if discrete financial information is prepared and regularly reviewed by management at that level. The fair value of the reporting unit is impacted by the performance of the business and could be adversely impacted by any efforts made by the Company to limit risk. If it is determined that the goodwill has been impaired, the Company must write down the goodwill by the amount of the impairment, with a corresponding charge to net income. Such write downs could have a material adverse effect on our results of operations or financial position. During 2008, the Company took an impairment charge of $745, pre-tax, with respect to its Individual Annuity and International reporting units.

If current market conditions persist during 2009, in particular, if the Company s share price remains below book value per share, or if the Company s actions to limit risk associated with its products or investments causes a significant change in any one reporting unit s fair value, the Company may need to reassess goodwill impairment at the end of each quarter as part of an annual or interim impairment test. Subsequent reviews of goodwill could result in additional impairment of goodwill during 2009.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management s determination include the performance of the business including the ability to generate capital gains from a variety of sources and tax planning strategies. If based on available information, it is more likely than not that the deferred income tax asset will not be realized then a valuation allowance must be established with a corresponding

charge to net income. Our valuation allowance of $75, as of December 31, 2008, based on future facts and circumstances may not be sufficient. Charges to increase our valuation allowance could have a material adverse effect on our results of operations and financial position.

It is difficult for us to predict our potential exposure for asbestos and environmental claims, and our ultimate liability may exceed our currently recorded reserves, which may have a material adverse effect on our operating results, financial condition and liquidity.

We continue to receive asbestos and environmental claims. Significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses for both environmental and particularly asbestos claims. We believe that the actuarial tools and other techniques we employ to estimate the ultimate cost of claims for more traditional kinds of insurance exposure are less precise in estimating reserves for our asbestos and environmental exposures. Traditional actuarial reserving techniques cannot reasonably estimate the ultimate cost of these claims, particularly during periods where theories of law are in flux. Accordingly, the degree of variability of reserve estimates for these exposures is significantly greater than for other more traditional exposures. It is also not possible to predict changes in the legal and legislative environment and their effect on the future development of asbestos and environmental claims. Although potential Federal asbestos-related legislation has been considered in the Senate, it is uncertain whether such legislation will be reconsidered or enacted in the future and, if so, what its effect would be on our aggregate asbestos liabilities. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses for both environmental and particularly asbestos claims, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could have a material adverse effect on our consolidated operating results, financial condition and liquidity.

The occurrence of one or more terrorist attacks in the geographic areas we serve or the threat of terrorism in general may have a material adverse effect on our business, consolidated operating results, financial condition and liquidity.

The occurrence of one or more terrorist attacks in the geographic areas we serve could result in substantially higher claims under our insurance policies than we have anticipated. Private sector catastrophe reinsurance is extremely limited and generally unavailable for terrorism losses caused by attacks with nuclear, biological, chemical or radiological weapons. Reinsurance coverage from the federal government under the Terrorism Risk Insurance Program Reauthorization Act of 2007 is also limited. Accordingly, the effects of a terrorist attack in the geographic areas we serve may result in claims and related losses for which we do not have adequate reinsurance. This would likely cause us to increase our reserves, adversely affect our earnings during the period or periods affected and, if significant enough, could adversely affect our liquidity and financial condition. Further, the continued threat of terrorism and the occurrence of terrorist attacks, as well as heightened security measures and military action in response to these threats and attacks, may cause significant volatility in global financial markets, disruptions to commerce and reduced economic activity. These consequences could have an adverse effect on the value of the assets in our investment portfolio as well as those in our separate accounts. The continued threat of terrorism also could result in increased reinsurance prices and potentially cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. Terrorist attacks also could disrupt our operations centers in the U.S. or abroad. As a result, it is possible that any, or a combination of all, of these factors may have a material adverse effect on our business, consolidated operating results, financial condition and liquidity.

We may incur losses due to our reinsurers unwillingness or inability to meet their obligations under reinsurance contracts and the availability, pricing and adequacy of reinsurance may not be sufficient to protect us against losses.

As an insurer, we frequently seek to reduce the losses that may arise from catastrophes or mortality, or other events that can cause unfavorable results of operations, through reinsurance. Under these reinsurance arrangements, other insurers assume a portion of our losses and related expenses; however, we remain liable as the direct insurer on all risks reinsured. Consequently, ceded reinsurance arrangements do not eliminate our obligation to pay claims, and we are subject to our reinsurers credit risk with respect to our ability to recover amounts due from them. Although we evaluate periodically the financial condition of our reinsurers to minimize our exposure to significant losses from reinsurer insolvencies, our reinsurers may become financially unsound or choose to dispute their contractual obligations by the time their financial obligations become due. The inability or unwillingness of any reinsurer to meet its financial obligations to us could have a material adverse effect on our consolidated operating results. In addition,

market conditions beyond our control determine the availability and cost of the reinsurance we are able to purchase. Historically, reinsurance pricing has changed significantly from time to time. No assurances can be made that reinsurance will remain continuously available to us to the same extent and on the same terms as are currently available. If we were unable to maintain our current level of reinsurance or purchase new reinsurance protection in amounts that we consider sufficient and at prices that we consider acceptable, we would have to either accept an increase in our net liability exposure, reduce the amount of business we write, or develop other alternatives to reinsurance.

Our consolidated results of operations, financial condition and cash flows may be materially adversely affected by unfavorable loss development.

Our success, in part, depends upon our ability to accurately assess the risks associated with the businesses that we insure. We establish loss reserves to cover our estimated liability for the payment of all unpaid losses and loss expenses incurred with respect to premiums earned on the policies that we write. Loss reserves do not represent an exact calculation of liability. Rather, loss reserves are estimates of what we expect the ultimate settlement and administration of claims will cost, less what has been paid to date. These estimates are based upon actuarial and statistical projections and on our assessment of currently available data, as well as estimates of claims severity and frequency, legal theories of liability and other factors. Loss reserve estimates are refined periodically as experience develops and claims are reported and settled. Establishing an appropriate level of loss reserves is an inherently uncertain process. Because of this uncertainty, it is possible that our reserves at any given time will prove inadequate. Furthermore, since estimates of aggregate loss costs for prior accident years are used in pricing our insurance products, we could later determine that our products were not priced adequately to cover actual losses and related loss expenses in order to generate a profit. To the extent we determine that losses and related loss expenses are emerging unfavorably to our initial expectations, we will be required to increase reserves. Increases in reserves would be recognized as an expense during the period or periods in which these determinations are made, thereby adversely affecting our results of operations for the related period or periods. Depending on the severity and timing of any changes in these estimated losses, such determinations could have a material adverse effect on our consolidated results of operations, financial condition and cash flows.

We are particularly vulnerable to losses from the incidence and severity of catastrophes, both natural and man-made, the occurrence of which may have a material adverse effect on our financial condition, consolidated results of operations and liquidity.

Our property and casualty insurance operations expose us to claims arising out of catastrophes. Catastrophes can be caused by various unpredictable events, including earthquakes, hurricanes, hailstorms, severe winter weather, fires, tornadoes, explosions and other natural or man-made disasters. We also face substantial exposure to losses resulting from acts of terrorism, disease pandemics and political instability. The geographic distribution of our business subjects us to catastrophe exposure for natural events occurring in a number of areas, including, but not limited to, hurricanes in Florida, the Gulf Coast, the Northeast and the Atlantic coast regions of the United States, and earthquakes in California and the New Madrid region of the United States. We expect that increases in the values and concentrations of insured property in these areas will continue to increase the severity of catastrophic events in the future. In the aftermath of the 2004 and 2005 hurricane season, third-party catastrophe loss models for hurricane loss events were updated to incorporate medium-term forecasts of increased hurricane frequency and severity. In addition, changing climate conditions, primarily rising global temperatures, may be increasing, or may in the future increase, the frequency and severity of natural catastrophes such as hurricanes. Our life insurance operations are also exposed to risk of loss from catastrophes. For example, natural or man-made disasters or a disease pandemic such as could arise from avian flu, could significantly increase our mortality and morbidity experience. Policyholders may be unable to meet their obligations to pay premiums on our insurance policies or make deposits on our investment products. Our liquidity could be constrained by a catastrophe, or multiple catastrophes, which could result in extraordinary losses or a further downgrade of our debt or financial strength ratings from their levels as of February 10, 2009. In addition, in part because accounting rules do not permit insurers to reserve for such catastrophic events until they occur, claims from catastrophic events could have a material adverse effect on our financial condition, consolidated results of operations and cash flows.

Competitive activity may adversely affect our market share and financial results, which could have a material adverse effect on our business, results of operations and financial condition.

The insurance industry is highly competitive. Our competitors include other insurers and, because many of our products include an investment component, securities firms, investment advisers, mutual funds, banks and other financial institutions. In recent years, there has been substantial consolidation and convergence among companies in the insurance and financial services industries resulting in increased competition from large, well-capitalized insurance and financial services firms that market products and services similar to ours. The current economic

environment has only served to further increase competition. Many of these firms also have been able to increase their distribution systems through mergers or contractual arrangements. These competitors compete with us for producers such as brokers and independent agents and for our employees. Larger competitors may have lower operating costs and an ability to absorb greater risk while maintaining their financial strength ratings, thereby allowing them to price their products more competitively. These highly competitive pressures could result in increased pricing pressures on a number of our products and services, particularly as competitors seek to win market share, and may harm our ability to maintain or increase our profitability. In addition, as actual or potential future downgrades occur, and if our competitors have not been similarly downgraded, sales of our products could be significantly reduced. Because of the highly competitive nature of the insurance industry, there can be no assurance that we will continue to effectively compete with our industry rivals, or that competitive pressure will not have a material adverse effect on our business, results of operations and financial condition.

We may experience unfavorable judicial or legislative developments that could have a material adverse effect on our results of operations, financial condition and liquidity.

The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. The Company is also involved in legal actions that do not arise in the ordinary course of business, some of which assert claims for substantial amounts. Pervasive or dramatic changes in the judicial environment relating to matters such as trends in the size of jury awards, developments in the law relating to the liability of insurers or tort defendants, and rulings concerning the availability or amount of certain types of damages could cause our ultimate liabilities to change from our current expectations. Similarly, changes in federal or state tort litigation laws or other applicable laws could have the same effect. It is not possible to predict changes in the judicial and legislative environment and their impact on the future development of the adequacy of our loss reserves, particularly reserves for longer-tailed lines of business, including asbestos and environmental reserves. Similarly, changes in the judicial and legislative environment can adversely affect our ability to price our products. To the extent that judicial or legislative developments cause our ultimate liabilities to increase from our current expectations, they could have a material adverse effect on the Company s consolidated results of operations, financial condition and liquidity.

Potential changes in domestic and foreign regulation may increase our business costs and required capital levels, which could have a material adverse effect on our business, consolidated operating results, financial condition and liquidity.

We are subject to extensive laws and regulations. These laws and regulations are complex and subject to change. Moreover, they are administered and enforced by a number of different governmental authorities and non-governmental self-regulatory agencies, including foreign regulators, state insurance regulators, state securities administrators, the Securities and Exchange Commission, the New York Stock Exchange, the Financial Industry Regulatory Authority, the U.S. Department of Justice, the Office of Thrift Supervision, if our application for the U.S. Treasury Department s Capital Purchase Program is approved, and state attorneys general, each of which exercises a degree of interpretive latitude. Consequently, we are subject to the risk that compliance with any particular regulator s or enforcement authority s interpretation of a legal issue may not result in compliance with another regulator s or enforcement authority s interpretation of the same issue, particularly when compliance is judged in hindsight. In addition, there is risk that any particular regulator s or enforcement authority s interpretation of a legal issue may change over time to our detriment, or that changes in the overall legal environment, even absent any change of interpretation by any particular regulator or enforcement authority, may cause us to change our views regarding the actions we need to take from a legal risk management perspective, which could necessitate changes to our practices that may, in some cases, limit our ability to grow and improve the profitability of our business.

State insurance laws regulate most aspects of our U.S. insurance businesses, and our insurance subsidiaries are regulated by the insurance departments of the states in which they are domiciled, licensed or authorized to conduct business. U.S. state laws grant insurance regulatory authorities broad administrative powers with respect to, among other things:

- licensing companies and agents to transact business;
- calculating the value of assets to determine compliance with statutory requirements;
- mandating certain insurance benefits;
- regulating certain premium rates;
- reviewing and approving policy forms;

regulating unfair trade and claims practices, including through the imposition of restrictions on marketing and sales practices, distribution arrangements and payment of inducements;

establishing statutory capital and reserve requirements and solvency standards;

fixing maximum interest rates on insurance policy loans and minimum rates for guaranteed crediting rates on life insurance policies and annuity contracts;

approving changes in control of insurance companies;

restricting the payment of dividends and other transactions between affiliates;

establishing assessments and surcharges for guaranty funds, second-injury funds and other mandatory pooling arrangements;

requiring insurers to dividend to policy holders any excess profits; and

regulating the types, amounts and valuation of investments.

State insurance regulators and the National Association of Insurance Commissioners, or NAIC, regularly re-examine existing laws and regulations applicable to insurance companies and their products. Our international operations are subject to regulation in the relevant jurisdictions in which they operate, which in many ways is similar to the state regulation outlined above, with similar related restrictions. Our asset management businesses are also subject to extensive regulation in the various jurisdictions where they operate. These laws and regulations are primarily intended to protect investors in the securities markets or investment advisory clients and generally grant supervisory authorities broad administrative powers. Changes in these laws and regulations, or in the interpretations thereof, are often made for the benefit of the consumer at the expense of the insurer and thus could have a material adverse effect on our business, consolidated operating results, financial condition and liquidity. Compliance with these laws and regulations is also time consuming and personnel-intensive, and changes in these laws and regulations may increase materially our direct and indirect compliance costs and other expenses of doing business, thus having an adverse effect on our business, consolidated operating results, financial condition and liquidity.

We may experience difficulty in marketing and distributing products through our current and future distribution channels.

We distribute our annuity, life and certain property and casualty insurance products through a variety of distribution channels, including brokers, independent agents, broker-dealers, banks, wholesalers, affinity partners, our own internal sales force and other third-party organizations. In some areas of our business, we generate a significant portion of our business through individual third-party arrangements. For example, we generated approximately 71% of our personal lines earned premium in 2008 under an exclusive licensing arrangement with AARP that continues until January 1, 2020. We periodically negotiate provisions and renewals of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties. An interruption in our continuing relationship with certain of these third parties could materially affect our ability to market our products and could have a material adverse effect on our business, operating results and financial condition.

Our business, results of operations, financial condition and liquidity may be adversely affected by the emergence of unexpected and unintended claim and coverage issues.

As industry practices and legal, judicial, social and other environmental conditions change, unexpected and unintended issues related to claims and coverage may emerge. These issues may either extend coverage beyond our underwriting intent or increase the frequency or severity of claims. In some instances, these changes may not become apparent until some time after we have issued insurance contracts that are affected by the changes. As a result, the full extent of liability under our insurance contracts may not be known for many years after a contract is issued, and this liability may have a material adverse effect on our business, results of operations, financial condition and liquidity at the time it becomes known.

Limits on the ability of our insurance subsidiaries to pay dividends to us could have a material adverse effect on our liquidity.

The Hartford Financial Services Group, Inc. is a holding company with no significant operations. Our principal asset is the stock of our insurance subsidiaries. State insurance regulatory authorities limit the payment of dividends by insurance subsidiaries. These restrictions and other regulatory requirements affect the ability of our insurance subsidiaries to make dividend payments. Limits on the ability of the insurance subsidiaries to pay dividends could have a material adverse effect on our liquidity, including our ability to pay dividends to shareholders and service our debt.

As a property and casualty insurer, the premium rates we are able to charge and the profits we are able to obtain are affected by the actions of state insurance departments that regulate our business, the cyclical nature of the business in which we compete and our ability to adequately price the risks we underwrite, which may have a material adverse effect on our consolidated results of operations, financial condition and cash flows.

Pricing adequacy depends on a number of factors, including the ability to obtain regulatory approval for rate changes, proper evaluation of underwriting risks, the ability to project future loss cost frequency and severity based on historical loss experience adjusted for known trends, our response to rate actions taken by competitors, and expectations about regulatory and legal developments and expense levels. We seek to price our property and casualty insurance policies such that insurance premiums and future net investment income earned on premiums received will provide for an acceptable profit in excess of underwriting expenses and the cost of paying claims.

State insurance departments that regulate us often propose premium rate changes for the benefit of the consumer at the expense of the insurer and may not allow us to reach targeted levels of profitability. In addition to regulating rates, certain states have enacted laws that require a property and casualty insurer conducting business in that state to participate in assigned risk plans, reinsurance facilities, joint underwriting associations and other residual market plans, or to offer coverage to all consumers and often restrict an insurer s ability to charge the price it might otherwise charge. In these markets, we may be compelled to underwrite significant amounts of business at lower than desired rates, participate in the operating losses of residual market plans or pay assessments to fund operating deficits of state-sponsored funds, possibly leading to an unacceptable returns on equity. The laws and regulations of many states also limit an insurer s ability to withdraw from one or more lines of insurance in the state, except pursuant to a plan that is approved by the state s insurance department. Additionally, certain states require insurers to participate in guaranty funds for impaired or insolvent insurance companies. These funds periodically assess losses against all insurance companies doing business in the state. Any of these factors could have a material adverse effect on our consolidated results of operations.

Additionally, the property and casualty insurance market is historically cyclical, experiencing periods characterized by relatively high levels of price competition, less restrictive underwriting standards and relatively low premium rates, followed by periods of relatively low levels of competition, more selective underwriting standards and relatively high premium rates. Prices tend to increase for a particular line of business when insurance carriers have incurred significant losses in that line of business in the recent past or when the industry as a whole commits less of its capital to writing exposures in that line of business. Prices tend to decrease when recent loss experience has been favorable or when competition among insurance carriers increases. In a number of product lines and states, we continue to experience premium rate reductions. In these product lines and states, there is a risk that the premium we charge may ultimately prove to be inadequate as reported losses emerge. Even in a period of rate increases, there is a risk that regulatory constraints, price competition or incorrect pricing assumptions could prevent us from achieving targeted returns. Inadequate pricing could have a material adverse effect on our consolidated results of operations.

If we are unable to maintain the availability of our systems and safeguard the security of our data due to the occurrence of disasters or other unanticipated events, our ability to conduct business may be compromised, which may have a material adverse effect on our business, consolidated results of operations, financial condition or cash flows.

We use computer systems to store, retrieve, evaluate and utilize customer and company data and information. Our computer, information technology and telecommunications systems, in turn, interface with and rely upon third-party systems. Our business is highly dependent on our ability, and the ability of certain affiliated third parties, to access these systems to perform necessary business functions, including, without limitation, providing insurance quotes, processing premium payments, making changes to existing policies, filing and paying claims, administering variable annuity products and mutual funds, providing customer support and managing our investment portfolios. Systems failures or outages could compromise our ability to perform these functions in a timely manner, which could harm our ability to conduct business and hurt our relationships with our business partners and customers. In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, our systems may be inaccessible to our employees, customers or business partners for an extended period of time. Even if our employees are able to report to work, they may be unable to perform their duties for an extended period of time if our data or systems are disabled or destroyed. Our systems could also be subject to physical and electronic break-ins, and subject to similar disruptions from unauthorized tampering with our systems. This may impede or interrupt our business operations and may have a material adverse effect on our business, consolidated operating results, financial condition or liquidity.

If we experience difficulties arising from outsourcing relationships, our ability to conduct business may be compromised.

We outsource certain technology and business functions to third parties and expect to do so selectively in the future. If we do not effectively develop and implement our outsourcing strategy, third-party providers do not perform as anticipated, or we experience problems with a transition, we may experience operational difficulties, increased costs and a loss of business that may have a material adverse effect on our consolidated results of operations.

Potential changes in federal or state tax laws, including changes impacting the availability of the separate account dividend received deduction, could adversely affect our business, consolidated operating results or financial condition or liquidity.

Many of the products that the Company sells benefit from one or more forms of tax-favored status under current federal and state income tax regimes. For example, the Company sells life insurance policies that benefit from the deferral or elimination of taxation on earnings accrued under the policy, as well as permanent exclusion of certain death benefits that may be paid to policyholders beneficiaries. We also sell annuity contracts that allow the policyholders to defer the recognition of taxable income earned within the contract. Other products that the Company sells also enjoy similar, as well as other, types of tax advantages. The Company also benefits from certain tax benefits, including but not limited to, tax-exempt bond interest, dividends-received deductions, tax credits (such as foreign tax credits), and insurance reserve deductions.

There is risk that federal and/or state tax legislation could be enacted that would lessen or eliminate some or all of the tax advantages currently benefiting the Company or its policyholders. This could occur in the context of deficit

reduction or other tax reforms. The effects of any such changes could result in materially lower product sales, lapses of policies currently held, and/or our incurrence of materially higher corporate taxes.

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contractual rights and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we use a broad range of measures to protect our intellectual property rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability, which represents a diversion of resources that may be significant in amount and may not prove successful. The loss of intellectual property protection or the inability to secure or enforce the protection of our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We also may be subject to costly litigation in the event that another party alleges our operations or activities infringe upon another party s intellectual property rights. Third parties may have, or may eventually be issued, patents that could be infringed by our products, methods, processes or services. Any party that holds such a patent could make a claim of infringement against us. We may also be subject to claims by third parties for breach of copyright, trademark, trade secret or license usage rights. Any such claims and any resulting litigation could result in significant liability for damages. If we were found to have infringed a third-party patent or other intellectual property rights, we could incur substantial liability, and in some circumstances could be enjoined from providing certain products or services to our customers or utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses, or alternatively could be required to enter into costly licensing arrangements with third parties, all of which could have a material adverse effect on our business, results of operations and financial condition.

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Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The Hartford owns the land and buildings comprising its Hartford location and other properties within the greater Hartford, Connecticut area which total approximately 2.1 million of the 2.5 million square feet owned by the Company in the aggregate. In addition, The Hartford leases approximately 5.7 million square feet throughout the United States of America and approximately 1.1 million square feet in other countries. All of the properties owned or leased are used by one or more of all eleven reporting segments, depending on the location. For more information on reporting segments, see Part I, Item 1, Business of The Hartford Reporting Segments. The Company believes its properties and facilities are suitable and adequate for current operations.

Item 3. LEGAL PROCEEDINGS

The Hartford is involved in claims litigation arising in the ordinary course of business, both as a liability insurer defending or providing indemnity for third-party claims brought against insureds and as an insurer defending coverage claims brought against it. The Hartford accounts for such activity through the establishment of unpaid loss and loss adjustment expense reserves. Subject to the uncertainties discussed below under the caption Asbestos and Environmental Claims, management expects that the ultimate liability, if any, with respect to such ordinary-course claims litigation, after consideration of provisions made for potential losses and costs of defense, will not be material to the consolidated financial condition, results of operations or cash flows of The Hartford.

The Hartford is also involved in other kinds of legal actions, some of which assert claims for substantial amounts. These actions include, among others, putative state and federal class actions seeking certification of a state or national class. Such putative class actions have alleged, for example, underpayment of claims or improper underwriting practices in connection with various kinds of insurance policies, such as personal and commercial automobile, property, life and inland marine; improper sales practices in connection with the sale of life insurance and other investment products; and improper fee arrangements in connection with mutual funds and structured settlements. The Hartford also is involved in individual actions in which punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. Like many other insurers, The Hartford also has been joined in actions by asbestos plaintiffs asserting, among other things, that insurers had a duty to protect the public from the dangers of asbestos and that insurers committed unfair trade practices by asserting defenses on behalf of their policyholders in the underlying asbestos cases. Management expects that the ultimate liability, if any, with respect to such lawsuits, after consideration of provisions made for estimated losses, will not be material to the consolidated financial condition of The Hartford. Nonetheless, given the large or indeterminate amounts sought in certain of these actions, and the inherent unpredictability of litigation, an adverse outcome in certain matters could, from time to time, have a material adverse effect on the Company s consolidated results of operations or cash flows in particular quarterly or annual periods.

Broker Compensation Litigation Following the New York Attorney General s filing of a civil complaint against Marsh & McLennan Companies, Inc., and Marsh, Inc. (collectively, Marsh) in October 2004 alleging that certain insurance companies, including The Hartford, participated with Marsh in arrangements to submit inflated bids for business insurance and paid contingent commissions to ensure that Marsh would direct business to them, private plaintiffs brought several lawsuits against the Company predicated on the allegations in the Marsh complaint, to which the Company was not party. Among these is a multidistrict litigation in the United States District Court for the District of New Jersey. There are two consolidated amended complaints filed in the multidistrict litigation, one related to conduct in connection with the sale of property-casualty insurance and the other related to alleged conduct in connection with the sale of group benefits products. The Company and various of its subsidiaries are named in both complaints. The complaints assert, on behalf of a putative class of persons who purchased insurance through broker defendants, claims under the Sherman Act, the Racketeer Influenced and Corrupt Organizations Act (RICO), state law, and in the case of the group-benefits products complaint, claims under ERISA. The claims are predicated upon allegedly undisclosed or otherwise improper payments of contingent commissions to the broker defendants to steer business to the insurance company defendants. The district court has dismissed the Sherman Act and RICO claims in both complaints for failure to state a claim and has granted the defendants motions for summary judgment on the ERISA claims in the

group-benefits products complaint. The district court further has declined to exercise supplemental jurisdiction over the state law claims, has dismissed those state law claims without prejudice, and has closed both cases. The plaintiffs have appealed the dismissal of the claims in both consolidated amended complaints, except the ERISA claims.

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The Company is also a defendant in two consolidated securities actions and two consolidated derivative actions filed in the United States District Court for the District of Connecticut. The consolidated securities actions assert claims on behalf of a putative class of shareholders alleging that the Company and certain of its executive officers violated Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 by failing to disclose to the investing public that The Hartford s business and growth was predicated on the unlawful activity alleged in the New York Attorney General s complaint against Marsh. The consolidated derivative actions, brought by shareholders on behalf of the Company against its directors and an additional executive officer, allege that the defendants knew adverse non-public information about the activities alleged in the Marsh complaint and concealed and misappropriated that information to make profitable stock trades in violation of their duties to the Company. Defendants filed a motion to dismiss the consolidated derivative actions in May 2005. Those proceedings are stayed by agreement of the parties. In July 2006, the district court granted defendants motion to dismiss the consolidated securities actions, and the plaintiffs appealed. In November 2008, the United States Court of Appeals for the Second Circuit vacated the decision and remanded the case to the district court. The Company will renew its motion to dismiss with respect to issues that the district court did not address in the prior ruling.

In September 2007, the Ohio Attorney General filed a civil action in Ohio state court alleging that certain insurance companies, including The Hartford, conspired with Marsh in violation of Ohio s antitrust statute. The trial court denied defendants motion to dismiss the complaint in July 2008. The Company disputes the allegations and intends to defend this action vigorously.

Investment And Savings Plan ERISA Class Action Litigation In November and December 2008, following a decline in the share price of the Company s common stock, seven putative class action lawsuits were filed in the United States District Court for the District of Connecticut on behalf of certain participants in the Company s Investment and Savings Plan (the Plan), which offers the Company s common stock as one of many investment options. These lawsuits allege that the Company and certain of its officers and employees violated ERISA by allowing the Plan s participants to invest in the Company s common stock and by failing to disclose to the Plan s participants information about the Company s financial condition. These lawsuits seek restitution or damages for losses arising from the investment of the Plan s assets in the Company s common stock during the alleged class periods. The cases have been consolidated. The Company disputes the allegations and intends to defend the actions vigorously.

Fair Credit Reporting Act Class Action In February 2007, the United States District Court for the District of Oregon gave final approval of the Company s settlement of a lawsuit brought on behalf of a class of homeowners and automobile policy holders alleging that the Company willfully violated the Fair Credit Reporting Act by failing to send appropriate notices to new customers whose initial rates were higher than they would have been had the customer had a more favorable credit report. The settlement was made on a claim-in, nationwide-class basis and required eligible class members to return valid claim forms postmarked no later than June 28, 2007. The Company has paid $84.3 to eligible claimants in connection with the settlement. The Company has sought reimbursement from the Company s Excess Professional Liability Insurance Program for the portion of the settlement in excess of the Company s $10 self-insured retention. Certain insurance carriers participating in that program have disputed coverage for the settlement, and one of the excess insurers has commenced an arbitration to resolve the dispute. Management believes it is probable that the Company s coverage position ultimately will be sustained.

Call-Center Patent Litigation In June 2007, the holder of twenty-one patents related to automated call flow processes, Ronald A. Katz Technology Licensing, LP (Katz), brought an action against the Company and various of its subsidiaries in the United States District Court for the Southern District of New York. The action alleges that the Company s call centers use automated processes that willfully infringe the Katz patents. Katz previously has brought similar patent-infringement actions against a wide range of other companies, none of which has reached a final adjudication of the merits of the plaintiff s claims, but many of which have resulted in settlements under which the defendants agreed to pay licensing fees. The case was transferred to a multidistrict litigation in the United States District Court for the Central District of California, which is currently presiding over other Katz patent cases. In August 2008, the Company reached a settlement under which the Company purchased a license under the patent portfolio held by Katz in exchange for a payment of an immaterial amount.

Asbestos and Environmental Claims As discussed in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations under the caption Other Operations (Including Asbestos and Environmental Claims) , The Hartford continues to receive asbestos and environmental claims that involve significant uncertainty regarding policy coverage issues. Regarding these claims, The Hartford continually reviews its overall reserve levels and reinsurance coverages, as well as the methodologies it uses to estimate its exposures. Because of the significant uncertainties that limit the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses, particularly those related to asbestos, the ultimate liabilities may exceed the currently recorded reserves. Any such additional liability cannot be reasonably estimated now but could be material to The Hartford s consolidated operating results, financial condition and liquidity.

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Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders of The Hartford Financial Services Group, Inc. during the fourth quarter of 2008.

PART II

Item 5. MARKET FOR THE HARTFORD S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Hartford s common stock is traded on the New York Stock Exchange (NYSE) under the trading symbol HIG . The following table presents the high and low closing prices for the common stock of The Hartford on the NYSE for the periods indicated, and the quarterly dividends declared per share.

	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.
2008				
Common Stock Price				
High	$ 84.93	$ 79.13	$ 67.74	$ 38.11
Low	66.05	64.57	40.99	4.95
Dividends Declared	0.53	0.53	0.53	0.32
2007				
Common Stock Price				
High	$ 97.75	$ 106.02	$ 99.87	$ 98.56
Low	90.77	95.82	85.44	86.78
Dividends Declared	0.50	0.50	0.50	0.53

On February 10, 2009, The Hartford s Board of Directors declared a quarterly dividend of $0.05 per share payable on April 1, 2009 to shareholders of record as of March 2, 2009.

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Total Return to Shareholders

The following tables present The Hartford s annual percentage return and five-year total return on its common stock including reinvestment of dividends in comparison to the S&P 500 and the S&P Insurance Composite Index.

Annual Return Percentage

	For the Years Ended				
Company/Index	**2004**	**2005**	**2006**	**2007**	**2008**
The Hartford Financial Services Group, Inc.	19.50%	25.83%	10.82%	(4.55%)	(79.99%)
S&P 500 Index	10.88%	4.91%	15.79%	5.49%	(37.00%)
S&P Insurance Composite Index	7.25%	14.10%	10.91%	(6.31%)	(58.14%)

Cumulative Five-Year Total Return

	Base Period	For the Years Ended				
Company/Index	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**
The Hartford Financial Services Group, Inc.	$ 100	$ 119.50	$ 150.36	$ 166.63	$ 159.04	$ 31.82
S&P 500 Index	$ 100	$ 110.88	$ 116.33	$ 134.70	$ 142.10	$ 89.53
S&P Insurance Composite Index	$ 100	$ 107.25	$ 122.37	$ 135.73	$ 127.17	$ 53.23

Comparison of Cumulative Five-Year Total Return

As of February 5, 2009, the Company had approximately 350,000 shareholders. The closing price of The Hartford s common stock on the NYSE on February 5, 2009 was $15.09.

The Company s Chief Executive Officer has certified to the NYSE that he is not aware of any violation by the Company of NYSE corporate governance listing standards, as required by Section 303A.12(a) of the NYSE s Listed Company Manual.

There are also various legal and regulatory limitations governing the extent to which The Hartford s insurance subsidiaries may extend credit, pay dividends or otherwise provide funds to The Hartford Financial Services Group, Inc. as discussed in Part II, Item 7, MD&A Capital Resources and Liquidity Liquidity Requirements.

See Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, for information related to securities authorized for issuance under equity compensation plans.

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Purchases of Equity Securities by the Issuer

The following table summarizes the Company s repurchases of its common stock for the three months ended December 31, 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
October 1, 2008 October 31, 2008	3,940[1]	$ 28.69		$ 807
November 1, 2008 November 30, 2008	1,483[1]	$ 10.63		$ 807
December 1, 2008 December 31, 2008	52[1]	$ 6.61		$ 807
Total	**5,475**	**$ 23.59**		**N/A**

[1] Represents shares acquired from employees of the Company for tax withholding purposes in connection with the Company s stock compensation plans.

In June 2008, The Hartford s Board of Directors authorized an incremental $1 billion stock repurchase program which was in addition to the previously announced $2 billion program. The Company s repurchase authorization permits purchases of common stock, which may be in the open market or through privately negotiated transactions. The Company also may enter into derivative transactions to facilitate future repurchases of common stock. The timing of any future repurchases will be dependent upon several factors, including the market price of the Company s securities, the Company s capital position, consideration of the effect of any repurchases on the Company s financial strength or credit ratings, the Company s potential participation in the CPP, and other corporate considerations. The repurchase program may be modified, extended or terminated by the Board of Directors at any time. As of December 31, 2008, The Hartford has completed the $2 billion stock repurchase program and has $807 remaining for stock repurchase under the $1 billion repurchase program.

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Item 6. SELECTED FINANCIAL DATA
(In millions, except for per share data and combined ratios)

	2008	2007	2006	2005	2004
Income Statement Data					
Total revenues [1]	$ 9,219	$ 25,916	$ 26,500	$ 27,083	$ 22,708
Income (loss) before cumulative effect of accounting change [2]	(2,749)	2,949	2,745	2,274	2,138
Net income (loss) [2] [3]	(2,749)	2,949	2,745	2,274	2,115
Balance Sheet Data					
Total assets	$ 287,583	$ 360,361	$ 326,544	$ 285,412	$ 259,585
Long-term debt	5,823	3,142	3,504	4,048	4,308
Total stockholders equity	9,268	19,204	18,876	15,325	14,238
Earnings (Loss) Per Share Data					
Basic earnings (loss) per share [2] [4]					
Income (loss) before cumulative effect of accounting change [2]	$ (8.99)	$ 9.32	$ 8.89	$ 7.63	$ 7.32
Net income (loss) [2] [3]	(8.99)	9.32	8.89	7.63	7.24
Diluted earnings (loss) per share [2] [4]					
Income (loss) before cumulative effect of accounting change [2]	(8.99)	9.24	8.69	7.44	7.20
Net income (loss) [2] [3]	(8.99)	9.24	8.69	7.44	7.12
Dividends declared per common share	1.91	2.03	1.70	1.17	1.13
Other Data					
Mutual fund assets [5]	$ 50,126	$ 55,531	$ 43,732	$ 32,705	$ 28,068
Operating Data					
Combined ratios					
Ongoing Property & Casualty Operations	90.7	90.8	89.3	93.2	95.3

[1] Total revenues of The Hartford are impacted by net investment income and mark-to-market effects of equity securities held for trading supporting the international

variable annuity business, which have corresponding amounts credited to policyholders within benefits losses and loss adjustment expenses. 2008 revenues include net investment losses on equity securities held for trading of $10.3 billion. Also included in 2008 revenues are net realized capital losses of $5.9 billion.

[2] *2008 includes net realized capital losses of $3.6 billion, after-tax, including $2.5 billion, after-tax, in impairments.*

2004 includes a $216 tax benefit related to agreement with the IRS on the resolution of matters pertaining to tax years prior to 2004.

[3] *2004 includes a $23 after-tax charge related to the cumulative effect of*

accounting change for the Company s adoption of the American Institute of Certified Public Accountants (AICPA) issued Statement of Position 03-1, Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts .

[4] Due to the net loss for the year ended December 31, 2008, no allocation of the net loss was made to the preferred shareholders under the two-class method in the calculation of basic earnings per share, as the preferred shareholders had no contractual obligation to fund the net losses of the Company. In the absence of the net loss, any such income would be allocated to the

preferred shareholders based on the weighted average number of preferred shares outstanding as of December 31, 2008.

As a result of the net loss in the year ended December 31, 2008, FASB No.128, Earnings per Share (SFAS 128) requires the Company to use basic weighted average common shares outstanding in the calculation of the year ended December 31, 2008 diluted earnings (loss) per share, since the inclusion of the assumed conversion of convertible preferred shares to common of 5.0 and shares for stock compensation plans of 1.3 would have been antidilutive to the earnings per share calculation. In the absence of the net loss,

weighted average common shares outstanding and dilutive potential common shares would have totaled 313.0.

[5] *Mutual funds are owned by the shareholders of those funds and not by the Company. As a result, they are not reflected in total assets in the Company s balance sheet.*

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Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollar amounts in millions, except for per share data, unless otherwise stated)

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) addresses the financial condition of The Hartford Financial Services Group, Inc. and its subsidiaries (collectively, The Hartford or the Company) as of December 31, 2008, compared with December 31, 2007, and its results of operations for each of the three years in the period ended December 31, 2008. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes beginning on page F-1. Certain reclassifications have been made to prior year financial information to conform to the current year presentation.

Certain of the statements contained herein are forward-looking statements. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and include estimates and assumptions related to economic, competitive and legislative developments. These forward-looking statements are subject to change and uncertainty which are, in many instances, beyond the Company s control and have been made based upon management s expectations and beliefs concerning future developments and their potential effect upon the Company. There can be no assurance that future developments will be in accordance with management s expectations or that the effect of future developments on The Hartford will be those anticipated by management. Actual results could differ materially from those expected by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in Part II, Item 1A, Risk Factors. These important risks and uncertainties include, without limitation, uncertainties related to the depth and duration of the current recession and related financial crisis, and the impact of these volatile market conditions on, among other things, our investment portfolio, liabilities from variable annuity products and capital position; the success of our efforts to preserve capital and reduce risk, and the costs and charges associated therewith; our ability to participate in programs under the Emergency Economic Stabilization Act of 2008 and similar initiatives and the terms of such participation; changes in financial and capital markets, including changes in interest rates, credit spreads, equity prices and foreign exchange rates; the inability to effectively mitigate the impact of equity market volatility on the Company s financial position and results of operations arising from obligations under annuity product guarantees; the amount of statutory capital that the Company has, changes to the statutory reserves and/or risk based capital requirements, and the Company s ability to hold sufficient statutory capital to maintain financial strength and credit ratings; risks related to the Company s potential participation in the U.S. Treasury s Capital Purchase Program; a downgrade in the Company s financial strength or credit ratings; the potential for differing interpretations of the methodologies, estimations and assumptions that underlie the valuation of the Company s financial instruments that could result in changes to investment valuations; the subjective determinations that underlie the Company s evaluation of other-than-temporary impairments on available-for-sale securities; losses due to nonperformance or defaults by others; the availability of our commercial paper program; the potential for acceleration of DAC amortization; the potential for an impairment of our goodwill; the difficulty in predicting the Company s potential exposure for asbestos and environmental claims; the possible occurrence of terrorist attacks; the response of reinsurance companies under reinsurance contracts and the availability, pricing and adequacy of reinsurance to protect the Company against losses; the possibility of unfavorable loss development; the incidence and severity of catastrophes, both natural and man-made; stronger than anticipated competitive activity; unfavorable judicial or legislative developments; the potential effect of domestic and foreign regulatory developments, including those which could increase the Company s business costs and required capital levels; the Company s ability to distribute its products through distribution channels, both current and future; the uncertain effects of emerging claim and coverage issues; the ability of the Company s subsidiaries to pay dividends to the Company; the Company s ability to adequately price its property and casualty policies; the ability to recover the Company s systems and information in the event of a disaster or other unanticipated event; potential for difficulties arising from outsourcing relationships; potential changes in federal or state tax laws, including changes impacting the availability of the separate account dividend received deduction; the Company s ability to protect its intellectual property and defend against claims of infringement; and other factors described in such forward-looking statements.

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OVERVIEW

The Hartford is an insurance and financial services company with operations dating back to 1810. The Company is headquartered in Connecticut and is organized into two major operations: Life and Property & Casualty, each containing reporting segments. Within the Life and Property & Casualty operations, The Hartford conducts business principally in eleven reporting segments. Corporate primarily includes the Company s debt financing and related interest expense, as well as other capital raising activities and purchase accounting adjustments.

Life is organized into four groups which are comprised of six reporting segments: The Retail Products Group (Retail) and Individual Life segments make up the Individual Markets Group. The Retirement Plans and Group Benefits segments make up the Employer Markets Group. The Institutional Solutions Group (Institutional) and International segments each make up their own group. Through Life the Company provides retail and institutional investment products such as variable and fixed annuities, mutual funds, private placement life insurance and retirement plan services, individual life insurance products including variable universal life, universal life, interest sensitive whole life and term life; and group benefit products, such as group life and group disability insurance.

Property & Casualty is organized into five reporting segments: the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial (collectively Ongoing Operations), and the Other Operations segment. Through Property & Casualty the Company provides a number of coverages, as well as insurance-related services, to businesses throughout the United States, including workers compensation, property, automobile, liability, umbrella, specialty casualty, marine, livestock, fidelity and surety, professional liability and director s and officer s liability coverages. Property & Casualty also provides automobile, homeowners, and home-based business coverage to individuals throughout the United States, as well as insurance-related services to businesses.

Many of the principal factors that drive the profitability of The Hartford s Life and Property & Casualty operations are separate and distinct. To present its operations in a more meaningful and organized way, management has included separate overviews within the Life and Property & Casualty sections of the MD&A. For further overview of Life s profitability and analysis, see page 70. For further overview of Property & Casualty s profitability and analysis, see page 94.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ, and in the past have differed, from those estimates.

The Company has identified the following estimates as critical in that they involve a higher degree of judgment and are subject to a significant degree of variability: property and casualty reserves, net of reinsurance; life estimated gross profits used in the valuation and amortization of assets and liabilities associated with variable annuity and other universal life-type contracts; living benefits required to be fair valued; valuation of investments and derivative instruments; evaluation of other-than-temporary impairments on available-for-sale securities; pension and other postretirement benefit obligations; contingencies relating to corporate litigation and regulatory matters; and goodwill impairment. In developing these estimates management makes subjective and complex judgments that are inherently uncertain and subject to material change as facts and circumstances develop. Although variability is inherent in these estimates, management believes the amounts provided are appropriate based upon the facts available upon compilation of the financial statements.

Property and Casualty Reserves, Net of Reinsurance

The Hartford establishes property and casualty reserves to provide for the estimated costs of paying claims under insurance policies written by the Company. These reserves include estimates for both claims that have been reported and those that have not yet been reported, and include estimates of all expenses associated with processing and settling these claims. Estimating the ultimate cost of future losses and loss adjustment expenses is an uncertain and complex process. This estimation process is based largely on the assumption that past developments are an appropriate predictor of future events and involves a variety of actuarial techniques that analyze experience, trends and other relevant factors. Reserve estimates can change over time because of unexpected changes in the external environment.

Potential external factors include (1) changes in the inflation rate for goods and services related to covered damages such as medical care, hospital care, auto parts, wages and home repair, (2) changes in the general economic environment that could cause unanticipated changes in the claim frequency per unit insured, (3) changes in the litigation environment as evidenced by changes in claimant attorney representation in the claims negotiation and settlement process, (4) changes in the judicial environment regarding the interpretation of policy provisions relating to the determination of coverage and/or the amount of damages awarded for certain types of damages, (5) changes in the social environment regarding the general attitude of juries in the determination of liability and damages, (6) changes in the legislative environment regarding the definition of damages and (7) new types of injuries caused by new types of injurious exposure: past examples include breast implants, lead paint and construction defects. Reserve estimates can also change over time because of changes in internal company operations. Potential internal factors include (1) periodic changes in claims handling procedures, (2) growth in new lines of business where exposure and loss development patterns are not well established or (3) changes in the quality of risk selection in the underwriting process. In the case of assumed reinsurance, all of the above risks apply. In addition, changes in ceding company case reserving and reporting patterns can create additional factors that need to be considered in estimating the reserves. Due to the inherent complexity of the assumptions used, final claim settlements may vary significantly from the present estimates, particularly when those settlements may not occur until well into the future.

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Through both facultative and treaty reinsurance agreements, the Company cedes a share of the risks it has underwritten to other insurance companies. The Company s net reserves for loss and loss adjustment expenses include anticipated recovery from reinsurers on unpaid claims. The estimated amount of the anticipated recovery, or reinsurance recoverable, is net of an allowance for uncollectible reinsurance.

Reinsurance recoverables include an estimate of the amount of gross loss and loss adjustment expense reserves that may be ceded under the terms of the reinsurance agreements, including incurred but not reported unpaid losses. The Company calculates its ceded reinsurance projection based on the terms of any applicable facultative and treaty reinsurance, including an estimate of how incurred but not reported losses will ultimately be ceded by reinsurance agreement. Accordingly, the Company s estimate of reinsurance recoverables is subject to similar risks and uncertainties as the estimate of the gross reserve for unpaid losses and loss adjustment expenses.

The Company provides an allowance for uncollectible reinsurance, reflecting management s best estimate of reinsurance cessions that may be uncollectible in the future due to reinsurers unwillingness or inability to pay. The Company analyzes recent developments in commutation activity between reinsurers and cedants, recent trends in arbitration and litigation outcomes in disputes between reinsurers and cedants and the overall credit quality of the Company s reinsurers. Where its contracts permit, the Company secures future claim obligations with various forms of collateral, including irrevocable letters of credit, secured trusts, funds held accounts and group-wide offsets. The allowance for uncollectible reinsurance was $379 as of December 31, 2008, including $254 related to Other Operations and $125 related to Ongoing Operations.

Due to the inherent uncertainties as to collection and the length of time before reinsurance recoverables become due, it is possible that future adjustments to the Company s reinsurance recoverables, net of the allowance, could be required, which could have a material adverse effect on the Company s consolidated results of operations or cash flows in a particular quarter or annual period.

The Hartford, like other insurance companies, categorizes and tracks its insurance reserves for its segments by line of business , such as property, auto physical damage, auto liability, commercial multi-peril package business, workers compensation, general liability professional liability and fidelity and surety. Furthermore, The Hartford regularly reviews the appropriateness of reserve levels at the line of business level, taking into consideration the variety of trends that impact the ultimate settlement of claims for the subsets of claims in each particular line of business. In addition, within the Other Operations segment, the Company has reserves for asbestos and environmental (A&E) claims. Adjustments to previously established reserves, which may be material, are reflected in the operating results of the period in which the adjustment is determined to be necessary. In the judgment of management, information currently available has been properly considered in the reserves established for losses and loss adjustment expenses.

Incurred but not reported (IBNR) reserves represent the difference between the estimated ultimate cost of all claims and the actual reported loss and loss adjustment expenses (reported losses). Reported losses represent cumulative loss and loss adjustment expenses paid plus case reserves for outstanding reported claims. Company actuaries evaluate the total reserves (IBNR and case reserves) on an accident year basis. An accident year is the calendar year in which a loss is incurred, or, in the case of claims-made policies, the calendar year in which a loss is reported.

The following table shows loss and loss adjustment expense reserves by line of business and by operating segment as of December 31, 2008, net of reinsurance:

	Personal Lines	Small Commercial	Middle Market	Specialty Commercial	Ongoing Operations	Other Operations	Total P&C
Reserve Line of Business							
Property	$ 304	$ 2	$ 61	$ 86	$ 453	$	$ 453
Auto physical damage	23	4	6	11	44		44
Auto liability	1,615	281	252	142	2,290		2,290
Package business		1,108	938	149	2,195		2,195
Workers compensation	11	1,854	2,226	2,241	6,332		6,332
General liability	36	145	814	1,256	2,251		2,251

Professional liability				773	773		773
Fidelity and surety				210	210		210
Assumed Reinsurance [1]						562	562
All other non-A&E						1,066	1,066
A&E	3	2	10	3	18	2,153	2,171
Total reserves-net	**1,992**	**3,396**	**4,307**	**4,871**	**14,566**	**3,781**	**18,347**
Reinsurance and other recoverables	60	176	437	2,110	2,783	803	3,586
Total reserves-gross	**$ 2,052**	**$ 3,572**	**$ 4,744**	**$ 6,981**	**$ 17,349**	**$ 4,584**	**$ 21,933**

[1] *These net loss and loss adjustment expense reserves relate to assumed reinsurance that was moved into Other Operations (formerly known as HartRe).*

Reserving for non-A&E reserves within Ongoing and Other Operations

How non-A&E reserves are set

Reserves are set by line of business within the various operating segments. As indicated in the above table, a single line of business may be written in one or more of the segments. Case reserves are established by a claims handler on each individual claim and are adjusted as new information becomes known during the course of handling the claim. Lines of business for which loss data (e.g., paid losses and case reserves) emerge (i.e., is reported) over a long period of time are referred to as long-tail lines of business. Lines of business for which loss data emerge more quickly are referred to as short-tail lines of business. Within the Company s Ongoing Operations, the shortest-tail lines of business are property and auto physical damage. The longest tail lines of business within Ongoing Operations include workers compensation, general liability, and professional liability. Assumed reinsurance, which is within Other Operations, is also long-tail business.

For short-tail lines of business, emergence of paid loss and case reserves is credible and likely indicative of ultimate losses. For long-tail lines of business, emergence of paid losses and case reserves is less credible in the early periods and, accordingly, may not be indicative of ultimate losses.

An expected loss ratio is used in initially recording the reserves for both short-tail and long-tail lines of business. This expected loss ratio is determined through a review of prior accident years loss ratios and expected changes to earned pricing, loss costs, mix of business, ceded reinsurance and other factors that are expected to impact the loss ratio for the current accident year. For short-tail lines, IBNR for the current accident year is initially recorded as the product of the expected loss ratio for the period, earned premium for the period and the proportion of losses expected to be reported in future calendar periods for the current accident period. For long-tailed lines, IBNR reserves for the current accident year are initially recorded as the product of the expected loss ratio for the period and the earned premium for the period, less reported losses for the period.

Company reserving actuaries, who are independent of the business units, regularly review reserves for both current and prior accident years using the most current claim data. These reserve reviews incorporate a variety of actuarial methods and judgments and involve rigorous analysis. Most non-A&E reserves are reviewed fully each quarter, including loss reserves for property, auto physical damage, auto liability, package business, workers compensation, most general liability, professional liability and fidelity and surety. Other non-A&E reserves are reviewed semi-annually (twice per year) or annually. These include, but are not limited to, reserves for losses incurred before 1988, allocated loss adjustment expenses, assumed reinsurance, latent exposures such as construction defects, unallocated loss adjustment expense and all other non-A&E exposures within Other Operations. For reserves that are reviewed semi-annually and annually, management monitors the emergence of paid and reported losses in the intervening quarters to either confirm that its estimate of ultimate losses should not change or, if necessary, perform a reserve review to determine whether the reserve estimate should change.

For most lines of business, a variety of actuarial methods are reviewed and the actuaries select methods and specific assumptions appropriate for each line of business based on the current circumstances affecting that line of business. These selections incorporate input, as judged by the reserving actuaries to be appropriate, from claims personnel, pricing actuaries and operating management on reported loss cost trends and other factors that could affect the reserve estimates. The output of the reserve reviews are reserve estimates that are referred to herein as the actuarial indication .

The actuarial techniques or methods used primarily include paid and reported loss development, frequency / severity, expected loss ratio and Bornhuetter-Ferguson techniques. Within any one line of business, a variety of techniques are used. Within any one line of business, certain methods are generally given more influence in determining the actuarial indication. The methods that are given more influence vary within a line of business based primarily on the maturity of the accident year, the mix of business and the particular internal and external influences impacting the claims experience or the methods. The following is a discussion of the most common methods used; these methods are not used for every line of business or every accident year within a line of business.

Paid Development method. Historical data, organized by accident period and calendar period, is used to develop paid loss development patterns, which are then applied to current paid losses by accident period to estimate ultimate losses. The paid development method is also used to estimate reserves for allocated loss adjustments expenses (ALAE).

Paid development techniques do not use information about case reserves and, therefore, are not affected by changes in case reserving practices. Paid development techniques can, however, be significantly affected by changes in claim closure patterns. Paid development techniques for longer-tailed lines are generally less useful for more recent accident years since a low percentage of ultimate losses are paid to date in early periods of development and small changes in paid losses can have a large impact on estimated ultimate losses.

Reported Development method. Historical data, organized by accident period and calendar period, is used to develop reported loss development patterns, which are then applied to current reported losses by accident period to estimate ultimate losses. The reported losses used in this analysis refer to cumulative paid losses plus case reserves and do not include IBNR.

Compared to the paid development technique, the reported development technique has the advantage that a higher percentage of ultimate losses are reflected in reported losses than in cumulative paid losses. The reported development technique estimates only the unreported losses rather than the total unpaid losses. While the reported development technique takes advantage of information contained in the case reserves, estimates determined from this technique are affected by changes in case reserving practices.

Both paid and reported development techniques assume that historical development patterns are predictive of future development patterns.

Frequency / Severity methods. Historical data is used to develop claim count development patterns and those patterns are applied to the number of current reported claims to estimate ultimate claim counts. Estimated ultimate claim counts are multiplied by an estimated average severity (i.e., an average cost per claim) to calculate estimated ultimate losses. Average severity is estimated by fitting historical severity data to a trend line and making assumptions about how the current environment would affect claim severity. In making assumptions about the current environment, industry data is used where such data is available and appropriate.

The advantage of frequency / severity techniques is that frequency estimates are generally easier to predict and external information can be used to supplement internal data in making severity estimates.

Expected Loss Ratio method. Loss ratios for prior accident years are used to determine the appropriate expected loss ratio for the current accident year after applying anticipated changes in rates, pricing and loss costs. The current accident year expected loss ratio is multiplied by earned premium to calculate estimated ultimate losses.

Expected Loss Ratio techniques are useful for early periods of maturity on long-tailed lines of business, where very little paid or reported loss information is available.

Bornhuetter-Ferguson method. This method is a combination of the expected loss ratio method and the paid development or reported development method, where the paid or reported loss development method is given more weight as an accident year matures.

Berquist-Sherman method. This method is used in cases where historical development patterns may be inappropriate for use in estimating ultimate losses of recent accident years. Under this method, the pattern of historical reported losses is adjusted for changes in case reserve adequacy and the pattern of historical paid losses is adjusted for changes in claim settlement rates.

For all lines of business, variations of the above methods are used. Examples of variation within the paid and reported development methods include:

- The accident period used may vary (e.g., year, quarter, or month);
- The Company may analyze the data by coverage (e.g., bodily injury separate from property damage);
- There may be adjustments for unusual loss activity;
- For ALAE, the Company uses patterns of the relationship between paid ALAE and paid losses.

Examples of variation within the frequency /severity methods include:

- For one sub-set of professional liability business, management estimates frequency, not through historical claim count development, but through an analysis of the securities class actions filed and policy listings;
- For some methods, management projects severity on only open claims;
- In the commercial liability lines, the Company performs the frequency / severity technique only on claims over a certain size;

For each line of business, certain methods are given more influence than other methods. The discussion below gives a general indication of which methods are preferred by line of business. Because the actuarial estimates are generated at a much finer level of detail than line of business (e.g., by distribution channel, coverage, accident period), this description should not be assumed to apply to each coverage and accident year within a line of business. Also, as circumstances change, the methods that are given more influence will change. For example, for Personal Lines auto liability claims, reported development techniques are currently given less emphasis in making estimates for recent accident years because case reserving practices have been changing in the recent past. If case reserving practices become more stable, reported development techniques may be given more weight.

Property and Auto Physical Damage. These lines are fast-developing and paid and reported development techniques are used. The Company performs and relies primarily on reported development techniques and frequency/severity and Bornhuetter-Ferguson techniques for the most immature accident months.

Auto Liability Personal Lines. For auto liability, and bodily injury in particular, the Company performs a greater number of techniques than it does for property and auto physical damage, including paid and reported development methods, frequency/severity approaches, and Berquist-Sherman techniques. The Company generally uses the reported development method for older accident years and the frequency/severity and Berquist-Sherman methods for more recent accident years. Recent periods are heavily influenced by changes in case reserve practices and changing disposal rates; the frequency/severity techniques are not affected as much by these changes and the Berquist-Sherman

techniques specifically adjust for changes in case reserve adequacy and claim disposal rates.

Auto Liability   Commercial Lines, Package Business and Short-Tailed General Liability. As with Personal Lines auto liability, the Company performs a variety of techniques, including the paid and reported development methods and frequency / severity techniques. For older, more mature accident years, management finds that reported development techniques are best. For more recent accident years, management typically prefers frequency / severity techniques that allow it to make assumptions about the frequency of larger claims.

Long-Tailed General Liability, Fidelity and Surety and Large Deductible Workers   Compensation. For these long-tailed lines of business, the Company generally relies on the expected loss ratio, Bornhuetter-Ferguson and reported development techniques. Management generally weights these techniques together, relying more heavily on the expected loss ratio method at early ages of development and more on the reported development method as an accident year matures.

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Workers Compensation. Workers compensation is the Company s single largest reserve line of business and management does the largest amount of actuarial analysis on this line of business. Methods performed include paid and reported development, variations on expected loss ratio methods, and an in-depth analysis on the largest states. Paid development patterns are historically very stable in the Company s workers compensation business, so paid techniques are preferred for older accident periods. For more recent periods, paid techniques are less predictive of the ultimate liability since such a low percentage of ultimate losses are paid in early periods of development. Accordingly, for more recent accident periods, the Company generally relies more heavily on a state-by-state analysis and the expected loss ratio approach.

Professional Liability. Reported and paid loss developments patterns for this line tend to be volatile. Therefore, the Company typically relies on frequency and severity techniques.

Assumed Reinsurance and All Other within Other Operations. For these lines, management tends to rely on the reported development techniques. In assumed reinsurance, assumptions are influenced by information gained from claim and underwriting audits.

Allocated Loss Adjustment Expenses (ALAE). For some lines of business (e.g., professional liability and assumed reinsurance), ALAE and losses are analyzed together. For most lines of business, however, ALAE is analyzed separately, using paid development techniques and an analysis of the relationship between ALAE and loss payments.

Unallocated Loss Adjustment Expense (ULAE). ULAE is analyzed separately from loss and ALAE. For most lines of business, incurred ULAE costs to be paid in the future are projected based on an expected cost per claim year and the anticipated claim closure pattern and the ratio of paid ULAE to paid loss.

The final step in the reserve review process involves a comprehensive review by senior reserving actuaries who apply their judgment and, in concert with senior management, determine the appropriate level of reserves based on the various information that has been accumulated. Numerous factors are considered in this determination process including, but not limited to, the assessed reliability of key loss trends and assumptions that may be significantly influencing the current actuarial indications, the maturity of the accident year, pertinent trends observed over the recent past, the level of volatility within a particular line of business, and the improvement or deterioration of actuarial indications in the current period as compared to the prior periods. In general, changes are made more quickly to more mature accident years and less volatile lines of business. Total recorded net reserves, excluding asbestos and environmental, were higher than the actuarial indication of the reserves by 3.8% as of December 31, 2008 compared to 2.9% as of December 31, 2007.

During 2008, there were numerous changes to non-A&E reserve estimates. Among other loss developments in 2008, these changes included a $156 release of reserves for workers compensation claims, primarily related to accident years 2000 to 2007, a $105 release of general liability claims, primarily related to accident years 2001 to 2007, and a $75 release of reserves for professional liability claims related to accident years 2003 through 2006. See Reserves within the Property & Casualty MD&A for further discussion of reserve developments.

Current trends contributing to reserve uncertainty

The Hartford is a multi-line company in the property and casualty business. The Hartford is therefore subject to reserve uncertainty stemming from a number of conditions, including but not limited to those noted above, any of which could be material at any point in time for any segment. Certain issues may become more or less important over time as conditions change. As various market conditions develop, management must assess whether those conditions constitute a long-term trend that should result in a reserving action (i.e., increasing or decreasing the reserve).

Within the commercial segments and the Other Operations segment, the Company has exposure to claims asserted for bodily injury as a result of long-term or continuous exposure to harmful products or substances. Examples include, but are not limited to, pharmaceutical products, silica and lead paint. The Company also has exposure to claims from construction defects, where property damage or bodily injury from negligent construction is alleged. The Company also has exposure to claims asserted against religious institutions and other organizations relating to molestation or abuse. Such exposures may involve potentially long latency periods and may implicate coverage in multiple policy periods. These factors make reserves for such claims more uncertain than other bodily injury or property damage claims. With regard to these exposures, the Company is monitoring trends in litigation, the external environment, the similarities to other mass torts and the potential impact on the Company s reserves.

In Personal Lines, reserving estimates are generally less variable than for the Company s other property and casualty segments. This is largely due to the coverages having relatively shorter periods of loss emergence. Estimates, however, can still vary due to a number of factors, including interpretations of frequency and severity trends and their impact on recorded reserve levels. Severity trends can be impacted by changes in internal claim handling and case reserving practices in addition to changes in the external environment. These changes in claim practices increase the uncertainty in the interpretation of case reserve data, which increases the uncertainty in recorded reserve levels. In addition, the introduction of new products has lead to a different mix of business by type of insured than the Company experienced in the past. Beginning in 2004, the Company introduced its Dimensions auto and homeowners product for Agency business and beginning in 2007, the Company introduced its Next Generation Auto product for AARP customers. In general, the Company now has a lower proportion of preferred risks than in the past. Such a change in mix increases the uncertainty of the reserve projections, since historical data and reporting patterns may not be applicable to the new business.

In both Small Commercial and Middle Market, workers compensation is the Company s single biggest line of business and the line of business with the longest pattern of loss emergence. Reserve estimates for workers compensation are particularly sensitive to assumptions about medical inflation and the changing use of medical care procedures. In addition, changes in state legislative and regulatory environments impact the Company s estimates. These changes increase the uncertainty in the application of development patterns. In addition, over the past several accident years, the Company has experienced favorable claim frequency on workers compensation claims. The Company s reserve estimates assume that reported losses for recent accident years will continue to emerge favorably and that severity will not be adversely impacted by the lower volume of reported claims.

In the Specialty Commercial segment, many lines of insurance, such as excess insurance and large deductible workers compensation insurance, are long-tail lines of insurance. For long-tail lines, the period of time between the incidence of the insured loss and either the reporting of the claim to the insurer, the settlement of the claim, or the payment of the claim can be substantial, and in some cases, several years. As a result of this extended period of time for losses to emerge, reserve estimates for these lines are more uncertain (i.e., more variable) than reserve estimates for shorter-tail lines of insurance. Estimating required reserve levels for large deductible workers compensation insurance is further complicated by the uncertainty of whether losses that are attributable to the deductible amount will be paid by the insured; if such losses are not paid by the insured due to financial difficulties, the Company would be contractually liable. Another example of reserve variability relates to reserves for directors and officers insurance. There is potential volatility in the required level of reserves due to the continued uncertainty regarding the number and severity of class action suits, including uncertainty regarding the Company s exposure to losses arising from the collapse of the sub-prime mortgage market. Additionally, the Company s exposure to losses under directors and officers insurance policies is primarily in excess layers, making estimates of loss more complex. The current financial market turmoil has increased the number of shareholder class action lawsuits against our insureds or their directors and officers and this trend could continue for some period of time.

Impact of changes in key assumptions on reserve volatility

As stated above, the Company s practice is to estimate reserves using a variety of methods, assumptions and data elements. Within its reserve estimation process for reserves other than asbestos and environmental, the Company does not derive statistical loss distributions or confidence levels around its reserve estimate and, as a result, does not have reserve range estimates to disclose.

The reserve estimation process includes explicit assumptions about a number of factors in the internal and external environment. Across most lines of business, the most important assumptions are future loss development factors applied to paid or reported losses to date. For most lines, the reported loss development factor is most important. In workers compensation, paid loss development factors are also important. The trend in loss costs is also a key assumption, particularly in the most recent accident years, where loss development factors are less credible.

The following discussion includes disclosure of possible variation from current estimates of loss reserves due to a change in certain key assumptions. Each of the impacts described below is estimated individually, without consideration for any correlation among key assumptions or among lines of business. Therefore, it would be inappropriate to take each of the amounts described below and add them together in an attempt to estimate volatility for the Company s reserves in total. The estimated variation in reserves due to changes in key assumptions is a reasonable estimate of possible variation that may occur in the future, likely over a period of several calendar years. It is important to note that the variation discussed is not meant to be a worst-case scenario, and therefore, it is possible that future variation may be more than the amounts discussed below.

Recorded reserves for auto liability, net of reinsurance, are $2.3 billion across all lines, $1.6 billion of which is in Personal Lines. Personal auto liability reserves are shorter-tailed than other lines of business (such as workers compensation) and, therefore, less volatile. However, the size of the reserve base means that future changes in estimates could be material to the Company s results of operations in any given period. The key assumption for Personal Lines auto liability is the annual loss cost trend, particularly the severity trend component of loss costs. A review of Insurance Services Office (ISO) data suggests that annual growth in industry severity since 1999 has varied from +1% to +6%. The ISO data shows recent severity changes to be in the middle of this range. A 2.5 point change in assumed annual severity is within historical variation for the industry and for the Company. A 2.5 point change in

assumed annual severity for the two most recent accident years would change the estimated net reserve need by $90, in either direction. Assumed annual severity for accident years prior to the two most recent accident years is likely to have minimal variability.

Recorded reserves for workers compensation, net of reinsurance, are $6.3 billion in total for Ongoing Operations. Paid loss development patterns are a key assumption for this line of business, particularly for more mature accident years. Historically, paid loss development patterns have been impacted by, among other things, medical cost inflation. The Company has reviewed the historical variation in reported loss development patterns. If the reported loss development patterns change by 4%, the estimated net reserve need would change by $400, in either direction. A 4% change in reported loss development patterns is within historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Recorded reserves for general liability, net of reinsurance, are $2.3 billion in total for Ongoing Operations. Reported loss development patterns are a key assumption for this line of business, particularly for more mature accident years. Historically, assumptions on reported loss development patterns have been impacted by, among other things, emergence of new types of claims (e.g., construction defect claims) or a shift in the mixture between smaller, more routine claims and larger, more complex claims. The Company has reviewed the historical variation in reported loss development patterns. If the reported loss development patterns change by 11%, the estimated net reserve need would change by $300, in either direction. An 11% change in reported loss development patterns is within historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Similar to general liability, assumed casualty reinsurance is affected by reported loss development pattern assumptions. In addition to the items identified above that would affect both direct and reinsurance liability claim development patterns, there is also an impact to assumed reporting patterns for any changes in claim notification from ceding companies to the reinsurer. Recorded net reserves for HartRe assumed reinsurance business, excluding asbestos and environmental liabilities, within Other Operations were $562 as of December 31, 2008. If the reported loss development patterns underlying the Company s net reserves for HartRe assumed casualty reinsurance change by 10%, the estimated net reserve need would change by $245, in either direction. A 10% change in reported loss development patterns is within historical variation, as measured by the variation around the average development factors as reported in statutory accident year reports.

Reserving for Asbestos and Environmental Claims within Other Operations

How A&E reserves are set

The Company continues to receive asbestos and environmental claims. Asbestos claims relate primarily to bodily injuries asserted by people who came in contact with asbestos or products containing asbestos. Environmental claims relate primarily to pollution and related clean-up costs.

The Company wrote several different categories of insurance contracts that may cover asbestos and environmental claims. First, the Company wrote primary policies providing the first layer of coverage in an insured s liability program. Second, the Company wrote excess policies providing higher layers of coverage for losses that exhaust the limits of underlying coverage. Third, the Company acted as a reinsurer assuming a portion of those risks assumed by other insurers writing primary, excess and reinsurance coverages. Fourth, subsidiaries of the Company participated in the London Market, writing both direct insurance and assumed reinsurance business.

In establishing reserves for asbestos claims, the Company evaluates its insureds estimated liabilities for such claims using a ground-up approach. The Company considers a variety of factors, including the jurisdictions where underlying claims have been brought, past, pending and anticipated future claim activity, disease mix, past settlement values of similar claims, dismissal rates, allocated loss adjustment expense, and potential bankruptcy impact.

Similarly, a ground-up exposure review approach is used to establish environmental reserves. The Company s evaluation of its insureds estimated liabilities for environmental claims involves consideration of several factors, including historical values of similar claims, the number of sites involved, the insureds alleged activities at each site, the alleged environmental damage at each site, the respective shares of liability of potentially responsible parties at each site, the appropriateness and cost of remediation at each site, the nature of governmental enforcement activities at each site, and potential bankruptcy impact.

Having evaluated its insureds probable liabilities for asbestos and/or environmental claims, the Company then evaluates its insureds insurance coverage programs for such claims. The Company considers its insureds total available insurance coverage, including the coverage issued by the Company. The Company also considers relevant judicial interpretations of policy language and applicable coverage defenses or determinations, if any.

Evaluation of both the insureds estimated liabilities and the Company s exposure to the insureds depends heavily on an analysis of the relevant legal issues and litigation environment. This analysis is conducted by the Company s lawyers and is subject to applicable privileges.

For both asbestos and environmental reserves, the Company also compares its historical direct net loss and expense paid and reported experience, and net loss and expense paid and reported experience year by year, to assess any emerging trends, fluctuations or characteristics suggested by the aggregate paid and reported activity.

Once the gross ultimate exposure for indemnity and allocated loss adjustment expense is determined for its insureds by each policy year, the Company calculates its ceded reinsurance projection based on any applicable facultative and treaty reinsurance and the Company s experience with reinsurance collections.

Uncertainties Regarding Adequacy of Asbestos and Environmental Reserves

With regard to both environmental and particularly asbestos claims, significant uncertainty limits the ability of insurers and reinsurers to estimate the ultimate reserves necessary for unpaid losses and related expenses. Traditional actuarial reserving techniques cannot reasonably estimate the ultimate cost of these claims, particularly during periods where theories of law are in flux. The degree of variability of reserve estimates for these exposures is significantly greater than for other more traditional exposures. In particular, the Company believes there is a high degree of

uncertainty inherent in the estimation of asbestos loss reserves.

In the case of the reserves for asbestos exposures, factors contributing to the high degree of uncertainty include inadequate loss development patterns, plaintiffs expanding theories of liability, the risks inherent in major litigation, and inconsistent emerging legal doctrines. Furthermore, over time, insurers, including the Company, have experienced significant changes in the rate at which asbestos claims are brought, the claims experience of particular insureds, and the value of claims, making predictions of future exposure from past experience uncertain. Plaintiffs and insureds also have sought to use bankruptcy proceedings, including pre-packaged bankruptcies, to accelerate and increase loss payments by insurers. In addition, some policyholders have asserted new classes of claims for coverages to which an aggregate limit of liability may not apply. Further uncertainties include insolvencies of other carriers and unanticipated developments pertaining to the Company s ability to recover reinsurance for asbestos and environmental claims. Management believes these issues are not likely to be resolved in the near future.

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In the case of the reserves for environmental exposures, factors contributing to the high degree of uncertainty include expanding theories of liability and damages, the risks inherent in major litigation, inconsistent decisions concerning the existence and scope of coverage for environmental claims, and uncertainty as to the monetary amount being sought by the claimant from the insured.

It is also not possible to predict changes in the legal and legislative environment and their effect on the future development of asbestos and environmental claims. Although potential Federal asbestos-related legislation was considered by the Senate in 2006, it is uncertain whether such legislation will be reconsidered or enacted in the future and, if enacted, what its effect would be on the Company s aggregate asbestos liabilities.

The reporting pattern for assumed reinsurance claims, including those related to asbestos and environmental claims, is much longer than for direct claims. In many instances, it takes months or years to determine that the policyholder s own obligations have been met and how the reinsurance in question may apply to such claims. The delay in reporting reinsurance claims and exposures adds to the uncertainty of estimating the related reserves.

Given the factors described above, the Company believes the actuarial tools and other techniques it employs to estimate the ultimate cost of claims for more traditional kinds of insurance exposure are less precise in estimating reserves for its asbestos and environmental exposures. For this reason, the Company relies on exposure-based analysis to estimate the ultimate costs of these claims and regularly evaluates new information in assessing its potential asbestos and environmental exposures.

A number of factors affect the variability of estimates for asbestos and environmental reserves including assumptions with respect to the frequency of claims, the average severity of those claims settled with payment, the dismissal rate of claims with no payment and the expense to indemnity ratio. The uncertainty with respect to the underlying reserve assumptions for asbestos and environmental adds a greater degree of variability to these reserve estimates than reserve estimates for more traditional exposures. While this variability is reflected in part in the size of the range of reserves developed by the Company, that range may still not be indicative of the potential variance between the ultimate outcome and the recorded reserves. The recorded net reserves as of December 31, 2008 of $2.18 billion ($1.90 billion and $275 for asbestos and environmental, respectively) is within an estimated range, unadjusted for covariance, of $1.80 billion to $2.42 billion. The process of estimating asbestos and environmental reserves remains subject to a wide variety of uncertainties, which are detailed in Note 12 of Notes to Consolidated Financial Statements. The Company believes that its current asbestos and environmental reserves are reasonable and appropriate. However, analyses of further developments could cause the Company to change its estimates and ranges of its asbestos and environmental reserves, and the effect of these changes could be material to the Company s consolidated operating results, financial condition and liquidity. If there are significant developments that affect particular exposures, reinsurance arrangements or the financial condition of particular reinsurers, the Company will make adjustments to its reserves or to the amounts recoverable from its reinsurers.

Total Property & Casualty Reserves, Net of Reinsurance

In the opinion of management, based upon the known facts and current law, the reserves recorded for the Company s property and casualty businesses at December 31, 2008 represent the Company s best estimate of its ultimate liability for losses and loss adjustment expenses related to losses covered by policies written by the Company. However, because of the significant uncertainties surrounding reserves, and particularly asbestos exposures, it is possible that management s estimate of the ultimate liabilities for these claims may change and that the required adjustment to recorded reserves could exceed the currently recorded reserves by an amount that could be material to the Company s results of operations, financial condition and liquidity.

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Life Estimated Gross Profits Used in the Valuation and Amortization of Assets and Liabilities Associated with Variable Annuity and Other Universal Life-Type Contracts

Accounting Policy and Assumptions

Life s deferred policy acquisition costs asset and present value of future profits (PVFP) intangible asset (hereafter, referred to collectively as DAC) related to investment contracts and universal life-type contracts (including variable annuities) are amortized in the same way, over the estimated life of the contracts acquired using the retrospective deposit method. Under the retrospective deposit method, acquisition costs are amortized in proportion to the present value of estimated gross profits (EGPs). EGPs are also used to amortize other assets and liabilities on the Company s balance sheet, such as sales inducement assets and unearned revenue reserves (URR). Components of EGPs are used to determine reserves for guaranteed minimum death, income and universal life secondary guarantee benefits accounted for and collectively referred to as SOP 03-1 reserves . The specific breakdown of the most significant EGP based balances by segment is as follows:

	Individual Variable Annuities - U.S.		Individual Variable Annuities - Japan		Individual Life	
	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007	December 31, 2008	December 31, 2007
DAC	$ 4,844	$ 4,982	$ 1,834	$ 1,760	$ 2,931	$ 2,309
Sales Inducements	$ 436	$ 390	$ 19	$ 8	$ 36	$ 20
URR	$ 109	$ 124	$	$	$ 1,299	$ 816
SOP 03-1 reserves	$ 867	$ 527	$ 229	$ 42	$ 40	$ 19

For most contracts, the Company estimates gross profits over a 20 year horizon as estimated profits emerging subsequent to that timeframe are immaterial. The Company uses other amortization bases for amortizing DAC, such as gross costs (net of reinsurance), as a replacement for EGPs when EGPs are expected to be negative for multiple years of the contract s life. Actual gross profits, in a given reporting period, that vary from management s initial estimates result in increases or decreases in the rate of amortization, commonly referred to as a true-up , which are recorded in the current period. The true-up recorded for the years ended December 31, 2008, 2007, and 2006 was an increase (decrease) to amortization of $404 (of which $194 is attributed to accelerated DAC amortization for the Company s 3Win product in Japan as further discussed under the Japan Variable Annuities section below), $(6), and $41, respectively.

Products sold in a particular year are aggregated into cohorts. Future gross profits for each cohort are projected over the estimated lives of the underlying contracts, and are, to a large extent, a function of future account value projections for variable annuity products and to a lesser extent for variable universal life products. The projection of future account values requires the use of certain assumptions. The assumptions considered to be important in the projection of future account value, and hence the EGPs, include separate account fund performance, which is impacted by separate account fund mix, less fees assessed against the contract holder s account balance, surrender and lapse rates, interest margin, mortality, and hedging costs. The assumptions are developed as part of an annual process and are dependent upon the Company s current best estimates of future events. The Company s current 20 year separate account return assumption is approximately 7.2% (after fund fees, but before mortality and expense charges) for U.S. products and 5.1% (after fund fees, but before mortality and expense charges) in aggregate for all Japanese products, but varies from product to product. The Company estimates gross profits using the mean of EGPs derived from a set of stochastic scenarios that have been calibrated to our estimated separate account return. The following table summarizes the general impacts to individual variable annuity EGPs and earnings for DAC amortization caused by changes in separate account returns, mortality and future lapse rate assumptions:

Assumption	Impact to EGPs	Impact on Earnings for DAC Amortization
Future separate account return increases	**Increase**: Expected fee income would increase and expected claims would decrease.	Benefit
Future separate account return decreases	**Decrease:** Expected fee income would decrease and expected claims would increase.	Charge
Future mortality increases	**Decrease:** Expected fee income would decrease because the time period in which fees would be collected would be reduced and claims would increase	Charge
Future mortality decreases	**Increase:** Expected fee income would increase because the time period in which fees would be collected would increase and claims would decrease	Benefit
Future lapse rate increases	**Decrease:** Expected fee income would decrease because the time period in which fees would be collected would be reduced and claims would decrease.	Charge
Future lapse rate decreases	**Increase:** Expected fee income would increase because the time period in which fees would be collected would increase and claims would increase.	Benefit

In addition to changes to the assumptions described above, changes to other policyholder behaviors such as resets, partial surrenders, reaction to price increases, and asset allocations could cause EGPs to fluctuate.

Estimating future gross profits is a complex process requiring considerable judgment and the forecasting of events well into the future. Given the current volatility in the capital markets and the evaluation of other factors, the

Company will continually evaluate its separate account return estimation process and may change that process from time to time.

The Company plans to complete a comprehensive assumption study and refine its estimate of future gross profits during the third quarter of each year. Upon completion of an assumption study, the Company revises its assumptions to reflect its current best estimate, thereby changing its estimate of projected account values and the related EGPs in the DAC, sales inducement and unearned revenue reserve amortization models as well as SOP 03-1 reserving models. The DAC asset, as well as the sales inducement asset, unearned revenue reserves and SOP 03-1 reserves are adjusted with an offsetting benefit or charge to income to reflect such changes in the period of the revision, a process known as Unlocking . An Unlock that results in an after-tax benefit generally occurs as a result of actual experience or future expectations of product profitability being favorable compared to previous estimates. An Unlock that results in an after-tax charge generally occurs as a result of actual experience or future expectations of product profitability being unfavorable compared to previous estimates.

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In addition to when a comprehensive assumption study is completed, revisions to best estimate assumptions used to estimate future gross profits are necessary when the EGPs in the Company s models fall outside of an independently determined reasonable range of EGPs. The Company performs a quantitative process each quarter to determine the reasonable range of EGPs. This process involves the use of internally developed models, which run a large number of stochastically determined scenarios of separate account fund performance. Incorporated in each scenario are assumptions with respect to lapse rates, mortality and expenses, based on the Company s most recent assumption study. These scenarios are run for the Company s individual variable annuity businesses in the United States and Japan, the Company s Retirement Plans businesses, and for the Company s individual variable universal life business and are used to calculate statistically significant ranges of reasonable EGPs. The statistical ranges produced from the stochastic scenarios are compared to the present value of EGPs used in the Company s models. If EGPs used in the Company s models fall outside of the statistical ranges of reasonable EGPs, an Unlock would be necessary. If EGPs used in the Company s models fall inside of the statistical ranges of reasonable EGPs, the Company will not solely rely on the results of the quantitative analysis to determine the necessity of an Unlock. In addition, the Company considers, on a quarterly basis, other qualitative factors such as product, regulatory and policyholder behavior trends and may also revise EGPs if those trends are expected to be significant and were not or could not be included in the statistically significant ranges of reasonable EGPs. As of December 31, 2008, the EGPs used in the Company s models fell within the statistical ranges of reasonable EGPs. As a result of this statistical test and review of qualitative factors, the Company did not Unlock the EGPs used in the Company s models during the fourth quarter of 2008.

Unlock and Sensitivity Analysis

As described above, as of September 30 2008, the Company completed a comprehensive study of assumptions underlying EGPs, resulting in an Unlock. The study covered all assumptions, including mortality, lapses, expenses, interest rate spreads, hedging costs, and separate account returns, in substantially all product lines. The new best estimate assumptions were applied to the current policy related in-force or account values to project future gross profits. The after-tax impact on the Company s assets and liabilities as a result of the Unlock during the third quarter of 2008 was as follows:

Segment After-tax (charge) benefit	DAC and PVFP	Unearned Revenue Reserves	Death and Income Benefit Reserves [1]	Sales Inducement Assets	Total [2]
Retail	$ (648)	$ 18	$ (75)	$ (27)	$ (732)
Retirement Plans	(49)				(49)
Individual Life	(29)	(12)	(3)		(44)
International Japan	(23)	(1)	(90)	(2)	(116)
Corporate	9				9
Total	**$ (740)**	**$ 5**	**$ (168)**	**$ (29)**	**$ (932)**

[1] As a result of the Unlock, death benefit reserves in Retail, increased $389, pre-tax, offset by an increase of $273, pre-tax,

in reinsurance recoverables. In International, death benefit reserves increased $164, pre-tax, offset by an increase of $25, pre-tax, in reinsurance recoverables.

[2] *The following were the most significant contributors to the Unlock amounts recorded during the third quarter of 2008:*

- *Actual separate account returns from the period ending July 31, 2007 to September 30, 2008 were significantly below our aggregated estimated return.*
- *The Company reduced its 20 year projected separate account return assumption from 7.8% to 7.2% in the U.S.*
- *In Retirement Plans, the Company reduced its estimate of future fees as plans meet contractual size limits (breakpoints) causing a lower fee schedule to apply and the Company increased its assumption for future deposits by existing plan participants.*

The after-tax impact on the Company s assets and liabilities as a result of the Unlock during the third quarter of 2007 was as follows:

Segment After-tax (charge) benefit	DAC and PVFP	Unearned Revenue Reserves	Death and Income Benefit Reserves [1]	Sales Inducement Assets	Total [2]
Retail	$ 180	$ (5)	$ (4)	$ 9	$ 180
Retirement Plans	(9)				(9)
Institutional	1				1
Individual Life	24	(8)			16
International Japan	16		6		22
Corporate	3				3
Total	**$ 215**	**$ (13)**	**$ 2**	**$ 9**	**$ 213**

[1] As a result of the unlock, death benefit reserves, in Retail, decreased $4, pre-tax, offset by a decrease of $10, pre-tax, in reinsurance recoverables.

[2] The following were the most significant contributors to the unlock amounts recorded during the third quarter of 2007:

Actual separate account returns were above our aggregated estimated return.

During the third quarter of 2007, the Company estimated gross profits using the mean of EGPs derived from a set of stochastic scenarios that have been calibrated to our estimated separate account return as compared to prior year where we used a single deterministic estimation. The impact of this change in estimation was a benefit of $13, after-tax, for Japan variable annuities and $20, after-tax, for U.S. variable annuities.

As part of its continual enhancement to its assumption setting processes and in connection with its assumption study, the Company included dynamic lapse behavior assumptions. Dynamic lapses reflect that lapse behavior will be different depending upon market movements. The impact of this assumption change along with other base lapse rate changes was an approximate benefit of $40, after-tax, for U.S. variable annuities.

The Company performs sensitivity analyses with respect to the effect certain assumptions have on EGPs and the related DAC, sales inducement, unearned revenue reserve and SOP 03-1 reserve balances. Each of the sensitivities illustrated below are estimated individually, without consideration for any correlation among the key assumptions. Therefore, it would be inappropriate to take each of the sensitivity amounts below and add them together in an attempt to estimate volatility for the respective EGP-related balances in total. In addition, the tables below only provide sensitivities on separate account returns and lapses. While those two assumptions are critical in projecting EGPs, as described above, many additional assumptions are necessary to project EGPs and to determine an Unlock amount. As a result, actual Unlock amounts may vary from those calculated by using the sensitivities below. The following tables depict the estimated sensitivities for U.S. variable annuities and Japan variable annuities:

U.S. Variable Annuities

(Increasing separate account returns and decreasing lapse rates generally result in benefits. Decreasing separate account returns and increasing lapse rates generally result in charges.)	Effect on EGP-related balances if unlocked (after-tax) [1]	
If actual separate account returns were 1% above or below our aggregated estimated return	$ 20	$40[3]
If actual lapse rates were 1% above or below our estimated aggregate lapse rate	$ 10	$25[2]
If we changed our future separate account return rate by 1% from our aggregated estimated future return	$ 90	$120
If we changed our future lapse rate by 1% from our estimated aggregate future lapse rate	$ 50	$80[2]

Japan Variable Annuities

(Increasing separate account returns and decreasing lapse rates generally result in benefits. Decreasing separate account returns and increasing lapse rates generally result in charges.)	Effect on EGP-related balances if unlocked (after-tax) [1]	
If actual separate account returns were 1% above or below our aggregated estimated return	$ 5	$20[4] [5]
If actual lapse rates were 1% above or below our estimated aggregate lapse rate	$ 1	$10[2]
If we changed our future separate account return rate by 1% from our aggregated estimated future return	$ 50	$70
If we changed our future lapse rate by 1% from our estimated aggregate future lapse rate	$ 10	$25[2]

[1] These sensitivities are reflective of the results of our 2008 assumption studies. The Company s EGP models assume that separate account returns are earned linearly and that lapses occur linearly (except for certain dynamic lapse features) throughout the

year. Similarly, the sensitivities assume that differential separate account and lapse rates are linear and parallel and persist for one year from September 30, 2008, the date of our third quarter 2008 Unlock, and reflect all current in-force and account value data, including the corresponding market levels, allocation of funds, policyholder behavior and actuarial assumptions. These sensitivities are not perfectly linear nor perfectly symmetrical for increases and decreases. As such, extrapolating results over a wide range will decrease the accuracy of the sensitivities predictive ability. Sensitivity results are, in part, based on the current in-the-moneyness of various guarantees offered with the products. Future market conditions could significantly change the

sensitivity results.

[2] Sensitivity around lapses assumes lapses increase or decrease consistently across all cohort years and products.

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[3] The overall actual return generated by the U.S. variable annuity separate accounts is dependent on several factors, including the relative mix of the underlying sub-accounts among bond funds and equity funds as well as equity sector weightings and as a result of the large proportion of separate account assets invested in U.S. equity markets, the Company s overall U.S. separate account fund performance has been reasonably correlated to the overall performance of the S&P 500 although no assurance can be provided that this correlation will continue in the future. Since September 30, 2008, the date of the last unlock, the actual return on U.S. variable annuity assets has been 21% below our

estimated aggregate return. The Company estimates the actual return would need to drop by an additional 6% since December 31, 2008, before EGPs in the Company s models fall outside of the statistical ranges of reasonable EGPs.

[4] The overall actual return generated by the Japan variable annuity separate accounts is influenced by the variable annuity products offered in Japan as well as the wide variety of funds offered within the sub-accounts of those products. The actual return is also dependent upon the relative mix of the underlying sub-accounts among the funds. Unlike in the U.S., there is no global index or market that reasonably correlates with the overall

Japan actual separate account fund performance. Since September 30, 2008, the date of the last unlock, the actual return on Japan variable annuity assets has been 15.5% below our estimated aggregate return. The Company estimates the actual return would need to drop by an additional 7.5% since December 31, 2008, before EGPs in the Company s models fall outside of the statistical ranges of reasonable EGPs.

[5] For the Company s 3Win product in Japan, decreases in the contract holder s account value (which is partially dependent upon equity market movements due to fixed contractual investment allocations) of greater than 20% of the

initial deposit require the contract holder to withdraw 80% of their initial deposit without penalty or recover their initial investment through a payout annuity. The exercise of these options results in an acceleration of the amount of DAC amortization in a specific reporting period. During the fourth quarter of 2008 approximately 97% of all 3Win contractholders had account values that fell by 20% or more from their initial deposit. This resulted in accelerated amortization of DAC in the fourth quarter of 2008 of $194, pre-tax. Further declines in equity markets during 2009 could cause the entire remaining DAC balance of $11 to be amortized.

An Unlock only revises EGPs to reflect current best estimate assumptions. With or without an Unlock, and even after an Unlock occurs, the Company must also test the aggregate recoverability of the DAC and sales inducement assets by comparing the existing DAC balance to the present value of future EGPs. In addition, the Company routinely stress tests its DAC and sales inducement assets for recoverability against severe declines in its separate account assets,

which could occur if the equity markets experienced a significant sell-off, as the majority of policyholders funds in the separate accounts is invested in the equity market. As of December 31, 2008, the Company believed U.S. individual and Japan individual variable annuity EGPs could fall, through a combination of negative market returns, lapses and mortality, by at least 6% and 49%, respectively, before portions of its DAC and sales inducement assets would be unrecoverable. The extent of the charge against earnings upon the DAC and sales inducement assets becoming unrecoverable is dependent upon how much further beyond the thresholds listed above variable annuity EGPs decline. The Company estimates that for every 1% decline in variable annuity EGPs beyond the thresholds listed above, the DAC and sales inducements write-off would be $65 and $12, after-tax, for U.S. variable annuity and Japan variable annuity, respectively. If, at the end of any quarter, the EGPs in the Company s models fall outside of the statistical ranges of reasonable EGPs, see footnote [3] above, and the Company has exceeded the threshold for recoverability, the Company will first Unlock the future EGPs to reflect the Company s revised best estimates and second will re-test for recoverability.

Living Benefits Required to be Fair Valued

The Company offers certain variable annuity products with a guaranteed minimum withdrawal benefit (GMWB) rider in the U.S., Japan and the U.K. The Company also offers a guaranteed minimum accumulation benefit (GMAB) with a variable annuity product offered in Japan. As of December 31, 2008 and December 31, 2007, the fair values of the GMWB liabilities are $6.6 billion and $715, respectively. As of December 31, 2008 the fair value of the GMAB liability is $0. As of December 31, 2007 the fair value of the GMAB was an asset of $2 because the present value of the fees expected to be earned in the future exceeded the present value claims expected to be paid in the future. Due to significant market declines in the fourth quarter of 2008, a large majority of the Company s in force Japan 3 Win policies, which include a GMAB feature, annuitized or surrendered free of charge in the fourth quarter of 2008. See Note 4 of Notes to Consolidated Financial Statements for a description of the Japan GMAB.

Fair values for GMWB and GMAB contracts are calculated based upon internally developed models because active, observable markets do not exist for those items. Below is a description of the Company s fair value methodologies for guaranteed benefit liabilities, the related reinsurance and customized derivatives, all accounted for under SFAS 133, prior to the adoption of SFAS 157 and subsequent to adoption of SFAS 157.

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Pre-SFAS 157 Fair Value

Prior to January 1, 2008, the Company used the guidance prescribed in SFAS 133 and other related accounting literature on fair value which represented the amount for which a financial instrument could be exchanged in a current transaction between knowledgeable, unrelated willing parties. However, under that accounting literature, when an estimate of fair value was made for liabilities where no market observable transactions existed for that liability or similar liabilities, market risk margins were only included in the valuation if the margin was identifiable, measurable and significant. If a reliable estimate of market risk margins was not obtainable, the present value of expected future cash flows under a risk neutral framework, discounted at the risk free rate of interest, was the best available estimate of fair value in the circumstances (Pre-SFAS 157 Fair Value). The Pre-SFAS 157 Fair Value was calculated based on actuarial and capital market assumptions related to projected cash flows, including benefits and related contract charges, over the lives of the contracts, incorporating expectations concerning policyholder behavior such as lapses, fund selection, resets and withdrawal utilization (for the customized derivatives, policyholder behavior is prescribed in the derivative contract). Because of the dynamic and complex nature of these cash flows, best estimate assumptions and a Monte Carlo stochastic process involving the generation of thousands of scenarios that assume risk neutral returns consistent with swap rates and a blend of observable implied index volatility levels were used. Estimating these cash flows involved numerous estimates and subjective judgments including those regarding expected markets rates of return, market volatility, correlations of market index returns to funds, fund performance, discount rates and policyholder behavior. At each valuation date, the Company assumed expected returns based on:

- risk-free rates as represented by the current LIBOR forward curve rates;
- forward market volatility assumptions for each underlying index based primarily on a blend of observed market implied volatility data;
- correlations of market returns across underlying indices based on actual observed market returns and relationships over the ten years preceding the valuation date;
- three years of history for fund regression; and
- current risk-free spot rates as represented by the current LIBOR spot curve to determine the present value of expected future cash flows produced in the stochastic projection process.

As many guaranteed benefit obligations are relatively new in the marketplace, actual policyholder behavior experience is limited. As a result, estimates of future policyholder behavior are subjective and based on analogous internal and external data. As markets change, mature and evolve and actual policyholder behavior emerges, management continually evaluates the appropriateness of its assumptions for this component of the fair value model.

Fair Value Under SFAS 157

The Company s SFAS 157 fair value is calculated as an aggregation of the following components: Pre-SFAS 157 Fair Value; Actively-Managed Volatility Adjustment; Credit Standing Adjustment; Market Illiquidity Premium; and Behavior Risk Margin. The resulting aggregation is reconciled or calibrated, if necessary, to market information that is, or may be, available to the Company, but may not be observable by other market participants, including reinsurance discussions and transactions. The Company believes the aggregation of each of these components, as necessary and as reconciled or calibrated to the market information available to the Company, results in an amount that the Company would be required to transfer, for a liability or receive for an asset, to market participants in an active liquid market, if one existed, for those market participants to assume the risks associated with the guaranteed minimum benefits and the related reinsurance and customized derivatives required to be fair valued. The SFAS 157 fair value is likely to materially diverge from the ultimate settlement of the liability as the Company believes settlement will be based on our best estimate assumptions rather than those best estimate assumptions plus risk margins. In the absence of any transfer of the guaranteed benefit liability to a third party, the release of risk margins is likely to be reflected as realized gains in future periods net income. Each of the components described below are unobservable in the marketplace and require subjectivity by the Company in determining their value.

- **Actively-Managed Volatility Adjustment.** This component incorporates the basis differential between the observable index implied volatilities used to calculate the Pre-SFAS 157 component and the actively-managed funds underlying the variable annuity product. The Actively-Managed Volatility Adjustment is calculated using historical fund and weighted index volatilities.

Credit Standing Adjustment. This component makes an adjustment that market participants would make to reflect the risk that guaranteed benefit obligations or the GMWB reinsurance recoverables will not be fulfilled (nonperformance risk). SFAS 157 explicitly requires nonperformance risk to be reflected in fair value. The Company calculates the Credit Standing Adjustment by using default rates provided by rating agencies, adjusted for market recoverability, reflecting the long-term nature of living benefit obligations and the priority of payment on these obligations versus long-term debt.

Market Illiquidity Premium. This component makes an adjustment that market participants would require to reflect that guaranteed benefit obligations are illiquid and have no market observable exit prices in the capital markets.

Behavior Risk Margin. This component adds a margin that market participants would require for the risk that the Company s assumptions about policyholder behavior used in the Pre-SFAS 157 model could differ from actual experience. The Behavior Risk Margin is calculated by taking the difference between adverse policyholder behavior assumptions and the best estimate assumptions used in the Pre-SFAS 157 model using interest rate and volatility assumptions that the Company believes market participants would use in developing risk margins.

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In valuing the embedded derivative, the Company attributes to the derivative a portion of fees collected from the contract holder equal to the present value of future claims (the Attributed Fees). Attributed Fees in dollars are determined at the inception of each quarterly cohort by setting the dollars equal to the present value of expected claims. The Attributed Fees, in basis points, are determined by dividing the Attributed Fees in dollars by the present value of account value. The Attributed Fees in basis points are locked-in for each quarterly cohort. Recent capital markets conditions, in particular high equity index volatility and low interest rates have increased the Attributed Fees for recent cohorts to a level above our rider fees.

Capital market assumptions can significantly change the value of embedded derivative living benefit guarantees. For example, independent future decreases in equity market returns, future decreases in interest rates and future increases in equity index volatility will all have the effect of increasing the value of the embedded derivative liability as of December 31, 2008 resulting in a realized loss in net income. Furthermore, changes in policyholder behavior can also significantly change the value of the GMWB. For example, independent future increases in fund mix towards equity based funds vs. bond funds, future increases in withdrawals, future decreasing mortality, future increasing usage of the step-up feature and decreases in lapses will all have the effect of increasing the value of the GMWB embedded derivative liability as of December 31, 2008 resulting in a realized loss in net income. Independent changes in any one of these assumptions moving in the opposite direction will have the effect of decreasing the value of the embedded derivative liability as of December 31, 2008 resulting in a realized gain in net income. As markets change, mature and evolve and actual policyholder behavior emerges, management continually evaluates the appropriateness of its assumptions. In addition, management regularly evaluates the valuation model, incorporating emerging valuation techniques where appropriate, including drawing on the expertise of market participants and valuation experts.

Valuation of Investments and Derivative Instruments

The Hartford s investments in fixed maturities include bonds, redeemable preferred stock and commercial paper. These investments, along with certain equity securities, which include common and non-redeemable preferred stocks, are classified as available-for-sale and are carried at fair value. The after-tax difference from cost or amortized cost is reflected in stockholders equity as a component of Accumulated Other Comprehensive Income (AOCI), after adjustments for the effect of deducting the life and pension policyholders share of the immediate participation guaranteed contracts and certain life and annuity deferred policy acquisition costs and reserve adjustments. The equity investments associated with the variable annuity products offered in Japan are recorded at fair value and are classified as trading with changes in fair value recorded in net investment income. Policy loans are carried at outstanding balance. Mortgage loans on real estate are recorded at the outstanding principal balance adjusted for amortization of premiums or discounts and net of valuation allowances, if any. Short-term investments are carried at amortized cost, which approximates fair value. Limited partnerships and other alternative investments are reported at their carrying value with the change in carrying value accounted for under the equity method and accordingly the Company s share of earnings are included in net investment income. Recognition of limited partnerships and other alternative investment income is delayed due to the availability of the related financial statements, as private equity and other funds are generally on a three-month delay and hedge funds are on a one-month delay. Accordingly, income at December 31, 2008 may not include the full impact of current year changes in valuation of the underlying assets and liabilities. Other investments primarily consist of derivatives instruments which are carried at fair value.

Valuation of Fixed Maturity, Short-Term and Equity Securities, Available-for-Sale

The fair value for fixed maturity, short-term and equity securities, available-for-sale, is determined by management after considering one of three primary sources of information: third party pricing services, independent broker quotations or pricing matrices. Security pricing is applied using a waterfall approach whereby publicly available prices are first sought from third party pricing services, the remaining unpriced securities are submitted to independent brokers for prices, or lastly, securities are priced using a pricing matrix. Typical inputs used by these three pricing methods include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, and/or estimated cash flows and prepayments speeds. Based on the typical trading volumes and the lack of quoted market prices for fixed maturities, third party pricing services will normally derive the security prices through recent reported trades for identical or similar securities making adjustments through the reporting date based upon available market observable information as outlined above. If there are no recent reported trades, the third party pricing services and brokers may use matrix or model processes to develop a security price where future cash flow expectations are

developed based upon collateral performance and discounted at an estimated market rate. Included in the pricing of asset-backed securities (ABS), collateralized mortgage obligations (CMOs), and mortgage-backed securities (MBS are estimates of the rate of future prepayments of principal over the remaining life of the securities. Such estimates are derived based on the characteristics of the underlying structure and prepayment speeds previously experienced at the interest rate levels projected for the underlying collateral. Actual prepayment experience may vary from these estimates.

Prices from third party pricing services are often unavailable for securities that are rarely traded or are traded only in privately negotiated transactions. As a result, certain securities are priced via independent broker quotations which utilize inputs that may be difficult to corroborate with observable market based data. Additionally, the majority of these independent broker quotations are non-binding. A pricing matrix is used to price securities for which the Company is unable to obtain either a price from a third party pricing service or an independent broker quotation. The pricing matrix used by the Company begins with current spread levels to determine the market price for the security. The credit spreads, as assigned by a knowledgeable private placement broker, incorporate the issuer s credit rating and a risk premium, if warranted, due to the issuer s industry and the security s time to maturity. The issuer-specific yield adjustments, which can be positive or negative, are updated twice per year, as of June 30 and December 31, by the private placement broker and are intended to adjust security prices for issuer-specific factors. The Company assigns a credit rating to these securities based upon an internal analysis of the issuer s financial strength.

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The Company performs a monthly analysis on the prices and credit spreads received from third parties to ensure that the prices represent a reasonable estimate of the fair value. This process involves quantitative and qualitative analysis and is overseen by investment and accounting professionals. Examples of procedures performed include, but are not limited to, initial and on-going review of third party pricing services methodologies, review of pricing statistics and trends, back testing recent trades and monitoring of trading volumes. In addition, the Company ensures whether prices received from independent brokers represent a reasonable estimate of fair value through the use of internal and external cash flow models developed based on spreads, and when available, market indices. As a result of this analysis, if the Company determines that there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly. At December 31, 2008, the Company made fair value determinations which lowered prices received from third party pricing services and brokers by a total of $139. The securities adjusted had an amortized cost and fair value after the adjustment of $623 and $232, respectively, and were primarily commercial mortgage-backed securities (CMBS).

In accordance with SFAS 157, the Company has analyzed the third party pricing services valuation methodologies and related inputs, and has also evaluated the various types of securities in its investment portfolio to determine an appropriate SFAS 157 fair value hierarchy level based upon trading activity and the observability of market inputs. The SFAS 157 fair value hierarchy prioritizes the inputs in the valuation techniques used to measure fair value into three broad levels (Level 1 quoted prices in active markets for identical assets, Level 2 significant observable inputs, or Level 3 significant unobservable inputs). For further discussion of SFAS 157, see Note 4 of the Notes to the Consolidated Financial Statements. Based on this, each price was classified into Level 1, 2, or 3. Most prices provided by third party pricing services are classified into Level 2 because the inputs used in pricing the securities are market observable.

Due to a general lack of transparency in the process that brokers use to develop prices, most valuations that are based on brokers prices are classified as Level 3. Some valuations may be classified as Level 2 if the price can be corroborated. Internal matrix priced securities, primarily consisting of certain private placement debt, are also classified as Level 3. The matrix pricing of certain private placement debt includes significant non-observable inputs, the internally determined credit rating of the security and an externally provided credit spread.

The following table presents the fair value of fixed maturity, short-term and equity securities, available-for-sale, by pricing source and SFAS 157 hierarchy level as of December 31, 2008.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Priced via third party pricing services	$ 3,787	$ 50,252	$ 2,976	$ 57,015
Priced via independent broker quotations			3,962	3,962
Priced via matrices		180	4,693	4,873
Priced via other methods [1]			720	720
Short-term investments [2]	7,025	2,997		10,022
Total	**$ 10,812**	**$ 53,429**	**$ 12,351**	**$ 76,592**
% of Total	**14.1%**	**69.8%**	**16.1%**	**100.0%**

[1] Represents securities for

which adjustments were made to reduce prices received from third parties and certain private equity investments that are carried at the Company s determination of fair value from inception. [2] Short-term investments are primarily valued at amortized cost, which approximates fair value.

[2] *Short-term investments are primarily valued at amortized cost, which approximates fair value.*

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, unrelated willing parties using inputs, including assumptions and estimates, a market participant would utilize. As the estimated fair value of a financial instrument utilizes assumptions and estimates, the amount that may be realized may differ significantly.

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The following table presents the fair value of the significant asset sectors within the SFAS 157 Level 3 securities classification as of December 31, 2008.

	Fair Value	% of Total Fair Value
ABS		
Below prime	$ 1,643	13.3%
Collateralized loan obligations (CLOs)	2,131	17.3%
Other	560	4.5%
Corporate		
Matrix priced private placements	4,641	37.6%
Other	1,755	14.2%
CMBS	802	6.5%
Preferred stock	337	2.7%
Other	482	3.9%
Total Level 3 securities	**$ 12,351**	**100.0%**

ABS below prime primarily represents sub-prime and Alt-A securities which are classified as Level 3 due to the lack of liquidity in the market.

ABS CLOs represent senior secured bank loan CLOs which are primarily priced by independent brokers.

ABS other primarily represents broker priced securities.

Corporate matrix priced represents private placement securities that are thinly traded and priced using a pricing matrix which includes significant non-observable inputs.

Corporate other primarily represents broker priced public securities and private placement securities qualified for sale under rule 144A, and long-dated fixed maturities where the term of significant inputs may not be sufficient to be deemed observable.

CMBS primarily represents CMBS bonds and commercial real estate collateralized debt obligations (CRE CDOs) which were either fair valued by the Company or by independent brokers due to the illiquidity of this sector.

Preferred stock primarily represents lower quality preferred securities that are less liquid due to market conditions.

Valuation of Derivative Instruments, excluding embedded derivatives within liability contracts

Derivative instruments are reported on the consolidated balance sheets at fair value and are reported in Other Investments and Other Liabilities. Derivative instruments are fair valued using pricing valuation models, which utilize market data inputs or independent broker quotations. As of December 31, 2008 and 2007, 94% and 89% of derivatives, respectively, based upon notional values, were priced by valuation models, which utilize independent market data. The remaining derivatives were priced by broker quotations. The derivatives are valued using mid-market level inputs, with the exception of the customized swap contracts that hedge GMWB liabilities, that are predominantly observable in the market. Inputs used to value derivatives include, but are not limited to, interest swap rates, foreign currency forward and spot rates, credit spreads and correlations, interest and equity volatility and equity index levels. The Company performs a monthly analysis on derivative valuations which includes both quantitative and qualitative analysis. Examples of procedures performed include, but are not limited to, review of pricing statistics and trends, back testing recent trades, analyzing the impacts of changes in the market environment, and review of changes in market value for each derivative including those derivatives priced by brokers.

The following table presents the notional value and net fair value of derivatives instruments by SFAS 157 hierarchy level as of December 31, 2008.

	Notional Value	Fair Value
Quoted prices in active markets for identical assets (Level 1)	$ 4,502	$

Significant observable inputs (Level 2)		26,011		1,108
Significant unobservable inputs (Level 3)		23,915		2,330
Total	**$**	**54,428**	**$**	**3,438**

The following table presents the notional value and net fair value of the derivative instruments within the SFAS 157 Level 3 securities classification as of December 31, 2008.

	Notional Value		Fair Value	
Credit derivatives	$	3,629	$	(358)
Interest derivatives		3,152		49
Equity derivatives		15,735		2,759
Other		1,399		(120)
Total Level 3	**$**	**23,915**	**$**	**2,330**

Derivative instruments classified as Level 3 include complex derivatives, primarily consisting of equity options and swaps, interest rate derivatives which have interest rate optionality, certain credit default swaps, and long-dated interest rate swaps. These derivative instruments are valued using pricing models which utilize both observable and unobservable inputs and, to a lesser extent, broker quotations. A derivative instrument that is priced using both observable and unobservable inputs will be classified as a Level 3 financial instrument in its entirety if the unobservable input is significant in developing the price.

The Company utilizes derivative instruments to manage the risk associated with certain assets and liabilities. However, the derivative instrument may not be classified with the same fair value hierarchy level as the associated assets and liabilities.

Evaluation of Other-Than-Temporary Impairments on Available-for-Sale Securities

One of the significant estimates related to available-for-sale securities is the evaluation of investments for other-than-temporary impairments. If a decline in the fair value of an available-for-sale security is judged to be other-than-temporary, a charge is recorded in net realized capital losses equal to the difference between the fair value and cost or amortized cost basis of the security. In addition, for securities expected to be sold, an other-than-temporary impairment charge is recognized if the Company does not expect the fair value of a security to recover to cost or amortized cost prior to the expected date of sale. The fair value of the other-than-temporarily impaired investment becomes its new cost basis. For fixed maturities, the Company accretes the new cost basis to par or to the estimated future cash flows over the expected remaining life of the security by adjusting the security s yield.

The evaluation of securities for impairments is a quantitative and qualitative process, which is subject to risks and uncertainties and is intended to determine whether declines in the fair value of investments should be recognized in current period earnings. The risks and uncertainties include changes in general economic conditions, the issuer s financial condition or future prospects, the effects of changes in interest rates or credit spreads and the expected recovery period. The Company has a security monitoring process overseen by a committee of investment and accounting professionals (the committee) that identifies securities that, due to certain characteristics, as described below, are subjected to an enhanced analysis on a quarterly basis. Based on this evaluation, during 2008, the Company concluded $4.0 billion of unrealized losses were other-than-temporarily impaired and as of December 31, 2008, the Company s unrealized losses on available-for-sale securities of $14.6 billion were temporarily impaired.

Securities not subject to Emerging Issues Task Force (EITF) Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continued to Be Held by a Transferor in Securitized Financial Assets (non-EITF Issue No. 99-20 securities) that are in an unrealized loss position, are reviewed at least quarterly to determine if an other-than-temporary impairment is present based on certain quantitative and qualitative factors. The primary factors considered in evaluating whether a decline in value for non-EITF Issue No. 99-20 securities is other-than-temporary include: (a) the length of time and extent to which the fair value has been less than cost or amortized cost of the security, (b) the financial condition, credit rating and future prospects of the issuer, (c) whether the debtor is current on contractually obligated interest and principal payments and (d) the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery.

Through September 30, 2008, for securitized financial assets with contractual cash flows, including those subject to EITF Issue No. 99-20, the Company periodically updated its best estimate of cash flows over the life of the security. The Company s best estimate of cash flows used severe economic recession assumptions due to market uncertainty, similar to those the Company believed market participants would use. If the fair value of a securitized financial asset was less than its cost or amortized cost and there has been an adverse change in timing or amount of anticipated future cash flows since the last revised estimate, an other-than-temporary impairment charge was recognized. The Company also considered its intent and ability to retain a temporarily depressed security until recovery. Estimating future cash flows is a quantitative and qualitative process that incorporates information received from third party sources along with certain internal assumptions and judgments regarding the future performance of the underlying collateral. In addition, projections of expected future cash flows may change based upon new information regarding the performance of the underlying collateral. Beginning in the fourth quarter of 2008, the Company implemented FSP No. EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20 (see Note 1 in the Notes to the Consolidated Financial Statements). Upon implementation, the Company continued to utilize the impairment process

described above, however, rather than exclusively relying upon market participant assumptions, management judgment was also used in assessing the probability that an adverse change in future cash flows has occurred.

Each quarter, during this analysis, the Company asserts its intent and ability to retain until recovery those securities judged to be temporarily impaired. Once identified, these securities are systematically restricted from trading unless approved by the committee. The committee will only authorize the sale of these securities based on predefined criteria that relate to events that could not have been reasonably foreseen. Examples of the criteria include, but are not limited to, the deterioration in the issuer s creditworthiness, a change in regulatory requirements or a major business combination or major disposition.

Pension and Other Postretirement Benefit Obligations

The Company maintains a U.S. qualified defined benefit pension plan (the Plan) that covers substantially all employees, as well as unfunded excess plans to provide benefits in excess of amounts permitted to be paid to participants of the Plan under the provisions of the Internal Revenue Code. The Company has also entered into individual retirement agreements with certain retired directors providing for unfunded supplemental pension benefits. In addition, the Company provides certain health care and life insurance benefits for eligible retired employees. The Company maintains international plans which represent an immaterial percentage of total pension assets, liabilities and expense and, for reporting purposes, are combined with domestic plans.

Pursuant to accounting principles related to the Company s pension and other postretirement obligations to employees under its various benefit plans, the Company is required to make a significant number of assumptions in order to calculate the related liabilities and expenses each period. The two economic assumptions that have the most impact on pension and other postretirement expense are the discount rate and the expected long-term rate of return on plan assets. In determining the discount rate assumption, the Company utilizes a discounted cash flow analysis of the Company s pension and other postretirement obligations and currently available market and industry data. The yield curve utilized in the cash flow analysis is comprised of bonds rated Aa or higher with maturities primarily between zero and thirty years. Based on all available information, it was determined that 6.25% was the appropriate discount rate as of December 31, 2008 to calculate the Company s pension and other postretirement obligation. Accordingly, the 6.25% discount rate will also be used to determine the Company s 2009 pension and other postretirement expense. At December 31, 2007, the discount rate was also 6.25%.

As of December 31, 2008, a 25 basis point increase/decrease in the discount rate would decrease/increase the pension and other postretirement obligations by $116 and $9, respectively. However, because the Company employs a duration overlay program to adjust the duration of the fixed income component of the Plan assets to better match the duration of the liabilities, the funded status of the pension benefits would only increase/decrease by $43.

The Company determines the expected long-term rate of return assumption based on an analysis of the Plan portfolio s historical compound rates of return since 1979 (the earliest date for which comparable portfolio data is available) and over 5 year and 10 year periods. The Company selected these periods, as well as shorter durations, to assess the portfolio s volatility, duration and total returns as they relate to pension obligation characteristics, which are influenced by the Company s workforce demographics. In addition, the Company also applies long-term market return assumptions utilized in Life s DAC analysis to an investment mix that generally anticipates 60% fixed income securities, 20% equity securities and 20% alternative assets to derive an expected long-term rate of return. Based upon these analyses, management maintained the long-term rate of return assumption at 7.30% as of December 31, 2008. This assumption will be used to determine the Company s 2009 expense. The long-term rate of return assumption at December 31, 2007, that was used to determine the Company s 2008 expense, was also 7.30%.

Pension expense reflected in the Company s net income was $122, $131 and $152 in 2008, 2007 and 2006, respectively. The Company estimates its 2009 pension expense will be approximately $134, based on current assumptions. To illustrate the impact of these assumptions on annual pension expense for 2009 and going forward, a 25 basis point decrease in the discount rate will increase pension expense by approximately $12 and a 25 basis point change in the long-term asset return assumption will increase/decrease pension expense by approximately $9.

In 2008, the deterioration of the global economy, together with the current credit crisis, caused significant volatility in interest rates and equity prices, which caused actual asset returns of the Plan s investment portfolios to be less than expected. As provided for under SFAS No. 87, the Company uses a five-year averaging method to determine the market-related value of Plan assets, which is used to determine the expected return component of pension expense. Under this methodology, asset gains/losses that result from returns that differ from the Company s long-term rate of return assumption are recognized in the market-related value of assets on a level basis over a five year period. The difference between actual asset returns for the plans of $(441) and $331 for the years ended December 31, 2008 and 2007, respectively, as compared to expected returns of $279 and $283 for the years ended December 31, 2008 and 2007, respectively, will be fully reflected in the market-related value of plan assets over the next five years using the methodology described above. The level of actuarial net losses continues to exceed the allowable amortization corridor as defined under SFAS No. 87. Based on the 6.25% discount rate selected as of December 31, 2008 and taking into account estimated future minimum funding, the difference between actual and expected performance in 2008 will increase annual pension expense in future years. The increase in pension expense will be approximately $30 in 2009 and will increase ratably to an increase of approximately $205 in 2014.

Contingencies Relating to Corporate Litigation and Regulatory Matters

Management follows the requirements of SFAS No. 5 Accounting for Contingencies. This statement requires management to evaluate each contingent matter separately. A loss is recorded if probable and reasonably estimable. Management establishes reserves for these contingencies at its best estimate, or, if no one number within the range of possible losses is more probable than any other, the Company records an estimated reserve at the low end of the range

of losses.

The Company has a quarterly monitoring process involving legal and accounting professionals. Legal personnel first identify outstanding corporate litigation and regulatory matters posing a reasonable possibility of loss. These matters are then jointly reviewed by accounting and legal personnel to evaluate the facts and changes since the last review in order to determine if a provision for loss should be recorded or adjusted, the amount that should be recorded, and the appropriate disclosure. The outcomes of certain contingencies currently being evaluated by the Company, which relate to corporate litigation and regulatory matters, are inherently difficult to predict, and the reserves that have been established for the estimated settlement amounts are subject to significant changes. In view of the uncertainties regarding the outcome of these matters, as well as the tax-deductibility of payments, it is possible that the ultimate cost to the Company of these matters could exceed the reserve by an amount that would have a material adverse effect on the Company s consolidated results of operations or cash flows in a particular quarterly or annual period.

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Goodwill Impairment

SFAS No. 142, Goodwill and Other Intangible Assets, requires that goodwill balances be reviewed for impairment at least annually or more frequently if events occur or circumstances change that would indicate that a triggering event, as defined in SFAS 142, has occurred. A reporting unit is defined as an operating segment or one level below an operating segment. Most of the Company s reporting units, for which goodwill has been allocated, are equivalent to the Company s operating segments as there is no discrete financial information available for the separate components of the segment or all of the components of the segment have similar economic characteristics. The fixed and variable annuity components of Individual Annuity have been aggregated into one reporting unit; the 401(k), 457 and 403(b) components of Retirement have been aggregated into one reporting unit; the variable life, universal life and term life components of Individual Life have been aggregated into one reporting unit; the private placement life insurance and institutional investment products components of the Institutional Solutions Group have been aggregated into one reporting unit; the group disability and group life components of Group Benefits have been aggregated into one reporting unit; the Japan, Brazil and U.K. components of International have been aggregated into one reporting unit, and the homeowners and automobile components of Personal Lines have been aggregated into one reporting unit. In circumstances where the components of an operating segment constitute a business for which discrete financial information is available and segment management regularly reviews the operating results of that component such as with Other Retail, which combined with Individual Annuity constitutes the Retail operating segment, and Hartford Financial Products, the Company has classified those components as reporting units.

As of December 31, 2008, the Company had goodwill allocated to the following reporting units:

	Segment Goodwill	Goodwill in Corporate	Total
Other Retail	$ 159	$ 92	$ 251
Retirement Plans [1]	79	69	148
Institutional Solutions Group		32	32
Individual Life	224	118	342
Group Benefits		138	138
Personal Lines	119		119
Hartford Financial Products within Specialty Commercial	30		30
Total	**$ 611**	**$ 449**	**$ 1,060**

[1] In 2008, the Company completed three acquisitions that resulted in additional goodwill of $79 in Retirement Plans.

As of December 31, 2007, the Company had goodwill allocated to the following reporting units:

	Segment Goodwill	Goodwill in Corporate	Total
Individual Annuity	$ 422	$ 308	$ 730
Other Retail	159	92	251

Retirement Plans		69	69
Institutional Solutions Group		32	32
Individual Life	224	118	342
Group Benefits		138	138
International		15	15
Personal Lines	119		119
Hartford Financial Products within Specialty Commercial	30		30
Total	**$ 954**	**$ 772**	**$ 1,726**

The goodwill impairment test follows a two step process as defined in SFAS 142. In the first step, the fair value of a reporting unit is compared to its carrying value. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed for purposes of measuring the impairment. In the second step, the fair value of the reporting unit is allocated to all of the assets and liabilities of the reporting unit to determine an implied goodwill value. This allocation is similar to a purchase price allocation performed in purchase accounting. If the carrying amount of the reporting unit goodwill exceeds the implied goodwill value, an impairment loss shall be recognized in an amount equal to that excess.

Management s determination of the fair value of each reporting unit incorporates multiple inputs including discounted cash flow calculations, peer company price to earnings multiples, the level of the Company s own share price and assumptions that market participants would make in valuing the reporting unit. Other assumptions include levels of economic capital, future business growth, earnings projections, assets under management for Life reporting units and the weighted average cost of capital used for purposes of discounting. Decreases in the amount of economic capital allocated to a reporting unit, decreases in business growth, decreases in earnings projections and increases in the weighted average cost of capital will all cause the reporting unit s fair value to decrease.

The Company completed its annual goodwill assessment for the individual reporting units within Life and Property & Casualty as of January 1, 2008 and September 30, 2008, respectively. The conclusion reached as a result of the annual goodwill impairment testing was that the fair value of each reporting unit, for which goodwill had been allocated, was in excess of the respective reporting unit s carrying value (the first step of the goodwill impairment test).

However, as noted above, goodwill is reassessed at an interim date if certain circumstances occur which would cause the entity to conclude that it was more likely than not that the carrying value of one or more of its reporting units would be in excess of the respective reporting unit s fair value. As a result of the sharp decline in the equity markets during the fourth quarter of 2008 and a sharp decline in The Hartford s share price below book value per share, the Company concluded, in connection with the preparation of its year end financial statements, that the conditions had been met to warrant an interim goodwill impairment test.

The Company believes one of the significant drivers in the decline of its traded per share price is the risks associated with the death and living benefit guarantees offered with the products sold by the Individual Annuity and International reporting units and the related U.S. GAAP and statutory requirements.

As a result of the testing performed during the fourth quarter of 2008, which included the effects of decreasing sales outlooks and declining equity markets on future earnings, the fair value for each reporting unit continued to be in excess of the respective reporting unit s carrying value except for the Life Individual Annuity and International reporting units. For both of these reporting units, the Company concluded that the fair value of the reporting unit had declined significantly, as evidenced by the decline in the Company s share price, due to the significant risks associated with the product suite discussed above. As a result of the step 2 analysis, the allocation of the fair value of the Individual Annuity and International reporting units to their respective assets and liabilities as of December 31, 2008 indicated an implied level of goodwill of $0 for both reporting units. Therefore, the Company recorded an impairment charge of $730 and $15 of goodwill which had been allocated to the Individual Annuity and International reporting units, respectively.

The goodwill impairment charge of $745 included $323 that had resulted from the Company s buyback of the Life operations in 2000. The buyback goodwill was reported in Corporate but had been allocated to Life reporting units for purposes of goodwill impairment testing, including $308 to Individual Annuity and $15 to International. This portion of the impairment was recorded in Corporate. The remaining impairment charge of $422 was recorded in Individual Annuity and related to the Company s prior acquisitions of Planco, Inc. and Fortis Financial Group, Inc.

If current market conditions persist during 2009, in particular, if the Company s share price remains below book value per share, or if the Company s actions to limit risk associated with its products or investments causes a significant change in any one reporting unit s fair value, the Company may need to reassess goodwill impairment at the end of each quarter as part of an annual or interim impairment test. Subsequent reviews of goodwill could result in additional impairment of goodwill during 2009.

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CONSOLIDATED RESULTS OF OPERATIONS

	For the Years Ended December 31,		
Operating Summary	**2008**	**2007**	**2006**
Earned premiums	$ 15,503	$ 15,619	$ 15,023
Fee income	5,135	5,436	4,739
Net investment income (loss)			
Securities available-for-sale and other	4,335	5,214	4,691
Equity securities held for trading [1]	(10,340)	145	1,824
Total net investment income (loss)	(6,005)	5,359	6,515
Other revenues	504	496	474
Net realized capital losses	(5,918)	(994)	(251)
Total revenues	**9,219**	**25,916**	**26,500**
Benefits, losses and loss adjustment expenses	14,088	13,919	13,218
Benefits, losses and loss adjustment expenses returns credited on International variable annuities [1]	(10,340)	145	1,824
Amortization of deferred policy acquisition costs and present value of future profits	4,271	2,989	3,558
Insurance operating costs and expenses	3,993	3,894	3,252
Interest expense	343	263	277
Goodwill impairment	745		
Other expenses	710	701	769
Total benefits, losses and expenses	**13,810**	**21,911**	**22,898**
Income (loss) before income taxes	**(4,591)**	**4,005**	**3,602**
Income tax expense (benefit)	(1,842)	1,056	857
Net income (loss)	**$ (2,749)**	**$ 2,949**	**$ 2,745**

[1] Includes investment income and mark-to-market effects of equity securities held for trading supporting the international variable annuity business, which are classified in net investment income with corresponding amounts credited to

policyholders within benefits, losses and loss adjustment expenses.

Net Income (Loss) by Operation and Life Segment	**2008**	**2007**	**2006**
Life			
Retail	$ (1,399)	$ 812	$ 536
Individual Life	(43)	182	150
Total Individual Markets Group	(1,442)	994	686
Retirement Plans	(157)	61	101
Group Benefits	(6)	315	298
Total Employer Markets Group	(163)	376	399
International	(325)	223	231
Institutional	(502)	17	78
Other	(11)	(52)	47
Total Life	**(2,443)**	**1,558**	**1,441**
Property & Casualty			
Ongoing Operations			
Underwriting results			
Personal Lines	280	322	429
Small Commercial	437	508	422
Middle Market	169	157	214
Specialty Commercial	71	(18)	46
Ongoing Operations underwriting results	957	969	1,111
Net servicing income [1]	31	52	53
Net investment income	1,056	1,439	1,225
Net realized capital losses	(1,669)	(160)	(17)
Other expenses	(219)	(248)	(222)
Income tax (expense) benefit	33	(575)	(596)
Ongoing Operations	189	1,477	1,554
Other Operations	(97)	30	(35)
Total Property & Casualty	**92**	**1,507**	**1,519**
Corporate	**(398)**	**(116)**	**(215)**
Net income (loss)	**$ (2,749)**	**$ 2,949**	**$ 2,745**

[1] Net of expenses related to service business.

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Operating Results

Year ended December 31, 2008 compared to the year ended December 31, 2007

Net income decreased primarily due to decreases in Life of $4.0 billion for the year ended December 31, 2008 compared to the year ended December 31, 2007. Additionally, Property & Casualty net income decreased $1.4 billion for the year ended December 31, 2008 compared to the year ended December 31, 2007. Corporate results decreased primarily due to a goodwill impairment charge of $323, after-tax.

The decrease in Life s net income was due to the following:

- Realized losses increased as compared to the comparable prior year period primarily due to impairments on investment securities and net losses from the adoption of SFAS 157. For further discussion, please refer to the Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A.
- Life recorded a DAC unlock charge of $941, after-tax, during the third quarter of 2008 as compared to a DAC unlock benefit of $210, after-tax, during the third quarter of 2007. See Critical Accounting Estimates with Managements Discussion and Analysis for a further discussion on the DAC unlock.
- Declines in assets under management in Retail, primarily driven by market depreciation of $37.8 billion for Individual Annuity and $20.2 billion for retail mutual funds during 2008, drove declines in fee income compared to 2007.
- Net investment income on securities, available-for-sale, and other declined primarily due to declines in limited partnership and other alternative investments income and a decrease in investment yield for fixed maturities.
- A goodwill impairment of $274, after-tax, in Retail.
- The effect of the triggering of the guaranteed minimum income benefit for the 3 Win product was $151, after-tax.

Property & Casualty results changed from net income of $1.5 billion in 2007 to net income of $92 in 2008, largely due to a $1.1 billion after-tax increase in net realized capital losses on investments, a $325 after-tax decrease in net investment income and a $238 after-tax increase in current accident year catastrophes, partially offset by a $147 after-tax net release of prior accident year reserves in 2008.

- Ongoing Operations net income decreased by $1.3 billion in 2008, from net income of $1.5 billion in 2007 to net income of $189 in 2008. Before income taxes, Ongoing Operations results deteriorated by $1.9 billion, primarily due to a $1.5 billion increase in net realized capital losses on investments, a $383 decrease in net investment income and a $366 increase in current accident year catastrophes, partially offset by a $210 increase in net favorable prior accident year development and more favorable underwriting results from personal auto and workers compensation lines of business. The increase in net realized capital losses of $1.5 billion in 2008 was primarily due to impairments of subordinated fixed maturities and preferred equity securities in the financial services sector as well as of securitized assets. Contributing to the $383 decrease in net investment income was a change from net income to net losses on limited partnerships and other alternative investments in 2008 and decreased fixed maturity income. The $366 increase in current accident year catastrophes was largely due to losses incurred from hurricane Ike in September of 2008 and an increase in losses from tornadoes and thunderstorms in the South and Midwest. The $210 increase in net favorable prior accident year development was primarily due to larger net reserve releases for workers compensation, professional liability and personal auto liability claims.
- Other Operations reported a net loss of $97 in 2008 compared to net income of $30 in 2007. Before income taxes, Other Operations results deteriorated by $184, primarily due to a $196 increase in net realized capital losses on investments, largely driven by impairments of subordinated fixed maturities and preferred equity securities in the financial services sector as well as of securitized assets, and a $51 decrease in net investment income, partially offset by a $64 decrease in net unfavorable prior accident year reserve development.

Year ended December 31, 2007 compared to the year ended December 31, 2006

Net income increased primarily due to increases in Life of $117 for the year ended December 31, 2007 compared to the year ended December 31, 2006. Additionally, Property & Casualty net income decreased $12 for the year ended December 31, 2007 compared to the year ended December 31, 2006. Also included in the year ended December 31, 2007 is an increase in reserve for regulatory matters of $30, after-tax, of which $21 and $9 relates to Life and Property & Casualty, respectively.

The increase in Life s net income was due to the following:

- The DAC unlock benefit of $210 recorded in the third quarter of 2007.
- Increased income on asset growth in the variable annuity, mutual fund, retirement and institutional businesses.

Partially offsetting the increase in Life s net income were the following:

- Increased non-deferrable individual annuity asset based commissions.
- Unfavorable mortality in Individual Life.
- Increased DAC amortization in Group Benefits due to the adoption of Statement of Position 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts (SOP 05-1).
- During the first quarter of 2006, the Company achieved favorable settlements in several cases brought against the Company by policyholders regarding their purchase of broad-based leveraged corporate owned life insurance (leveraged COLI) policies in the early to mid-1990s and therefore, released a reserve for these matters of $34, after-tax.
- Realized losses increased for the year ended December 31, 2007 as compared to the comparable prior year periods primarily due to net losses on GMWB derivatives and impairments.

Property & Casualty net income decreased by $12 for the year ended December 31, 2007. Ongoing Operations net income decreased by $77 for the year, while Other Operations improved its results by $65, primarily due to a reduction in unfavorable loss reserve development.

- Ongoing Operations net income decreased by $77, primarily due to a $92 after-tax decrease in underwriting results and a change from net realized capital gains of $29, after-tax, in 2006 to net realized capital losses of $104, after-tax, in 2007. The decrease in underwriting results and the change to net realized capital losses was partially offset by a $150 after-tax increase in net investment income. The decrease in underwriting results was primarily driven by an increase in the loss and loss adjustment expense ratio before catastrophes and prior accident year development and an increase in insurance and operating costs and dividends, partially offset by a reduction in prior accident year reserves for workers compensation business.
- Other Operations reported net income of $30 in 2007 compared to a net loss of $35 in 2006. The improvement in results was primarily due to a decrease in unfavorable prior accident year reserve development, partially offset by a change from net realized gains in 2006 to net realized losses in 2007 and a decrease in net investment income.

Net Realized Capital Gains and Losses

See Investment Results in the Investments section and the Realized Capital Gains and Losses by Segment table within the Life section of the MD&A.

Income Taxes

The effective tax rate for 2008, 2007 and 2006 was 40%, 26%, and 24%, respectively. The principal causes of the difference between the effective rate and the U.S. statutory rate of 35% for 2008, 2007 and 2006 were tax-exempt interest earned on invested assets and the separate account dividends received deduction (DRD). This caused an increase in the tax benefit on the 2008 pre-tax loss and a decrease in the tax expense on the 2007 and 2006 pre-tax income. Income taxes paid in 2008, 2007 and 2006 were $253, $451, and $179 respectively. For additional information, see Note 13 of Notes to Consolidated Financial Statements.

The separate account dividends-received deduction (DRD) is estimated for the current year using information from the prior year-end, adjusted for current year equity market performance and other appropriate factors, including estimated levels of corporate dividend payments. The estimated DRD was updated in the third quarter for the provision-to-filed-return adjustments, and in the fourth quarter based on current year ultimate mutual fund distributions and fee income from the Company s variable insurance products. The actual current year DRD varied from earlier estimates based on, but not limited to, changes in eligible dividends received by the mutual funds, amounts of distributions from these mutual funds, amounts of short-term capital gains and asset values at the mutual fund level and the Company s taxable income before the DRD. Given recent financial markets volatility, the Company intends to review its DRD computations on a quarterly basis, beginning in 2009. The Company recorded benefits of $176, $155 and $174 related to the separate account DRD in the years ended December 31, 2008, December 31, 2007 and December 31, 2006, respectively. The 2008 benefit included a benefit of $9 related to a true-up of the prior year

tax return, the 2007 benefit included a charge of $1 related to a true-up of the prior year tax return, and the 2006 benefit included a benefit of $6 related to true-ups of prior years tax returns.

In Revenue Ruling 2007-61, issued on September 25, 2007, the IRS announced its intention to issue regulations with respect to certain computational aspects of the DRD on separate account assets held in connection with variable annuity contracts. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54, issued in August 2007 that purported to change accepted industry and IRS interpretations of the statutes governing these computational questions. Any regulations that the IRS may ultimately propose for issuance in this area will be subject to public notice and comment, at which time insurance companies and other members of the public will have the opportunity to raise legal and practical questions about the content, scope and application of such regulations. As a result, the ultimate timing and substance of any such regulations are unknown, but they could result in the elimination of some or all of the separate account DRD tax benefit that the Company receives. Management believes that it is highly likely that any such regulations would apply prospectively only.

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The Company receives a foreign tax credit (FTC) against its U.S. tax liability for foreign taxes paid by the Company including payments from its separate account assets. The separate account FTC is estimated for the current year using information from the most recent filed return, adjusted for the change in the allocation of separate account investments to the international equity markets during the current year. The actual current year FTC can vary from the estimates due to actual FTCs passed through by the mutual funds. The Company recorded benefits of $16, $11 and $17 related to separate account FTC in the years ended December 31, 2008, December 31, 2007 and December 31, 2006, respectively. These amounts included benefits related to true-ups of prior years tax returns of $4, $0 and $7 in 2008, 2007 and 2006 respectively.

The Company s unrecognized tax benefits increased by $15 during 2008 as a result of tax positions taken on the Company s 2007 tax return and expected to be taken on its 2008 tax return, bringing the total unrecognized tax benefits to $91 as of December 31, 2008. This entire amount, if it were recognized, would affect the effective tax rate.

Earnings (Losses) Per Common Share

The following table represents earnings per common share data for the past three years:

	2008	2007	2006
Basic earnings (losses) per share	$ (8.99)	$ 9.32	$ 8.89
Diluted earnings (losses) per share	$ (8.99)	$ 9.24	$ 8.69
Weighted average common shares outstanding (basic)	306.7	316.3	308.8
Weighted average common shares outstanding and dilutive potential common shares (diluted)	306.7	319.1	315.9

For additional information on earnings (losses) per common share see Note 2 of Notes to Consolidated Financial Statements.

Outlooks

The Hartford provides projections and other forward-looking information in the Outlook sections within MD&A. The Outlook sections contain many forward-looking statements, particularly relating to the Company s future financial performance. These forward-looking statements are estimates based on information currently available to the Company, are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and are subject to the precautionary statements set forth in the introduction to MD&A above. Actual results are likely to differ, and in the past have differed, materially from those forecast by the Company, depending on the outcome of various factors, including, but not limited to, those set forth in each Outlook section and in Item 1A, Risk Factors.

Outlook

During 2008, the Company has been negatively impacted by conditions in the global financial markets and economic conditions in general. As these conditions persist in 2009, the Company would anticipate that it would continue to be negatively impacted, including the effect of rating downgrades that have occurred and those that could occur in the future. See Risk Factors in Item 1A.

Life

Retail

In the long-term, management continues to believe the market for retirement products will expand as individuals increasingly save and plan for retirement. Demographic trends suggest that as the baby boom generation matures, a significant portion of the United States population will allocate a greater percentage of their disposable incomes to saving for their retirement years due to uncertainty surrounding the Social Security system and increases in average life expectancy.

Near-term, the industry and the Company are experiencing lower variable annuity sales as a result of recent market turbulence and uncertainty in the U.S. financial system. Current market pressures are also increasing the expected claim costs, the cost and volatility of hedging programs, and the level of capital needed to support living benefit guarantees. Some companies have already begun to increase the price of their guaranteed living benefits and change the level of guarantees offered. In 2009, the Company intends to adjust pricing levels and take certain actions to reduce the risks in its variable annuity product features in order to address the risks and costs associated with variable annuity benefit features in the current economic environment and explore other risk limiting techniques such as

increased hedging or other reinsurance structures. Competitor reaction, including the extent of competitor risk limiting strategies, is difficult to predict and may result in a decline in Retail s market share.
Significant declines in equity markets and increased equity market volatility are also likely to continue to impact the cost and effectiveness of our GMWB hedging program. Continued equity market volatility could result in material losses in our hedging program. For more information on the GMWB hedging program, see the Equity Risk Management section within Capital Markets Risk Management.
During periods of volatile equity markets, policyholders may allocate more of their variable account assets to the fixed account options and fixed annuities may see increased deposits. In the fourth quarter of 2008, the Company has seen an increase in fixed annuity deposits compared to prior quarters. Management expects this trend to continue throughout 2009 or until the equity markets begin to stabilize and improve.

For the retail mutual fund business net sales can vary significantly depending on market conditions. The Company has seen a decline in mutual fund deposits and net flows during the fourth quarter as a result of increased equity market volatility and the declines in equity values throughout the fourth quarter. As this business continues to evolve, success will be driven by diversifying net sales across the mutual fund platform, delivering superior investment performance and creating new investment solutions for current and future mutual fund shareholders.

The decline in assets under management as a result of continued declines in the equity markets throughout 2008 have decreased the extent of the scale efficiencies that Retail has benefited from in recent years. The significant reduction in assets under management has resulted in revenues declining faster than expenses causing lower earnings during the fourth quarter of 2008 and management expects this strain to continue in 2009. Management will continue to actively evaluate its expense structure to ensure the business is controlling costs while maintaining its level of service to our customers.

Individual Life

Sales and account values for variable universal life products have been under pressure due to continued equity market volatility and declines. For the year ended December 31, 2008, variable universal life sales and account values decreased 30% and 34%, respectively, compared to prior year. Continued volatility and declines in the equity markets may reduce the attractiveness of variable universal life products and put additional strain on future earnings as variable life fees earned by the Company are driven by the level of assets under management. The variable universal life mix was 40% of total life insurance in-force for the year ended December 31, 2008.

Future sales for all products will be influenced by the Company s management of current distribution relationships, including recent merger and consolidation activity, and the development of new sources of distribution, while offering competitive and innovative new products and product features. The current economic environment poses both opportunities and challenges for future sales; while life insurance products respond well to consumer demand for financial security and wealth accumulation solutions, individuals may be reluctant to transfer funds when market volatility has recently resulted in significant declines in investment values. In addition, the availability and terms of capital solutions in the marketplace, as discussed below, to support universal life products with secondary guarantees, may influence future growth.

Effective November 1, 2007, Individual Life reinsured the policy liability related to statutory reserves in universal life with secondary guarantees to a captive reinsurance subsidiary. These reserves are calculated under prevailing statutory reserving requirements as promulgated under Actuarial Guideline 38, The Application of the Valuation of Life Insurance Policies Model Regulation . An unaffiliated standby third party letter of credit supports a portion of the statutory reserves that have been ceded to this subsidiary. As of December 31, 2008, the transaction provided approximately $429 of statutory capital relief associated with the Company s universal life products with secondary guarantees. The Company expects this transaction to accommodate future statutory capital needs for in-force business and new business written through approximately December 31, 2009. The use of the letter of credit will result in a decline in net investment income and increased expenses in future periods for Individual Life. As its business evolves in this product line, Individual Life will evaluate the need for, and availability of, an additional capital transaction, which may impact the capacity to write these policies in the future.

For risk management purposes, Individual Life accepts and retains up to $10 in risk on any one life. Individual Life uses reinsurance where appropriate to mitigate earnings volatility; however, death claim experience may lead to periodic short-term earnings volatility. Individual Life is currently evaluating and preparing to implement changes to its reinsurance structure in 2009 in an effort to balance the overall profitability of its business while minimizing earnings volatility associated with higher retention limits.

Individual Life continues to face uncertainty surrounding estate tax legislation, aggressive competition from other life insurance providers, reduced availability and higher price of reinsurance, and the current regulatory environment related to reserving for term insurance and universal life products with no-lapse guarantees. These risks may have a negative impact on Individual Life s future earnings.

Retirement Plans

The future financial results of the Retirement Plans segment will depend on Life s ability to increase assets under management across all businesses, achieve scale in areas with a high degree of fixed costs and maintain its investment

spread earnings on the general account products sold largely in the 403(b)/457 business. Disciplined expense management will continue to be a focus and additional investments in service and technology will occur.

During 2008, the Company completed three Retirement Plans acquisitions. The acquisition of part of the defined contribution record keeping business of Princeton Retirement Group gives Life a foothold in the business of providing recordkeeping services to large financial firms which offer defined contribution plans to their clients and at acquisition added $2.9 billion in mutual funds to Retirement Plans assets under management and $5.7 billion of assets under administration. The acquisition of Sun Life Retirement Services, Inc., at acquisition added $15.8 billion in Retirement Plans assets under management across 6,000 plans and provides new service locations in Boston, Massachusetts and Phoenix, Arizona. The acquisition of TopNoggin LLC., provides web-based technology to address data management, administration and benefit calculations. These three acquisitions were not accretive to 2008 net income. Furthermore, net income as a percentage of assets is expected to be lower in 2009 reflecting a full year of the new business mix represented by the acquisitions, which includes larger, more institutionally priced plans, predominantly executed on a mutual fund platform, and the cost of maintaining multiple technology platforms during the integration period.

Given the recent market declines and increased volatility during the fourth quarter of 2008, the Company has seen and expects that growth in Retirement deposits will be negatively affected if businesses reduce their workforces and offer more modest salary increases and as workers potentially allocate less to retirement accounts in the near term. The severe decline in equity markets in the second half of 2008 has significantly reduced Retirement Plans assets under management, which has strained its net income. This earnings strain is expected to continue throughout 2009 or until the equity markets improve.

Group Benefits

Group Benefits sales may fluctuate based on the competitive pricing environment in the marketplace. In 2008, the Company generated fully insured ongoing premium growth in the group life and disability operations. During 2007, the Company completed a renewal rights transaction associated with its medical stop loss business, which caused lower earned premium and sales growth in 2008. The Company anticipates relatively stable loss ratios and expense ratios based on underlying trends in the in-force business and disciplined new business and renewal underwriting. The Company has not seen a meaningful impact in disability loss ratios as a result of the recent economic downturn. While claims incidence may increase during a recession, the Company would expect the impact to the disability loss ratio to be within the normal range of volatility.

The current economic downturn has resulted in rising unemployment combined with the potential for employees to lessen spending on the Company s products may impact future premium growth. Nonetheless, employees continue to look to the workplace for a broader and ever expanding array of insurance products. As employers design benefit strategies to attract and retain employees, while attempting to control their benefit costs, management believes that the need for the Company s products will continue to expand. This combined with the significant number of employees who currently do not have coverage or adequate levels of coverage, creates opportunities for our products and services.

International

Financial results depend on the account values of our customers, which are affected by equity, bond and currency markets. Periods of favorable market performance will increase assets under management and thus increase fee income earned on those assets, while unfavorable market performance will have the reverse effect. In addition, higher or lower account value levels, whether driven by market or currency impacts on the underlying investments, will generally reduce or increase, respectively, certain costs for individual annuities to the Company, such as guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB), guaranteed minimum accumulation benefits (GMAB) and guaranteed minimum withdrawal benefits (GMWB). In addition, International s financial results are significantly impacted by the exchange rate between the U.S. dollar and the Japanese yen. Prudent expense management is also an important component of product financial results.

Due to significant market declines in the fourth quarter, approximately 97% of our in-force 3 Win policies, or $3.1 billion in account value, have triggered the associated GMIB. As a result of the GMIB trigger, the majority of our 3 Win policies annuitized or surrendered free of charge in the fourth quarter of 2008. This significantly and negatively impacted fourth quarter net flows and will continue to reduce future profitability. For further details on the trigger of the GMIB associated with the 3 Win product, see Unlock and Sensitivity Analysis within Critical Accounting Estimates.

Competition has increased dramatically in the Japanese market from both domestic and foreign insurers. In addition to seeing new entrants in the Japanese market, our existing competitors are rapidly introducing new products, some of which include shorter guarantee periods as well as ratcheting guarantee features and higher equity asset allocation. This increase in competition has impacted current deposits and is expected to negatively impact future deposit levels. In addition, the Company continues to evaluate product designs that meet customers needs while maintaining prudent risk management. During the second and third quarters of 2008, the Company launched a new product called Rising Income/Care Story, which is a GMWB variable annuity combined with a nursing care rider, as well as the new product Plus 5, which is a 10-year GMAB variable annuity with a 5% bonus at year 10. The success of the Company s product offerings will ultimately be based on customer acceptance in an increasingly competitive environment.

During 2008 the Company has experienced lower than expected surrenders and related surrender fees. In addition, the Company has experienced significant market declines and therefore some of the product guarantees have increased in

cost. Specifically, the trigger of the 3 Win product, referenced above, has reduced variable annuity assets under management and will negatively impact overall financial results and is expected to result in a lower return on assets than in prior years.

In 2009, the Company intends to review its variable annuity product features in an effort to reduce the risks and costs associated with variable annuity benefit features in the current economic environment.

Institutional

Institutional s markets are highly competitive from a pricing perspective, and a small number of cases often account for a significant portion of deposits. Most Institutional product issuances depend on pricing levels as well as the Company s credit ratings and perceived financial stability and may be negatively impacted by rating agency downgrades of the Company that have occurred during February 2009 or could occur in the future.

During 2008, the Company ceased issuance of retail and institutional funding agreement backed notes, largely due to the change in customer preference to FDIC-insured products. Prospectively, the Company will issue only Guaranteed Investment Contracts (GIC) and on a limited basis, funding agreements. The Company will be disciplined and opportunistic in capturing new GIC and funding agreement opportunities, and accordingly, deposits in 2009 are expected to be substantially lower than 2008 amounts. The Company expects stable value products will experience negative net flows in 2009 as contractual maturities and the payments associated with certain contracts which allow an investor to accelerate principal repayments (after a defined notice period of typically thirteen months). Approximately $3.9 billion of account value will be paid out on stable value contracts during 2009. As of December 31, 2008, Institutional has no remaining contracts that contain an unexercised investor option feature that allows for contract surrender at book value. The Company has the option to accelerate the repayment of principal for certain other stable value products and will evaluate calling these contracts individually based upon the financial benefits to the Company.

The net income of this segment will depend on Institutional s ability to increase assets under management, mix of business, net investment spread and investment performance. The net investment spread, discussed in the Performance Measures section of this MD&A, has declined in 2008 versus prior year amounts and we expect investment spread will remain pressured in 2009 due to the anticipated performance of limited partnerships and other alternative investments as well as the decline in short term interest rates.

Property & Casualty

In 2009, management expects Ongoing Operations written premium to be flat to slightly lower, reflecting the continuation of competitive market conditions. However, written premium growth in 2009 may be significantly lower if the economy deteriorates more than management expects or if the market perceives greater uncertainty about the financial strength of the Company as a result of reductions in the financial strength ratings of the Company s property and casualty subsidiaries that have occurred or could occur.

Within the Personal Lines segment, the Company expects written premium to be flat to modestly higher in 2009, with growth in AARP partially offset by a decline in Agency. The Company expects personal auto written premium to be flat to modestly higher and homeowners written premium to be flat to slightly lower. The expected increase in AARP written premium will be largely driven by continued direct marketing to AARP members and an expansion of underwriting appetite through the continued roll-out of the Next Gen Auto product. The expected decline in Agency written premium will be driven by the Company s decision to stop renewing Florida homeowners policies sold through agents. Apart from the effect of non-renewing Florida homeowners business in Agency, management expects a slight increase in Agency written premium driven by appointing more agents and increasing market penetration in select markets.

In 2009, the Company expects to increase its auto and homeowners written premium generated from direct sales to the consumer and from agents selling the AARP product. In 2008, the Company launched a brand and channel expansion pilot in four states: Arizona, Illinois, Tennessee and Minnesota and expects to expand the initiative to additional states in 2009. In the targeted states, the Company will increase Personal Lines brand advertising and launch direct marketing efforts beyond its existing AARP program. In addition, certain agents in the targeted states will be authorized to offer the Company s AARP product.

While carriers in the personal lines industry will continue to compete on price, management expects that written pricing in Personal Lines will continue to increase modestly in 2009 in response to rising loss costs. For the Company, written pricing in 2008 increased 2% in both auto and homeowners.

Within Small Commercial, management expects written premium in 2009 to be flat to slightly lower, primarily driven by an increase in workers compensation written premium with an expected decline in commercial auto written premium. Contributing to the expected increase in workers compensation written premium will be an expansion of underwriting appetite in selected industries and an expansion of business written through payroll service providers. In

2008, average premium per policy in Small Commercial is expected to continue to decline due to written pricing decreases, a lower average premium on Next Generation Auto business and the potential for an increase in mid-term endorsements as insureds reduce coverage due to the economic downturn. Written pricing in Small Commercial decreased by 2% in 2008.

Management expects that 2009 written premium for Middle Market will be lower as the Company takes a disciplined approach to evaluating and pricing risks in the face of declines in written pricing. Written pricing for Middle Market business declined by 5% in 2008 and while management expects written pricing to begin to stabilize in 2009, management expects carriers will continue to price new business more aggressively than renewals. Management expects to compete for new business and protect renewals in Middle Market by, among other actions, refining its pricing models, increasing its willingness to write more workers compensation business on a mono-line basis and writing larger property policies and umbrella general liability policies.

Within Specialty Commercial, management expects written premium to be flat to slightly lower, primarily driven by a decrease in property written premium, largely offset by an increase in professional liability, fidelity and surety written premium and an increase in casualty written premium.

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Excluding catastrophes and prior accident year development, Ongoing Operations underwriting margins will likely decline in 2009 due primarily to increases in both the loss and loss adjustment expense ratio as well as the expense ratio, partially offset by lower anticipated policyholder dividends. The Ongoing Operations 2009 accident year loss and loss adjustment expense ratio before catastrophes is expected to increase due to mid single-digit increases in claim cost severity and continued earned pricing decreases in commercial lines, partially offset by moderately favorable claim frequency.

For auto business, emerged claim frequency in 2008 was favorable to the prior year and claim severity was slightly higher. In 2009, management expects claim severity will increase and claim frequency will be less favorable than it was in 2008. Non-catastrophe loss costs of homeowners claims increased in 2008 due to higher claim frequency and severity and management expects loss costs to continue to increase in 2009, driven by higher claim severity.

Small Commercial experienced favorable frequency on workers compensation claims in recent accident years and management expects favorable frequency to continue for the 2009 accident year though not as favorable as it has been. While the Company experienced favorable non-catastrophe property losses on package business and commercial auto claims in 2008, management expects that severity will increase for non-catastrophe property claims in 2009 and that frequency will be less favorable.

For Middle Market, management expects an increase in claim cost severity in 2009 across all lines, although the increase in claim severity for non-catastrophe property claims will not likely be as high as it was in 2008 when the Company experienced a number of individually large property losses. Partially offsetting the expected increase in severity is an expectation of moderately lower frequency.

On professional liability business within Specialty Commercial, the Company expects its losses from the fallout of the sub-prime mortgage market and from the alleged Madoff fraud to be manageable based on several factors. Principal among them is the diversified nature of the product and customer portfolio, with the majority of the Company s total in-force professional liability net written premium derived from policyholders with privately-held ownership and, therefore, relatively low shareholder class action exposure. The Company s average net limit exposed is $8 at an average attachment point of $74 on reported claims or notices of potential claims on sub-prime exposed policies. While the Madoff alleged fraud case continues to evolve, based on the involved parties noted in press reports to date, the Company expects a limited number of its policies will be exposed and, based on the net limits expected to be at risk, does not expect its losses from the Madoff case will be material.

The Ongoing Operations expense ratio is expected to increase in 2009, in part, due to a lower expected earned premium in Middle Market, the amortization of a higher amount of acquisition costs on AARP business and an increase in the cost of investments in technology to support future growth. The policyholder dividend ratio was unusually high in 2008 due to the accrual of $26 in dividends due to certain workers compensation policyholders as a result of underwriting profits. (See the Property and Casualty MD&A section for further discussion.)

Current accident year catastrophe losses in 2008, at 5.3 percent of Ongoing Operations earned premium, were higher than the long-term historical average due principally to hurricane Ike and higher than average losses from tornadoes and thunderstorms in the South and Midwest. While catastrophe losses vary significantly from year to year and are unpredictable, management has assumed that catastrophe losses in 2009 will be closer to 3% to 3.5% of earned premium. The Company will continue to manage its exposure to catastrophe losses through the ongoing assessment of its risk, disciplined underwriting and the use of reinsurance and other risk transfer alternatives, as appropriate. As of January 1, 2009, the Company s retention under its principal property catastrophe reinsurance program remained at $250 per catastrophe event. With the January 1, 2009 renewal, the cost of the Company s principal property catastrophe reinsurance program increased modestly.

Driven primarily by an expected increase in loss costs and underwriting expenses, the Company expects the Ongoing Operations combined ratio before catastrophes and prior accident year development in 2009 to be higher than the 88.9 achieved in 2008. At the segment level, the combined ratio before catastrophes and prior accident year development is expected to be higher in 2009 for Personal Lines, Small Commercial and Middle Market as increases in loss costs are expected to outpace earned pricing. For Specialty Commercial, management expects that the combined ratio before catastrophes and prior accident year development for 2009 will be in line with the ratio for 2008.

Property & Casualty operating cash flow is expected to be less favorable in 2009 than in 2008, although still positive. Based upon the current interest rate and credit environment, Property & Casualty expects a slightly higher investment portfolio yield for 2009.

The Other Operations segment will continue to manage the discontinued operations of the Company as well as claims (and associated reserves) related to asbestos, environmental and other exposures. The Company will continue to review various components of all of its reserves on a regular basis. The Company expects to perform its regular reviews of asbestos liabilities in the second quarter of 2009, Other Operations reinsurance recoverables and the allowance for uncollectible reinsurance in the second quarter 2009, and environmental liabilities in the third quarter of 2009. If there are significant developments that affect particular exposures, reinsurance arrangements or the financial condition of particular reinsurers, the Company will make adjustments to its reserves, or the portion of liabilities it expects to cede to reinsurers.

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LIFE

Executive Overview

Life provides retail and institutional investment products such as variable and fixed annuities, mutual funds, PPLI, and retirement plan services, individual life insurance and group benefit products, such as group life and group disability insurance.

Retail offers individual variable and fixed market value adjusted (MVA) annuities, retail mutual funds, 529 college savings plans, Canadian and offshore investment products.

Individual Life sells a variety of life insurance products, including variable universal life, universal life, interest sensitive whole life and term life.

Retirement Plans offers retirement plan products and services to corporations and municipalities under Section 401(k), 403(b) and 457 plans.

Group Benefits provides individual members of employer groups, associations, affinity groups and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits and group retiree health.

International, which has operations located in Japan, Brazil, Ireland and the United Kingdom, provides investments, retirement savings and other insurance and savings products to individuals and groups outside the United States and Canada.

Institutional provides customized investment, insurance, and income solutions to select markets. Products include structured settlements, institutional annuities (primarily terminal funding cases), stable value products, and income annuities. Furthermore, Institutional offers variable private placement life insurance (PPLI) owned by corporations and high net worth individuals, as well as mutual funds owned by institutional investors.

Life charges direct operating expenses to the appropriate segment and allocates the majority of indirect expenses to the segments based on an intercompany expense arrangement. Inter-segment revenues primarily occur between Life s Other category and the reporting segments. These amounts primarily include interest income on allocated surplus and interest charges on excess separate account surplus.

Life derives its revenues principally from: (a) fee income, including asset management fees, on separate account and mutual fund assets and mortality and expense fees, as well as cost of insurance charges; (b) net investment income on general account assets; (c) fully insured premiums; and (d) certain other fees. Asset management fees and mortality and expense fees are primarily generated from separate account assets, which are deposited with Life through the sale of variable annuity and variable universal life products and from mutual funds. Cost of insurance charges are assessed on the net amount at risk for investment-oriented life insurance products. Premium revenues are derived primarily from the sale of group life, group disability and individual term insurance products.

Life s expenses essentially consist of interest credited to policyholders on general account liabilities, insurance benefits provided, amortization of deferred policy acquisition costs, expenses related to selling and servicing the various products offered by the Company, dividends to policyholders, and other general business expenses.

Life s financial results in its variable annuity, mutual fund and, to a lesser extent, variable universal life businesses, depends largely on the amount of the contract holder account value or assets under management on which it earns fees and the level of fees charged. Changes in account value or assets under management are driven by two main factors: net flows, which measure the success of the Company s asset gathering and retention efforts, and the market return of the funds, which is heavily influenced by the return realized in the equity markets. Net flows are comprised of new sales and other deposits less surrenders, death benefits, policy charges and annuitizations of investment type contracts, such as variable annuity contracts. In the mutual fund business, net flows are known as net sales. Net sales are comprised of new sales less redemptions by mutual fund customers. Life uses the average daily value of the S&P 500 Index as an indicator for evaluating market returns of the underlying account portfolios in the United States. Relative financial results of variable products is highly correlated to the growth in account values or assets under management since these products generally earn fee income on a daily basis. Equity market movements could also result in benefits for or charges against deferred acquisition costs. See the Critical Accounting Estimates section of the MD&A for further information on DAC unlocks. During 2008, primarily as a result of current market conditions, the Company recorded an unlock charge of $932.

The profitability of Life s fixed annuities and other spread-based products depends largely on its ability to earn target spreads between earned investment rates on its general account assets and interest credited to policyholders. Profitability is also influenced by operating expense management including the benefits of economies of scale in the administration of its United States variable annuity businesses in particular. In addition, the size and persistency of gross profits from these businesses is an important driver of earnings as it affects the rate of amortization of deferred policy acquisition costs.

Life s profitability in its individual life insurance and group benefits businesses depends largely on the size of its in force block, the adequacy of product pricing and underwriting discipline, actual mortality and morbidity experience, and the efficiency of its claims and expense management.

Performance Measures

Fee Income

Fee income is largely driven from amounts collected as a result of contractually defined percentages of assets under management. These fees are generally collected on a daily basis. For individual life insurance products, fees are contractually defined as percentages based on levels of insurance, age, premiums and deposits collected and contract holder value. Life insurance fees are generally collected on a monthly basis. Therefore, the growth in assets under management either through positive net flows or net sales, or favorable equity market performance will have a favorable impact on fee income. Conversely, either negative net flows or net sales, or unfavorable equity market performance will reduce fee income.

Product/Key Indicator Information	As of and for the years ended December 31, 2008	2007	2006
Retail U.S. Individual Variable Annuities			
Account value, beginning of period	$ 119,071	$ 114,365	$ 105,314
Net flows	(6,235)	(2,733)	(3,150)
Change in market value and other	(38,258)	7,439	12,201
Account value, end of period	$ 74,578	$ 119,071	$ 114,365
Retail Mutual Funds			
Assets under management, beginning of period	$ 48,383	$ 38,536	$ 29,063
Net sales	2,840	5,545	5,659
Change in market value and other	(20,191)	4,302	3,814
Assets under management, end of period	$ 31,032	$ 48,383	$ 38,536
Individual Life Insurance			
Variable universal life account value, end of period	$ 4,802	$ 7,284	$ 6,637
Total life insurance in-force	195,464	179,483	164,227
Retirement Plans Group Annuities			
Account value, beginning of period	$ 27,094	$ 23,575	$ 19,317
Net flows	2,418	1,669	2,545
Change in market value and other	(7,314)	1,850	1,713
Account value, end of period	$ 22,198	$ 27,094	$ 23,575
Retirement Plans Mutual Funds			
Assets under management, beginning of period	$ 1,454	$ 1,140	$ 947
Net sales/(redemptions)	(446)	103	59
Acquisitions	18,725		
Change in market value and other	(4,895)	211	134
Assets under management, end of period	$ 14,838	$ 1,454	$ 1,140

Japan Annuities			
Account value, beginning of period	$ 37,637	$ 31,343	$ 26,104
Net flows [1]	714	4,525	4,393
Change in market value and other	(10,921)	(608)	1,195
Effect of currency translation	7,065	2,377	(349)
Account value, end of period	$ 34,495	$ 37,637	$ 31,343
S&P 500 Index			
Year end closing value	903	1,468	1,418
Daily average value	1,220	1,477	1,310

[1] Includes the effect of the triggering of the guaranteed minimum income benefit (GMIB) for the 3 Win product of which $(809) relates to policyholders surrendering and $(170) relates to the current period annuity payments.

Year ended December 31, 2008 compared to year ended December 31, 2007

Assets under management, across all businesses have had substantial reductions in values from prior year primarily due to declines in equity markets during 2008. The changes in line of business assets under management have also been affected by:

- Retail U.S. individual variable annuity recorded increased negative net flows as a result of increased competition and equity market volatility.
- Retail Mutual funds has seen positive net sales as a result of diversified sales growth.
- Individual Life insurance in-force growth has occurred across multiple product lines, including term, universal life and variable universal life.
- Retirement Plans group annuities has seen positive net flows driven by higher deposits as a result of the expanded sales force obtained through the 2008 acquisitions.

Retirement Plans mutual funds reflects an increase of $18.7 billion from the acquisition of servicing rights of Sun Life Retirement Services, Inc and Princeton Retirement Group, both of which closed in the first quarter of 2008. Net sales for 2008 reflect expected outflows on the acquired business.

International Japan Annuities has seen positive net flows and favorable effects from currency exchange rates for 2008. Net flows have decreased in Japan annuities due the 3 Win trigger and to increased competition from domestic and foreign insurers, particularly competition relating to products offered with living benefit guarantees.

Year ended December 31, 2007 compared to year ended December 31, 2006

Increases in Retail U.S. individual variable annuity account values as of December 31, 2007 can be primarily attributed to market growth during the year and improved net flows due to an increase in sales.

In addition to strong positive net flows, market appreciation and diversified sales growth during the year contributed to Retail mutual funds assets under management growth.

Individual Life variable universal life account values increased primarily due to market appreciation and positive net flows. Life insurance in-force increased from the prior periods due to business growth.

Retirement Plans account values increased for the year ended December 31, 2007 due to positive net flows driven by ongoing contributions and market appreciation during the year.

International Japan annuity account values continue to grow as a result of positive net flows and a strengthening of the yen versus the dollar offset by a decline in market performance throughout the year

Net Investment Spread

Management evaluates performance of certain products based on net investment spread. These products include those that have insignificant mortality risk, such as fixed annuities, certain general account universal life contracts and certain institutional contracts. Net investment spread is determined by taking the difference between the earned rate and the related crediting rates on average general account assets under management. The net investment spreads shown below are for the total portfolio of relevant contracts in each segment and reflect business written at different times. When pricing products, the Company considers current investment yields and not the portfolio average. Net investment spread can be volatile period over period, which can have a significant positive or negative effect on the operating results of each segment. Investment earnings can also be influenced by factors such as the actions of the Federal Reserve and a decision to hold higher levels of short-term investments. The volatile nature of net investment spread is driven primarily by prepayment premiums on securities and earnings on limited partnership and other alternative investments.

Net investment spread is calculated as a percentage of general account assets and expressed in basis points (bps):

	For the years ended December 31,		
	2008	**2007**	**2006**
Retail Individual Annuity	73.1 bps	173.5 bps	153.0 bps
Individual Life	89.6 bps	130.3 bps	123.9 bps
Retirement Plans	92.3 bps	161.9 bps	152.0 bps
Institutional Stable Value	20.5 bps	100.6 bps	84.8 bps

Year ended December 31, 2008 compared to year ended December 31, 2007

Retail Individual Annuity, Individual Life, Retirement Plans and Institutional net investment spread decreased primarily due to negative earnings on limited partnership and other alternative investment income in 2008 compared to strong earnings in these classes in 2007 and lower yields on fixed maturities, partially offset by reduced credited rates.

Year ended December 31, 2007 compared to year ended December 31, 2006

Retail Individual Annuity, Individual Life, Retirement Plans and Institutional net investment spreads increased primarily due to a higher allocation of investments in higher yield/higher risk investment classes, including limited partnerships and other alternative investments and relative strong performance of this asset class in 2007.

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Premiums

Traditional insurance type products, such as those sold by Group Benefits, collect premiums from policyholders in exchange for financial protection for the policyholder from a specified insurable loss, such as death or disability. These premiums together with net investment income earned from the overall investment strategy are used to pay the contractual obligations under these insurance contracts. Two major factors, new sales and persistency, impact premium growth. Sales can increase or decrease in a given year based on a number of factors, including but not limited to, customer demand for the Company s product offerings, pricing competition, distribution channels and the Company s reputation and ratings. Persistency refers to the percentage of policies remaining in-force from year-to-year.

	For the years ended December 31,		
Group Benefits	**2008**	**2007**	**2006**
Total premiums and other considerations	$ 4,391	$ 4,301	$ 4,149
Fully insured ongoing sales (excluding buyouts)	820	770	861
Persistency	89%	87%	87%

Earned premiums and other considerations include $1, $27 and $12 in buyout premiums for the years ended December 31, 2008, 2007 and 2006, respectively. Total premiums and other considerations, excluding buyouts, increased in 2008 compared to 2007 due to increases in sales and persistency that were offset by lower premiums in the medical stop loss business as a result of the renewal rights transaction that closed during the second quarter of 2007. The increase in premiums and other considerations for Group Benefits in 2007 compared to 2006 was driven by growth in the block of business.

Fully insured ongoing sales, excluding buyouts, increased in 2008 from 2007 primarily due to national account and small case sales growth. Fully insured ongoing sales, excluding buyouts, declined in 2007 from 2006 primarily due to fewer large national account sales, and the small case competitive environment remained intense. The Company also completed a renewal rights arrangement associated with its medical stop loss business during the second quarter of 2007 eliminating new sales related to this business. In addition, there was an anticipated decrease in association life sales from an unusually high comparable prior year period.

Expenses

There are three major categories for expenses. The first major category of expenses is benefits and losses. These include the costs of mortality and morbidity, particularly in the group benefits business, and mortality in the individual life businesses, as well as other contractholder benefits to policyholders. In addition, traditional insurance type products generally use a loss ratio which is expressed as the amount of benefits incurred during a particular period divided by total premiums and other considerations, as a key indicator of underwriting performance. Since Group Benefits occasionally buys a block of claims for a stated premium amount, the Company excludes this buyout from the loss ratio used for evaluating the underwriting results of the business as buyouts may distort the loss ratio.

The second major category is insurance operating costs and expenses, which is commonly expressed in a ratio of a revenue measure depending on the type of business. The third major category is the amortization of deferred policy acquisition costs and the present value of future profits, which is typically expressed as a percentage of pre-tax income before the cost of this amortization (an approximation of actual gross profits). Retail Individual Annuity business accounts for the majority of the amortization of deferred policy acquisition costs and present value of future profits for Life.

	For the years ended December 31,		
	2008	**2007**	**2006**
Retail			
General insurance expense ratio (individual annuity)	21.0 bps	17.9 bps	17.2 bps
DAC amortization ratio (individual annuity) [1]	218.5%	25.5%	65.3%
DAC amortization ratio (individual annuity) excluding DAC Unlock [1] [3]	65.2%	47.9%	52.4%

Individual Life			
Death benefits	$ 359	$ 298	$ 251
Group Benefits			
Total benefits, losses and loss adjustment expenses	$ 3,144	$ 3,109	$ 3,002
Loss ratio (excluding buyout premiums)	71.6%	72.1%	72.3%
Expense ratio (excluding buyout premiums)	27.0%	27.9%	27.6%
International Japan			
General insurance expense ratio	49.4 bps	48.4 bps	49.1 bps
DAC amortization ratio [2]	109.3%	35.3%	30.2%
DAC amortization ratio excluding DAC Unlock [2] [3]	77.8%	40.0%	40.7%
Institutional			
General insurance expense ratio	14.1 bps	14.1 bps	14.7 bps

[1] Excludes the effects of realized gains and losses.

[2] Excludes the effects of realized gains and losses except for net periodic settlements. Included in the net realized capital gains (losses) are amounts that represent the net periodic accruals on currency rate swaps used in the risk management of Japan fixed annuity products.

[3]

See Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A.

Year ended December 31, 2008 compared to year ended December 31, 2007

The Retail DAC amortization ratio (individual annuity), excluding the effects of the 2008 Unlock and realized losses, increased due to the impairment of goodwill in the fourth quarter of 2008, which reduced pre tax earnings but did not affect EGPs. Excluding the impacts of the goodwill impairment, realized losses, and DAC Unlock, the DAC amortization ratio was 43.3%, which reflects the 2008 effect of changes in assumptions made as part of the 2007 and 2008 Unlocks.

The Retail general insurance expense ratio increased due to the impact of a declining asset base on relatively consistent expenses.

Individual Life death benefits increased, primarily due to growth of life insurance in-force and unfavorable mortality.

Group Benefits loss ratio decreased due to favorable disability and medical stop loss experience partially offset by unfavorable mortality.

Group Benefits expense ratio, excluding buyouts decreased primarily due to lower commission expense.

International Japan DAC amortization ratio, excluding DAC Unlock and certain realized gains or losses, increased due to actual gross profits being less than expected as a result of lower fees earned on declining assets resulting in negative true-ups and a higher DAC amortization rate, as well as the accelerated amortization associated with the impact of the 3 Win trigger.

Institutional general insurance expense ratio is unchanged, as additional product development expenses were offset by higher assets under management.

Year ended December 31, 2007 compared to year ended December 31, 2006

Retail Individual Annuity general insurance expense ratio increased in 2007 primarily due to higher service and technology costs.

The Retail DAC amortization ratio (individual annuity) excluding DAC Unlock declined in 2007, primarily due to increased net investment income on allocated capital and an increase in limited partnership and other alternative investment income.

Individual Life death benefits increased in 2007 primarily due to growth of life insurance in-force and unfavorable mortality.

Group Benefits expense ratio, excluding buyouts, increased in 2007 primarily due to higher DAC amortization.

Institutional general insurance expense ratio decreased in 2007 primarily due to higher assets under management.

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Profitability

Management evaluates the rates of return various businesses can provide as an input in determining where additional capital should be invested to increase net income and shareholder returns. The Company uses the return on assets for the individual annuity business for evaluating profitability. In Group Benefits and Individual Life, after-tax margin is a key indicator of overall profitability.

Ratios	**2008**	**2007**	**2006**
Retail			
Individual annuity return on assets (ROA)	(133.5) bps	58.9 bps	39.9 bps
Effect of net realized gains (losses), net of tax and DAC on ROA [1]	(96.5) bps	(13.3) bps	(7.4) bps
Effect of DAC Unlock on ROA [3]	(68.0) bps	15.6 bps	(6.0) bps
ROA excluding realized gains (losses) and DAC Unlock	31.0 bps	56.6 bps	53.3 bps
Individual Life			
After-tax margin	(4.7%)	16.0%	13.3%
Effect of net realized gains (losses), net of tax and DAC on after-tax margin [1]	(13.1%)	(1.3%)	(1.5%)
Effect of DAC Unlock on after-tax margin [3]	(4.7%)	1.4%	(1.6%)
After-tax margin excluding realized gains (losses) and DAC Unlock	13.1%	15.9%	16.4%
Retirement Plans			
Retirement ROA	(47.9) bps	22.9 bps	44.7 bps
Effect of net realized gains (losses), net of tax and DAC on ROA [1]	(51.5) bps	(10.5) bps	(3.1) bps
Effect of DAC Unlock on ROA [3]	(15.0) bps	(3.4) bps	8.9 bps
ROA excluding realized gains (losses) and DAC Unlock	18.6 bps	36.8 bps	38.9 bps
Group Benefits			
After-tax margin (excluding buyouts)	(0.1%)	6.7%	6.6%
Effect of net realized gains (losses), net of tax on after-tax margin (excluding buyouts) [1]	(7.3%)	(0.4%)	(0.1%)
After-tax margin (excluding buyouts) excluding realized gains (losses)	7.2%	7.1%	6.7%
International Japan			
International Japan ROA	(72.9) bps	73.4 bps	87.7 bps
Effect of net realized gains (losses) excluding net periodic settlements, net of tax and DAC on ROA [1] [2]	(65.1) bps	(8.1) bps	(5.6) bps
Effect of DAC Unlock on ROA [3]	(31.9) bps	6.4 bps	18.5 bps

ROA excluding realized gains (losses) and DAC Unlock	24.1 bps	75.1 bps	74.8 bps
Institutional			
Institutional ROA	(83.3) bps	3.0 bps	16.6 bps
Effect of net realized gains (losses), net of tax and DAC on ROA [1]	(85.0) bps	(21.5) bps	(5.1) bps
Effect of DAC Unlock on ROA [3]	bps	0.2 bps	bps
ROA excluding realized gains (losses) and DAC Unlock	1.7 bps	24.3 bps	21.7 bps

[1] See Realized Capital Gains and Losses by Segment table within the Life Section of the MD&A.

[2] Included in the net realized capital gain (losses) are amounts that represent the net periodic accruals on currency rate swaps used in the risk management of Japan fixed annuity products.

[3] See Unlock and Sensitivity Analysis within the Critical Accounting Estimates section of the MD&A.

Year ended December 31, 2008 compared to year ended December 31, 2007

The decrease in Individual Annuity s ROA, excluding realized gains (losses) and the effect of the DAC Unlock, reflects the write-off of goodwill of $274 after-tax, or 19.4 bps; lower limited partnership and other alternative investment income; and the net effect of lower fees.

The decrease in Individual Life s after-tax margin, excluding realized gains (losses) and the effect of the DAC Unlock, was due to lower net investment income from limited partnership and other alternative investments,

unfavorable mortality expense, reduced net investment income associated with a more efficient capital approach for our secondary guarantee universal life business which released assets supporting capital and lower variable life insurance fees from equity market declines, partially offset by life insurance in-force growth, lower credited rates and higher surrender charges.

The decrease in Retirement Plans ROA, excluding realized gains (losses) and the effect of the DAC Unlock, was primarily driven by an increase in assets under management due to the acquired rights to service $18.7 billion in mutual funds, comprised of $15.8 billion in mutual funds from Sun Life Retirement Services, Inc., and $2.9 billion in mutual funds from Princeton Retirement Group, both of which closed in the first quarter of 2008. The acquired blocks of assets produce a lower ROA as they are comprised of mutual fund assets and assets under administration as opposed to traditional annuity contracts. Also contributing to the decrease was lower yields on fixed maturity investments and a decline in limited partnership and other alternative investment income, higher service and technology costs and additional expenses associated with the acquisitions. Partially offsetting these decreases were tax benefits primarily associated with DRD.

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The Group Benefit increase in after-tax margin was primarily due to the favorable expense ratio.

International-Japan ROA, excluding realized gains (losses) and the effect of the DAC Unlock, declined due to lower earned fees as a result of declining account values, lower surrender fees due to a reduction in lapses and an increase in the DAC amortization rate due to lower actual gross profits, as well as the accelerated DAC amortization associated with the 3 Win trigger.

The decrease in Institutional s ROA, excluding realized gains (losses), is primarily due to a decline in limited partnership and other alternative investment income. The decrease is also due to unfavorable mortality and lower yields on fixed maturity investments.

Year ended December 31, 2007 compared to year ended December 31, 2006

The increase in Individual Annuity s ROA, excluding realized gains (losses) and DAC Unlock, was primarily due to increased net investment income on allocated capital and an increase in limited partnership and other alternative investment income. This was partially offset by an increase in the effective tax rate as a result of revisions in the estimates of the separate account DRD and FTC.

Individual Life s decrease in after-tax margin, excluding realized gains (losses) and DAC Unlock, was primarily due to unfavorable mortality experience.

The decrease in Retirement Plan s ROA, excluding realized gains (losses) and DAC Unlock, was primarily due to a shift in product mix resulting in lower fees as a percent of assets.

The increase in Institutional s ROA, excluding realized gains (losses) and DAC Unlock, was primarily due to an increase in limited partnership and other alternative investment income and increased net investment income on allocated capital.

The increase in the Group Benefits after-tax margin, excluding buyouts, excluding realized gains (losses), was due to an improvement in the loss ratio, partially offset by higher DAC amortization.

Life Operating Summary	**2008**	**2007**	**2006**
Earned premiums	$ 5,165	$ 5,123	$ 4,590
Fee income	5,118	5,420	4,726
Net investment income (loss)			
Securities available-for-sale and other	3,045	3,497	3,184
Equity securities held for trading [1]	(10,340)	145	1,824
Total net investment income (loss)	(7,295)	3,642	5,008
Net realized capital losses	(4,138)	(819)	(260)
Total revenues [2]	**(1,150)**	**13,366**	**14,064**
Benefits, losses and loss adjustment expenses	7,381	7,002	6,216
Benefits, losses and loss adjustment expenses returns credited on International variable annuities [1]	(10,340)	145	1,824
Amortization of deferred policy acquisition costs and present value of future profits	2,176	884	1,452
Goodwill impairment	422		
Insurance operating costs and other expenses	3,300	3,230	2,708
Total benefits, losses and expenses	**2,939**	**11,261**	**12,200**
Income (loss) before income taxes	**(4,089)**	**2,105**	**1,864**
Income (loss) tax expense (benefit)	(1,646)	547	423
Net income (loss) [3]	**$ (2,443)**	**$ 1,558**	**$ 1,441**

[1] Net investment income includes investment income and mark-to-market effects of equity securities, held for trading, supporting the international variable annuity business, which are classified in net investment income with corresponding amounts credited to policyholders.

[2] The transition impact related to the SFAS 157 adoption was a reduction in revenues of $650 for the year ended December 31, 2008. For further discussion of the SFAS 157 transition impact, refer to Note 4 of the Notes to the Consolidated Financial Statements.

[3] The transition impact related to the SFAS 157 adoption was a reduction in net income of $220 for the year ended

December 31, 2008. For further discussion of the SFAS 157 transition impact, refer to Note 4 of the Notes to the Consolidated Financial Statements.

Year ended December 31, 2008 compared to the year ended December 31, 2007

The decrease in Life s net income was due to the following:

- Realized losses increased as compared to the comparable prior year period primarily due to net losses from the adoption of SFAS 157 and impairments on investment securities. For further discussion, please refer to the Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A.
- Life recorded a DAC unlock charge of $941, after-tax, during the third quarter of 2008 as compared to a DAC unlock benefit of $210, after-tax, during the third quarter of 2007. See Critical Accounting Estimates with Managements Discussion and Analysis for a further discussion on the DAC unlock.
- Declines in assets under management in Retail, primarily driven by market depreciation of $37.8 billion for Individual Annuity and $20.2 billion for retail mutual funds during 2008, drove declines in fee income compared to 2007.

- Net investment income on securities, available-for-sale, and other declined primarily due to declines in limited partnership and other alternative investments income and a decrease in investment yield for fixed maturities.
- A goodwill impairment of $274, after-tax, in Retail.
- The effect of the triggering of the guaranteed minimum income benefit for the 3 Win product was $151, after-tax.

Year ended December 31, 2007 compared to the year ended December 31, 2006

The increase in Life s net income was due to the following:

- The DAC Unlock benefit of $210 recorded in the third quarter of 2007.
- Increased income on asset growth in the variable annuity, mutual fund, retirement and institutional businesses.

Partially offsetting the increase in Life s net income were the following:

- Increased non-deferrable individual annuity asset based commissions.
- Unfavorable mortality in Individual Life.
- Increased DAC amortization in Group Benefits due to the adoption of SOP 05-1.
- During the first quarter of 2006, the Company achieved favorable settlements in several cases brought against the Company by policyholders regarding their purchase of broad-based leveraged corporate owned life insurance (leveraged COLI) policies in the early to mid-1990s and therefore, released a reserve for these matters of $34, after-tax.
- Realized losses increased for the year ended December 31, 2007 as compared to the comparable prior year periods primarily due to net losses on GMWB derivatives and impairments.

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Realized Capital Gains and Losses by Segment

Life includes net realized capital gains and losses in each reporting segment. Following is a summary of the types of realized gains and losses by segment:

Net realized gains (losses) for the year ended December 31, 2008

	Retail	Individual Life	Retirement	Group Benefits	International	Institutional	Other	Total
Gains/losses on sales, net	$ (31)	$ (20)	$ (38)	$ (3)	$ (20)	$ 167	$ (32)	$ 23
Impairments	(474)	(245)	(243)	(513)	(114)	(740)	(95)	(2,424)
Japanese fixed annuity contract hedges, net					64			64
Periodic net coupon settlements on credit derivatives/Japan	(6)	(2)	(4)	(1)	(28)		6	(35)
SFAS 157 transition impact	(616)				(34)			(650)
Results of variable annuity hedge program								
GMWB derivatives, net	(631)				(82)			(713)
Macro Hedge Program	40				34			74
Total results of variable annuity hedge program	(591)				(48)			(639)
Other, net	(192)	15	13	(23)	(242)	(216)	168	(477)
Total net realized capital gains (losses)	**(1,910)**	**(252)**	**(272)**	**(540)**	**(422)**	**(789)**	**47**	**(4,138)**
Income tax expense (benefit) and DAC	(859)	(89)	(101)	(188)	(133)	(277)	13	(1,634)
Total gains (losses), net of tax and DAC	**$ (1,051)**	**$ (163)**	**$ (171)**	**$ (352)**	**$ (289)**	**$ (512)**	**$ 34**	**$ (2,504)**

Net realized gains (losses) for the year ended December 31, 2007

	Retail	Individual Life	Retirement	Group Benefits	International	Institutional	Other	Total
Gains/losses on sales, net	$ 17	$ 7	$ (11)	$ 8	$	$ 13	$ 11	$ 45
Impairments	(87)	(21)	(22)	(19)	(48)	(148)	(13)	(358)
Japanese fixed annuity contract hedges, net					18			18
Periodic net coupon settlements on credit derivatives/Japan	1				(68)	3	24	(40)
Results of variable annuity hedge program								
GMWB derivatives, net	(286)							(286)
Macro Hedge Program	(12)							(12)
	(298)							(298)

Total results of variable annuity hedge program								
Other, net	(14)	(14)	(8)	(19)	(18)	(56)	(57)	(186)
Total net realized capital losses	**(381)**	**(28)**	**(41)**	**(30)**	**(116)**	**(188)**	**(35)**	**(819)**
Income tax benefit and DAC	(212)	(13)	(13)	(12)	(52)	(67)	(4)	(373)
Total losses, net of tax and DAC	**$ (169)**	**$ (15)**	**$ (28)**	**$ (18)**	**$ (64)**	**$ (121)**	**$ (31)**	**$ (446)**

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Net realized gains (losses) for the year ended December 31, 2006

	Retail	Individual Life	Retirement	Group Benefits	International	Institutional	Other	Total
Gains/losses on sales, net	$ (44)	$ (1)	$ (9)	$ (6)	$ (4)	$ 23	$ (1)	$ (42)
Impairments	(6)	(18)	(6)	(3)	(2)	(32)	(9)	(76)
Japanese fixed annuity contract hedges, net					(17)			(17)
Periodic net coupon settlements on credit derivatives/Japan	3	(1)		1	(63)	1	11	(48)
Results of variable annuity hedge program								
GMWB derivatives, net	(26)							(26)
Macro Hedge Program	(14)							(14)
Total results of variable annuity hedge program	(40)							(40)
Other, net		(5)	(1)	(5)	(2)	(29)	5	(37)
Total net realized capital gains (losses)	**(87)**	**(25)**	**(16)**	**(13)**	**(88)**	**(37)**	**6**	**(260)**
Income tax expense (benefit) and DAC	3	(8)	(9)	(5)	(41)	(13)	1	(72)
Total losses, net of tax and DAC	**$ (90)**	**$ (17)**	**$ (7)**	**$ (8)**	**$ (47)**	**$ (24)**	**$ 5**	**$ (188)**

The circumstances giving rise to the changes in these components are as follows:

Year ended December 31, 2008 compared to the years ended December 31, 2007 and 2006

Gross Gains and Losses on Sale

Gross gains and losses on sales for the year ended December 31, 2008 primarily resulted from the decision to reallocate the portfolio to securities with more favorable risk/return profiles. Also included was a gain of $141 from the sale of a synthetic CDO, as well as losses on sales of HIMCO managed CLOs in the first quarter. For more information regarding these CLO losses, refer to the Variable Interest Entities section below. During the year ended December 31, 2008, securities sold at a loss were depressed, on average, approximately 2% at the respective period s impairment review date and were deemed to be temporarily impaired.

Gross gains and losses on sales for the year ended December 31, 2007 were primarily comprised of corporate securities. During the year ended December 31, 2007, securities sold at a loss were depressed, on average, approximately 1% at the respective period s impairment review date and were deemed to be temporarily impaired.

Gross gains on sales for the year ended December 31, 2006 were primarily within fixed maturities and were concentrated in U.S. government, corporate and foreign government securities. Gross losses on sale for the year ended December 31, 2006 were primarily within fixed maturities and were concentrated in the corporate and CMBS sectors.

Impairments

See the Other-Than-Temporary Impairments section of the Investments section of the MD&A for information on impairment losses.

SFAS 157

See Note 4 of the Notes to the Consolidated Financial Statements for a discussion of the SFAS 157 transition impact.

Variable Annuity Hedge Program

See Note 4 of the Notes to the Consolidated Financial Statements for a discussion of variable annuity hedge program gains and losses.

Other

Other, net losses for the year ended December 31, 2008 were primarily related to net losses of $291 related to transactional foreign currency losses predominately on the internal reinsurance of the Japan variable annuity business, which is entirely offset in AOCI, resulting from appreciation of the Yen and credit derivative losses of $222 due to significant credit spread widening. Also included were losses on HIMCO managed CLOs in the first quarter and derivative related losses of $39 in the third quarter due to counterparty default related to the bankruptcy of Lehman Brothers Holdings Inc. For more information regarding the CLO losses, refer to the Variable Interest Entities section below.

Other, net losses for the year ended December 31, 2007 were primarily driven by the change in value of non-qualifying derivatives due to credit spread widening as well as fluctuations in interest rates and foreign currency exchange rates. Credit spreads widened primarily due to the deterioration in the U.S. housing market, tightened lending conditions and the market s flight to quality securities.

Other, net losses for the year ended December 31, 2006 were primarily driven from the change in value of non-qualifying derivatives due to fluctuations in interest rates and foreign currency exchange rates. These losses were partially offset by a before-tax benefit of $25 received from the WorldCom security settlement.

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RETAIL

Operating Summary	**2008**	**2007**	**2006**
Fee income and other	$ 2,757	$ 3,117	$ 2,695
Earned premiums	(4)	(62)	(86)
Net investment income	747	801	839
Net realized capital losses	(1,910)	(381)	(87)
Total revenues [1]	**1,590**	**3,475**	**3,361**
Benefits, losses and loss adjustment expenses	1,008	820	819
Insurance operating costs and other expenses	1,187	1,221	994
Amortization of deferred policy acquisition costs and present value of future profits	1,344	406	973
Goodwill impairment	422		
Total benefits, losses and expenses	**3,961**	**2,447**	**2,786**
Income (loss) before income taxes	**(2,371)**	**1,028**	**575**
Income tax expense (benefit)	(972)	216	39
Net income (loss) [2]	**$ (1,399)**	**$ 812**	**$ 536**

Assets Under Management	**2008**	**2007**	**2006**
Individual variable annuity account values	$ 74,578	$ 119,071	$ 114,365
Individual fixed annuity and other account values	11,278	10,243	9,937
Other retail products account values	398	677	525
Total account values [3]	**86,254**	**129,991**	**124,827**
Retail mutual fund assets under management	31,032	48,383	38,536
Other mutual fund assets under management	1,678	2,113	1,489
Total mutual fund assets under management	**32,710**	**50,496**	**40,025**
Total assets under management	**$ 118,964**	**$ 180,487**	**$ 164,852**

[1] For the year ended December 31, 2008, the transition impact related to the SFAS 157 adoption was a reduction in

revenues of $616. For further discussion of the SFAS 157 transition impact, refer to Note 4 in the Notes to the Consolidated Financial Statements.

[2] *For the year ended December 31, 2008, the transition impact related to the SFAS 157 adoption was a reduction in net income of $209. For further discussion of the SFAS 157 transition impact, refer to Note 4 in the Notes to the Consolidated Financial Statements.*

[3] *Includes policyholders balances for investment contracts and reserves for future policy benefits for insurance contracts.*

Retail focuses on the savings and retirement needs of the growing number of individuals who are preparing for retirement, or have already retired, through the sale of individual variable and fixed annuities, mutual funds and other investment products. Life is both a leading writer of individual variable annuities and a top seller of individual variable annuities through banks in the United States.

Year ended December 31, 2008 compared to the year ended December 31, 2007

Net income decreased primarily as a result of increased realized capital losses, the impact of the 2008 Unlock charge, the impairment of goodwill attributed to the individual annuity line of business and the effect of equity market

declines on variable annuity and mutual fund fee income. Included in net realized capital losses in 2008 were changes in value on GMWB derivatives, impairments, and the adoption of SFAS 157 during the first quarter of 2008. For further discussion of the SFAS 157 transition impact, see Note 4 in the Notes to the Consolidated Financial Statements. For further discussion of realized capital losses, see the Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A. For further discussion of the 2008 and 2007 Unlock; and the impairment of goodwill, see the Critical Accounting Estimates section of the MD&A. The following other factors contributed to the changes in net income:

Fee income and other	Fee income and other decreased $360 primarily as a result of lower variable annuity fee income due to a decline in average account values. The decrease in average variable annuity account values can be attributed to market depreciation of $38.2 billion and net outflows of $6.2 billion during the year. Net outflows were driven by surrender activity resulting from the aging of the variable annuity in-force block of business; increased sales competition, particularly competition related to guaranteed living benefits, and volatility in the equity markets. Also contributing to the decrease in fee income was lower mutual fund fees due to declining assets under management primarily driven by market depreciation of $20.1 billion, partially offset by $2.8 billion of net flows.
Earned Premiums	Earned Premiums increased primarily due to an increase in life contingent premiums combined with a decrease in reinsurance premiums as a result of the lapsing of business covered by reinsurance and the significant decline in the equity markets.

Net investment income

Net investment income was lower primarily due to a $77 decline in income from limited partnerships and other alternative investments, combined with lower yields on fixed maturity investments due to interest rate declines, partially offset by an increase in general account assets from increased fixed account sales.

Net realized capital losses

Net realized capital losses increased primarily as a result of losses on GMWB derivatives of $(631); the adoption of SFAS 157 during the first quarter of 2008, which resulted in realized capital losses of $(616); and impairments of $(474).

Benefits, losses and loss adjustment expenses

Benefits, losses and loss adjustment expenses increased primarily as a result of the impact of the 2008 Unlock which increased the benefit ratio used in the calculation of GMDB reserves.

Insurance operating costs and other expenses

Insurance operating costs and other expenses decreased primarily as a result of lower non deferrable asset based trail commissions due to equity market declines.

Amortization of deferred policy acquisition costs and present value of future profits (DAC)

Amortization of DAC increased primarily due to the impact of the 2008 Unlock charge as compared to the 2007 Unlock benefit. This was partially offset by a DAC benefit associated with the adoption of SFAS 157 at the beginning of the first quarter of 2008.

Goodwill impairment

As a result of testing performed during the fourth quarter of 2008, all goodwill attributed to the individual annuity business in Retail was deemed to be impaired and was written down to $0. For further discussion of this impairment, see the Critical Accounting Estimates section of the MD&A.

Income tax expense (benefit)

The effective tax rate increased from 21% to 41% for the year ended December 31, 2008 as compared to the prior year primarily due to losses before income taxes in 2008 compared to pre-tax earnings in 2007. The impact of DRD and other permanent differences caused an increase in the tax benefit to above 35% on the 2008 pre tax loss and a decrease in the tax expense on the 2007 pre tax income.

Year ended December 31, 2007 compared to the year ended December 31, 2006

Net income in Retail increased for the year ended December 31, 2007, primarily driven by lower amortization of DAC resulting from the unlock benefit in the third quarter of 2007, fee income growth in the variable annuity and mutual fund businesses, partially offset by increased non-deferrable individual annuity asset based commissions and mutual fund commissions. In addition, realized capital losses increased $294 for the year ended December 31, 2007 as compared to 2006. For further discussion, see Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A. A more expanded discussion of income growth is presented below:

Fee income and other

Fee income increased for the year ended December 31, 2007 primarily as a result of growth in variable annuity average account values. The year-over-year increase in average variable annuity account values can be attributed to market appreciation of $7.4 billion during the year. Variable annuities had net outflows of $2.7 billion in 2007. Net outflows were driven by surrender activity due to the aging of the variable annuity in force block of business and increased sales competition, particularly competition related to guaranteed living benefits.

Mutual fund fee income increased 23% for the year ended December 31, 2007 due to increased assets under management driven by net sales of $5.5 billion and market appreciation of $4.4 billion during 2007.

Net investment income

Net investment income declined for the year ended December 31, 2007 due to a decrease in variable annuity fixed option account values of 11% or $635. The decrease in these account values can be attributed to a combination of transfers into separate accounts and surrender activity. Offsetting this decrease in net investment income was an increase in the returns from limited partnership and other alternative investment income of $14 for the year ended December 31, 2007.

Insurance operating costs and other expenses

Insurance operating costs and other expenses increased for the year ended December 31, 2007. These increases were principally driven by mutual fund commission increases of $75 for the year ended December 31, 2007 due to growth in deposits of 29%. In addition, non-deferrable variable annuity asset based commissions increased $67 for the year ended December 31, 2007 due to a 4% growth in assets under management, as well as an increase in the number of contracts reaching anniversaries when trail commission payments begin.

Amortization of deferred policy acquisition costs and present value of future profits (DAC)

Lower amortization of DAC resulted from the unlock benefit during the third quarter of 2007 as compared to an unlock expense during the fourth quarter of 2006. For further discussion, see Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A.

Income tax expense (benefit)

The effective tax rate increased from 7% to 21% for the year ended December 31, 2007 from the prior year due to an increase in income before income taxes and revisions in the estimates of the separate account DRD which resulted in an incremental tax of $17, and foreign tax credits.

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INDIVIDUAL LIFE

Operating Summary	**2008**	**2007**	**2006**
Fee income and other	$ 899	$ 870	$ 885
Earned premiums	(71)	(62)	(53)
Net investment income	338	359	324
Net realized capital losses	(252)	(28)	(25)
Total revenues	**914**	**1,139**	**1,131**
Benefits, losses and loss adjustment expenses	627	562	497
Insurance operating costs and other expenses	202	193	179
Amortization of deferred policy acquisition costs and present value of future profits	169	121	243
Total benefits, losses and expenses	**998**	**876**	**919**
Income (loss) before income taxes	**(84)**	**263**	**212**
Income tax expense (benefit)	(41)	81	62
Net income (loss)	**$ (43)**	**$ 182**	**$ 150**

Account Values	**2008**	**2007**	**2006**
Variable universal life insurance	$ 4,802	$ 7,284	$ 6,637
Universal life/interest sensitive whole life	4,727	4,388	4,035
Modified guaranteed life and other	653	677	699
Total account values	**$ 10,182**	**$ 12,349**	**$ 11,371**
Life Insurance In-force			
Variable universal life insurance	$ 78,853	$ 77,566	$ 73,770
Universal life/interest sensitive whole life	52,356	48,636	45,230
Term life	63,334	52,298	44,175
Modified guaranteed life and other	921	983	1,052
Total life insurance in-force	**$ 195,464**	**$ 179,483**	**$ 164,227**

Individual Life provides life insurance solutions to a wide array of business intermediaries to solve the wealth protection, accumulation and transfer needs of their affluent, emerging affluent and small business insurance clients.

Year ended December 31, 2008 compared to the year ended December 31, 2007

Net income decreased for the year ended December 31, 2008, driven primarily by significantly higher realized capital losses and the impacts of the Unlock in the third quarter of 2008 as compared to the third quarter of 2007. For further discussion on the Unlock, see Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A. For further discussion of net realized capital losses, see Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A. The following other factors contributed to the changes in net income:

Fee income and other	Fee income and other increased primarily due to an increase in cost of insurance charges of $45 as a result of growth in guaranteed universal life insurance in-force and

	fees on higher surrenders of $12 due to internal exchanges from non-guaranteed universal life insurance to variable universal life insurance. Partially offsetting these increases are the impacts of the 2008 and 2007 Unlocks as well as lower variable life fees as a result of equity market declines.
Earned premiums	Earned premiums, which include premiums for ceded reinsurance, decreased primarily due to increased ceded reinsurance premiums due to life insurance in-force growth.
Net investment income	Net investment income decreased primarily due to lower income from limited partnership and other alternative investments, lower yields on fixed maturity investments, and reduced net investment income associated with a more efficient capital approach for our secondary guarantee universal life business, which released assets supporting capital and the related net investment income earned on those assets (described further in the Outlook section), partially offset by growth in general account values.
Benefits, losses and loss adjustment expenses	Benefits, losses and loss adjustment expenses increased as a result of higher death benefits consistent with a larger life insurance in-force and unfavorable mortality, as well as the impact of the 2008 Unlock.

Insurance operating costs and other expenses	Insurance operating costs and other increased less than the growth of in-force business as a result of active expense management efforts.
Amortization of deferred policy acquisition costs and present value of future profits (DAC)	Amortization of DAC increased primarily as a result of the unlock expense in 2008 as compared to the unlock benefit in 2007, partially offset by reduced DAC amortization primarily attributed to net realized capital losses. This increase in DAC amortization had a partial offset in amortization of deferred revenues, included in fee income.
Income tax expense (benefit)	Income tax benefits were a result of lower income before income taxes primarily due to an increase in realized capital losses and DAC amortization.

Year ended December 31, 2007 compared to the year ended December 31, 2006

Net income increased for the year ended December 31, 2007, driven primarily by the unlock benefit in the third quarter of 2007 as compared to an unlock expense in the fourth quarter of 2006 partially offset by unfavorable mortality in 2007. For further discussion on the Unlock, see Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A. The year ended December 31, 2006 also included favorable revisions to prior period DAC estimates of $7, after-tax. A more expanded discussion of income growth is presented below:

Fee income and other	Fee income and other decreased primarily due to the impacts of the 2007 and 2006 Unlocks. Offsetting the impacts of the Unlocks, fee income increased primarily due to higher cost of insurance charges, the largest component of fee income, of $35 primarily driven by growth in variable universal and universal life insurance in-force. Variable fee income increased consistent with the growth in variable universal life insurance account value.
Earned premiums	Earned premiums, which include premiums for ceded reinsurance, decreased primarily due to increased ceded reinsurance premiums.
Net investment income	Net investment income increased consistent with growth in general account values. Individual Life earned additional net investment income throughout 2007 associated with higher returns from limited partnerships and other alternative investments.
Benefits, losses and loss adjustment expenses	Benefits, losses and loss adjustment expenses increased due to life insurance in-force growth and unfavorable mortality.
Insurance operating costs and other expenses	Insurance operating costs and other expenses increased in 2007 consistent with life insurance in-force growth.
Amortization of deferred policy acquisition costs and present value of future profits (DAC)	Lower amortization of DAC resulted from the unlock benefit in 2007 as compared to an unlock expense in 2006. This decrease in DAC amortization had a partial offset in amortization of deferred revenues, included in fee income.

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RETIREMENT PLANS

Operating Summary	**2008**	**2007**	**2006**
Fee income and other	$ 334	$ 238	$ 193
Earned premiums	4	4	19
Net investment income	342	355	326
Net realized capital losses	(272)	(41)	(16)
Total revenues	**408**	**556**	**522**
Benefits, losses and loss adjustment expenses	271	249	250
Insurance operating costs and other expenses	335	170	136
Amortization of deferred policy acquisition costs and present value of future profits	91	58	(4)
Total benefits, losses and expenses	**697**	**477**	**382**
Income (loss) before income taxes	**(289)**	**79**	**140**
Income tax expense (benefit)	(132)	18	39
Net income (loss)	**$ (157)**	**$ 61**	**$ 101**

Assets Under Management	**2008**	**2007**	**2006**
403(b)/457 account values	$ 10,242	$ 12,363	$ 11,540
401(k) account values	11,956	14,731	12,035
Total account values [1]	**22,198**	**27,094**	**23,575**
403(b)/457 mutual fund assets under management [2]	99	26	
401(k) mutual fund assets under management [3]	14,739	1,428	1,140
Total mutual fund assets under management	**14,838**	**1,454**	**1,140**
Total assets under management	**$ 37,036**	**$ 28,548**	**$ 24,715**
Total assets under administration 401(k) [4]	**$ 5,122**	**$**	**$**

[1] Includes policyholder balances for investment contracts and reserves for future policy benefits for insurance contracts.

[2] *In 2007, Life began selling mutual fund based products in the 403(b) market.*

[3] *During the year ended December 31, 2008, Life acquired the rights to service mutual fund assets from Sun Life Retirement Services, Inc., and Princeton Retirement Group.*

[4] *During the year ended December 31, 2008, Life acquired the rights to service assets under administration (AUA) from Princeton Retirement Group. Servicing revenues from AUA are based on the number of plan participants and do not vary directly with asset levels. As such, they are not included in AUM upon which asset based returns are calculated.*

The Retirement Plans segment primarily offers customized wealth creation and financial protection for corporate, government and tax-exempt employers through its two business units, 403(b)/457 and 401(k).

Year ended December 31, 2008 compared to the year ended December 31, 2007

Net income in Retirement Plans decreased due to higher net realized capital losses, the DAC Unlock in 2008 as compared to 2007 and increased operating expenses partially offset by growth in fee income. For further discussion of net realized capital losses, see Realized Capital Gains and Losses by Segment table under Life s Operating section of the MD&A. For further discussion of the 2008 and 2007 Unlocks see Critical Accounting Estimates section of the MD&A. The following other factors contributed to the changes in net income:

Fee income and other	Fee income and other increased primarily due to $109 of fees earned on assets relating to the acquisitions in the first quarter of 2008. Offsetting this increase was lower annuity fees driven by lower average account values as a result of market depreciation of $7.3 billion, partially offset by positive net flows of $2.4 billion over the past four quarters.
Net investment income	Net investment income declined due to a decrease in the returns from limited partnership and other alternative investment income of $33, partially offset by growth in general account assets.
Insurance operating costs and other expenses	Insurance operating costs and other expenses increased primarily attributable to operating expenses associated with the acquired businesses. Also contributing to higher insurance operating costs were higher trail commissions resulting from an aging portfolio and higher service and technology costs.
Amortization of deferred policy acquisition costs and present value of future profits	Amortization of deferred policy acquisition costs increased as a result of the higher Unlock in the third quarter of 2008 as compared to the Unlock in the third quarter of 2007, partially offset by lower DAC amortization associated with lower gross profits. For further discussion, see Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A.
Income tax expense (benefit)	The income tax benefit for 2008 as compared to the prior year periods income tax expense was due to lower income before income taxes primarily due to increased realized capital losses and increased tax benefits associated with the dividends received deduction of $12.

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Year ended December 31, 2007 compared to the year ended December 31, 2006

Net income in Retirement Plans decreased for the year ended December 31, 2007 due to higher amortization of DAC as a result of the unlock expense in the third quarter of 2007, partially offset by a growth in fee income. In addition, realized capital losses increased $25 for the year ended December 31, 2007 as compared to the prior year period. For further discussion, see Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A. The following other factors contributed to the changes in income:

Fee income and other	Fee income increased for the year ended December 31, 2007 primarily due to an increase in 401(k) average account values. This growth in 401(k) business is primarily driven by positive net flows of $1.8 billion over the past four quarters resulting from strong sales and increased ongoing deposits. Market appreciation contributed an additional $888 to assets under management in 2007.
Net investment income	Net investment income increased for the year ended December 31, 2007 for 403(b)/457 business due to growth in general account assets along with an increase in return on limited partnership and other alternative investments.
Benefits, losses and loss adjustment expenses	Benefits, losses and loss adjustment expenses and earned premiums decreased for the year ended December 31, 2007 primarily due to a large case annuitization in the 401(k) business of $12 which occurred in the first quarter of 2006. This decrease was partially offset by an increase in interest credited resulting from the growth in general account assets.
Insurance operating costs and other expenses	Insurance operating costs and other expenses increased for the year ended December 31, 2007, primarily attributable to greater assets under management aging beyond their first year resulting in higher trail commissions. Also contributing to higher insurance operating costs for the year ended December 31, 2007 were higher service and technology costs.
Amortization of deferred policy acquisition costs and present value of future profits	Higher amortization of DAC resulted from the unlock expense in the third quarter of 2007 as compared to an unlock benefit in the fourth quarter of 2006. For further discussion, see Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A.

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GROUP BENEFITS

Operating Summary	2008	2007	2006
Premiums and other considerations	$ 4,391	$ 4,301	$ 4,149
Net investment income	419	465	415
Net realized capital losses	(540)	(30)	(13)
Total revenues	**4,270**	**4,736**	**4,551**
Benefits, losses and loss adjustment expenses	3,144	3,109	3,002
Insurance operating costs and other expenses	1,128	1,131	1,101
Amortization of deferred policy acquisition costs	57	62	41
Total benefits, losses and expenses	**4,329**	**4,302**	**4,144**
Income (loss) before income taxes	**(59)**	**434**	**407**
Income tax expense (benefit)	(53)	119	109
Net income (loss)	**$ (6)**	**$ 315**	$ **298**

Earned Premiums and Other	2008	2007	2006
Fully insured ongoing premiums	$ 4,355	$ 4,239	$ 4,100
Buyout premiums	1	27	12
Other	35	35	37
Total earned premiums and other	**$ 4,391**	**$ 4,301**	**$ 4,149**

Ratios, excluding buyouts			
Loss ratio	71.6%	72.1%	72.3%
Loss ratio, excluding financial institutions	76.3%	77.3%	77.2%
Expense ratio	27.0%	27.9%	27.6%
Expense ratio, excluding financial institutions	22.4%	23.0%	22.9%

The Group Benefits segment provides employers, associations, affinity groups and financial institutions with group life, accident and disability coverage, along with other products and services, including voluntary benefits, and group retiree health. The Company also offers disability underwriting, administration, claims processing services and reinsurance to other insurers and self-funded employer plans.

Group Benefits has a block of financial institution business that is experience rated. This business comprised approximately 9% to 10% of the segment s 2008, 2007 and 2006 premiums and other considerations (excluding buyouts) respectively, and, on average, 4% to 5% of the segment s 2008, 2007 and 2006 net income, excluding realized capital gains and losses.

Year ended December 31, 2008 compared to the year ended December 31, 2007

The decrease in net income for the year ended December 31, 2008, was primarily due to increased realized capital losses. For further discussion, see Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A. The following other factors contributed to the changes in net income:

Premiums and other considerations	Premiums and other considerations increased largely due to business growth driven by new sales and persistency over the last twelve months.

Net investment income	Net investment income decreased primarily as a result of lower yields on fixed maturity investments and lower limited partnership and other alternative investment returns of $33.
Loss ratio	The segment s loss ratio (defined as benefits, losses and loss adjustment expenses as a percentage of premiums and other considerations excluding buyouts) decreased due to favorable disability and medical stop loss experience partially offset by unfavorable mortality.
Expense ratio	The segment s expense ratio, excluding buyouts decreased compared to the prior year due primarily to lower commission expenses.

Year ended December 31, 2007 compared to the year ended December 31, 2006

Net income increased in Group Benefits for the year ended December 31, 2007, primarily due to higher earned premiums, higher net investment income, a gain on a renewal rights transaction associated with the Company s medical stop loss business and a change in assumptions underlying the valuation of long term disability claims incurred in 2007. Partially offsetting the higher net income was increased DAC amortization due to the adoption of SOP 05-1. In addition, realized capital losses increased $17 for the year ended December 31, 2007 as compared to the prior year period. For further discussion, see Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A. A more expanded discussion of income growth is presented below:

Premiums and other considerations	Premiums and other considerations increased largely due to business growth driven by new sales and persistency over the last twelve months.
Net investment income	Net investment income increased due to a higher invested asset base and increased interest income on allocated surplus.
Loss ratio	The segment s loss ratio (defined as benefits, losses and loss adjustment expenses as a percentage of premiums and other considerations excluding buyouts) for the year ended December 31, 2007, decreased slightly. Loss ratios experience volatility in period over period comparisons due to fluctuation in mortality and morbidity experience. Additionally there was a change in assumptions underlying the valuation of long term disability claims incurred in 2007.
Expense ratio	The segment s expense ratio, excluding buyouts, for the year ended December 31, 2007, increased primarily due to higher DAC amortization resulting from a shorter amortization period following the adoption of SOP 05-1.

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INTERNATIONAL

Operating Summary	**2008**	**2007**	**2006**
Fee income	$ 881	$ 843	$ 709
Earned premiums	(9)	(11)	(8)
Net investment income	167	131	123
Net realized capital losses	(422)	(116)	(88)
Total revenues [1]	**617**	**847**	**736**
Benefits, losses and loss adjustment expenses	270	32	3
Insurance operating costs and other expenses	321	246	208
Amortization of deferred policy acquisition costs	496	214	167
Total benefits, losses and expenses	**1,087**	**492**	**378**
Income (loss) before income taxes	**(470)**	**355**	**358**
Income tax expense (benefit)	(145)	132	127
Net income (loss) [2]	**$ (325)**	**$ 223**	**$ 231**

Assets Under Management Japan	**2008**	**2007**	**2006**
Japan variable annuity account values	$ 29,726	$ 35,793	$ 29,653
Japan fixed annuity and other account values [3]	4,769	1,844	1,690
Total assets under management Japan	**$ 34,495**	**$ 37,637**	**$ 31,343**

[1] The transition impact related to the SFAS 157 adoption was a reduction in revenues of $34, for the year ended December 31, 2008. For further discussion of the SFAS 157 transition impact, refer to Note 4 of the Notes to the Consolidated Financial Statements.

[2] *The transition impact related to the SFAS 157 adoption was a reduction in net income of $11, for the year ended December 31, 2008. For further discussion of the SFAS 157 transition impact, refer to Note 4 of the Notes to the Consolidated Financial Statements.*

[3] *Japan fixed annuity and other account values includes an increase due to the net triggering impact of the GMIB pay-out annuity account value for the 3 Win product of $2.0 billion.*

International, with operations in Japan, Brazil, Ireland and the United Kingdom, focuses on the savings and retirement needs of the growing number of individuals outside the United States who are preparing for retirement, or have already retired, through the sale of variable annuities, fixed annuities and other insurance and savings products. The Company s Japan operation is the largest component of the International segment.

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Year ended December 31, 2008 compared to the year ended December 31, 2007

Net income decreased for the year ended December 31, 2008 as a result of the 2008 Unlock versus the 2007 Unlock along with increased realized capital losses from the adoption of SFAS 157, which resulted in a net realized capital loss of $34 during the first quarter of 2008, the impact of the 3 Win trigger, impairment charges, increases in insurance operating costs and other expenses, partially offset by an increase in fee income. For further discussion on the Unlock and 3 Win trigger, see Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A. For further discussion of the SFAS 157 transition impact, see Note 4 of the Notes to the Consolidated Financial Statements. For further discussion of realized capital losses, see Realized Capital Gains and losses by Segment table under Life s Operating Section of the MD&A. The following other factors contributed to the changes in net income:

Fee income	Fee income increased primarily due to growth in Japan s variable annuity average assets under management. The increase in average assets under management over the past four quarters was driven by deposits of $3.0 billion and a $6.6 billion increase due to foreign currency exchange translation as the yen strengthened compared to the U.S. dollar. Deposits and favorable foreign currency exchange were offset by unfavorable market performance of $10.9 billion.
Benefits, losses and loss adjustment expenses	Benefits, losses and loss adjustment expense increased as a result of the impacts of the Unlock in the third quarter of 2008 as compared to the third quarter of 2007, the impact of the 3 Win trigger, as well as higher GMDB net amount at risk and increased claims costs. For further discussion of the 3 Win trigger, see Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A.
Insurance operating costs and other expenses	Insurance operating costs and other expenses increased due to the growth and strategic investment in the Japan and Other International operations, as well as lower capitalization of deferred policy acquisition costs, as acquisition costs exceeded pricing allowables.
Amortization of deferred policy acquisition costs	Amortization of deferred policy acquisition costs increased as a result of the impacts of the Unlock in the third quarter of 2008 as compared to the third quarter of 2007, as well as the accelerated amortization associated with the 3 Win trigger. For further discussion of the 3 Win trigger see Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A.
Income Tax expense	Income tax expense decreased primarily as a result of a decline in income before taxes.

Year ended December 31, 2007 compared to the year ended December 31, 2006

Net income decreased for the year ended December 31, 2007 due to a lower unlock benefit in 2007 compared with 2006 and an increase in realized capital losses of $28 for the year ended December 31, 2007 as compared to the prior year period. Losses were partially offset by increased fee income driven by growth in assets under management. For further discussion, see Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A. The following other factors contributed to the change in income:

Fee income	Fee income increased for the year ended December 31, 2007 primarily due to growth in Japan s variable annuity assets under management. As of December 31, 2007, Japan s variable annuity assets under management were $35.8 billion, an increase of $6.1 billion or 21% from the prior year period. The increase in assets under management was driven by positive net flows of $4.5 billion, partially offset by unfavorable market performance of $620, which includes the impact of foreign

currency movements on the Japanese customer s foreign assets and a $2.3 billion increase due to foreign currency exchange translation as the yen strengthened compared to the U.S. dollar.

Benefits, losses and loss adjustment expenses

The increase in benefits, losses and loss adjustment expenses for the year ended December 31, 2007 over the prior year period was due to the unlock benefit in the fourth quarter of 2006 exceeding the unlock benefit in the third quarter of 2007. For further discussion, see Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A.

Insurance operating costs and other expenses

Insurance operating costs and other expenses increased for the year ended December 31, 2007 due to the growth in the Japan operation.

Amortization of deferred policy acquisition costs and present value of future profits

Higher amortization of DAC resulted primarily from a decrease in the 2007 unlock benefit compared with the prior year period, as well as overall growth of operations. For further discussion, see Unlock and Sensitivity Analysis in the Critical Accounting Estimates section of the MD&A.

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INSTITUTIONAL

Operating Summary	2008	2007	2006
Fee income and other	$ 152	$ 251	$ 125
Earned premiums	889	987	607
Net investment income	1,004	1,241	1,003
Net realized capital losses	(789)	(188)	(37)
Total revenues	**1,256**	**2,291**	**1,698**
Benefits, losses and loss adjustment expenses	1,907	2,074	1,484
Insurance operating costs and expenses	120	185	78
Amortization of deferred policy acquisition costs	19	23	32
Total benefits, losses and expenses	**2,046**	**2,282**	**1,594**
Income (loss) before income taxes	**(790)**	**9**	**104**
Income tax expense (benefit)	(288)	(8)	26
Net income (loss)	**$ (502)**	**$ 17**	**$ 78**

Assets Under Management	2008	2007	2006
Institutional account values [1] [3]	$ 24,081	$ 25,103	$ 22,214
Private Placement Life Insurance account values [1]	32,459	32,792	26,131
Mutual fund assets under management [2]	2,578	3,581	2,567
Total assets under management	**$ 59,118**	**$ 61,476**	**$ 50,912**

[1] Includes policyholder balances for investment contracts and reserves for future policy benefits for insurance contracts.

[2] Mutual fund assets under management include transfers from the Retirement Plans segment of $178 during

2006.

[3] *Institutional investment product account values include transfers from Retirement Plans and Retail of $763 during 2006.*

Institutional provides customized investment, insurance, and income solutions to select markets. Products include PPLI owned by corporations and high net worth individuals, institutional annuities, mutual funds owned by institutional investors, structured settlements, and stable value contracts. Furthermore, Institutional offers individual products including income annuities and longevity assurance.

Year ended December 31, 2008 compared to the year ended December 31, 2007

Net income in Institutional decreased primarily due to increased net realized capital losses and lower net investment income. For additional discussion of realized capital losses, see Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A. Further discussion of income is presented below:

Fee income and other	Fee income and other decreased primarily due to lower front-end loads on private placement life insurance (PPLI) cases during 2008. PPLI collects front-end loads recorded in fee income, offset by corresponding premium taxes reported in insurance operating costs and other expenses. For 2008 and 2007, PPLI deposits of $247 and $5.2 billion, respectively, resulted in fee income due to front-end loads of $2 and $107, respectively.
Earned premiums	Earned premiums decreased as compared to the prior year due to greater amounts of life contingent business sold in 2007. The decrease in earned premiums was offset by a corresponding decrease in benefits, losses, and loss adjustment expenses.
Net investment income	Net investment income declined due to a decrease in returns from limited partnership and other alternative investments income of $(127), lower yields on fixed maturity investments indexed to LIBOR, and lower assets under management. The decline in yield on fixed maturities was largely offset by a corresponding decrease in interest credited on liabilities reported in benefits, losses, and loss adjustment expenses. Assets under management decreased primarily due to stable value outflows.
Benefits, losses and loss adjustment expenses	Benefits, losses and loss adjustment expenses decreased primarily due to lower reserve increases as the result of lower sales in life contingent business, as well as lower interest credited on liabilities indexed to LIBOR. The decrease was partially offset by $8 greater mortality loss.
Insurance operating costs and other expenses	Insurance operating costs and other expenses decreased due to a decline in premium tax, driven by reduced PPLI deposits, partially offset by discontinued administrative system projects and product development expenses.
Income tax expense (benefit)	The income tax benefit increased compared to the prior year primarily due to a decline in income before taxes primarily due to increased realized capital losses.

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Year ended December 31, 2007 compared to the year ended December 31, 2006

Net income in Institutional decreased for the year ended December 31, 2007 primarily due to increased realized capital losses of $151 as compared to 2006. For further discussion, see Realized Capital Gains and Losses by Segment table under Life s Operating Section of the MD&A. Offsetting the impact of realized capital losses, Institutional s net income increased driven by higher assets under management, combined with increased returns on general account assets, primarily due to limited partnership and other alternative investment income. The following other factors contributed to the changes in income:

Fee income and other	Fee income increased for the year ended December 31, 2007 primarily due to higher Mutual Fund and PPLI assets under management on net flows and change in market appreciation of $5.8 billion and $2.1 billion, respectively, during the year. In addition, PPLI collects front-end loads recorded in fee income, offset by corresponding premium taxes reported in insurance operating costs and other expenses. During the year ended December 31, 2007, PPLI had deposits of $5.2 billion, which resulted in an increase in fee income due to front-end loads of $107.
Earned premiums	Earned premiums increased for the year ended December 31, 2007 primarily as a result of increased structured settlement life contingent sales, and one large terminal funding life contingent case sold in the third quarter. This increase in earned premiums was offset by a corresponding increase in benefits, losses and loss adjustment expenses.
Net investment income	Net investment income increased due to higher assets under management resulting from positive net flows of $1.5 billion during the year, and higher returns on limited partnerships and other alternative investments. Net flows were favorable primarily as a result of the Company s funding agreement backed Investor Notes program.
Benefits, losses and loss adjustment expenses	Benefits, losses and loss adjustment expenses increased as compared to the comparable prior year period primarily due to higher assets under management, in addition to one large terminal funding life contingent case sold in the third quarter of 2007.
Insurance operating costs and other expenses	Insurance operating costs and other expenses increased due to greater premium tax, driven by increased PPLI deposits.
Income tax expense (benefit)	The change in income taxes was due to lower income before income taxes primarily driven by the increase in realized capital losses.

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OTHER

Operating Summary	**2008**	**2007**	**2006**
Fee income and other	$ 60	$ 67	$ 81
Net investment income (loss)			
Securities available-for-sale and other	28	145	154
Equity securities held for trading [1]	(10,340)	145	1,824
Total net investment income (loss)	(10,312)	290	1,978
Net realized capital gains (losses)	47	(35)	6
Total revenues	**(10,205)**	**322**	**2,065**
Benefits, losses and loss adjustment expenses [1]	154	156	161
Benefits, losses and loss adjustment expenses returns credited on International variable annuities [1]	(10,340)	145	1,824
Insurance operating costs and other expenses	7	84	12
Total benefits, losses and expenses	**(10,179)**	**385**	**1,997**
Income (loss) before income taxes	**(26)**	**(63)**	**68**
Income tax expense (benefit)	(15)	(11)	21
Net income (loss)	**$ (11)**	**$ (52)**	**$ 47**

[1] Includes investment income and mark-to-market effects of equity securities held for trading supporting the international variable annuity business, which are classified in net investment income with corresponding amounts credited to policyholders within benefits, losses and loss adjustment expenses.

Life includes in Other its leveraged PPLI product line of business; corporate items not directly allocated to any of its reportable operating segments; inter-segment eliminations and the mark-to-mark adjustment for the International

variable annuity assets that are classified as equity securities held for trading reported in net investment income and the related change in interest credited reported as a component of benefits, losses and loss adjustment expenses.

Year ended December 31, 2008 compared to the year ended December 31, 2007

Net investment income	Net investment income on securities available-for-sale and other declined primarily due to decreases in yields on fixed maturity investments and declines in limited partnerships and other alternative investment income.
Realized capital gains (losses)	See Realized Capital Gains and Losses by Segment table under Life s Operating section of the MD&A.
Insurance operating costs and other expenses	Insurance operating costs and other expenses decreased for the year ended December 31, 2008 as compared to the prior year period, primarily due to a charge of $21 for regulatory matters in the second quarter of 2007 and reallocation of expenses to the applicable lines of business in 2008.

Year ended December 31, 2007 compared to the year ended December 31, 2006

Insurance operating costs and other expenses	During the first quarter of 2006, the Company achieved favorable settlements in several cases brought against the Company by policyholders regarding their purchase of broad-based leveraged corporate owned life insurance (leveraged COLI) policies in the early to mid-1990s. The Company ceased offering this product in 1996. Based on the favorable outcome of these cases, together with the Company s current assessment of the few remaining leveraged COLI cases, the Company reduced its estimate of the ultimate cost of these cases as of June 30, 2006. This reserve reduction, recorded in insurance operating costs and other expenses, resulted in an after-tax benefit of $34. Also contributing to the increase in insurance operating costs and other expenses was $18, after-tax, of interest charged by Corporate on the amount of capital held by the Life operations in excess of the amount needed to support the capital requirements of the Life Operations for the year ended December 31, 2007 The Company recorded a reserve in the second quarter of 2007 for market regulatory matters of $21, after-tax. During the year, the Company recorded an insurance recovery of $9, after-tax, against the litigation costs associated with the regulatory matters.
Realized capital gains (losses)	Refer to Realized Capital Gains and Losses by Segment table under Life s Operating section of the MD&A.

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PROPERTY & CASUALTY

Executive Overview

Property & Casualty is organized into five reporting segments: the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial (collectively Ongoing Operations); and the Other Operations segment. Property & Casualty provides a number of coverages, as well as insurance related services, to businesses throughout the United States, including workers compensation, property, automobile, liability, umbrella, specialty casualty, marine, livestock, fidelity, surety, professional liability and directors and officers liability coverages. Property & Casualty also provides automobile, homeowners and home-based business coverage to individuals throughout the United States as well as insurance-related services to businesses.

Property & Casualty derives its revenues principally from premiums earned for insurance coverages provided to insureds, investment income, and, to a lesser extent, from fees earned for services provided to third parties and net realized capital gains and losses. Premiums charged for insurance coverages are earned principally on a pro rata basis over the terms of the related policies in force.

Service fees principally include revenues from third party claims administration services provided by Specialty Risk Services and revenues from member contact center services provided through the AARP Health program.

Total Property & Casualty Financial Highlights

Earned Premiums

Earned premium growth is an objective for Personal Lines, Small Commercial and Middle Market. Earned premium growth is not a specific objective for Specialty Commercial since Specialty Commercial is largely comprised of transactional businesses where premium writings may fluctuate based on the segment s view of perceived market opportunity. Written premiums are earned over the policy term, which is six months for certain Personal Lines auto business and 12 months for substantially all of the remainder of the Company s business. Written pricing, new business growth and premium renewal retention are factors that contribute to growth in written and earned premium.

Written premiums [1]	**2008**	**2007**	**2006**
Personal Lines	$ 3,925	$ 3,947	$ 3,877
Small Commercial	2,696	2,747	2,728
Middle Market	2,242	2,326	2,515
Specialty Commercial	1,361	1,415	1,538
Other Operations	7	5	4
Total	**$ 10,231**	**$ 10,440**	**$ 10,662**

Earned premiums [1]			
Personal Lines	$ 3,926	$ 3,889	$ 3,760
Small Commercial	2,724	2,736	2,652
Middle Market	2,299	2,420	2,523
Specialty Commercial	1,382	1,446	1,493
Other Operations	7	5	5
Total	**$ 10,338**	**$ 10,496**	**$ 10,433**

[1] The difference between written premiums and earned premiums is

attributable to the change in unearned premium reserve.

Year ended December 31, 2008 compared to the year ended December 31, 2007

Earned Premiums

Total Property & Casualty earned premiums decreased $158, or 2%, primarily due to lower earned premiums in Middle Market and Specialty Commercial, partially offset by increased earned premiums in Personal Lines.

Personal Lines

Earned premium grew by $37, or 1%, due to a $97, or 4%, increase in AARP earned premiums, partially offset by a $60, or 5%, decrease in Agency and other earned premiums. AARP earned premiums grew primarily due to modest earned pricing increases for both auto and homeowners and the effect of new business premium outpacing non-renewals in the last nine months of 2007. Agency earned premium decreased $43, or 4%, largely due to a decline in new business premium and premium renewal retention since the middle of 2007, partially offset by the effect of modest earned pricing increases.

Small Commercial

Earned premium decreased slightly, to $2,724, as a decrease in commercial auto was largely offset by an increase in worker s compensation. Earned premium decreases were largely due to the effect of non-renewals outpacing new business for commercial auto business in 2008 and to earned pricing decreases, largely offset by new business outpacing non-renewals in workers compensation business over the last nine months of 2007 and first nine months of 2008.

Middle Market

Earned premium decreased by $121, or 5%, driven primarily by decreases in commercial auto, workers compensation and general liability. Earned premium decreases were driven primarily by a decline in earned pricing in 2008 and the effect of non-renewals outpacing new business in commercial auto and general liability over the last nine months of 2007 and first nine months of 2008, partially offset by the effect of new business outpacing non-renewals in workers compensation since the fourth quarter of 2007.

Specialty Commercial

Earned premium decreased by $64, or 4%, driven primarily by a decrease in property earned premiums and, to a lesser extent, casualty earned premiums. Property earned premiums decreased due largely to the Company s decision to stop writing specialty property business with large, national accounts and lower new business and renewal retention for core excess and surplus lines business. Casualty earned premiums decreased primarily because of lower earned premium from captive programs and a decline in new business premium on loss-sensitive business written with larger accounts over the last nine months of 2007 and first three months of 2008.

Year ended December 31, 2007 compared to the year ended December 31, 2006

Earned Premiums

Total Property & Casualty earned premiums increased by $63 due to an increase in Personal Lines and Small Commercial, partially offset by a decrease in Middle Market and Specialty Commercial.

Personal Lines

Earned premium grew by $129, or 3%, primarily due to an increase in AARP and Agency earned premiums. AARP earned premium grew primarily due to an increase in the size of the AARP target market, the effect of direct marketing programs and the effect of cross selling homeowners insurance to insureds who have auto policies. Agency earned premium grew as a result of an increase in the number of agency appointments and further refinement of the Dimensions class plans. Partially offsetting this growth was the effect of the sale of the Omni non-standard auto business in the

fourth quarter of 2006 which accounted for $127 of earned premium in 2006. Excluding Omni, Personal Lines earned premiums grew $251, or 7%, for the year ended December 31, 2007.

Small Commercial

Earned premium increased $84, or 3%, primarily due to new business premiums outpacing non-renewals for workers compensation business over the last six months of 2006 and the first six months of 2007.

Middle Market

Earned premium decreased by $103, or 4%, driven by decreases in all lines, including commercial auto, general liability, workers compensation and property. Earned premium decreases were driven by declines in earned pricing and premium renewal retention in all lines and a decline in new business premiums in all lines except workers compensation.

Specialty Commercial

Earned premium decreased by $47, or 3%, primarily driven by a decrease in casualty and property and a decrease in earned premiums assumed under inter-segment arrangements, partially offset by an increase in professional liability, fidelity and surety.

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Net income

	2008	2007	2006
Underwriting results before catastrophes and prior accident year development	**$ 1,129**	**$ 984**	**$ 1,240**
Current accident year catastrophes	543	177	199
Unfavorable (favorable) prior accident year reserve development	(226)	48	296
Underwriting results	**812**	**759**	**745**
Net servicing and other income [1]	31	52	53
Net investment income	1,253	1,687	1,486
Other expenses	(222)	(249)	(223)
Net realized capital gains (losses)	(1,877)	(172)	9
Income (loss) before income taxes	**(3)**	**2,077**	**2,070**
Income tax benefit (expense)	95	(570)	(551)
Net income	**$ 92**	**$ 1,507**	**$ 1,519**

[1] Net of expenses related to service business.

Net realized capital gains (losses)

	2008	2007	2006
Gross gains on sales	$ 180	$ 159	$ 205
Gross losses on sales	(448)	(121)	(164)
Impairments	(1,533)	(125)	(45)
Periodic net coupon settlements on credit derivatives	2	15	4
Other, net	(78)	(100)	9
Net realized capital gains (losses), before-tax	**$ (1,877)**	**$ (172)**	**$ 9**

Year ended December 31, 2008 compared to the year ended December 31, 2007

Net income decreased by $1,415, from net income of $1,507 in 2007 to net income of $92 in 2008, primarily driven by an increase in net realized capital losses and a decrease in net investment income.

Realized capital gains (losses)

Gross gains (losses) on sales, net

Gross gains and losses on sales in 2008 primarily resulted from the sale of corporate fixed maturities resulting from the decision to reallocate the portfolio to securities with more favorable risk/return profiles. Also included were losses on sales of CLOs in the first quarter for which HIMCO is the collateral manager. For more information regarding losses on the sale of HIMCO managed CLOs, refer to the Variable Interest Entities section of the Investments section of the MD&A.

Gross gains and losses on sales in 2007 were primarily comprised of sales of foreign government, corporate, and municipal fixed maturity securities.

Impairments

Impairments of $1.5 billion in 2008 were primarily of subordinated fixed maturities and preferred equities within the financial services sector, as well as of securitized assets. (See the Other-Than-Temporary Impairments discussion within Investment Results in the Investments section of the MD&A for more information on the impairments recorded in 2008).

Other, net

Other, net realized capital losses in 2008 were primarily related to net losses on credit derivatives as a result of credit spread widening on credit derivatives that assume credit exposure. Also included were derivative related losses of $7 for the year ended December 31, 2008 due to counterparty default related to the bankruptcy of Lehman Brothers Holdings Inc.

Other, net realized capital losses in 2007 primarily resulted from the change in value associated with credit derivatives due to credit spreads widening. Credit spreads widened primarily due to the deterioration in the U.S. housing market, tightened lending conditions, and the market s flight to quality securities.

Net investment income

Investment income decreased $434, or 26%, due to a change from net income to net losses on limited partnerships and other alternative investments in 2008 and decreased fixed maturity income. The net losses on limited partnerships and other alternative investments were largely due to negative returns on hedge funds and real estate partnerships as a result of the lack of liquidity in the financial markets and credit spreads widening. The decrease in income from fixed maturities was attributable to lower income on variable rate securities due to declines in short term interest rates as well as an increased allocation to lower yielding U.S. Treasuries and short-term investments.

Underwriting results

Underwriting results before catastrophes and prior accident year reserve development increased by $145 as the result of a lower current accident year loss and loss adjustment expense ratio before catastrophes, partially offset by the effect of the decline in earned premiums in Middle Market and Specialty Commercial. The 2008 results benefited from a lower current accident year loss and loss adjustment expense ratio before catastrophes for Small Commercial and Middle Market workers compensation claims, lower claim frequency on Personal Lines auto claims and lower non-catastrophe loss costs on Small Commercial package business, partially offset by higher non-catastrophe losses on Middle Market property and Personal Lines homeowners business.

The $366 increase in current accident year catastrophe losses was primarily due to more severe catastrophes in 2008, including losses from hurricane Ike and tornadoes and thunderstorms in the South and Midwest.

The change to favorable prior accident year reserve development was largely due to a $210 increase in net favorable reserve development in Ongoing Operations, driven largely by an increase in net reserve releases for workers compensation, professional liability and personal auto liability claims. Refer to the Reserves section of the MD&A for further discussion.

Net servicing and other income

The $21 decrease in net servicing income was primarily driven by a decrease in servicing income from the AARP Health program, Specialty Risk Services and the Write Your Own flood program and the write-off of software used in administering policies for third parties.

Income tax expense

Income taxes changed from income tax expense of $570 in 2007 to an income tax benefit of $95 in 2008. Despite near break-even pre-tax income in 2008, there was a net income tax benefit in 2008 because the income tax benefit on realized capital losses was greater than the income tax expense on all other components of pre-tax income. A portion of the Company s net investment income was generated from tax-exempt securities.

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Year ended December 31, 2007 compared to the year ended December 31, 2006

Net income decreased by $12, or 1%, in 2007, primarily driven by a decrease in Ongoing Operations current accident year underwriting results before catastrophes and a change to net realized capital losses, largely offset by an increase in net investment income and a decrease in Other Operations net unfavorable reserve development.

Underwriting results

Current accident year underwriting results before catastrophes decreased by $256, primarily due to a higher loss and loss adjustment expense ratio before catastrophes and prior accident year development, partially offset by the effect of exiting the Omni non-standard auto business, which generated a current accident year underwriting loss before catastrophes in 2006. The higher current accident year loss and loss adjustment expense ratio before catastrophes was driven by increased severity on Personal Lines auto liability claims, increased frequency on Personal Lines auto property damage claims and, to a lesser extent, increased severity on Personal Lines homeowners claims and a higher loss and loss adjustment expense ratio for both Small Commercial package business and Middle Market workers compensation claims.

Current accident year catastrophe losses decreased by $22. The largest catastrophe losses in 2007 were from wildfires in California, spring windstorms in the Southeast and Northeast, tornadoes and thunderstorms in the Midwest and a December ice storm in the Midwest. Catastrophes in 2006 included tornadoes and hail storms in the Midwest and windstorms in Texas and on the East coast.

The $248 reduction in net unfavorable prior accident year development was due to a $167 decrease in unfavorable reserve development in Other Operations and an $81 increase in net favorable reserve development in Ongoing Operations. The lower adverse development in Other Operations was primarily due to a $243 charge in 2006 to recognize the effect of the Equitas agreement and strengthening of the allowance for uncollectible reinsurance, partially offset by a $99 strengthening of reserves in 2007, primarily related to an adverse arbitration decision. The $81 increase in net favorable reserve development in Ongoing Operations was primarily due to a $151 release of workers compensation loss and loss adjustment expenses reserves in 2007 related to accident years 2002 to 2006, partially offset by an $83 net release of prior accident year hurricane reserves in 2006. Refer to the Reserves section of the MD&A for further discussion.

Realized capital gains (losses)

Gross gains (losses) on sales, net

Gross gains and losses on sales in 2007 were primarily comprised of sales of foreign government, corporate, and municipal fixed maturity securities.

Gross gains on sales in 2006 were primarily from sales of corporate, foreign government and municipal fixed maturity securities. Gross losses on sales in 2006 were primarily from sales of corporate fixed maturities and CMBS.

Impairments

Impairments in 2007 primarily consisted of impairments of asset-backed securities backed by sub-prime residential mortgage loans and impairments of corporate securities

in the financial services and homebuilders sectors. (See the Other-than-Temporary Impairments discussion within Investment Results for more information on the impairments recorded in 2007.)

Other, net

Other net realized capital losses in 2007 were primarily due to decreases in the fair value of non-qualifying derivatives attributable to credit spreads widening. Credit spreads widened primarily due to the deterioration in the U.S. housing market, tightened lending conditions, and the market s flight to quality securities.

Net investment income

Primarily driving the $201 increase in net investment income was a higher average invested asset base and income earned from a higher portfolio yield. The increase in the average invested asset base contributing to the increase in investment income was primarily due to positive operating cash flows, partially offset by the return of capital to Corporate. Contributing to the increase in net investment income was an increase in income from limited partnerships and other alternative investments, driven by a higher yield on these investments and shifting a greater allocation of investments to these asset classes.

Other expenses

The $26 increase in other expenses was primarily due to $49 of interest charged by Corporate on the amount of capital held by the Property & Casualty operation in excess of the amount needed to support the capital requirements of the Property & Casualty operation, partially offset by a reduction in the estimated cost of legal settlements in 2007.

Income tax expense

Income taxes increased by $19, reflecting the increase in pre-tax income from 2006 to 2007, partially offset by a $20 benefit in 2007 from a tax true-up.

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Key Performance Ratios and Measures

The Company considers several measures and ratios to be the key performance indicators for the property and casualty underwriting businesses. The following table and the segment discussions for the years ended December 31, 2008, 2007 and 2006 include various ratios and measures of profitability. Management believes that these ratios and measures are useful in understanding the underlying trends in The Hartford s property and casualty insurance underwriting business. However, these key performance indicators should only be used in conjunction with, and not in lieu of, underwriting income for the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial and net income for the Property & Casualty business as a whole, Ongoing Operations and Other Operations. These ratios and measures may not be comparable to other performance measures used by the Company s competitors.

Ongoing Operations earned premium growth	**2008**	**2007**	**2006**
Personal Lines	1%	3%	4%
Small Commercial		3%	10%
Middle Market	(5%)	(4%)	4%
Specialty Commercial	(4%)	(3%)	(12%)
Ongoing Operations	**(2%)**	**1%**	**3%**
Ongoing Operations combined ratio			
Combined ratio before catastrophes and prior year development	88.9	90.5	88.0
Catastrophe ratio			
Current year	5.3	1.7	1.9
Prior years	(0.2)	0.1	(0.7)
Total catastrophe ratio	**5.0**	**1.8**	**1.2**
Non-catastrophe prior year development	(3.2)	(1.5)	0.1
Combined ratio	**90.7**	**90.8**	**89.3**
Other Operations net income (loss)	**$ (97)**	**$ 30**	**$ (35)**
Total Property & Casualty measures of net investment income			
Investment yield, after-tax	3.2%	4.4%	4.1%
Average annual invested assets at cost	$ 29,797	$ 29,760	$ 27,324

Year ended December 31, 2008 compared to the year ended December 31, 2007

Ongoing Operations earned premium growth

Personal Lines The decrease in the earned premium growth rate from 2007 to 2008 was due to a significantly lower growth rate on AARP business and a change to declining earned premium in Agency, partially offset by the effect of the sale of Omni in 2006 which lowered the growth rate in 2007. Excluding Omni, Personal Lines earned premium grew 7% in 2007. The effects of larger declines in auto and homeowners new business premium and a change to declining homeowners renewal retention since the middle of

2007 were largely offset by the effect of a change to modest earned pricing increases in auto.

Small Commercial

The earned premium growth rate in 2008 was reduced from moderate earned premium increases in 2007 to no growth in 2008. The decrease in the growth rate was primarily attributable to slightly larger earned pricing decreases in 2008 compared to 2007 and a change to decreasing premium renewal retention since the middle of 2007.

Middle Market

Earned premium declined in the mid-single digits in both 2007 and 2008. The effect of slightly larger earned pricing decreases in 2008 has been largely offset by the effect of a change to new business growth since the second quarter of 2008.

Specialty Commercial

Earned premium decreased by 4% in 2008 compared to a decrease of 3% in 2007. A larger earned premium decrease in property and a change from earned premium growth in professional liability, fidelity and surety in 2007 to no growth in 2008, was partially offset by an improvement in the rate of earned premium decline in casualty. Property earned premium decreased more significantly in 2008 than in 2007 due, in part, to a decision to stop writing specialty property business with large, national accounts. Also contributing to the larger decrease in property earned premium in 2008 were the effects of a change to decreasing earned pricing and a change to decreasing new business in 2008 on core excess and surplus lines business. The change to no growth in professional liability, fidelity and surety earned premium in 2008 was largely due to larger earned pricing decreases in 2008 than in 2007 and a change to declining new business in professional liability since the third quarter of 2007.

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Ongoing Operations combined ratio

For 2008, the Ongoing Operations combined ratio was relatively flat at 90.7 as a 1.7 point increase in net favorable non-catastrophe prior accident year reserve development and a 1.6 point reduction in the current accident year combined ratio before catastrophes and prior year development was almost entirely offset by a 3.2 point increase in catastrophes, driven by higher current accident year catastrophes.

Combined ratio before catastrophes and prior accident year development

The combined ratio before catastrophes and prior accident year development decreased by 1.6 points, to 88.9, as the effects of a lower loss and loss adjustment expense ratio for Small Commercial and Middle Market workers compensation claims, lower claim frequency on Personal Lines auto claims and lower non-catastrophe losses on Small Commercial package business were partially offset by earned pricing decreases across the commercial lines businesses and higher non-catastrophe losses on Middle Market property and Personal Lines homeowners business.

Catastrophes

The catastrophe ratio increased by 3.2 points, primarily due to an increase in current accident year catastrophes in 2008, driven by losses from hurricane Ike and losses from tornadoes and thunderstorms in the South and Midwest.

Non-catastrophe prior accident year development

Net non-catastrophe prior accident year reserve development in Ongoing Operations was more favorable in 2008 than in 2007. Favorable non-catastrophe reserve development of 3.2 points, or $333, in 2008 included, among other reserve changes, a $156 release of reserves for workers compensation claims, primarily related to accident years 2000 to 2007, a $105 release of general liability claims, primarily related to accident years 2001 to 2007, and a $75 release of reserves for professional liability claims related to accident years 2003 through 2006. See the Reserves section for a discussion of prior accident year reserve development for Ongoing Operations in 2008.

Other Operations net income (loss)

Other Operations reported a net loss of $97 in 2008 compared to net income of $30 in 2007. The change from net income in 2007 to a net loss in 2008 was primarily due to an increase in net realized capital losses and lower net investment income, partially offset by a decrease in net unfavorable prior accident year reserve development. See the Other Operations segment MD&A for further discussion.

Investment yield and average invested assets

In 2008, the after-tax investment yield decreased due to a change from net income to net losses from limited partnerships and other alternative investments in 2008 and, to a lesser extent, a lower investment yield for fixed maturities.

Average annual invested assets at cost increased modestly due to positive operating cash flows, partially offset by the effects of impairments of securities and dividends paid to Corporate.

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Year ended December 31, 2007 compared to the year ended December 31, 2006

Ongoing Operations earned premium growth

Personal Lines

The decrease in the earned premium growth rate from 2006 to 2007 was due to the Company s exit from the Omni non-standard auto business. Omni, which was sold in the fourth quarter of 2006, accounted for $127 of earned premium in 2006. Excluding Omni, the Personal Lines earned premium growth rate was 7% in both 2006 and 2007. In 2007, an increase in the growth rate of AARP earned premium was offset by the effect of a decrease in the growth rate of Agency earned premium.

Small Commercial

The decrease in the earned premium growth rate was primarily attributable to a decrease in new business written premium and premium renewal retention over the last six months of 2006 and the first six months of 2007. Also contributing to the lower growth rate was a decrease in earned pricing.

Middle Market

The change from an increase in earned premium in 2006 to a decrease in earned premium in 2007 was primarily attributable to earned pricing decreases, a decrease in new business written premium over the last six months of 2006 and the first six months of 2007 and a decrease in premium renewal retention over the first six months of 2007.

Specialty Commercial

The rate of decline in Specialty Commercial earned premium slowed in 2007, primarily due to a lower earned premium decrease in casualty and property, partially offset by a lower earned premium increase in professional liability, fidelity and surety. Casualty earned premium experienced a larger decrease in 2006, primarily because of a decrease in 2006 earned premium from a single captive insured program that expired in 2005. Earned premium decreases in property were larger in 2006 than in 2007 as a result of a strategic decision in 2006 not to renew certain accounts with properties in catastrophe-prone areas. The growth rate in professional liability, fidelity and surety earned premium slowed in 2007 due to a decrease in earned pricing and a decline in new business growth and premium renewal retention.

Ongoing Operations combined ratio

For the year ended December 31, 2007, the Ongoing Operations combined ratio increased 1.5 points, to 90.8, due to a 2.5 point increase in the combined ratio before catastrophes and prior accident year development, partially offset by a 0.8 point improvement in prior accident year reserve development and the effect of the sale of Omni in the fourth quarter of 2006. Omni had a higher combined ratio before catastrophes and prior accident year development than other business written by the Company.

Combined ratio before catastrophes and prior accident year development

The increase in the combined ratio before catastrophes and prior accident year development, from 88.0 to 90.5, was primarily due to a 1.4 point increase in the current accident year loss and loss adjustment expense ratio before catastrophes and, to a lesser extent, an increase in the expense ratio. The increase in the loss and loss adjustment expense ratio before catastrophes and prior accident year development was primarily due to increased severity on Personal Lines auto liability claims, increased frequency on Personal Lines auto property damage claims and, to a lesser extent, increased severity on Personal Lines homeowners claims and a higher loss and loss adjustment expense ratio for both Small Commercial package business and Middle Market workers compensation claims. Contributing to the increase in the expense ratio was the effect of a $41 reduction of estimated Florida Citizens assessments in 2006 related to the 2005 Florida hurricanes.

Catastrophes

The catastrophe ratio increased, primarily due to the effect of net favorable reserve development of prior accident year catastrophe losses in 2006. In 2006, the Company recognized $83 of net reserve releases related to the 2005 and 2004 hurricanes.

Non-catastrophe prior accident year development

Net non-catastrophe prior accident year reserve development was slightly unfavorable in 2006, but favorable in 2007. Favorable reserve development in 2007 was largely attributable to the release of reserves for workers compensation claims, primarily related to accident years 2002 to 2006. See the Reserves section for a discussion of prior accident year reserve development for Ongoing Operations in 2007.

Other Operations net income (loss)

Other Operations reported net income of $30 in 2007 compared to a net loss of $35 in 2006. The improvement in results was primarily due to a decrease in unfavorable prior accident year reserve development, partially offset by a change from net realized gains in 2006 to net realized losses in 2007 and a decrease in net investment income. See the Other Operations segment MD&A for further discussion.

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Investment yield and average invested assets

In 2007, the after-tax investment yield increased due to a higher yield on limited partnerships and other alternative investments and mortgage loans as well as due to a change in asset mix, including shifting a greater share of investments to these asset classes.

The average annual invested assets at cost increased as a result of positive operating cash flows and an increase in collateral held from increased securities lending activities.

How Property & Casualty seeks to earn income

Net income is a measure of profit or loss used in evaluating the performance of Total Property & Casualty and the Ongoing Operations and Other Operations segments. Within Ongoing Operations, the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial are evaluated by The Hartford s management primarily based upon underwriting results. Underwriting results within Ongoing Operations are influenced significantly by changes in earned premium and the adequacy of the Company s pricing. Underwriting profitability over time is also greatly influenced by the Company s underwriting discipline, which seeks to manage exposure to loss through favorable risk selection and diversification, its management of claims, its use of reinsurance and its ability to manage its expense ratio which it accomplishes through economies of scale and its management of acquisition costs and other underwriting expenses.

Pricing adequacy depends on a number of factors, including the ability to obtain regulatory approval for rate changes, proper evaluation of underwriting risks, the ability to project future loss cost frequency and severity based on historical loss experience adjusted for known trends, the Company s response to rate actions taken by competitors, and expectations about regulatory and legal developments and expense levels. Property & Casualty seeks to price its insurance policies such that insurance premiums and future net investment income earned on premiums received will cover underwriting expenses and the ultimate cost of paying claims reported on the policies and provide for a profit margin. For many of its insurance products, Property & Casualty is required to obtain approval for its premium rates from state insurance departments.

In setting its pricing, Property & Casualty assumes an expected level of losses from natural or man-made catastrophes that will cover the Company s exposure to catastrophes over the long-term. In most years, however, Property & Casualty s actual losses from catastrophes will be more or less than that assumed in its pricing due to the significant volatility of catastrophe losses. Insurance Services Office, Inc. (ISO) defines a catastrophe loss as an event that causes $25 or more in industry insured property losses and affects a significant number of property and casualty policyholders and insurers.

Given the lag in the period from when claims are incurred to when they are reported and paid, final claim settlements may vary from current estimates of incurred losses and loss expenses, particularly when those payments may not occur until well into the future. Reserves for lines of business with a longer lag (or tail) in reporting are more difficult to estimate. Reserve estimates for longer tail lines are initially set based on loss and loss expense ratio assumptions estimated when the business was priced and are adjusted as the paid and reported claims develop, indicating that the ultimate loss and loss expense ratio will differ from the initial assumptions. Adjustments to previously established loss and loss expense reserves, if any, are reflected in underwriting results in the period in which the adjustment is determined to be necessary.

The investment return, or yield, on Property & Casualty s invested assets is an important element of the Company s earnings since insurance products are priced with the assumption that premiums received can be invested for a period of time before loss and loss adjustment expenses are paid. For longer tail lines, such as workers compensation and general liability, claims are paid over several years and, therefore, the premiums received for these lines of business can generate significant investment income. Due to the need to maintain sufficient liquidity to satisfy claim obligations, the vast majority of Property & Casualty s invested assets have been held in fixed maturities, including, among other asset classes, corporate bonds, municipal bonds, government debt, short-term debt, mortgage-backed securities and asset-backed securities.

Through its Other Operations segment, Property & Casualty is responsible for managing operations of The Hartford that have discontinued writing new or renewal business as well as managing the claims related to asbestos and environmental exposures.

Definitions of key ratios and measures

Written and earned premiums

Written premium is a statutory accounting financial measure which represents the amount of premiums charged for policies issued, net of reinsurance, during a fiscal period. Earned premium is a U.S. GAAP and statutory measure. Premiums are considered earned and are included in the financial results on a pro rata basis over the policy period. Management believes that written premium is a performance measure that is useful to investors as it reflects current trends in the Company s sale of property and casualty insurance products. Written and earned premium are recorded net of ceded reinsurance premium.

Reinstatement premiums

Reinstatement premium represents additional ceded premium paid for the reinstatement of the amount of reinsurance coverage that was reduced as a result of a reinsurance loss payment.

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Policies in force

Policies in force represent the number of policies with coverage in effect as of the end of the period. The number of policies in force is a growth measure used for Personal Lines, Small Commercial and Middle Market and is affected by both new business growth and premium renewal retention.

Written pricing increase (decrease)

Written pricing increase (decrease) over the comparable period of the prior year includes the impact of rate filings, the impact of changes in the value of the rating bases and individual risk pricing decisions. A number of factors impact written pricing increases (decreases) including expected loss costs as projected by the Company s pricing actuaries, rate filings approved by state regulators, risk selection decisions made by the Company s underwriters and marketplace competition. Written pricing changes reflect the property and casualty insurance market cycle. Prices tend to increase for a particular line of business when insurance carriers have incurred significant losses in that line of business in the recent past or the industry as a whole commits less of its capital to writing exposures in that line of business. Prices tend to decrease when recent loss experience has been favorable or when competition among insurance carriers increases.

Earned pricing increase (decrease)

Written premiums are earned over the policy term, which is six months for certain Personal Lines auto business and 12 months for substantially all of the remainder of the Company s business. Because the Company earns premiums over the 6 to 12 month term of the policies, earned pricing increases (decreases) lag written pricing increases (decreases) by 6 to 12 months.

New business written premium

New business written premium represents the amount of premiums charged for policies issues to customers who were not insured with the Company in the previous policy term. New business written premium plus renewal policy written premium equals total written premium.

Premium renewal retention

Premium renewal retention represents the ratio of net written premium in the current period that is not derived from new business divided by total net written premium of the prior period. Accordingly, premium renewal retention includes the effect of written pricing changes on renewed business. In addition, the renewal retention rate is affected by a number of other factors, including the percentage of renewal policy quotes accepted and decisions by the Company to non-renew policies because of specific policy underwriting concerns or because of a decision to reduce premium writings in certain lines of business or states. Premium renewal retention is also affected by advertising and rate actions taken by competitors.

Loss and loss adjustment expense ratio

The loss and loss adjustment expense ratio is a measure of the cost of claims incurred in the calendar year divided by earned premium and includes losses incurred for both the current and prior accident years. Among other factors, the loss and loss adjustment expense ratio needed for the Company to achieve its targeted return on equity fluctuates from year to year based on changes in the expected investment yield over the claim settlement period, the timing of expected claim settlements and the targeted returns set by management based on the competitive environment.

The loss and loss adjustment expense ratio is affected by claim frequency and claim severity, particularly for shorter-tail property lines of business, where the emergence of claim frequency and severity is credible and likely indicative of ultimate losses. Claim frequency represents the percentage change in the average number of reported claims per unit of exposure in the current accident year compared to that of the previous accident year. Claim severity represents the percentage change in the estimated average cost per claim in the current accident year compared to that of the previous accident year. As one of the factors used to determine pricing, the Company s practice is to first make an overall assumption about claim frequency and severity for a given line of business and then, as part of the ratemaking process, adjust the assumption as appropriate for the particular state, product or coverage.

Current accident year loss and loss adjustment expense ratio before catastrophes

The current accident year loss and loss adjustment expense ratio before catastrophes is a measure of the cost of non-catastrophe claims incurred in the current accident year divided by earned premiums. Management believes that the current accident year loss and loss adjustment expense ratio before catastrophes is a performance measure that is

useful to investors as it removes the impact of volatile and unpredictable catastrophe losses and prior accident year reserve development.

Current accident year catastrophe ratio

The current accident year catastrophe ratio represents the ratio of catastrophe losses (net of reinsurance) to earned premiums for catastrophe claims incurred during the current accident year. A catastrophe is an event that causes $25 or more in industry insured property losses and affects a significant number of property and casualty policyholders and insurers. The catastrophe ratio includes the effect of catastrophe losses, but does not include the effect of reinstatement premiums.

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Prior accident year loss and loss adjustment expense ratio
The prior year loss and loss adjustment expense ratio represents the increase (decrease) in the estimated cost of settling catastrophe and non-catastrophe claims incurred in prior accident years as recorded in the current calendar year divided by earned premiums.
Expense ratio
The expense ratio is the ratio of underwriting expenses, excluding bad debt expense, to earned premiums. Underwriting expenses include the amortization of deferred policy acquisition costs and insurance operating costs and expenses. Deferred policy acquisition costs include commissions, taxes, licenses and fees and other underwriting expenses and are amortized over the policy term.
Policyholder dividend ratio
The policyholder dividend ratio is the ratio of policyholder dividends to earned premium.
Combined ratio
The combined ratio is the sum of the loss and loss adjustment expense ratio, the expense ratio and the policyholder dividend ratio. This ratio is a relative measurement that describes the related cost of losses and expenses for every $100 of earned premiums. A combined ratio below 100.0 demonstrates underwriting profit; a combined ratio above 100.0 demonstrates underwriting losses.
Catastrophe ratio
The catastrophe ratio (a component of the loss and loss adjustment expense ratio) represents the ratio of catastrophe losses (net of reinsurance) to earned premiums. By their nature, catastrophe losses vary dramatically from year to year. Based on the mix and geographic dispersion of premium written and estimates derived from various catastrophe loss models, the Company s expected catastrophe ratio over the long-term is 3.0 to 3.5 points. See Risk Management Strategy below for a discussion of the Company s catastrophe risk management program that serves to mitigate the Company s net exposure to catastrophe losses. Catastrophe losses used to calculate the catastrophe ratio do not include the effect of reinstatement premiums or assessments.
Combined ratio before catastrophes and prior accident year development
The combined ratio before catastrophes and prior accident year development represents the combined ratio for the current accident year, excluding the impact of catastrophes. The Company believes this ratio is an important measure of the trend in profitability since it removes the impact of volatile and unpredictable catastrophe losses and prior accident year reserve development.
Underwriting results
Underwriting results is a before-tax measure that represents earned premiums less incurred losses, loss adjustment expenses, underwriting expenses and policyholder dividends. The Hartford believes that underwriting results provides investors with a valuable measure of before-tax profitability derived from underwriting activities, which are managed separately from the Company s investing activities. Within Ongoing Operations, the underwriting segments of Personal Lines, Small Commercial, Middle Market and Specialty Commercial are evaluated by management primarily based upon underwriting results. Underwriting results is also presented for Ongoing Operations and Other Operations. A reconciliation of underwriting results to net income for Ongoing Operations and Other Operations is set forth in their respective discussions herein.
Investment yield
The investment yield, or return, on the Company s invested assets primarily includes interest income on fixed maturity investments. Based upon the fair value of Property & Casualty s investments as of December 31, 2008 and 2007, approximately 82% and 89%, respectively, of invested assets were held in fixed maturities. A number of factors affect the yield on fixed maturity investments, including fluctuations in interest rates and the level of prepayments. The Company also invests in equity securities, mortgage loans, limited partnership arrangements and other alternative investments.
Property & Casualty s insurance business has been written by a number of writing companies that, under a pooling arrangement, participate in the Hartford Fire Insurance Pool, the lead company of which is the Hartford Fire Insurance Company (Hartford Fire).

Property & Casualty maintains one portfolio of invested assets for all business written by the Hartford Fire Insurance Pool companies, including business reported in both the Ongoing Operations and Other Operations segments. Separate investment portfolios are maintained within Other Operations for the runoff of international assumed reinsurance claims and for the runoff business of Heritage Holdings, Inc., including its subsidiaries, Excess Insurance Company Ltd., First State Insurance Company and Heritage Reinsurance Company, Ltd. Within the Hartford Fire Insurance Pool, invested assets are attributed to Ongoing Operations and Other Operations pursuant to the Company s capital attribution process.

The Hartford attributes capital to each line of business or segment using an internally-developed, risk-based capital attribution methodology that incorporates management s assessment of the relative risks within each line of business or segment, as well as the capital requirements of external parties, such as regulators and rating agencies. Net investment income earned on the Hartford Fire invested asset portfolio is allocated between Ongoing Operations and Other Operations based on the allocation of invested assets to each segment and the expected investment yields earned by each segment. Net investment income earned on the separate portfolios within Other Operations is recorded entirely within Other Operations. Based on the Company s method of allocating net investment income for the Hartford Fire Insurance Pool and the net investment income earned by Other Operations on its separate investment portfolios, in 2008, the after-tax investment yield for Ongoing Operations was 3.2% and the after-tax investment yield for Other Operations was 3.6%.

Net realized capital gains (losses)
When fixed maturity, equity or other investments are sold, any gain or loss is reported in net realized capital gains (losses). Individual securities may be sold for a variety of reasons, including a decision to change the Company s asset allocation in response to market conditions and the need to liquidate funds to meet large claim settlements. Accordingly, net realized capital gains (losses) for any particular period are not predictable and can vary significantly. In addition, net realized capital gains (losses) include other-than-temporary impairments in the fair value of investments, changes in the fair value of non-qualifying derivatives and hedge ineffectiveness on qualifying derivative instruments. Refer to the Investment section of MD&A for further discussion of net investment income and net realized capital gains (losses).

Reserves

Reserving for property and casualty losses is an estimation process. As additional experience and other relevant claim data become available, reserve levels are adjusted accordingly. Such adjustments of reserves related to claims incurred in prior years are a natural occurrence in the loss reserving process and are referred to as reserve development . Reserve development that increases previous estimates of ultimate cost is called reserve strengthening . Reserve development that decreases previous estimates of ultimate cost is called reserve releases . Reserve development can influence the comparability of year over year underwriting results and is set forth in the paragraphs and tables that follow. The prior accident year development (pts.) in the following table represents the ratio of reserve development to earned premiums. For a detailed discussion of the Company s reserve policies, see Notes 1, 11 and 12 of Notes to Consolidated Financial Statements and the Critical Accounting Estimates section of the MD&A.

Based on the results of the quarterly reserve review process, the Company determines the appropriate reserve adjustments, if any, to record. Recorded reserve estimates are changed after consideration of numerous factors, including but not limited to, the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indications in the period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to more mature accident years and less volatile lines of business. For information regarding reserving for asbestos and environmental claims within Other Operations, refer to the Other Operations segment discussion.

As part of its quarterly reserve review process, the Company is closely monitoring reported loss development in certain lines where the recent emergence of paid losses and case reserves could indicate a trend that may eventually lead the Company to change its estimate of ultimate losses in those lines. If, and when, the emergence of reported losses is determined to be a trend that changes the Company s estimate of ultimate losses, prior accident year reserves would be adjusted in the period the change in estimate is made.

For example, the Company has experienced favorable emergence of reported workers compensation claims for recent accident years and, during 2008, released workers compensation reserves in Small Commercial and Middle Market by a total of $156, primarily related to accident years 2000 to 2007. If reported losses on workers compensation claims for recent accident years continue to emerge favorably, reserves could be reduced further.

The Company has also seen favorable emergence during 2008 on Personal Lines auto liability claims. The severity of reported claims for the 2005 through 2007 accident years and the frequency of reported claims for the 2008 accident year have been lower than expected and reserves were released in the third and fourth quarter of 2008 as a result. If these favorable trends continue, future releases are possible.

The Company expects to perform its regular reviews of asbestos liabilities in the second quarter of 2009, Other Operations reinsurance recoverables and the allowance for uncollectible reinsurance in the second quarter of 2009 and environmental liabilities in the third quarter of 2009. If there are significant developments that affect particular exposures, reinsurance arrangements or the financial conditions of particular reinsurers, the Company will make adjustments to its reserves, or the portion of liabilities it expects to cede to reinsurers.

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A rollforward of liabilities for unpaid losses and loss adjustment expenses by segment for Property & Casualty for the year ended December 31, 2008 follows:

For the year ended December 31, 2008

	Personal Lines	Small Commercial	Middle Market	Specialty Commercial	Ongoing Operations	Other Operations	Total P&C
Beginning liabilities for unpaid losses and loss adjustment expenses-gross	**$ 2,042**	**$ 3,470**	**$ 4,697**	**$ 6,873**	**$ 17,082**	**$ 5,071**	**$ 22,153**
Reinsurance and other recoverables	81	177	414	2,316	2,988	934	3,922
Beginning liabilities for unpaid losses and loss adjustment expenses-net	**1,961**	**3,293**	**4,283**	**4,557**	**14,094**	**4,137**	**18,231**
Provision for unpaid losses and loss adjustment expenses							
Current accident year before catastrophes	2,542	1,447	1,460	941	6,390		6,390
Current accident year catastrophes	258	122	116	47	543		543
Prior accident years	(51)	(89)	(134)	(81)	(355)	129	(226)
Total provision for unpaid losses and loss adjustment expenses	**2,749**	**1,480**	**1,442**	**907**	**6,578**	**129**	**6,707**
Payments	(2,718)	(1,377)	(1,418)	(593)	(6,106)	(485)	(6,591)
Ending liabilities for unpaid losses and loss adjustment expenses-net	**1,992**	**3,396**	**4,307**	**4,871**	**14,566**	**3,781**	**18,347**
Reinsurance and other recoverables	60	176	437	2,110	2,783	803	3,586
Ending liabilities for unpaid losses and loss adjustment expenses-gross	**$ 2,052**	**$ 3,572**	**$ 4,744**	**$ 6,981**	**$ 17,349**	**$ 4,584**	**$ 21,933**
Earned premiums	$ 3,926	$ 2,724	$ 2,299	$ 1,382	$ 10,331	$ 7	$ 10,338
Loss and loss expense paid ratio [1]	69.2	50.5	61.6	42.8	59.1		
Loss and loss expense incurred ratio	70.0	54.3	62.7	65.6	63.7		
Prior accident year development (pts.) [2]	(1.3)	(3.3)	(5.9)	(5.8)	(3.4)		

[1] The loss and loss expense paid ratio represents the ratio of paid losses and loss adjustment expenses to earned premiums.

[2] Prior accident year development (pts) represents the ratio of prior accident year development to earned premiums.

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Current accident year catastrophes

For 2008, net current accident year catastrophe loss and loss adjustment expenses totaled $543, of which $237 related to hurricane Ike. In addition to the $237 of net catastrophe loss and loss adjustment expenses from hurricane Ike, the Company incurred $20 of assessments due to hurricane Ike. The following table shows total current accident year catastrophe impacts in the year ended December 31, 2008:

For the Year Ended December 31, 2008

	Personal Lines	Small Commercial	Middle Market	Specialty Commercial	Ongoing Operations	Other Operations	Total P&C
Gross incurred claim and claim adjustment expenses for current accident year catastrophes	**$ 260**	**$ 124**	**$ 130**	**$ 58**	**$ 572**	**$**	**$ 572**
Ceded claim and claim adjustment expenses for current accident year catastrophes	2	2	14	11	29		29
Net incurred claim and claim adjustment expenses for current accident year catastrophes	**258**	**122**	**116**	**47**	**543**		**543**
Assessments owed to Texas Windstorm Insurance Association due to hurricane Ike	10	7	3		20		20
Reinstatement premium ceded to reinsurers due to hurricane Ike	1				1		1
Total current accident year catastrophe impacts	**$ 269**	**$ 129**	**$ 119**	**$ 47**	**$ 564**	**$**	**$ 564**