ASSURANT INC
Form 10-Q
November 02, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2011

OR

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from to

Assurant, Inc.

(Exact name of registrant as specified in its charter)

Delaware	001-31978	39-1126612
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

One Chase Manhattan Plaza, 41st Floor

New York, New York 10005

(212) 859-7000

(Address, including zip code, and telephone number, including area code, of Registrant s Principal Executive Offices)

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES þ NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See the 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	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ¨ NO þ

The number of shares of the registrant s Common Stock outstanding at October 28, 2011 was 92,108,357.

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ASSURANT, INC.

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2011

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Amounts are presented in United States of America (U.S.) dollars and all amounts are in thousands, except number of shares and per share amounts.

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Assurant, Inc.

Consolidated Balance Sheets (unaudited)

At September 30, 2011 and December 31, 2010

	September 30, 2011	December 31, 2010
	(in thousands except number of shares and per share amounts)	
Assets		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost $9,988,891 in 2011 and $10,009,320 in 2010)	$ 10,978,902	$ 10,612,552
Equity securities available for sale, at fair value (cost $401,225 in 2011 and $452,648 in 2010)	403,098	466,954
Commercial mortgage loans on real estate, at amortized cost	1,307,569	1,320,964
Policy loans	54,565	56,142
Short-term investments	508,375	358,702
Collateral held/pledged under securities agreements	96,080	136,589
Other investments	587,704	567,945
Total investments	13,936,293	13,519,848
Cash and cash equivalents	1,059,523	1,150,516
Premiums and accounts receivable, net	614,277	542,927
Reinsurance recoverables	5,295,502	4,997,316
Accrued investment income	159,470	147,069
Tax receivable	30,691	0
Deferred acquisition costs	2,563,885	2,493,422
Property and equipment, at cost less accumulated depreciation	247,497	267,169
Deferred income taxes, net	0	76,430
Goodwill	639,018	619,779
Value of business acquired	73,372	82,208
Other intangible assets, net	306,387	311,509
Other assets	186,039	188,454
Assets held in separate accounts	1,662,046	2,000,371
Total assets	$ 26,774,000	$ 26,397,018

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Balance Sheets (unaudited)

At September 30, 2011 and December 31, 2010

	September 30, 2011	December 31, 2010
	(in thousands except number of shares and per share amounts)	
Liabilities		
Future policy benefits and expenses	$ 8,217,526	$ 8,105,153
Unearned premiums	5,315,673	5,063,999
Claims and benefits payable	3,485,270	3,351,169
Commissions payable	259,104	275,409
Reinsurance balances payable	87,879	104,333
Funds held under reinsurance	67,696	65,894
Deferred gain on disposal of businesses	139,141	154,493
Obligation under securities agreements	96,449	137,212
Accounts payable and other liabilities	1,442,821	1,339,582
Deferred income taxes, net	13,674	0
Tax payable	0	41,702
Debt	972,249	972,164
Mandatorily redeemable preferred stock	0	5,000
Liabilities related to separate accounts	1,662,046	2,000,371
Total liabilities	21,759,528	21,616,481
Commitments and contingencies (Note 15)		
Stockholders equity		
Common stock, par value $0.01 per share, 800,000,000 shares authorized, 92,926,138 and 102,000,371 shares outstanding at September 30, 2011 and December 31, 2010, respectively	1,458	1,453
Additional paid-in capital	3,016,300	2,993,957
Retained earnings	3,596,751	3,264,025
Accumulated other comprehensive income	524,412	285,524
Treasury stock, at cost; 52,959,178 and 43,344,638 shares at September 30, 2011 and December 31, 2010, respectively	(2,124,449)	(1,764,422)
Total stockholders equity	5,014,472	4,780,537
Total liabilities and stockholders equity	$ 26,774,000	$ 26,397,018

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Statement of Operations (unaudited)

Three and Nine Months Ended September 30, 2011 and 2010

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(in thousands except number of shares and per share amounts)			
Revenues				
Net earned premiums and other considerations	$ 1,777,315	$ 1,832,514	$ 5,307,635	$ 5,589,052
Net investment income	172,176	176,170	517,893	525,380
Net realized gains on investments, excluding other-than- temporary impairment losses	5,079	7,280	27,937	33,705
Total other-than-temporary impairment losses	(4,703)	(924)	(7,848)	(2,803)
Portion of net loss (gain) recognized in other comprehensive income, before taxes	156	(313)	266	(1,234)
Net other-than-temporary impairment losses recognized in earnings	(4,547)	(1,237)	(7,582)	(4,037)
Amortization of deferred gain on disposal of businesses	5,114	6,024	15,353	18,129
Fees and other income	106,578	93,220	300,037	259,892
Total revenues	2,061,715	2,113,971	6,161,273	6,422,121
Benefits, losses and expenses				
Policyholder benefits	998,875	913,253	2,881,582	2,746,565
Amortization of deferred acquisition costs and value of business acquired	370,107	376,850	1,086,720	1,144,151
Underwriting, general and administrative expenses	562,346	581,974	1,685,821	1,757,367
Interest expense	15,078	15,162	45,284	45,484
Total benefits, losses and expenses	1,946,406	1,887,239	5,699,407	5,693,567
Income before provision for income taxes	115,309	226,732	461,866	728,554
Provision for income taxes	39,326	85,062	78,282	264,986
Net income	$ 75,983	$ 141,670	$ 383,584	$ 463,568
Earnings Per Share				
Basic	$ 0.80	$ 1.31	$ 3.91	$ 4.13
Diluted	$ 0.79	$ 1.30	$ 3.88	$ 4.11
Dividends per share	$ 0.18	$ 0.16	$ 0.52	$ 0.47
Share Data				
Weighted average shares outstanding used in basic per share calculations	95,351,601	107,806,207	98,065,082	112,137,558
Plus: Dilutive securities	951,411	778,075	895,630	653,565
Weighted average shares used in diluted per share calculations	96,303,012	108,584,282	98,960,712	112,791,123

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Statement of Stockholders Equity (unaudited)

From December 31, 2010 through September 30, 2011

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
	(in thousands except number of shares and per share amounts)					
Balance, December 31, 2010	$ 1,453	$ 2,993,957	$ 3,264,025	$ 285,524	$ (1,764,422)	$ 4,780,537
Stock plan exercises	5	332	0	0	0	337
Stock plan compensation expense	0	24,974	0	0	0	24,974
Change in tax benefit from share-based payment arrangements	0	(2,963)	0	0	0	(2,963)
Dividends	0	0	(50,858)	0	0	(50,858)
Acquisition of common stock	0	0	0	0	(360,027)	(360,027)
Comprehensive income:						
Net income	0	0	383,584	0	0	383,584
Other comprehensive income:						
Net change in unrealized gains on securities, net of taxes of $(124,596)	0	0	0	244,435	0	244,435
Net change in other-than- temporary impairment gains recognized in other comprehensive income, net of taxes of $(1,981)	0	0	0	3,679	0	3,679
Net change in foreign currency translation, net of taxes of $3,651	0	0	0	(17,278)	0	(17,278)
Amortization of pension and postretirement unrecognized net periodic benefit cost, net of taxes of $(4,347)	0	0	0	8,052	0	8,052
Total other comprehensive income	0	0	0	0	0	238,888
Total comprehensive income	0	0	0	0	0	622,472
Balance, September 30, 2011	$ 1,458	$ 3,016,300	$ 3,596,751	$ 524,412	$ (2,124,449)	$ 5,014,472

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Consolidated Statement of Cash Flows (unaudited)

Nine Months Ended September 30, 2011 and 2010

	Nine Months Ended September 30,	
	2011	2010
	(in thousands)	
Net cash provided by operating activities	$ 509,691	$ 465,461
Investing activities		
Sales of:		
Fixed maturity securities available for sale	1,183,324	1,437,872
Equity securities available for sale	71,798	66,985
Property and equipment and other	2,565	118
Maturities, prepayments, and scheduled redemption of:		
Fixed maturity securities available for sale	749,210	567,337
Purchases of:		
Fixed maturity securities available for sale	(1,908,896)	(2,206,168)
Equity securities available for sale	(33,326)	(19,346)
Property and equipment and other	(25,153)	(42,100)
Subsidiary, net of cash transferred	(45,080)	(7,162)
Change in commercial mortgage loans on real estate	12,591	56,934
Change in short-term investments	(155,564)	1,655
Change in other invested assets	(24,900)	(41,415)
Change in policy loans	1,489	(229)
Change in collateral held under securities lending	26,483	85,031
Net cash used in investing activities	(145,459)	(100,488)
Financing activities		
Repayment of mandatorily redeemable preferred stock	(5,000)	0
Change in tax benefit from share-based payment arrangements	(2,963)	(6,665)
Acquisition of common stock	(364,943)	(369,159)
Dividends paid	(50,858)	(52,702)
Change in obligation under securities lending	(26,482)	(85,031)
Change in receivables under securities loan agreements	14,370	0
Change in obligations to return borrowed securities	(14,281)	0
Net cash used in financing activities	(450,157)	(513,557)
Effect of exchange rate changes on cash and cash equivalents	(5,068)	(1,661)
Change in cash and cash equivalents	(90,993)	(150,245)
Cash and cash equivalents at beginning of period	1,150,516	1,318,552
Cash and cash equivalents at end of period	$ 1,059,523	$ 1,168,307

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Nine Months Ended September 30, 2011 and 2010

(In thousands, except number of shares and per share amounts)

1. Nature of Operations

Assurant, Inc. (the Company) is a holding company whose subsidiaries provide specialized insurance products and related services in North America and select worldwide markets.

The Company is traded on the New York Stock Exchange under the symbol AIZ.

Through its operating subsidiaries, the Company provides debt protection administration, credit-related insurance, warranties and service contracts, pre-funded funeral insurance, lender-placed homeowners insurance, manufactured housing homeowners insurance, individual health and small employer group health insurance, group dental insurance, group disability insurance, and group life insurance.

2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information. Accordingly, these statements do not include all of the information and footnotes required by GAAP for complete financial statements.

The interim financial data as of September 30, 2011 and for the three and nine months ended September 30, 2011 and 2010 is unaudited; in the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary to a fair statement of the results for the interim periods. The unaudited interim consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All inter-company transactions and balances are eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the 2011 presentation.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, and the rules and regulations thereunder (together, the Affordable Care Act) was signed into law in March 2010. One provision of the Affordable Care Act, effective January 1, 2011, established a minimum medical loss ratio (MLR) designed to ensure that a minimum level of benefits are paid to health insurance policyholders. The Affordable Care Act established an MLR of 80% for individual and small group business and 85% for large group business. If the actual loss ratios, calculated in a manner prescribed by the Department of Health and Human Services (HHS), are less than the required MLR, rebates are payable to the policyholders by August 1 of the subsequent year. For additional information, please refer to Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates in Item 2 contained elsewhere in this report.

Operating results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

3. Recent Accounting Pronouncements

Recent Accounting Pronouncements Adopted

On January 1, 2011, the Company adopted the guidance on multiple deliverable revenue arrangements. This guidance requires entities to use their best estimate of the selling price of a deliverable within a multiple deliverable revenue arrangement if the entity and other entities do not sell the deliverable separate from the other deliverables within the arrangement. In addition, it requires both qualitative and quantitative disclosures. The adoption of this guidance did not have an impact on the Company s financial position or results of operations.

Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Nine Months Ended September 30, 2011 and 2010

(In thousands, except number of shares and per share amounts)

Recent Accounting Pronouncements Not Yet Adopted

In September 2011, the Financial Accounting Standards Board (FASB) issued amendments to the intangibles goodwill and other guidance to allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments include a number of events and circumstances for an entity to consider in conducting the qualitative assessment. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company chose to early adopt the revised standard as of October 1, 2011 and will apply the amended guidance to its fourth quarter annual test. The amended guidance results in a change in the procedures for assessing goodwill impairment and will not have an impact on the Company s financial position and results of operations.

In July 2011, the FASB issued amendments to the other expenses guidance to address how health insurers should recognize and classify in their income statements fees mandated by the Affordable Care Act. The Affordable Care Act imposes an annual fee on health insurers for each calendar year beginning on or after January 1, 2014. The amendments specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense ratably over the calendar year during which it is payable. The guidance is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. Therefore, the Company is required to adopt this guidance on January 1, 2014. The Company is currently evaluating the requirements of the amendments and the potential impact on the Company s financial position and results of operations.

In June 2011, the FASB issued amendments to the comprehensive income guidance to provide two alternatives for presenting comprehensive income. An entity can report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Each component of net income and each component of other comprehensive income, together with totals for comprehensive income and its two parts, net income and other comprehensive income, are displayed under either alternative. The statement(s) are to be presented with equal prominence as the other primary financial statements. The amendments eliminate the Company s currently applied option to report other comprehensive income and its components in the statement of changes in stockholders equity. The guidance will not change the items that constitute net income or other comprehensive income, and will not change when an item of other comprehensive income must be reclassified to net income. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Therefore, the Company is required to adopt this guidance on January 1, 2012. Early adoption is permitted, but full retrospective application is required. The Company is currently evaluating which alternative to choose; however, the new presentation requirements will not have an impact on the Company s financial position or results of operations.

In May 2011, the FASB issued amendments to existing guidance on fair value measurement to achieve common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (IFRS). Consequently, the amendments change the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments to result in a change in the application of the requirements in the fair value accounting guidance. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Therefore, the Company is required to adopt this guidance on January 1, 2012. The amendments are to be applied prospectively. The Company is currently evaluating the requirements of the amendments and the potential impact on the Company s financial position and results of operations.

In October 2010, the FASB issued amendments to existing guidance on accounting for costs associated with acquiring or renewing insurance contracts. The amendments modify the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. Under this amended guidance, acquisition costs are defined as costs that are directly related to the successful acquisition of new or renewal insurance contracts. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. Therefore, the Company is required to adopt this guidance on January 1, 2012. Prospective application as of the date of adoption is required, however, retrospective application to all prior periods presented upon the date of adoption is permitted, but not required. We expect to adopt the guidance retrospectively. This will result in a reduction in our deferred acquisition cost asset. It will also cause an increase in our liability for future policy benefits and expenses for certain preneed policies whose reserves are calculated utilizing deferred acquisition costs. There will also be a decrease in the amortization associated with the previously deferred acquisition costs. We are evaluating the full effects of implementing the amended guidance, but we currently estimate that the cumulative effect adjustment that will result from our retrospective adoption will reduce the opening balance of retained earnings between $140,000 and $150,000 in the year of adoption,

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Nine Months Ended September 30, 2011 and 2010

(In thousands, except number of shares and per share amounts)

net of the related tax benefit. This estimate is preliminary in nature and the actual amount of the reduction may be above or below the range. We currently estimate the adoption of these amendments will result in immaterial changes in net income in 2011 and in the years preceding 2011 to which the retrospective adoption will be applied. The amendments are generally more restrictive with regard to which costs can be deferred and may impact the pattern of reported income for certain products. We are still assessing the impact on future periods, but because of our overall mix of business we do not currently expect the amendments to cause material changes to net income.

4. Business Combinations

On June 21, 2011, in an all cash transaction, the Company acquired the SureDeposit business, the leading provider of security deposit alternatives to the multifamily housing industry, for $45,080. In connection with the acquisition, the Company recorded $25,350 of intangible assets, all of which are amortizable, and $19,608 of goodwill. The primary factor contributing to the recognition of goodwill is the future expected growth of this business. This acquisition expands the multifamily housing product offering and associated cross-selling opportunities with existing clients for the Assurant Specialty Property segment.

5. Investments

The following tables show the cost or amortized cost, gross unrealized gains and losses, fair value and other-than-temporary impairment (OTTI) of our fixed maturity and equity securities as of the dates indicated:

	September 30, 2011				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI (1)
Fixed maturity securities:					
United States Government and government agencies and authorities	$ 130,760	$ 9,466	$ (291)	$ 139,935	$ 0
States, municipalities and political subdivisions	822,875	87,747	(327)	910,295	0
Foreign governments	630,990	62,349	(1,358)	691,981	0
Asset-backed	32,585	2,264	(173)	34,676	1,114
Commercial mortgage-backed	84,318	5,407	(167)	89,558	0
Residential mortgage-backed	853,348	62,087	(1,644)	913,791	8,512
Corporate	7,434,015	828,679	(64,028)	8,198,666	15,367
Total fixed maturity securities	$ 9,988,891	$ 1,057,999	$ (67,988)	$ 10,978,902	$ 24,993
Equity securities:					
Common stocks	$ 12,808	$ 838	$ (330)	$ 13,316	$ 0
Non-redeemable preferred stocks	388,417	29,905	(28,540)	389,782	0
Total equity securities	$ 401,225	$ 30,743	$ (28,870)	$ 403,098	$ 0

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Nine Months Ended September 30, 2011 and 2010

(In thousands, except number of shares and per share amounts)

	December 31, 2010				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI (1)
Fixed maturity securities:					
United States Government and government agencies and authorities	$ 244,659	$ 6,050	$ (1,198)	$ 249,511	$ 0
States, municipalities and political subdivisions	829,923	39,568	(4,657)	864,834	0
Foreign governments	617,164	32,789	(1,418)	648,535	0
Asset-backed	39,310	2,524	(84)	41,750	1,016
Commercial mortgage-backed	102,312	4,670	(11)	106,971	0
Residential mortgage-backed	764,884	36,842	(4,998)	796,728	4,741
Corporate	7,411,068	541,720	(48,565)	7,904,223	13,576
Total fixed maturity securities	$ 10,009,320	$ 664,163	$ (60,931)	$ 10,612,552	$ 19,333
Equity securities:					
Common stocks	$ 5,545	$ 1,029	$ (8)	$ 6,566	$ 0
Non-redeemable preferred stocks	447,103	32,238	(18,953)	460,388	0
Total equity securities	$ 452,648	$ 33,267	$ (18,961)	$ 466,954	$ 0

(1) Represents the amount of OTTI gains in accumulated other comprehensive income (AOCI), which, from April 1, 2009, were not included in earnings under the OTTI guidance for debt securities.

Our states, municipalities and political subdivisions holdings are highly diversified across the United States and Puerto Rico, with no individual state s exposure (including both general obligation and revenue securities) exceeding 0.5% of the overall investment portfolio as of September 30, 2011 and December 31, 2010. At September 30, 2011 and December 31, 2010, the securities include general obligation and revenue bonds issued by states, cities, counties, school districts and similar issuers, including $162,292 and $154,742, respectively, of advance refunded or escrowed-to-maturity bonds (collectively referred to as pre-refunded bonds), which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest. As of September 30, 2011 and December 31, 2010, revenue bonds account for 51% and 48% of the holdings, respectively. Excluding pre-refunded bonds, sales tax, highway, water, transit and miscellaneous (which includes bond banks, finance authorities and appropriations) provide for 79% and 80% of the revenue sources, as of September 30, 2011 and December 31, 2010, respectively.

The Company s investments in foreign government fixed maturity securities are held mainly in countries and currencies where the Company has policyholder liabilities, which allow the assets and liabilities to be more appropriately matched. At September 30, 2011, approximately 60%, 14%, and 8% of the foreign government securities were held in the Canadian government/provincials and the governments of Brazil and Germany, respectively. At December 31, 2010, approximately 60%, 11%, 7%, and 6% of the foreign government securities were held in the Canadian government/provincials, and the governments of Brazil, Germany and the United Kingdom, respectively. No other country represented more than 5% of our foreign government securities as of September 30, 2011 and December 31, 2010.

The cost or amortized cost and fair value of fixed maturity securities at September 30, 2011 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Nine Months Ended September 30, 2011 and 2010

(In thousands, except number of shares and per share amounts)

	Cost or Amortized Cost	Fair Value
Due in one year or less	$ 467,219	$ 474,761
Due after one year through five years	1,965,019	2,074,567
Due after five years through ten years	2,341,384	2,516,196
Due after ten years	4,245,018	4,875,353
Total	9,018,640	9,940,877
Asset-backed	32,585	34,676
Commercial mortgage-backed	84,318	89,558
Residential mortgage-backed	853,348	913,791
Total	$ 9,988,891	$ 10,978,902

The following table summarizes the proceeds from sales of available-for-sale securities and the gross realized gains and gross realized losses that have been included in earnings as a result of those sales.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Proceeds from sales	$ 332,490	$ 520,567	$ 1,280,982	$ 1,505,701
Gross realized gains	14,018	18,846	42,453	50,258
Gross realized losses	5,705	1,689	15,012	6,095

The following table sets forth the net realized gains (losses), including OTTI, recognized in the statement of operations as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net realized gains (losses) related to sales and other:				
Fixed maturity securities	$ 13,036	$ 14,950	$ 33,941	$ 40,579
Equity securities	(4,719)	2,239	(4,808)	4,980
Commercial mortgage loans on real estate	0	(9,000)	0	(15,772)
Other investments	(3,238)	(909)	(1,196)	3,918
Total net realized gains related to sales and other	5,079	7,280	27,937	33,705
Net realized losses related to other-than-temporary impairments:				

Fixed maturity securities	(4,547)	(1,055)	(7,561)	(3,544)
Equity securities	0	(182)	(21)	(493)
Total net realized losses related to other-than-temporary impairments	(4,547)	(1,237)	(7,582)	(4,037)
Total net realized gains	$ 532	$ 6,043	$ 20,355	$ 29,668

Other-Than-Temporary Impairments

The Company adopted the OTTI guidance, which requires entities to separate an OTTI of a debt security into two components when there are credit related losses associated with the impaired debt security for which the Company asserts that it does not have the intent to sell, and it is more likely than not that it will not be required to sell before recovery of its cost basis. Under the OTTI guidance, the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other, non-credit, factors (e.g. interest rates and market conditions) is recorded as a component of other comprehensive income. In instances where no credit loss exists but the Company intends to sell the security or it is more likely than not that the Company will have to sell

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the debt security prior to the anticipated recovery, the decline in market value below amortized cost is recognized as an OTTI in earnings. In periods after the recognition of an OTTI on debt securities, the Company accounts for such securities as if they had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. For debt securities for which OTTI was recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted or amortized into net investment income.

For the three and nine months ended September 30, 2011, the Company recorded $4,703 and $7,848, respectively, of OTTI, of which $4,547 and $7,582, respectively, was related to credit losses and recorded as net OTTI losses recognized in earnings, with the remaining $156 and $266, respectively, related to all other factors and recorded as an unrealized loss component of AOCI. For the three and nine months ended September 30, 2010, the Company recorded $924 and $2,803, respectively, of OTTI, of which $1,237 and $4,037, respectively, was related to credit losses and recorded as net OTTI losses recognized in earnings, with the remaining $(313) and $(1,234), respectively, related to all other factors and recorded as an unrealized gain component of AOCI.

The following tables set forth the amount of credit loss impairments recognized within the results of operations on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in AOCI, and the corresponding changes in such amounts.

	2011	2010
Balance, June 30,	$ 105,634	$ 105,762
Additions for credit loss impairments recognized in the current period on securities not previously impaired	0	9
Additions for credit loss impairments recognized in the current period on securities previously impaired	9	694
Reductions for securities which the amount previously recognized in other comprehensive income was recognized in earnings because the entity intends to sell the security	0	(116)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(202)	(3)
Reductions for credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(1,895)	(2,227)
Balance, September 30,	$ 103,546	$ 104,119

	2011	2010
Balance, January 1,	$ 105,245	$ 108,053
Additions for credit loss impairments recognized in the current period on securities not previously impaired	1,455	494
Additions for credit loss impairments recognized in the current period on securities previously impaired	1,567	2,698
Reductions for securities which the amount previously recognized in other comprehensive income was recognized in earnings because the entity intends to sell the security	0	(116)
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(470)	(287)
Reductions for credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(4,251)	(6,723)

Balance, September 30,	$ 103,546	$ 104,119

We regularly monitor our investment portfolio to ensure investments that may be other-than-temporarily impaired are identified in a timely fashion, properly valued, and charged against earnings in the proper period. The determination that a security has incurred an other-than-temporary decline in value requires the judgment of management. Assessment factors include, but are not limited to, the length of time and the extent to which the market value has been less than cost, the financial condition and rating of the issuer, whether any collateral is held, the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery for equity securities and the intent to sell or whether it is more likely than not that the Company will be required to sell the fixed maturity securities. Inherently, there are risks and uncertainties involved in making these judgments. Changes in circumstances and critical assumptions such as a continued weak economy, a more pronounced economic downturn or unforeseen events which affect one or more companies, industry sectors, or countries could result in additional impairments in future periods for other-than-temporary declines in value. Any equity security whose price decline is deemed other-than-temporary is written down to its then

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current market value with the amount of the impairment reported as a realized loss in that period. The impairment of a fixed maturity security that the Company has the intent to sell or that it is more likely than not that the Company will be required to sell is deemed other-than-temporary and is written down to its market value at the balance sheet date with the amount of the impairment reported as a realized loss in that period. For all other-than-temporarily impaired fixed maturity securities that do not meet either of these two criteria, the Company is required to analyze its ability to recover the amortized cost of the security by calculating the net present value of projected future cash flows. For these other-than-temporarily impaired fixed maturity securities, the net amount recognized in earnings is equal to the difference between the amortized cost of the fixed maturity security and its net present value.

The Company considers different factors to determine the amount of projected future cash flows and discounting methods for corporate debt and residential and commercial mortgage-backed or asset-backed securities. For corporate debt securities, the split between the credit and non-credit losses is driven principally by assumptions regarding the amount and timing of projected future cash flows. The net present value is calculated by discounting the Company s best estimate of projected future cash flows at the effective interest rate implicit in the security at the date of acquisition. For residential and commercial mortgage-backed and asset-backed securities, cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral including default rates, recoveries and changes in value. The net present value is calculated by discounting the Company s best estimate of projected future cash flows at the effective interest rate implicit in the fixed maturity security prior to impairment at the balance sheet date. The discounted cash flows become the new amortized cost basis of the fixed maturity security.

In periods subsequent to the recognition of an OTTI, the Company generally accretes the discount (or amortizes the reduced premium) into net investment income, up to the non-discounted amount of projected future cash flows, resulting from the reduction in cost basis, based upon the amount and timing of the expected future cash flows over the estimated period of cash flows.

Realized gains and losses on sales of investments are recognized on the specific identification basis.

The investment category and duration of the Company s gross unrealized losses on fixed maturity securities and equity securities at September 30, 2011 and December 31, 2010 were as follows:

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	September 30, 2011					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
United States Government and government agencies and authorities	$ 7,033	$ (291)	$ 0	$ 0	$ 7,033	$ (291)
States, municipalities and political subdivisions	0	0	5,474	(327)	5,474	(327)
Foreign governments	9,982	(2)	9,728	(1,356)	19,710	(1,358)
Asset-backed	2,771	(173)	0	0	2,771	(173)
Commercial mortgage-backed	18,663	(167)	0	0	18,663	(167)
Residential mortgage-backed	49,182	(1,602)	1,367	(42)	50,549	(1,644)
Corporate	1,018,259	(42,997)	159,390	(21,031)	1,177,649	(64,028)
Total fixed maturity securities	$ 1,105,890	$ (45,232)	$ 175,959	$ (22,756)	$ 1,281,849	$ (67,988)
Equity securities:						
Common stocks	$ 5,416	$ (330)	$ 0	$ 0	$ 5,416	$ (330)
Non-redeemable preferred stocks	60,931	(6,304)	95,386	(22,236)	156,317	(28,540)
Total equity securities	$ 66,347	$ (6,634)	$ 95,386	$ (22,236)	$ 161,733	$ (28,870)

	December 31, 2010					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
United States Government and government agencies and authorities	$ 105,597	$ (1,198)	$ 0	$ 0	$ 105,597	$ (1,198)
States, municipalities and political subdivisions	136,578	(3,520)	10,743	(1,137)	147,321	(4,657)
Foreign governments	97,725	(538)	9,902	(880)	107,627	(1,418)
Asset-backed	2,865	(84)	0	0	2,865	(84)
Commercial mortgage-backed	4,754	(11)	0	0	4,754	(11)
Residential mortgage-backed	168,942	(4,907)	1,982	(91)	170,924	(4,998)
Corporate	753,340	(21,674)	310,107	(26,891)	1,063,447	(48,565)
Total fixed maturity securities	$ 1,269,801	$ (31,932)	$ 332,734	$ (28,999)	$ 1,602,535	$ (60,931)
Equity securities:						
Common stocks	$ 479	$ (8)	$ 0	$ 0	$ 479	$ (8)
Non-redeemable preferred stocks	46,336	(2,791)	146,361	(16,162)	192,697	(18,953)

Total equity securities	$ 46,815	$ (2,799)	$ 146,361	$ (16,162)	$ 193,176	$ (18,961)

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Total gross unrealized losses represent less than 7% and 5% of the aggregate fair value of the related securities at September 30, 2011 and December 31, 2010, respectively. Approximately 54% and 43% of these gross unrealized losses have been in a continuous loss position for less than twelve months at September 30, 2011 and December 31, 2010, respectively. The total gross unrealized losses are comprised of 474 and 457 individual securities at September 30, 2011 and December 31, 2010, respectively. In accordance with its policy described above, the Company concluded that for these securities an adjustment to its results of operations for other-than-temporary impairments of the gross unrealized losses was not warranted at September 30, 2011 and December 31, 2010. These conclusions are based on a detailed analysis of the underlying credit and expected cash flows of each security. As of September 30, 2011, the gross unrealized losses that have been in a continuous loss position for twelve months or more were concentrated in non-redeemable preferred stocks and in the financial industry of the Company s corporate fixed maturity securities. For these concentrations, gross unrealized losses of twelve months or more were $40,016, or 89%, of the total. The non-redeemable preferred stocks are perpetual preferred securities that have characteristics of both debt and equity securities. To evaluate these securities, we apply an impairment model similar to that used for our fixed maturity securities. As of September 30, 2011, the Company did not intend to sell these securities and it was not more likely than not that the Company would be required to sell them and no underlying cash flow issues were noted. Therefore, we did not recognize an OTTI on those perpetual preferred securities that had been in a continuous unrealized loss position for twelve months or more. As of September 30, 2011, the Company did not intend to sell the corporate fixed maturity securities and it was not more likely than not that the Company would be required to sell the securities before the anticipated recovery of their amortized cost basis. The gross unrealized losses are primarily attributable to widening credit spreads associated with an underlying shift in overall credit risk premium.

The Company has made commercial mortgage loans, collateralized by the underlying real estate, on properties located throughout the U.S. and Canada. At September 30, 2011, approximately 40% of the outstanding principal balance of commercial mortgage loans was concentrated in the states of California, New York, and Washington. Although the Company has a diversified loan portfolio, an economic downturn could have an adverse impact on the ability of its debtors to repay their loans. The outstanding balance of commercial mortgage loans range in size from $10 to $16,369 at September 30, 2011 and from $5 to $16,614 at December 31, 2010.

Credit quality indicators for commercial mortgage loans are loan-to-value and debt-service coverage ratios. Loan-to-value and debt-service coverage ratios are measures commonly used to assess the credit quality of commercial mortgage loans. The loan-to-value ratio compares the principal amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. The debt-service coverage ratio compares a property s net operating income to its debt-service payments and is commonly expressed as a ratio of one. The loan-to-value and debt-service coverage ratios are generally updated annually in the third quarter. The following summarizes our loan-to value and average debt-service coverage ratios as of the dates indicated:

	September 30, 2011		
Loan-to-Value	**Carrying Value**	**% of Gross Mortgage Loans**	**Debt-Service Coverage ratio**
70% and less	$ 1,011,595	76.8%	2.10
71 80%	186,085	14.1%	1.38
81 95%	76,714	5.8%	1.16
Greater than 95%	43,921	3.3%	0.80
Gross commercial mortgage loans	1,318,315	100.0%	1.90

Less valuation allowance	(10,746)
Net commercial mortgage loans	$ 1,307,569

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	December 31, 2010		
Loan-to-Value	Carrying Value	% of Gross Mortgage Loans	Debt-Service Coverage ratio
70% and less	$ 902,271	66.6%	2.03
71 80%	217,282	16.1%	1.41
81 95%	147,493	10.9%	1.25
Greater than 95%	86,756	6.4%	0.94
Gross commercial mortgage loans	1,353,802	100.0%	1.78
Less valuation allowance	(32,838)		
Net commercial mortgage loans	$ 1,320,964		

All commercial mortgage loans that are individually impaired have an established mortgage loan valuation allowance for losses. Changing economic conditions affect our valuation of commercial mortgage loans. Changing vacancies and rents are incorporated into the discounted cash flow analysis that we perform for monitored loans and may contribute to the establishment of (or an increase or decrease in) a commercial mortgage loan valuation allowance for losses. In addition, we continue to monitor the entire commercial mortgage loan portfolio to identify risk. Areas of emphasis are properties that have exposure to earthquakes, have deteriorating credits or have experienced a reduction in debt-service coverage ratio. Where warranted, we have established or increased a valuation allowance based upon this analysis.

The commercial mortgage loan valuation allowance for losses was $10,746 and $32,838 at September 30, 2011 and December 31, 2010, respectively. In 2010, an overall expense of $16,709 was recorded primarily to increase the valuation allowance on one individually impaired commercial mortgage loan with a loan valuation allowance of $22,092 and a net loan value of $0 at December 31, 2010. In 2011, the loan valuation allowance was decreased by $22,092 due to the direct write down of the same individually impaired mortgage loan. This resulted in no impact to realized capital gains and losses on commercial mortgage loans.

Collateralized Transactions

The Company engages in transactions in which fixed maturity securities, especially bonds issued by the U.S. government, government agencies and authorities, and U.S. corporations, are loaned to selected broker/dealers. Collateral, greater than or equal to 102% of the fair value of the securities lent, plus accrued interest, is received in the form of cash and cash equivalents held by a custodian bank for the benefit of the Company. The use of cash collateral received is unrestricted. The Company reinvests the cash collateral received, generally in investments of high credit quality that are designated as available-for-sale. The Company monitors the fair value of securities loaned and the collateral received, with additional collateral obtained, as necessary. The Company is subject to the risk of loss to the extent there is a loss on the re-investment of cash collateral.

As of September 30, 2011 and December 31, 2010, our collateral held under securities lending, of which its use is unrestricted, was $96,080 and $122,219, respectively, and is included in the consolidated balance sheets under the collateral held/pledged under securities agreements caption. Our liability to the borrower for collateral received was $96,449 and $122,931, respectively, and is included in the consolidated balance sheets under the obligation under securities agreements caption. The difference between the collateral held and obligations under securities lending is recorded as an unrealized loss and is included as part of AOCI. All securities with unrealized losses have been in a continuous loss position for twelve months or longer as of September 30, 2011 and December 31, 2010. The Company has actively reduced the size of its securities lending to mitigate counter-party exposure. The Company includes the available-for-sale investments purchased with the cash collateral in its evaluation of other-than-temporary impairments.

Cash proceeds that the Company receives as collateral for the securities it lends and subsequent repayment of the cash are regarded by the Company as cash flows from financing activities, since the cash received is considered a borrowing. Since the Company reinvests the cash collateral generally in investments that are designated as available-for-sale, the reinvestment is presented as cash flows from investing activities.

The Company has engaged in transactions in which securities issued by the U.S. government and government agencies and authorities are purchased under agreements to resell (reverse repurchase agreements). However, as of September 30, 2011, the Company has no open transactions. The Company may take possession of the securities purchased under reverse repurchase agreements. Collateral, greater than or equal to 100% of the fair value of the securities purchased, plus accrued interest, is pledged to

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selected broker/dealers in the form of cash and cash equivalents or other securities, as provided for in the underlying agreement. The use of the cash collateral pledged is unrestricted. Interest earned on the collateral pledged is recorded as investment income. As of December 31, 2010, we had $14,370 of cash pledged under securities loan agreements, which is included in the consolidated balance sheets under the obligation under the collateral held/pledged under securities agreements caption.

The Company entered into these reverse repurchase agreements in order to initiate short positions in its investment portfolio. The borrowed securities are sold to a third party in the marketplace. The Company records obligations to return the securities that we no longer hold. The financial liabilities resulting from these borrowings are carried at fair value with the changes in value reported as realized gains or losses. As of December 31, 2010, we had $14,281 of obligations to return borrowed securities, which is included in the consolidated balance sheets under the obligation under securities agreements caption.

Cash payments for the collateral pledged, subsequent cash adjustments to receivables under securities loan agreements and obligations to return borrowed securities, and the return of the cash collateral from the secured parties is regarded by the Company as cash flows from financing activities, since the cash payments and receipts relate to borrowing of securities under a financing arrangement.

6. Fair Value Disclosures

Fair Values, Inputs and Valuation Techniques for Financial Assets and Liabilities Disclosures

The fair value measurements and disclosures guidance defines fair value and establishes a framework for measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In accordance with this guidance, the Company has categorized its recurring basis financial assets and liabilities into a three-level fair value hierarchy based on the priority of the inputs to the 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). The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The levels of the fair value hierarchy are described below:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly, for substantially the full term of the asset. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active and inputs other than quoted prices that are observable in the marketplace for the asset. The observable inputs are used in valuation models to calculate the fair value for the asset.

- Level 3 inputs are unobservable but are significant to the fair value measurement for the asset, and include situations where there is little, if any, market activity for the asset. These inputs reflect management s own assumptions about the assumptions a market participant would use in pricing the asset.

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The following tables present the Company s fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of September 30, 2011 and December 31, 2010. The amounts presented below for Collateral held/pledged under securities agreements, Other investments, Cash equivalents, Other assets, Assets and Liabilities held in separate accounts, Obligation under securities agreements and Other liabilities differ from the amounts presented in the consolidated balance sheets because only certain investments or certain assets and liabilities within these line items are measured at estimated fair value. Other investments are comprised of investments in the Assurant Investment Plan, American Security Insurance Company Investment Plan, Assurant

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Deferred Compensation Plan, a modified coinsurance arrangement and other derivatives. The fair value amount and the majority of the associated levels presented for Other investments and Assets held in separate accounts are received directly from third parties.

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	September 30, 2011							
Financial Assets	**Total**	**Level 1**		**Level 2**		**Level 3**	
Fixed maturity securities:							
United States Government and government agencies and authorities	$ 139,935	$ 0		$ 135,525		$ 4,410	
State, municipalities and political subdivisions	910,295	0		910,295		0	
Foreign governments	691,981	1,999		667,758		22,224	
Asset-backed	34,676	0		34,198		478	
Commercial mortgage-backed	89,558	0		88,610		948	
Residential mortgage-backed	913,791	0		913,791		0	
Corporate	8,198,666	0		8,054,680		143,986	
Equity securities:							
Common stocks	13,316	12,633		683		0	
Non-redeemable preferred stocks	389,782	0		389,760		22	
Short-term investments	508,375	409,623	b	98,752	c	0	
Collateral held/pledged under securities agreements	71,080	54,731	b	16,349	c	0	
Other investments	267,005	47,059	a	199,574	c	20,372	d
Cash equivalents	800,365	791,242	b	9,123	c	0	
Other assets	8,739	0		832		7,907	e
Assets held in separate accounts	1,601,355	1,390,165	a	211,190	c	0	
Total financial assets	$ 14,638,919	$ 2,707,452		$ 11,731,120		$ 200,347	
Financial Liabilities							
Other liabilities	$ 49,974	$ 47,058	a	$ 52	f	$ 2,864	f
Liabilities related to separate accounts	1,601,355	1,390,165	a	211,190	c	0	
Total financial liabilities	$ 1,651,329	$ 1,437,223		$ 211,242		$ 2,864	

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	December 31, 2010			
Financial Assets	**Total**	**Level 1**	**Level 2**	**Level 3**
Fixed maturity securities:				
United States Government and government agencies and authorities	$ 249,511	$ 0	$ 235,005	$ 14,506
State, municipalities and political subdivisions	864,834	0		