Unum Group
Form 10-K
February 24, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K

(Mark One)

[X] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2008

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to

Commission file number 1-11294

Unum Group

(Exact name of registrant as specified in its charter)

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

1 FOUNTAIN SQUARE

CHATTANOOGA, TENNESSEE 37402

(Address of principal executive offices)

423.294.1011

(Registrant s telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common stock, $0.10 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark 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. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer [X] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

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The aggregate market value of the shares of the registrant s common stock held by non-affiliates (based upon the closing price of these shares on the New York Stock Exchange) as of the last business day of the registrant s most recently completed second fiscal quarter was $7.1 billion. As of February 23, 2009, there were 331,163,356 shares of the registrant s common stock outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the information required by Part III of this Form 10-K are incorporated herein by reference from the registrant s definitive proxy statement for its 2009 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, within 120 days after the end of the registrant s fiscal year ended December 31, 2008.

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Cautionary Statement Regarding Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor to encourage companies to provide prospective information, as long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. Certain information contained in this Annual Report on Form 10-K (including certain statements in the business description in Item 1, Management s Discussion and Analysis, and the consolidated financial statements and related notes), or in any other written or oral statements made by us in communications with the financial community or contained in documents filed with the Securities and Exchange Commission (SEC), may be considered forward-looking. Forward-looking statements are those not based on historical information, but rather relate to future operations, strategies, financial results, or other developments and speak only as of the date made. We undertake no obligation to update these statements, even if made available on our website or otherwise. These statements may be made directly in this document or may be made part of this document by reference to other documents filed by us with the SEC, a practice which is known as incorporation by reference. You can find many of these statements by looking for words such as will, may, should, could, believes, expects, anticipates, estimates, intends, projects, goals, objectives, this document or in documents incorporated herein.

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

- Unfavorable economic or business conditions, both domestic and foreign, including the continued financial market disruption.
- Investment results, including but not limited to, realized investment losses resulting from impairments that differ from our assumptions and historical experience.
- Rating agency actions, state insurance department market conduct examinations and other inquiries, other governmental investigations and actions, and negative media attention.
- Changes in interest rates, credit spreads, and securities prices.
- Currency exchange rates.
- Changes in our financial strength and credit ratings.
- Changes in claim incidence and recovery rates due to, among other factors, the rate of unemployment and consumer confidence, the emergence of new diseases, epidemics, or pandemics, new trends and developments in medical treatments, and the effectiveness of claims management operations.
- Increased competition from other insurers and financial services companies due to industry consolidation or other factors.
- Legislative, regulatory, or tax changes, both domestic and foreign, including the effect of potential legislation and increased regulation in the current political environment.
- Effectiveness of our risk management program.
- The level and results of litigation.
- Effectiveness in supporting new product offerings and providing customer service.
- Actual experience in pricing, underwriting, and reserving may deviate from our assumptions.
- Lower than projected persistency and lower sales growth.
- Fluctuation in insurance reserve liabilities.
- Ability and willingness of reinsurers to meet their obligations.
- Changes in assumptions related to intangible assets such as deferred acquisition costs, value of business acquired, and goodwill.
- Ability of our subsidiaries to pay dividends as a result of regulatory restrictions.
- Events or consequences relating to terrorism and acts of war, both domestic and foreign.
- Changes in accounting standards, practices, or policies.
- Ability to recover our systems and information in the event of a disaster or unanticipated event.

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

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PART I

ITEM 1. BUSINESS

General

Unum Group, a Delaware general business corporation, and its insurance and non-insurance subsidiaries, which collectively with Unum Group we refer to as the Company, operate in the United States, the United Kingdom, and, to a limited extent, in certain other countries around the world. The principal operating subsidiaries in the United States are Unum Life Insurance Company of America (Unum America), Provident Life and Accident Insurance Company (Provident), The Paul Revere Life Insurance Company (Paul Revere Life), and Colonial Life & Accident Insurance Company, and in the United Kingdom, Unum Limited. We are the largest provider of disability insurance products in the United States and the United Kingdom. We also provide a complementary portfolio of other insurance products, including long-term care insurance, life insurance, employer- and employee-paid group benefits, and other related services.

We have three major business segments: Unum US, Unum UK, and Colonial Life. Our other segments are the Individual Disability Closed Block segment and the Corporate and Other segment. These segments are discussed more fully under Reporting Segments included herein in Item 1.

Business Strategies

As one of the leading providers of employee benefits, we offer a broad portfolio of products and services to meet the diverse needs of the marketplace. We try to achieve a competitive advantage by offering group, individual, and voluntary benefits products that can be offered as stand alone products or that can be combined with other coverages to provide comprehensive benefits solutions for customers. We offer competitive benefit plans to businesses of all sizes to help them attract and retain a stronger workforce and protect the incomes and lifestyles of employees and their families. Through a variety of technological tools and trained professionals, we offer services which are designed to meet the evolving needs of our customers. We strive to provide the highest level of service excellence.

We believe that we are a well positioned and competitive force in our sector. However, due to the nature of our business, we are sensitive to economic and financial market movements, including consumer confidence, employment levels, and the level of interest rates.

During the last few years, we have successfully developed an overall risk management structure that focuses on risk at all levels of our organization. Through our capital management risk strategy, we have strengthened our balance sheet and maintained financial flexibility which we believe will support our operations over various economic cycles. Through our insurance risk strategy, we improved our risk profile through disciplined growth and the development of a more balanced business mix which we believe will continue to reduce our business volatility. Through our investment strategy, we have managed our claim reserve discount rates relative to investment portfolio yield rates, reduced our exposure to high risk securities holdings, and avoided certain asset class problems.

During 2009, we intend to continue our focus on a number of key areas. Objectives for 2009 include:

- Consistent execution of our operating plans. We will continue our emphasis on disciplined, profitable growth.
- Maintain a strong investment portfolio. We will maintain disciplined credit analysis in our selection of investment assets and continue to be conservative within our investment risk tolerances.
- Build and effectively use capital. We intend to continue to build capital and manage it effectively within our stated capital management strategy objectives.
- Professional development of our employees. We will continue our focus on employee training and development as well as talent management.

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Reporting Segments

Our reporting segments are comprised of the following: Unum US, Unum UK, Colonial Life, Individual Disability Closed Block, and Corporate and Other. Effective with the fourth quarter of 2008, we made slight modifications to our reporting segments to better align the debt of our securitizations with the business segments and to align the allocation of capital for Unum UK similar to that of Unum US and Colonial Life. Specifically, we transferred the assets, non-recourse debt, and associated capital of Tailwind Holdings, LLC (Tailwind Holdings) and Northwind Holdings, LLC (Northwind Holdings) from our former Corporate segment to Unum US group disability and Individual Disability Closed Block, respectively. We transferred excess assets, capital in excess of target, and the associated investment income from Unum UK to our Corporate and Other segment. We also modified the investment income allocation on capital supporting certain of our group disability and long-term care product lines within Unum US and have also aggregated our former Other segment and Corporate segment into one reporting segment. Financial results previously reported have been revised to reflect these reclassifications.

Measured as a percentage of consolidated premium income for the year ended December 31, 2008, premium income was approximately 63.8 percent for the Unum US segment, 11.4 percent for Unum UK, 12.6 percent for Colonial Life, and 12.2 percent for the Individual Disability Closed Block and Corporate and Other segments combined.

Financial information is provided in Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein in Item 7 and Note 13 of the Notes to Consolidated Financial Statements contained herein in Item 8.

Unum US Segment

The Unum US segment includes group long-term and short-term disability insurance, group life and accidental death and dismemberment products, and supplemental and voluntary lines of business, comprised of individual disability recently issued, group and individual long-term care, and brokerage voluntary benefits products, issued primarily by Unum America, Provident, and Paul Revere Life. Paul Revere Life no longer actively markets new business but continues to service its existing business. Premium income for this segment totaled $4,963.0 million in 2008. These products are marketed through our field sales personnel who work in conjunction with independent brokers and consultants. Effective in 2009, we will discontinue selling individual long-term care insurance on an active basis.

Group Long-term and Short-term Disability

Group long-term and short-term disability products contributed approximately 45.8 percent of the Unum US segment premium income in 2008. We sell group long-term and short-term disability products to employers for the benefit of employees. Group long-term disability provides employees with insurance coverage for loss of income in the event of extended work absences due to sickness or injury. We offer services to employers and insureds to encourage and facilitate rehabilitation, retraining, and re-employment. Most policies begin providing benefits following 90 or 180 day waiting periods and continue providing benefits until the employee reaches a certain age, generally between 65 and 70. The benefits are limited to specified maximums as a percentage of income.

Group short-term disability insurance generally provides coverage from loss of income due to injury or sickness, effective immediately for accidents and after one week for sickness, for up to 26 weeks, limited to specified maximums as a percentage of income.

Premiums for group long-term and short-term disability are generally based on expected claims of a pool of similar risks plus provisions for administrative expenses and profit. Some cases carry experience rating provisions. Premiums for experience rated group long-term and short-term disability business are based on the expected experience of the client given their industry group, adjusted for the credibility of the specific claim experience of the client. We also offer accounts handled on an administrative services only (ASO) basis, with the responsibility for funding claim payments remaining with the customer. Both group long-term and short-term disability are sold primarily on a basis permitting periodic repricing to address the underlying claims experience.

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We have defined underwriting practices and procedures. If the coverage amount exceeds certain prescribed age and amount limits, we may require a prospective insured to submit evidence of insurability. Policies are typically issued, both at inception and renewal, with rate guarantees. For new group policyholders, the usual rate guarantee is one to three years. For group policies being renewed, the rate guarantee is generally one year, but may be longer. The profitability of the policy depends on the adequacy of the rate during the rate guarantee period. The contracts provide for certain circumstances in which the rate guarantees can be overridden.

Profitability of group long-term and short-term disability insurance is affected by claims experience, investment returns, persistency, and the level of administrative expenses. Morbidity is an important factor in disability claims experience. Also important is the general state of the economy; for example, during a recession the incidence of claims tends to increase under this type of insurance. In general, experience rated disability coverage for large groups has narrower profit margins and represents less risk to us than business of this type sold to small employers because we bear all of the risk of adverse claims experience in small case fully-insured coverages while larger employers often bear much of this risk themselves. We routinely make pricing adjustments, when contractually permitted, which take into account the emerging experience on our group insurance products.

Group Life and Accidental Death and Dismemberment

Group life and accidental death and dismemberment products contributed approximately 24.0 percent of the Unum US segment premium income in 2008. Group life and accidental death and dismemberment products are sold to employers as employee benefit products. Group life consists primarily of renewable term life insurance with the coverages frequently linked to employees wages. Accidental death and dismemberment consists primarily of travel accident and other specialty risk products. Premiums are generally based on expected claims of a pool of similar risks plus provisions for administrative expenses and profit. Underwriting and rate guarantees are similar to those used for group disability products.

Profitability of group life and accidental death and dismemberment insurance is affected by claims experience, investment returns, persistency, and the level of administrative expenses.

Individual Disability Recently Issued

Individual disability recently issued products generated approximately 9.5 percent of the Unum US segment premium income in 2008. Individual disability is offered primarily to multi-life employer groups, but also on a single-life customer basis. Individual disability insurance provides the insured with a portion of earned income lost as a result of sickness or injury. Under an individual disability policy, monthly benefits generally are fixed at the time the policy is written. The benefits typically range from 30 percent to 75 percent of the insured s monthly earned income. We provide various options with respect to length of benefit periods and waiting periods before benefit payments begin, which permits tailoring of the policy to a specific policyholder s needs. We also market individual disability policies which include payments for the transfer of business ownership between partners and payments for business overhead expenses. Individual disability products do not provide for the accumulation of cash values.

Premium rates for individual disability products vary by age, gender, and occupation based on assumptions concerning morbidity, persistency, administrative expenses, and investment income. We develop our assumptions based on our own claims experience and published industry tables. Our underwriters evaluate the medical and financial condition of prospective policyholders prior to the issuance of a policy. For larger multi-life groups, some underwriting requirements may be waived.

Profitability of individual disability insurance is affected by persistency, investment returns, claims experience, and the level of administrative expenses.

Group and Individual Long-term Care

Long-term care products generated approximately 11.7 percent of the Unum US segment premium income in 2008. Long-term care insurance is offered to employers for the benefit of employees and also sold to individuals on a single-life customer basis. During 2009, we will discontinue selling individual long-term care. Long-term care

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insurance pays a benefit upon the loss of two or more activities of daily living and the insured s requirement of standby assistance or cognitive impairment. Payment is made on an indemnity basis, regardless of expenses incurred, up to a lifetime maximum. A reimbursement model payment option is also available for individual long-term care policies. Benefits begin after a waiting period, generally 90 days or less.

Premium rates for long-term care vary by age and gender and are based on assumptions concerning morbidity, mortality, persistency, administrative expenses, and investment income. We develop our assumptions based on our own claims experience and published industry tables. Our underwriters evaluate the medical condition of prospective policyholders prior to the issuance of a policy. For larger groups, some underwriting requirements may be waived. Long-term care insurance is offered on a guaranteed renewable basis which allows us to re-price in-force policies, subject to regulatory approval.

Profitability is affected by claims experience, investment returns, persistency, and the level of administrative expenses.

Voluntary Benefits

Voluntary benefits products generated approximately 9.0 percent of the Unum US segment premium income in 2008. Voluntary benefits products include individual universal life and interest-sensitive life, individual disability, group and individual critical illness, and individual cancer products. These products are sold to groups of employees through payroll deduction at the workplace.

Premium rates for voluntary benefits products are based on assumptions concerning morbidity, mortality, persistency, administrative expenses, and investment income. We develop our assumptions based on our own claims experience and published industry tables. Our underwriters evaluate the medical condition of prospective policyholders prior to the issuance of a policy. For larger groups with high participation rates, some underwriting requirements may be waived. Voluntary benefits products other than life insurance are offered on a guaranteed renewable basis which allows us to re-price in-force policies, subject to regulatory approval.

Profitability of voluntary benefits products is affected by the level of employee participation, persistency, investment returns, claims experience, and the level of administrative expenses.

Unum UK Segment

The Unum UK segment includes group long-term disability insurance, group life products, and individual disability products issued by Unum Limited and sold primarily in the United Kingdom through field sales personnel and independent brokers and consultants. Premium income for this segment totaled $889.3 million in 2008, or £478.6 million in local currency.

Group Long-term Disability

Group long-term disability products contributed approximately 76.1 percent of the Unum UK segment premium income in 2008. Group long-term disability products are sold to employers for the benefit of employees. Group long-term disability provides employees with insurance coverage for loss of income in the event of extended work absences due to sickness or injury. Services are offered to employers and insureds to encourage and facilitate rehabilitation, retraining, and re-employment. Most policies begin providing benefits following 90 or 180 day waiting periods and continue providing benefits until the employee reaches a certain age, generally between 60 and 65. The benefits are limited to specified maximums as a percentage of income.

Premiums for group long-term disability are generally based on expected claims of a pool of similar risks plus provisions for administrative expenses and profit. Some cases carry experience rating provisions. Premiums for experience rated group long-term disability business are based on the expected experience of the client given its industry group, adjusted for the credibility of the specific claim experience of the client.

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We have defined underwriting practices and procedures. If the coverage amount exceeds certain prescribed age and amount limits, we may require a prospective insured to submit evidence of insurability. Policies are typically issued, both at inception and renewal, with rate guarantees. In both cases the usual rate guarantee is two years. Guarantees of one year may be offered either at the request of the client or as required by us to manage risk. In a very limited number of circumstances guarantees of three years may be offered, but this will be at an additional cost. The profitability of the policy is dependent upon the adequacy of the rate during the rate guarantee period. The contracts provide for certain circumstances in which the rate guarantees can be overridden.

Profitability of group long-term disability insurance is affected by claims experience, investment returns, persistency, and the level of administrative expenses. Morbidity is an important factor in disability claims experience.

Group Life

Group life products contributed approximately 19.5 percent of the Unum UK segment premium income in 2008. Group life products are sold to employers as employee benefit products. Group life consists primarily of renewable term life insurance with the coverages frequently linked to employees wages. Premiums for group life are generally based on expected claims of a pool of similar risks plus provisions for administrative expenses and profit. Underwriting and rate guarantees are similar to those utilized for group long-term disability products.

Profitability of group life is affected by claims experience, investment returns, persistency, and the level of administrative expenses.

Individual Disability

Individual disability products generated approximately 4.4 percent of the Unum UK segment premium income in 2008. Individual disability is offered primarily to individual retail customers. Individual disability insurance provides the insured with a portion of earned income lost as a result of sickness or injury. Under an individual disability policy, monthly benefits generally are fixed at the time the policy is written. The benefits typically range from 30 percent to 50 percent of the insured s monthly earned income. Various options with respect to length of benefit periods and waiting periods before payment begins are available and permit tailoring of the policy to a specific policyholder s needs. Individual disability products do not provide for the accumulation of cash values.

Premium rates for individual disability products vary by age, gender, and occupation based on assumptions concerning morbidity, persistency, administrative expenses, and investment income. We develop our assumptions based on our own claims experience and published industry tables. Our underwriters evaluate the medical and financial condition of prospective policyholders prior to the issuance of a policy.

Profitability of individual disability insurance is affected by persistency, investment returns, claims experience, and the level of administrative expenses.

Colonial Life Segment

The Colonial Life segment includes insurance for accident, sickness, and disability products, life products, and cancer and critical illness products issued primarily by Colonial Life & Accident Insurance Company and marketed to employees at the workplace through an agency sales force and brokers. Premium income for this segment totaled $977.3 million in 2008.

Accident, Sickness, and Disability

The accident, sickness, and disability product line, which generated approximately 62.1 percent of the Colonial Life premium income in 2008, consists of short-term disability plans as well as accident-only plans providing benefits for injuries on a specified loss basis. It also includes accident and health plans covering hospital admissions, confinement, and surgeries on an indemnity basis and group limited benefit medical plans which provide limited indemnity benefits for basic healthcare expenses.

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Premiums for accident, sickness, and disability products are generally based on our experience for morbidity, mortality, persistency, and expenses. Premiums are primarily individual guaranteed renewable wherein we have the ability to change premiums on a state by state basis. A small percentage of the policies are written on a group basis wherein we retain the right to change premiums at the individual account level. We have defined underwriting practices and procedures for each of our products. Most policies are issued on a simplified issue basis, based on answers to simple health and employment questions. If the amount applied for exceeds certain levels, the applicant may be asked to answer additional health questions or submit to additional medical examinations.

Profitability is affected by the level of employee participation, persistency, claims experience, investment returns, and the level of administrative expenses.

The accident and health products qualify as fringe benefits that can be purchased with pre-tax employee dollars as part of a flexible benefits program pursuant to Section 125 of the Internal Revenue Code. Flexible benefits programs assist employers in managing benefit and compensation packages and provide policyholders the ability to choose benefits that best meet their needs. Congress could change the laws to limit or eliminate fringe benefits available on a pre-tax basis, eliminating our ability to continue marketing our products this way. However, we believe our products provide value to our policyholders which will remain even if the tax advantages offered by flexible benefits programs are modified or eliminated.

Life

Group and individual life products contributed approximately 16.1 percent of the 2008 premium income for Colonial Life and are primarily comprised of universal life, whole life, level term life, and a small block of group term life policies. Premiums for the whole life and level term products are guaranteed for the life of the contract. Premiums for the universal life products are flexible and may vary at the individual policyholder level. For the group term life product, we retain the right to change premiums at the account level based on the experience of the account.

Profitability is affected by the level of employee participation, persistency, claims experience, investment returns, and the level of administrative expenses.

Cancer and Critical Illness

Cancer and critical illness policies generated approximately 21.8 percent of the 2008 premium income for the Colonial Life segment. Cancer policies provide various benefits for the treatment of cancer including hospitalization, surgery, radiation, and chemotherapy. Critical illness policies provide a lump-sum benefit on the occurrence of a covered critical illness event.

Premiums are generally based on our experience for morbidity, mortality, persistency, and expenses. Premiums are primarily individual guaranteed renewable wherein we have the ability to change premiums on a state by state basis.

Profitability of these products is affected by the level of employee participation, persistency, claims experience, investment returns, and the level of administrative expenses.

Individual Disability Closed Block Segment

Generally, the insurance policies included in the Individual Disability Closed Block segment are individual disability insurance policies that were designed to be distributed to individuals in a non-workplace setting and that were written or assumed prior to the restructuring of our individual disability business. This restructuring principally occurred during the period from 1994 through 1998 and included changes in product offerings, pricing, distribution, and underwriting. During this period we gradually changed our distribution focus for individual disability insurance to workplace distribution as opposed to individual setting distribution, resulting in many of these changes. A minimal amount of new business continued to be sold subsequent to these changes, but we stopped selling new policies in this segment at the beginning of 2004 other than update features contractually allowable on existing policies. Premium income for this segment totaled $952.3 million in 2008.

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The majority of the policies included in this segment represent individual disability insurance which was written on a noncancelable basis and issued or assumed by Unum America, Provident, and Paul Revere Life. Under a noncancelable policy, as long as the insured continues to pay the fixed annual premium for the policy s duration, we cannot cancel the policy or raise the premium.

Profitability is affected by persistency, investment returns, claims experience, and the level of administrative expenses.

We have reinsurance agreements which effectively provide approximately 60 percent reinsurance coverage for our overall consolidated risk above a specified retention limit, which at December 31, 2008, equaled approximately $7.8 billion. The maximum risk limit for the reinsurer grows to approximately $2.3 billion over time, after which any further losses, if any, will revert to us.

Corporate and Other Segment

The Corporate and Other segment includes investment income on corporate assets not specifically allocated to a line of business, interest expense on corporate debt other than non-recourse debt, and certain other corporate income and expense not allocated to a line of business. The Corporate and Other segment also includes results from certain Unum US insurance products not actively marketed, including individual life and corporate-owned life insurance, reinsurance pools and management operations, group pension, health insurance, and individual annuities.

Premium income for the insurance products in this segment totaled $1.4 million in 2008. It is expected that revenue and income from these insurance products will decline over time as these business lines wind down.

Discontinued Operations

During the first quarter of 2007, we completed the sale of our wholly-owned subsidiary, GENEX Services, Inc. (GENEX), a leading workers compensation and medical cost containment services provider. Our growth strategy is focused on the development of our primary markets, and GENEX s specialty role in case management and medical cost containment related to the workers compensation market was no longer consistent with our overall strategic direction.

During 2003, we entered into an agreement to sell our Canadian branch. The transaction closed April 30, 2004.

See Selected Financial Data contained herein in Item 6 and Note 2 of the Notes to Consolidated Financial Statements contained herein in Item 8 for further information on our discontinued operations.

Reinsurance

In the normal course of business, we assume reinsurance from and cede reinsurance to other insurance companies. In a reinsurance transaction a reinsurer agrees to indemnify another insurer for part or all of its liability under a policy or policies it has issued for an agreed upon premium. The primary purpose of ceded reinsurance is to limit losses from large exposures. However, if the assuming reinsurer is unable to meet its obligations, we remain contingently liable. We evaluate the financial condition of reinsurers to whom we cede business and monitor concentration of credit risk to minimize our exposure. We may also require assets to be held in trust, letters of credit, or other acceptable collateral to support reinsurance recoverable balances.

In general, the maximum amount of risk retained by our U.S. insurance subsidiaries and not ceded is $0.6 million per covered life per policy under a group or individual life policy or a group or individual accidental death and dismemberment policy. For Unum Limited, we generally retain £1.0 million per covered life per policy. The amount of risk retained on individual disability products varies by policy type and year of issue. Other than catastrophic reinsurance coverage, we generally do not reinsure group or individual disability policies issued subsequent to 1999.

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We have catastrophic reinsurance coverage which includes five layers of coverage to limit our exposure under life, accidental death and dismemberment, long-term care, and disability policies. We have 80 percent reinsurance coverage in each of the first four layers and 60 percent coverage in the fifth layer for a total of $174.0 million of catastrophic reinsurance coverage, after a $20.0 million deductible. The first $30.0 million layer includes terrorism coverage other than that resulting from biological, chemical, and nuclear terrorism, whereas the second, third, fourth, and fifth layers each provide $50.0 million of coverage for all catastrophic events, including acts of war and any type of terrorism. Events may occur which limit or eliminate the availability of catastrophic reinsurance coverage in future years.

The reinsurance recoverable of $4,974.2 million at December 31, 2008 relates to 88 companies. Thirteen major companies account for approximately 91 percent of the reinsurance recoverable at December 31, 2008, and all of these companies are rated A or better by A.M. Best Company (AM Best) or are fully securitized by letters of credit or investment-grade fixed maturity securities held in trust. Virtually all of the remaining nine percent of the reinsurance recoverable relates to business reinsured either with companies rated A- or better by AM Best, with overseas entities with equivalent ratings or backed by letters of credit or trust agreements, or through reinsurance arrangements wherein we retain the assets in our general account. Less than one percent of the reinsurance recoverable is held by companies either rated below A- by AM Best or not rated.

The collectibility of our reinsurance recoverable is primarily a function of the solvency of the individual reinsurers. Although we have controls to minimize our exposure, the insolvency of a reinsurer or the inability or unwillingness of a reinsurer to comply with the terms of a reinsurance contract could have a material adverse effect on our results of operations.

For further discussion of our reinsurance activities, refer to Risk Factors contained herein in Item 1A and Note 12 of the Notes to Consolidated Financial Statements contained herein in Item 8.

Reserves

The applicable insurance laws under which insurance companies operate require that they report, as liabilities, policy reserves to meet future obligations on their outstanding policies. These reserves are the amounts which, with the additional premiums to be received and interest thereon compounded annually at certain assumed rates, are calculated to be sufficient to meet the various policy and contract obligations as they mature. These laws specify that the reserves shall not be less than reserves calculated using certain specified mortality and morbidity tables, interest rates, and methods of valuation.

The reserves reported in our financial statements contained herein are calculated in conformity with U.S. generally accepted accounting principles (GAAP) and differ from those specified by the laws of the various states and reported in the statutory financial statements of our life insurance subsidiaries. These differences result from the use of mortality and morbidity tables and interest assumptions which we believe are more representative of the expected experience for these policies than those required for statutory accounting purposes and also result from differences in actuarial reserving methods.

The assumptions we use to calculate our reserves are intended to represent an estimate of experience for the period that policy benefits are payable. If actual experience is not less favorable than our reserve assumptions, then reserves should be adequate to provide for future benefits and expenses. If experience is less favorable than the reserve assumptions, additional reserves may be required. The key experience assumptions include disability claim incidence rates, disability claim recovery rates, mortality rates, policy persistency, and interest rates. We periodically review our experience and update our policy reserves for new issues and reserves for all claims incurred, as we believe appropriate.

The consolidated statements of income include the annual change in reserves for future policy and contract benefits. The change reflects a normal accretion for premium payments and interest buildup and decreases for policy terminations such as lapses, deaths, and benefit payments.

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For further discussion of reserves, refer to Risk Factors contained herein in Item 1A and to Critical Accounting Estimates and the discussion of segment operating results included in Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein in Item 7.

Investments

Investment activities are an integral part of our business, and profitability is significantly affected by investment results. We segment our invested assets into portfolios that support our various product lines. Generally, our investment strategy for our portfolios is to match the effective asset cash flows and durations with related expected liability cash flows and durations to consistently meet the liability funding requirements of our businesses. We try to maximize investment income and assume credit risk in a prudent and selective manner, subject to constraints of quality, liquidity, diversification, and regulatory considerations. Our overall investment philosophy is to invest in a portfolio of high quality assets that provide investment returns consistent with that assumed in the pricing of our insurance products. Assets are invested predominately in fixed maturity securities, and the portfolio is matched with liabilities so as to eliminate as much as possible our exposure to changes in the overall level of interest rates. Changes in interest rates may affect the amount and timing of cash flows.

We actively manage our asset and liability cash flow match and our asset and liability duration match to minimize interest rate risk. We may redistribute investments between our different lines of business, when necessary, to adjust the cash flow and/or duration of the asset portfolios to better match the cash flow and duration of the liability portfolios. Asset and liability portfolio modeling is updated on a quarterly basis and is used as part of the overall interest rate risk management strategy. Cash flows from the inforce asset and liability portfolios are projected at current interest rate levels and also at levels reflecting an increase and a decrease in interest rates to obtain a range of projected cash flows under the different interest rate scenarios. These results enable us to assess the impact of projected changes in cash flows and duration resulting from potential changes in interest rates. Testing the asset and liability portfolios under various interest rate scenarios enables us to choose the most appropriate investment strategy as well as to minimize the risk of disadvantageous outcomes. This analysis is a precursor to our activities in derivative financial instruments, which are used to hedge interest rate risk and to manage duration match. We do not use derivatives for speculative purposes.

Refer to Risk Factors contained herein in Item 1A and the discussion of investments in Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes 4 and 5 of the Notes to Consolidated Financial Statements contained herein in Items 7 and 8, respectively, for information on our investments and derivative financial instruments.

Ratings

AM Best, Fitch Ratings (Fitch), Moody s Investors Service (Moody s), and Standard & Poor s Corporation (S&P) are among the third parties that assign issuer credit ratings to Unum Group and financial strength ratings to our insurance subsidiaries. Issuer credit ratings reflect an agency s opinion of the overall financial capacity of a company to meet its senior debt obligations. Financial strength ratings are specific to each individual insurance subsidiary and reflect each rating agency s view of the overall financial strength (capital levels, earnings, growth, investments, business mix, operating performance, and market position) of that insuring entity and its ability to meet its obligations to policyholders. Both the issuer credit ratings and financial strength ratings incorporate quantitative and qualitative analyses by rating agencies and are routinely reviewed and updated on an ongoing basis.

Rating agencies assign an outlook statement of positive, negative, or developing to indicate an intermediate-term trend in credit fundamentals which could lead to a rating change. Positive means that a rating may be raised, negative means that a rating may be lowered, and developing means that a rating may be raised or lowered with equal probability. Alternatively, a rating may have a stable outlook to indicate that the rating is not expected to change.

Credit watch or under review highlights the potential direction of a short-term or long-term rating. It focuses on identifiable events and short-term trends that cause a rating to be placed under heightened surveillance by a rating agency. Events that may trigger this action include mergers, acquisitions, recapitalizations, or anticipated operating developments. Ratings may be placed on credit watch or under review when an event or a change in an expected

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trend occurs and additional information is needed to evaluate the current rating level. This status does not mean that a rating change is inevitable, and ratings may change without first being placed on a watch list.

Our financial strength ratings as of February 2009 for our principal U.S. domiciled insurance company subsidiaries were:

A- (Excellent) by AM Best	4th of 15 rankings
A- (Strong) by Fitch	7th of 23 rankings
Baa1 (Adequate) by Moody s	8th of 21 rankings
A- (Strong) by S&P	7th of 21 rankings

Our issuer credit ratings as of February 2009 were:

bbb- (Good) by AM Best	10th of 22 rankings
BBB- (Good) by Fitch	9th of 23 rankings
Ba1 (Speculative) by Moody s	11th of 21 rankings
BBB- (Good) by S&P	10th of 22 rankings

At present, our ratings from AM Best, Moody s, and S&P have a stable outlook, and our rating from Fitch has a positive outlook. None of the ratings are currently under review or on credit watch. See further discussion in Risk Factors contained herein in Item 1A and in Management s Discussion and Analysis of Financial Condition and Results of Operations Ratings contained herein in Item 7. A rating is not a recommendation to buy, sell, or hold securities and may be subject to revision or withdrawal at any time by the rating agency. Each rating should be evaluated independently of any other rating.

Competition

There is intense competition among insurance companies for the types of products we sell. We believe that the principal competitive factors affecting our business are integrated product choices, price, quality of customer service and claims management, financial strength, and claims-paying ratings. In the individual and group disability markets, we compete in the United States with a limited number of major companies and regionally with other companies offering specialty products. Our principal competitors for our other products, including group life and long-term care as well as the product offerings sold to groups of employees through payroll deduction, include the largest insurance companies in the United States. Some of these companies have more competitive pricing or have higher claims-paying ratings. Some may also have greater financial resources with which to compete.

In the United Kingdom, we compete for individual and group products with a number of large internationally recognized providers. The life insurance market continues to go through a restructuring phase which has led to opportunities for both the strong specialist supplier and also new organizations that have recently been established to handle the run-off of closed businesses. Current penetration levels indicate that there is still significant upside growth potential in the United Kingdom for the types of products we offer.

All areas of the employee benefits markets are highly competitive due to the yearly renewable term nature of the products and the large number of insurance companies offering products in this market. There is a risk that purchasers of employee benefits products may be able to obtain more favorable terms from competitors in lieu of renewing coverage with us. The effect of competition may, as a result, adversely affect the persistency of these and other products, as well as our ability to sell products in the future.

We must attract and retain independent agents and brokers to actively market our products. Strong competition exists among insurers for agents and brokers. We compete with other insurers for sales agents and brokers primarily on the basis of our product offerings, financial strength, support services, and compensation. Sales of our products could be materially adversely affected if we are unsuccessful in attracting and retaining agents and brokers.

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Regulation

General

Our U.S. insurance subsidiaries are subject to comprehensive regulation and oversight by insurance departments in jurisdictions in which they do business and by the U.S. Department of Labor on a national basis, primarily for the protection of policyholders. Unum Limited is subject to regulation by the Financial Services Authority (FSA) in the U.K. The state insurance departments in the United States and the FSA in the U.K. have broad administrative powers with respect to all aspects of the insurance business and, in particular, monitor the manner in which an insurance company offers, sells, and administers its products. This monitoring may include reviewing sales practices, including the content and use of advertising materials and the licensing and appointing of agents and brokers, as well as underwriting, claims, and customer service practices. The U.S. Department of Labor (DOL) enforces a comprehensive federal statute which regulates claims paying fiduciary responsibilities and reporting and disclosure requirements for most employee benefit plans. Our domestic insurance subsidiaries must meet the standards and tests for investments imposed by state insurance laws and regulations of the jurisdictions in which they are domiciled. Domestic insurance subsidiaries operate under insurance laws which require they establish and carry, as liabilities, statutory reserves to meet policyholder obligations. These reserves are verified periodically by various regulators. Our domestic insurance subsidiaries are examined periodically by examiners from their states of domicile and by other states in which they are licensed to conduct business. The domestic examinations have traditionally emphasized financial matters from the perspective of protection of policyholders, but they can and have covered other subjects that an examining state may be interested in reviewing, such as market conduct issues. Other states more typically perform market conduct examinations that include a review of a company s sales practices, including advertising and licensing of agents and brokers, as well as underwriting, claims, and customer service practices to determine compliance with state laws.

Examinations and Investigations

Claim Related

During 2004 and 2005, certain of our insurance subsidiaries entered into settlement agreements with various regulators related to disability claims handling practices. The agreements provide for changes in certain of our claims handling procedures and a claim reassessment process available to certain claimants whose claims were denied or closed during specified periods. During 2007, we completed the claim reassessment process required by the 2004 and 2005 regulatory settlement agreements. The lead regulators conducted a final examination and presented their findings to Unum Group s board of directors and management in April 2008. The report of the multistate market conduct examination and the report of the California Department of Insurance market conduct examination provided that we satisfactorily complied with each of the agreements mandates and that no fines would be assessed. We continue to work closely with our regulators and also continue to work toward resolution of other outstanding legal and regulatory issues.

See further discussion under Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein in Item 7.

Broker Compensation, Quoting Process, and Other Matters

Beginning in 2004, several of our insurance subsidiaries insurance regulators requested information relating to the subsidiaries policies and practices on one or more aspects of broker compensation, quoting insurance business, and related matters. Additionally, we have responded to investigations about certain of these same matters by state attorneys general and the DOL. Following highly publicized litigation involving the alleged practices of a major insurance broker, the National Association of Insurance Commissioners (NAIC) has undertaken to provide a uniform Compensation Disclosure Amendment to the Producer Licensing Model Act that can be adopted by states in an effort to provide uniform guidance to insurers, brokers, and customers relating to disclosure of broker compensation. We expect there to be continued uncertainty surrounding this matter until clearer regulatory guidelines are established.

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In June 2004, we received a subpoena from the Office of the New York Attorney General (NYAG) requesting documents and information relating to compensation arrangements between insurance brokers or intermediaries and our companies. In November 2006, we entered into a settlement agreement with the NYAG in the form of an assurance of discontinuance that provided for a national restitution fund of $15.5 million, which we expect will be fully dispensed by March 2009.

Since October 2004, we and/or our insurance subsidiaries have received subpoenas or information requests from state regulatory or investigatory agencies of at least seven states including Connecticut, Florida, Maine, Massachusetts, North Carolina, South Carolina, and Tennessee. The subpoenas and/or information requests relate to, among other things, compliance with the Employee Retirement Income Security Act (ERISA) relating to our interactions with insurance brokers and to regulations concerning insurance information provided by us to plan administrators of ERISA plans, as well as compliance with state and federal laws with respect to quoting processes, producer compensation, solicitation activities, policies sold to state or municipal entities, and information regarding compensation arrangements with brokers.

We have cooperated fully with all investigations and will continue to do so. However, due to a prolonged period of inactivity, we consider these state investigations dormant.

See further discussion under Management s Discussion and Analysis of Financial Condition and Results of Operations and Note 14 of the Notes to Consolidated Financial Statements contained herein in Items 7 and 8, respectively.

Capital Requirements

Risk-based capital (RBC) standards for U.S. life insurance companies have been prescribed by the NAIC. The domiciliary states of our U.S. insurance subsidiaries have all adopted a version of the RBC model formula of the NAIC, which prescribes a system for assessing the adequacy of statutory capital and surplus for all life and health insurers. The basis of the system is a risk-based formula that applies prescribed factors to the various risk elements in a life and health insurer s business to report a minimum capital requirement proportional to the amount of risk assumed by the insurer. The life and health RBC formula is designed to measure annually (i) the risk of loss from asset defaults and asset value fluctuations, (ii) the risk of loss from adverse mortality and morbidity experience, (iii) the risk of loss from mismatching of asset and liability cash flow due to changing interest rates, and (iv) business risks. The formula is used as an early warning tool to identify companies that are potentially inadequately capitalized. The formula is intended to be used as a regulatory tool only and is not intended as a means to rank insurers generally. Unum Limited is subject to regulation, including capital adequacy requirements and minimum solvency margins, by the FSA in the U.K. See further discussion in Risk Factors contained herein in Item 1A and Liquidity and Capital Resources contained herein in Item 7.

Insurance Holding Company Regulation

The insurance holding company laws and regulations of the states of Maine, Massachusetts, Tennessee, South Carolina, New York, Vermont, and California require the registration of and periodic reporting of financial and other information about operations, including inter-company transactions within the system, by insurance companies domiciled within their jurisdiction which control or are controlled by other corporations or persons so as to constitute an insurance holding company system.

Unum Group is registered under such laws as an insurance holding company system in Maine, Massachusetts, Tennessee, South Carolina, New York, Vermont, and California. Most states, including the states in which our insurance subsidiaries are domiciled, have laws and regulations that require regulatory approval of a change in control of an insurer or an insurer s holding company. Where such laws and regulations apply to Unum Group and its insurance subsidiaries, there can be no effective change in control of Unum Group unless the person seeking to acquire control has filed a statement with specified information with the insurance regulators and has obtained prior approval for the proposed change from such regulators. The usual measure for a presumptive change of control pursuant to these laws is the acquisition of 10 percent or more of the voting stock of an insurance company or its parent, although this presumption is rebuttable. Consequently, a person acquiring 10 percent or more of the voting stock of an insurance company or its parent without the prior approval of the insurance regulators in the states in

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which the company s insurance subsidiaries are domiciled or deemed to be domiciled will be in violation of these laws. Such a person may also be subject to one or more of the following actions: (i) injunctive action requiring the disposition or seizure of those securities by the applicable insurance regulator; (ii) prohibition of voting of such shares; and, (iii) other actions determined by the relevant insurance regulator. Further, many states insurance laws require prior notification to state insurance regulators of a change of control of a non-domiciled insurance company doing business in that state. These pre-notification statutes do not authorize the state insurance regulators to disapprove the change in control; however, they do authorize regulatory action in the affected state if particular conditions exist such as undue market concentration. Any future transactions that would constitute a change in control of Unum Group may require prior notification in those states that have adopted pre-notification laws.

These laws may discourage potential acquisition proposals and may delay, deter, or prevent a change in control of Unum Group, including through transactions, and in particular unsolicited transactions, that some or all of the stockholders of Unum Group might consider to be desirable.

In addition, such laws and regulations restrict the amount of dividends that may be paid by our insurance subsidiaries to their respective stockholders, including Unum Group and certain of its intermediate holding company subsidiaries and/or finance subsidiaries. See further discussion in Risk Factors contained herein in Item 1A and Liquidity and Capital Resources Cash Available from Subsidiaries contained herein in Item 7.

Unum Group may also from time to time be subject to regulation under applicable regulations and reporting requirements in the foreign jurisdictions in which it or its affiliates do business or have done business.

Federal Laws and Regulations

The USA PATRIOT Act of 2001 (Patriot Act), enacted in response to the terrorist attack on September 11, 2001, contains anti-money laundering and financial transparency laws and mandates the implementation of various new regulations applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside of the United States contain some similar provisions. The increased obligations of financial institutions to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions, require the implementation and maintenance of internal practices, procedures, and controls.

For further discussion of regulation, refer to Risk Factors contained herein in Item 1A.

Geographic Areas

Segment operating revenue, which excludes net realized investment gains and losses, for our U.K. operations totaled $1,086.1 million, $1,171.8 million, and $1,017.5 million for 2008, 2007, and 2006, respectively. These amounts were approximately 10.4 percent, 11.1 percent, and 9.7 percent of total segment operating revenue for 2008, 2007, and 2006, respectively. Total assets and total liabilities, as of December 31, 2008, were $2.9 billion and $2.1 billion, respectively, for our U.K. operations. Fluctuations in the U.S. dollar relative to the local currency of our U.K. operations will impact our reported operating results. See Risk Factors contained herein in Item 1A for further discussion of fluctuations in foreign currency exchange rates and Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein in Item 7 and Note 13 of the Notes to Consolidated Financial Statements contained herein in Item 8 for further discussion of Unum UK s operating results.

Employees

At December 31, 2008, we had approximately 9,800 full-time employees.

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Available Information

Our internet website address is www.unum.com. We make available, free of charge, on or through our website our 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) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material with the Securities and Exchange Commission.

Executive Officers of the Registrant

Our executive officers, all of whom are also executive officers of certain of our principal subsidiaries, were appointed by Unum Group s board of directors to serve until their successors are chosen and qualified or until their earlier resignation or removal.

Name	Age	Position
Thomas R. Watjen	54	President and Chief Executive Officer and a Director
Robert O. Best	59	Executive Vice President, Chief Operating Officer Unum US
Liston Bishop III	62	Executive Vice President and General Counsel
Robert C. Greving *	57	Executive Vice President, Chief Financial Officer and Chief Actuary
Randall C. Horn	56	Executive Vice President, President and Chief Executive Officer, Colonial Life
Kevin P. McCarthy	53	Executive Vice President, President and Chief Executive Officer, Unum US
Susan L. Ring	48	Executive Vice President, President and Chief Executive Officer, Unum UK

* Mr. Greving has announced his intention to retire from the Company during 2009.

Mr. Watjen became President and Chief Executive Officer in March 2003. He served as Vice Chairman and Chief Operating Officer from May 2002 until March 2003. He became Executive Vice President, Finance in June 1999 and assumed the additional Risk Management responsibilities in November 1999. Mr. Watjen originally joined a Unum Group predecessor company as Executive Vice President and Chief Financial Officer in 1994.

Mr. Best became Executive Vice President, Chief Operating Officer Unum US in January 2007. Prior to that, he served as Executive Vice President, Service Operations and Chief Information Officer from January 2006. Prior to that time, he served as Executive Vice President, The Client Services Center, and Chief Information Officer from May 2003. He served as Senior Vice President, Customer Loyalty Services, and Chief Information Officer from March 2000 until May 2003. Mr. Best originally joined a Unum Group predecessor company as Senior Vice President and Chief Information Officer in 1994.

Mr. Bishop became Executive Vice President and General Counsel in October 2008. Prior to this appointment, he served as Interim General Counsel beginning in April 2008. From August 1979 through September 2008, Mr. Bishop practiced corporate and securities law with the law firm of Miller & Martin PLLC, except during the period from January 2005 through July 2007 when he was employed as deputy general counsel and corporate secretary of Coca-Cola Enterprises Inc.

Mr. Greving was named Executive Vice President and Chief Financial Officer in May 2003 and appointed Chief Actuary in August 2005. He served as Senior Vice President and Chief Financial Officer from May 2002 until May 2003. Prior to that time, he served as Senior Vice President, Finance from August 2000. Mr. Greving originally joined a Unum Group predecessor company as Senior Vice President and Chief Actuary in April 1997.

Mr. Horn was named Executive Vice President, President and Chief Executive Officer, Colonial Life in May 2007. Prior to that, he served as Executive Vice President, President and Chief Executive Officer of Colonial Life & Accident Insurance Company from March 2004. Before joining the Company, he served as Executive Vice President of Mutual of Omaha Insurance Company from September 1981 until September 2003.

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Mr. McCarthy was named Executive Vice President, President and Chief Executive Officer, Unum US in May 2007. He previously served as Executive Vice President, President, Unum US from January 2007. Prior to that, he served as Executive Vice President, Risk Operations from January 2006. He previously served as Executive Vice President, Underwriting from May 2003. He served as Senior Vice President, Underwriting from November 2001 until May 2003 and as Senior Vice President, Marketing, Product Development, and International from December 1999 until November 2001. Mr. McCarthy originally joined a Unum Group predecessor company in 1976.

Ms. Ring was named Executive Vice President, President and Chief Executive Officer, Unum UK in May 2007. She previously served as Executive Vice President, Chairman and Managing Director, Unum Limited from May 2006. She served as Chairman and Managing Director of Unum Limited from December 2002 until November 2006. She served as Operations Director from 1999 until 2002 and prior to that time was Director of Risk Management. Ms. Ring joined Unum Limited as Director of Customer Services in 1995.

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ITEM 1A. RISK FACTORS

We face a wide range of risks, and our continued success depends on our ability to identify and appropriately manage our risk exposures. Discussed below are certain factors that may adversely affect our business, results of operations, or financial condition. Any one or more of the following factors may cause our actual results for various financial reporting periods to differ materially from those expressed in any forward looking statements made by or on behalf of the Company, including those in this document or made by us elsewhere, such as in earnings release investor calls, investor conference presentations, or press releases. The risks and uncertainties described herein may not be the only ones we face. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business. See Cautionary Statement Regarding Forward-Looking Statements contained herein on page 1.

The general outlook for corporate bond defaults in 2009 is high relative to historical levels. Defaults in our fixed maturity securities, mortgage loan, or short-term investment portfolios will adversely affect our results of operations and financial condition.

Investments are an integral part of our business, and our investments support our policyholder liabilities and shareholders equity. Our investment portfolio consists primarily of fixed maturity securities. These securities are issued by both domestic and foreign entities and are backed either by collateral or the credit of the underlying issuer. Factors such as an economic downturn or political change in the country of the issuer, a regulatory change pertaining to the issuer s industry, a significant deterioration in the cash flows of the issuer, accounting irregularities or fraud committed by the issuer, widening risk spreads, ratings downgrades, a change in the issuer s marketplace or business prospects, or other events that adversely affect the issuers of these securities may result in the issuer defaulting on its obligations.

Our mortgage loan portfolio has default risk. Events or developments, such as the current economic conditions that could impact the ability of tenants to pay their rents or could limit the availability of refinancing, may have a negative effect on our mortgage loan portfolio. Events or developments that have a negative effect on any particular geographic region or sector may have a greater adverse effect on an investment portfolio to the extent that the portfolio is concentrated in that region or sector.

A default results in the recognition of an other than temporary impairment loss on the investment. A default may also adversely affect our ability to collect principal and interest due to us. The fixed income markets are experiencing a period of extreme volatility and illiquidity which has resulted in credit downgrade events and increased probability of default.

Events that damage our reputation may adversely affect our business, results of operations, or financial condition.

There are many events, including but not limited to those discussed herein in Item 1A, which may harm our reputation. Depending on the severity of the damage to our reputation, we may be unable to effectively compete for new products or retain our existing business. Damage to our reputation may also hinder our ability to raise new capital or increase our cost of capital.

A decrease in our financial strength or issuer credit ratings may have an adverse effect on our competitive position, results of operations, or financial condition.

We compete based in part on the financial strength ratings provided by rating agencies. A downgrade of our financial strength ratings may adversely affect us and could potentially, among other things, adversely affect relationships with distributors of our products and services and retention of our sales force, negatively impact persistency and new sales, and generally adversely affect our ability to compete. A downgrade in the issuer credit rating assigned to Unum Group or a negative outlook statement by a rating agency could have an effect on our ability to raise capital and on our cost of capital. See Ratings contained herein in Item 1 and in Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein in Item 7 for further discussion.

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United Kingdom currency translation risk could materially impact reported operating results.

The functional currency of our U.K. operations is the British pound sterling. Fluctuations in the pound to dollar exchange rate have an effect on our financial results. In periods when the pound weakens, translating pounds into dollars decreases current period results relative to the prior period. In periods when the pound strengthens, translating pounds into dollars increases current period results in relation to the prior period. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert pounds into dollars. As a result, we view foreign currency translation as a financial reporting issue and not a reflection of operations or profitability in the U.K.

Sustained declines in long-term interest rates or the rate of return on pension plan assets may have a negative effect on the funded status of our pension plans and/or increase our pension costs.

The rate of return on pension plan assets is determined based on the fair value of the plan assets at the beginning and end of the measurement period. Declines in long-term interest rates or the fair value of our plan assets may result in a decrease in the funded status of our pension plans and/or increased pension costs, which may adversely affect our results of operations, financial condition, or liquidity. See Critical Accounting Estimates included in Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein in Item 7 for further discussion.

The current adverse economic conditions may adversely affect demand for our products or may result in higher disability claims incidence or longer claims duration.

As a large financial institution, we are affected by conditions in the capital markets and the general economy, both in the United States and in the United Kingdom. The adversity experienced in the capital markets and general economy that began in the middle of 2007 and worsened during 2008 may adversely affect our business and results of operations. In particular, factors such as unemployment levels, consumer confidence levels, 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 our businesses. Given the nature of our products, in an economic environment characterized by higher unemployment, lower personal income, reduced consumer spending, and lower corporate earnings and investment, the demand for our products may be adversely affected. In addition, during such periods we may experience higher disability claims incidence, longer disability claims duration, and/or an increase in policy lapses.

Differences between actual claims experience and reserving assumptions may materially adversely affect our results or operations or financial condition.

Reserves, whether calculated under GAAP or statutory accounting principles, do not represent an exact calculation of future benefit liabilities but are instead estimates made by us using actuarial and statistical procedures. There can be no assurance that any such reserves will be sufficient to fund our future liabilities in all circumstances. Future loss development may require reserves to be increased, which would adversely affect earnings in current and future periods. Adjustments to reserve amounts may be required in the event of changes from the assumptions regarding future morbidity (the incidence of claims and the rate of recovery, including the effects thereon of inflation and other societal and economic factors); persistency; mortality; policy benefit offsets, including those for social security; and interest rates used in calculating the reserve amounts. See Critical Accounting Estimates included in Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein in Item 7 for further discussion.

We and our insurance subsidiaries are subject to extensive supervision and regulation, which may affect the cost or demand for our products or may impact our profitability or growth.

Our insurance company subsidiaries may not be able to obtain or maintain necessary licenses, permits, authorizations, or accreditations, or may be able to do so only at great cost. In addition, we may not be able to comply fully with, or obtain appropriate exemptions from, the wide variety of laws and regulations applicable to insurance companies and insurance holding companies. Failure to comply with or to obtain appropriate exemptions under any applicable laws could result in restrictions on our ability to do business in one or more of the jurisdictions

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in which we operate and could result in fines and other sanctions, which may have a material adverse effect on our business or results of operations.

Because of recent events involving certain financial institutions, including insurance companies, it is possible that there will be heightened oversight of insurers at both the state and federal level. We cannot predict specific proposals that might be adopted, or what impact, if any, such proposals or, if enacted, such laws, could have on our business, results of operations, or financial condition.

New programs may be enacted at the state or federal level that will compete with or diminish the need for our products, particularly as it may affect our ability to sell our products through employers or in the workplace.

Congress, as well as foreign, state, and local governments, could enact legislation related to changes in tax laws that could increase our tax costs or affect the desirability of our products to customers.

Most group long-term and short-term disability plans we administer are governed by ERISA. Changes to ERISA enacted by Congress or via judicial interpretations may adversely affect the risk to us of managing employee benefit plans, increase the premiums associated with such plans, and ultimately affect their affordability and our profitability.

Many regulatory and governmental bodies have the authority to review our products and business practices and those of our agents and employees. These regulatory or governmental bodies may bring regulatory or other legal actions against us if, in their view, our practices are improper. These actions can result in substantial fines or restrictions on our business activities and may have a material adverse effect on our business or results of operations.

During 2004 and 2005, certain of our insurance subsidiaries entered into settlement agreements with various regulators related to disability claims handling practices. The agreements resulted in changes in our claims handling practices and a process for reassessing certain claims. These and other regulatory examinations or investigations could result in, among other things, changes in business practices, including changes in broker compensation and related disclosure practices, changes in the use and oversight of reinsurance, changes in governance and other oversight procedures, fines, and other administrative action. Such results, singly or in combination, may injure our reputation, cause negative publicity, adversely affect our issuer credit ratings and financial strength ratings, place us at a competitive disadvantage in marketing or administering our products, or impair our ability to sell or retain insurance policies, thereby adversely affecting our business, and potentially materially adversely affecting the results of operations. Determination by regulatory authorities that we have engaged in improper conduct may also adversely affect our defense of various lawsuits. See Examinations and Investigations contained herein in Item 1 and Legal and Regulatory Issues in Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein in Item 7 for further discussion.

Our insurance products may be affected by many factors, and changes in any of those factors may adversely affect our profitability.

Disability insurance may be affected by a number of social, economic, governmental, competitive, and other factors. Changes in societal attitudes, such as work ethic, motivation, or stability, can significantly affect the demand for and underwriting results from disability products. Competition in disability insurance has also been markedly affected by the growth of social security, workers compensation, and other governmental programs in the workplace.

Both economic and societal factors can affect claim incidence for disability insurance. Claim incidence and claim recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence. Claim incidence and claim recovery rates may also be influenced by the emergence of new infectious diseases or illnesses. The relationship between these and other factors and overall incidence is very complex and will vary due to contract design features and the degree of expertise within the insuring organization to price, underwrite, and adjudicate the claims. Within the group disability market, pricing and renewal actions can be taken to react to higher claim rates. However, these actions take time to implement, and there is a risk that the market will not sustain increased prices. In addition, changes in economic and external conditions may not manifest themselves in claims experience for an extended period of time.

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The pricing actions available in the individual disability market differ between product classes. Our individual noncancelable disability policies, in which the policy is guaranteed to be renewable through the life of the policy at a fixed premium, do not permit us to adjust premiums on our in-force business due to changes resulting from such factors. Guaranteed renewable contracts that are not noncancelable can be re-priced to reflect adverse experience, but rate changes cannot be implemented as quickly as in the group disability market.

Long-term care insurance can be affected by a number of demographic, medical, economic, governmental, competitive, and other factors. Because long-term care insurance is a relatively new product for the insurance industry and is long-duration in nature, there is not as much historical data as is available for our other products. This creates a level of uncertainty in properly pricing the product and using appropriate assumptions when establishing reserves. Mortality is a critical factor influencing the length of time a claimant receives long-term care benefits. Mortality continues to improve for the general population, and life expectancy has increased. Changes in actual mortality trends relative to assumptions may adversely affect our profitability. Long-term care insurance is guaranteed renewable and can be re-priced to reflect adverse experience, but the re-pricing is subject to regulatory approval which can affect the length of time in which the re-pricing can be implemented, if at all. Due to the long duration of the product, we may be unable to purchase appropriate assets with cash flows and durations such that the timing and/or amount of our investment cash flows may not match those of our maturing liabilities.

Group life insurance may be affected by the characteristics of the employees insured, the amount of insurance employees may elect voluntarily, our risk selection process, our ability to retain employer groups with lower claim incidence rates, the geographical concentration of employees, and mortality rates. Claim incidence may also be influenced by unexpected catastrophic events such as terrorist attacks and natural disasters, which may also affect the availability of reinsurance coverage.

In addition to investment default risk as previously discussed, we are exposed to other risks related to our investment portfolio which may adversely affect our results of operations, financial condition, or liquidity. These risks include interest rate and credit spread fluctuations, the contractual terms of derivative contracts, the accuracy of valuations of securities, and the possibility that we might need to sell securities at disadvantageous times.

Fluctuations in interest rates affect our ability to earn the interest rates assumed in our policyholder reserves or reported in previous periods net investment income and also affect the fair value of our investment portfolio. A rise in interest rates may increase the net unrealized loss position of our investment portfolio, but may improve our ability to earn higher rates of return on new purchases of fixed income securities. Conversely, a decline in interest rates may decrease the net unrealized loss position of our investment portfolio, but new securities may be purchased at lower rates of return. Our exposure to credit spreads, which is the yield above comparable Treasury securities, primarily relates to market price and cash flow variability associated with changes in credit spreads. A widening of credit spreads may increase the net unrealized loss position of the investment portfolio. Credit spread tightening may reduce net investment income associated with new purchases of fixed income securities.

We use derivative instruments to help us manage interest rate risk. While we use relatively simple over-the-counter instruments, they are complicated contracts. Risks to our results of operations, financial condition, or liquidity include:

- Our hedges may become ineffective due to changes in expected future events for which we have hedged or if our counterparties fail or refuse to honor their obligations under these derivative instruments. Ineffectiveness of our hedges may have a material adverse effect on our results of operations or financial condition.
- If we are downgraded significantly, ratings triggers in our contracts may result in our counterparties enforcing their option to terminate the derivative contracts. Such an event may have a material adverse effect on our financial condition or our ability to hedge our risks.
- Many of our counterparties are financial institutions, and the recent capital market turmoil has resulted in an increase in the risk of non-performance by many financial institutions. Non-performance by our counterparties may force us to unwind the hedge. We may be unable to replace the hedge, thereby leaving the risk unhedged.

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- Under the terms of our hedging contracts, we are required to post collateral and to maintain a certain level of collateral. This may adversely affect our liquidity and could subject us to the credit risk of the counterparty to the extent it holds such collateral.
- An increase in interest rates may result in losses at the time hedges are terminated, which may have a material adverse effect on our financial condition or results of operations.

See Note 5 of the "Notes to Consolidated Financial Statements" contained herein in Item 8 for a discussion of our derivative financial instruments.

We report our fixed maturity securities and certain other financial instruments at market value. During periods of market disruption, it may be difficult to value certain of our securities or to determine other than temporary impairments. Valuations may include inputs and assumptions that are less observable or require greater estimation, resulting in values which may be less than the value at which the investments may ultimately be sold. Further, rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported in our financial statements, and the period to period changes in value could vary significantly. Decreases in value may have a material adverse effect on our results of operations or financial condition.

We evaluate our investment portfolio for impairments. There can be no assurance that we have accurately assessed the level of impairments taken. Additional impairments may need to be taken in the future, and historical trends may not be indicative of future impairments. Any event reducing the value of our securities other than on a temporary basis may have a material adverse effect on our business, results of operations, or financial condition.

While we attempt to match our asset cash flows and durations with expected liability cash flows and durations to meet the funding requirements of our business, we may in certain circumstances need to sell investments due to changes in regulatory or capital requirements, changes in tax laws, rating agency decisions, and/or unexpected changes in liquidity needs. Events such as these may force us to sell securities in an unfavorable interest rate or credit environment, with a resulting adverse effect on our results of operations, financial condition, or liquidity.

We may be required to establish a valuation allowance against our deferred income tax asset.

Factors in our ability to realize a tax benefit from our deferred income tax asset include the performance of our businesses and our ability to generate realized investment gains. If we determine that all or a portion of the deferred income tax asset will not result in a future tax benefit, a valuation allowance must be established with a corresponding charge to net income or other comprehensive income. Such charges may have a material adverse effect on our results of operations or financial condition. The likelihood of recording such a valuation increases during periods of economic downturn.

An assessment by a governing tax authority may have a material adverse effect on our results of operations or financial condition.

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws in a multitude of jurisdictions, both domestic and foreign. The amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect profitability. Such an assessment may have a material adverse effect on our results of operations or financial condition.

Our overall risk management program may leave us exposed to unidentified or unanticipated risk, which could negatively affect our business.

We have devoted significant resources to develop our enterprise risk management program, which has the objective of managing our strategic, market, credit, insurance, operations, capital and liquidity, and reputational risks. However, our program may not be comprehensive, and our methods for managing risk may not fully predict future exposures. See "Quantitative and Qualitative Disclosures About Market Risk" contained herein in Item 7A for further information about our risk management program.

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Litigation is common in our businesses and may result in significant financial losses and/or harm to our reputation.

The Company and/or its subsidiaries directors and officers have been sued in several purported class action and stockholder derivative lawsuits. The outcome of these lawsuits is uncertain, and we are unable to estimate a range of reasonably possible losses. Reserves have not been established for these matters. An adverse outcome in one or more of these actions may, depending on the nature, scope and amount of the ruling, adversely affect our results of operations or financial condition, encourage other litigation, and limit our ability to write new business, particularly if the adverse outcomes negatively impact certain of our ratings.

Unum Group and its insurance subsidiaries, as part of their normal operations in managing claims, are engaged in claim litigation where disputes arise as a result of a denial or termination of benefits. Typically those lawsuits are filed on behalf of a single claimant or policyholder, and in some of these individual actions punitive damages are sought, such as claims alleging bad faith in the handling of insurance claims. For our general claim litigation, we maintain reserves based on experience to satisfy judgments and settlements in the normal course. We expect that the ultimate liability, if any, with respect to general claim litigation, after consideration of the reserves maintained, will not be material to our financial condition. Nevertheless, given the inherent unpredictability of litigation, it is possible that an adverse outcome in certain claim litigation involving punitive damages may, from time to time, have a material adverse effect on our results of operations. We are unable to estimate a range of reasonably possible punitive losses.

Refer to Note 14 of the Notes to Consolidated Financial Statements contained herein in Item 8 for additional information on legal proceedings.

We need to finance our ongoing operations, and this may not always be possible solely from internal sources of capital and liquidity. If we need to seek external capital, there is the risk that adverse market conditions may significantly affect our access to capital or our cost of capital.

A decrease in demand for our insurance products or an increase in the incidence of new claims or the duration of existing claims could negatively impact our cash flows from operations. Deterioration in the credit market, which could delay our ability to sell our positions in certain of our fixed maturity securities in a timely manner, could also negatively impact our cash flows. Without sufficient liquidity, we could be forced to curtail our operations, and our business may suffer. If our internal sources of liquidity prove to be insufficient, we may be unable to successfully obtain additional financing and capital on favorable terms, or at all, which may adversely affect us.

In the near term, we expect that our need for external financing is small, but changes in our business could increase our need. If our financial results are unfavorable, we may need to increase our capital in order to maintain our credit ratings or satisfy regulatory requirements. Maintaining appropriate levels of statutory surplus, as measured by state insurance regulations, is considered important by state insurance regulatory authorities and the rating agencies that rate insurers claims-paying abilities and financial strength. Failure to maintain certain levels of statutory surplus could result in increased regulatory scrutiny, action by state regulatory authorities, or a downgrade by the rating agencies. If the NAIC or state regulators adopt revisions to the RBC formula, or if the FSA revises its capital adequacy requirements and minimum solvency margins, our insurance subsidiaries may require additional capital. Need for additional capital may limit a subsidiary s ability to distribute funds to the holding company and adversely affect our ability to pay dividends on our common stock and meet our debt and other payment obligations.

Obtaining financing for even a small amount of capital could be complicated in the current market environment. In some cases during the past year, the markets have exerted downward pressure on availability of liquidity and credit capacity for certain issuers. The availability of financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, our credit ratings and credit capacity, and the possibility that customers or lenders could develop a negative perception of our financial prospects. Similarly, our access to funds may be impaired if regulatory authorities or rating agencies take negative actions against us. Raising capital in unfavorable market conditions could increase our interest expense or negatively impact our shareholders through increased dilution of their common stock holding in Unum Group.

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See Liquidity and Capital Resources included in Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein in Item 7 for further discussion.

Competition may adversely affect our market share or profitability.

All of our businesses are highly competitive. We believe that the principal competitive factors affecting our business are integrated product choices, price, quality of customer service and claims management, financial strength, and claims-paying ratings. We compete for new product sales, the retention of existing business, and the ability to attract and retain independent agents and brokers to market our products, all of which affect our profitability. There are many insurance companies which actively compete with us in our lines of business, some of which are larger and have greater financial resources, and there is no assurance that we will be able to compete effectively against such companies in the future. See Competition contained herein in Item 1 for further discussion.

We are subject to various operational risks resulting from inadequate or failed internal processes or from external events which may damage our market position and reputation and/or adversely affect our results of operations or financial condition.

We face challenges and risks associated with the development, sale, and retention of product offerings that meet the needs of our targeted markets; maintaining effective underwriting and pricing discipline; continued effective claim management and customer service performance; ongoing expense management; delivering effective technology solutions; continued execution of our capital management strategy; and the successful implementation of operational improvements and strategic growth initiatives. Failure to successfully manage our operational risks may adversely affect our competitiveness, profitability, or financial condition.

Our subsidiaries may be restricted from paying dividends to our holding companies.

Unum Group and certain of its subsidiaries rely on dividends from our insurance and non-insurance company subsidiaries to make dividend payments on our common stock, meet debt payment obligations, and pay our other obligations. Our insurance company subsidiaries are subject to regulatory limitations on the payment of dividends and on other transfers of funds to affiliates. The level of statutory earnings and capital in our insurance subsidiaries could impact their ability to pay dividends or to make other transfers of funds to our holding companies, which could impair our ability to pay our dividends or meet our debt and other payment obligations. See Liquidity and Capital Resources included in Management s Discussion and Analysis of Financial Condition and Results of Operations contained herein in Item 7 and Note 15 of the Notes to Consolidated Financial Statements contained herein in Item 8 for a discussion of the existing regulatory limitations on dividends.

Reinsurance may not be available or affordable, or reinsurers may be unwilling or unable to meet their obligations under our reinsurance contracts, which may adversely affect our results of operations or financial condition.

As part of our overall risk management strategy, we purchase reinsurance for certain risks underwritten by our various businesses. Market conditions beyond our control determine the availability and cost of the reinsurance protection. Any decrease in the amount of reinsurance will increase our risk of loss and any increase in the cost of reinsurance will, absent a decrease in the amount of reinsurance, reduce our results of operations. Accordingly, we may be forced to incur additional expenses for reinsurance or may be unable to obtain sufficient reinsurance on acceptable terms, which may adversely affect our ability to write future business or result in the assumption of more risk with respect to the policies we issue. The collectibility of our reinsurance recoverable is primarily a function of the solvency of the individual reinsurers. The insolvency of a reinsurer or the inability or unwillingness of a reinsurer to comply with the terms of a reinsurance contract may have an adverse effect on our results of operations or financial condition.

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We have intangible assets such as deferred acquisition costs (DAC), value of business acquired (VOBA), and goodwill. We may be required to accelerate amortization or recognize an impairment, which may adversely affect our results of operations or financial condition.

We defer certain costs incurred in acquiring new business and expense these costs over the life of the related policies. These costs include certain commissions, other agency compensation, selection and policy issue expenses, and field expenses. VOBA represents the present value of future profits recorded in connection with the acquisition of a block of insurance policies. DAC and VOBA are amortized based primarily upon expected future premium income of the related insurance policies. Recoverability testing for DAC and VOBA is performed on an annual basis. Insurance contracts are grouped on a basis consistent with our manner of acquiring, servicing, and measuring profitability of the contracts. If recoverability testing indicates that either DAC and/or VOBA are not recoverable, the deficiency is charged to expense.

Goodwill is not amortized, but on an annual basis we review the carrying amount of goodwill for indications of impairment, considering in that review the financial performance and other relevant factors. In accordance with accounting guidance, we test for impairment at either the operating segment level or one level below. In addition, certain events including, but not limited to, a significant adverse change in legal factors or the business environment, an adverse action by a regulator or rating agency, or unanticipated competition would cause us to review goodwill for impairment more frequently than annually.

Extreme events, including terrorism, can affect the economy in general, our industry, and us specifically.

Events such as epidemics, pandemics, terrorist attacks, natural disasters, or other extreme events may materially adversely affect our business, the level of claims, or our results of operations, and in the event of extreme circumstances, our financial condition or viability. Beyond obtaining insurance coverage for our facilities, there are few, if any, commercial options through which to transfer the exposure from extreme events away from us. The continued threat of terrorism could result in increased reinsurance prices and reduced insurance coverage and potentially cause us to retain more risk than we otherwise would retain if we were able to obtain reinsurance at lower prices. In the event of nuclear or bioterrorism attacks, epidemics, or other extreme events, we could face significant costs depending on the government s actions and the responsiveness of public agencies and other insurers. In addition, we may also be adversely affected if we do not maintain adequate procedures to ensure disaster recovery and business continuity for our facilities and operations in the event of such occurrences.

Changes in accounting standards issued by the Financial Accounting Standards Board (FASB) or other standard-setting bodies may adversely affect our financial statements.

Our financial statements are subject to the application of generally accepted accounting principles in both the United States and the United Kingdom, which are periodically revised and/or expanded. Accordingly, we are required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB. Market conditions have prompted accounting standard setters to expose new guidance which further interprets or seeks to revise accounting pronouncements related to financial instruments as well as to issue new standards expanding disclosures. It is possible that future accounting standards we are required to adopt could change the current accounting treatment that we apply to our financial statements and that such changes may have a material adverse effect on our results of operations or financial condition.

We also face other risks that may adversely affect our business, results of operations, or financial condition, including but not limited to:

- A significant deficiency in our internal controls over financial reporting;
- Any requirement to restate financial results due to inappropriate application of accounting principles;
- Risks associated with security or interruption of information systems, which could cause, among other things, operational disruption;
- Failure to adequately plan for succession of our senior management and other key executives; and
- Failure of our processes to prevent and detect fraud and/or unethical conduct of employees.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

We occupy approximately 2.7 million square feet of space at four principal operating centers in Chattanooga, Tennessee; Portland, Maine; Worcester, Massachusetts; and Columbia, South Carolina.

We own and occupy two connected buildings in Chattanooga, Tennessee, with approximately 901,000 square feet of office space. We own and occupy five facilities in Portland, Maine, with approximately 838,000 square feet of office space. We own and occupy facilities totaling approximately 385,000 square feet in Worcester, Massachusetts. We own and occupy approximately 523,000 square feet of office space in Columbia, South Carolina.

We also occupy office buildings in the United Kingdom which serve as the home offices of Unum Limited. We own and occupy property located in Dorking, with approximately 63,000 square feet of office space. In addition, approximately 65,000 square feet of office space is leased and occupied in two office buildings located in Bristol and Basingstoke.

We lease and occupy approximately 89,000 square feet of office space in Glendale, California. Additionally, we lease other office space, for periods principally from five to ten years, for use by our affiliates and sales forces.

Our properties and facilities are suitable and adequate for current operations.

ITEM 3. LEGAL PROCEEDINGS

Refer to Note 14 of the Notes to Consolidated Financial Statements contained herein in Item 8 for information on legal proceedings.

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

None

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common stock of Unum Group is traded on the New York Stock Exchange. The stock symbol is UNM. Quarterly market prices and dividends paid per share of common stock are as follows:

	Market Price		
	High	Low	Dividend
2008			
1st Quarter	$24.50	$19.22	$0.075
2nd Quarter	24.99	20.40	0.075
3rd Quarter	27.50	19.43	0.075
4th Quarter	26.20	9.33	0.075
2007			
1st Quarter	$23.40	$19.79	$0.075
2nd Quarter	28.20	22.83	0.075
3rd Quarter	26.75	22.02	0.075
4th Quarter	26.67	22.36	0.075

The following graph shows a five year comparison of cumulative total returns for our common stock s historical performance, the S&P 500 Index, and the Insurance Index (non-weighted average of total returns from the S&P Life & Health Index and the S&P Multi-line Index). Past performance is not an indication of future results.

As of February 23, 2009, there were 15,469 registered holders of common stock.

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The following table provides information about our share repurchase activity for the fourth quarter of 2008:

	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Program (1) (2) (3)	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (1) (2) (3)
October 1 - October 31, 2008	1,981,782	$ 24.17	1,981,782	$ -
November 1 - November 30, 2008	-	-	-	-
December 1 - December 31, 2008	-	-	-	-
Total	1,981,782		1,981,782	

(1) On October 31, 2007, we announced that Unum Group s board of directors authorized the repurchase of up to $700.0 million of Unum Group common stock.

(2) On January 31, 2008, we repurchased 14,000,000 shares of Unum Group common stock for $350.0 million using an accelerated share repurchase agreement. Under the terms of the repurchase agreement, we were to receive, or be required to pay, a price adjustment based on the volume weighted average price of Unum Group common stock during the term of the agreement. Any price adjustment payable to us was to be settled in shares of Unum Group common stock. Any price adjustment we would have been required to pay would have been settled in either cash or common stock. A 30 percent partial acceleration of the agreement, 4,200,000 shares, occurred on March 26, 2008 and settled on March 28, 2008 with the price adjustment resulting in the delivery to us of 482,483 additional shares of Unum Group common stock. The remaining 9,800,000 shares settled on May 29, 2008, with the price adjustment resulting in the delivery to us of 913,707 additional shares. In total, we repurchased 15,396,190 shares of Unum Group common stock under this agreement for an average price paid per share of $22.73.

(3) On August 4, 2008, we repurchased 12,500,000 shares of Unum Group common stock for $350.0 million using an accelerated share repurchase agreement. Under the terms of the repurchase agreement, we were to receive, or be required to pay, a price adjustment based on the volume weighted average price of Unum Group common stock during the term of the agreement. Any price adjustment payable to us was to be settled in shares of Unum Group common stock. Any price adjustment we would have been required to pay would have been settled in either cash or common stock. A 50 percent partial acceleration of the agreement, 6,250,000 shares, occurred on October 7, 2008 and settled on October 10, 2008 with the price adjustment resulting in the delivery to us of 980,886 additional shares of Unum Group common stock. The remaining 6,250,000 shares settled on October 14, 2008, with the price adjustment resulting in the delivery to us of 1,000,896 additional shares. In total, we repurchased 14,481,782 shares of Unum Group common stock under this agreement for an average price paid per share of $24.17.

For information on restrictions relating to our insurance subsidiaries ability to pay dividends to the holding company see Liquidity and Capital Resources Cash Available from Subsidiaries contained herein in Item 7 and Note 15 of the Notes to Consolidated Financial Statements contained herein in Item 8. For information relating to compensation plans under which Unum Group s equity securities are authorized for issuance, see Item 12 contained herein.

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ITEM 6. SELECTED FINANCIAL DATA

(in millions of dollars, except share data)

	At or for the Year Ended December 31				
	2008	2007	2006	2005	2004
Statement of Operations Data					
Revenue					
Premium Income	$ 7,783.3	$ 7,901.1	$ 7,948.2	$ 7,815.6	$ 7,839.6
Net Investment Income	2,389.0	2,409.9	2,320.6	2,188.3	2,158.7
Net Realized Investment Gain (Loss)	(465.9)	(65.2)	2.2	(6.7)	29.2
Other Income	275.9	274.1	264.3	262.1	260.3
Total	9,982.3	10,519.9	10,535.3	10,259.3	10,287.8
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits (1)	6,626.4	6,988.2	7,577.2	7,083.2	7,248.4
Commissions	853.3	841.1	819.0	804.7	842.3
Interest and Debt Expense (2)	156.7	241.9	217.6	208.0	207.1
Other Expenses (3)	1,521.9	1,451.5	1,456.1	1,469.5	2,265.7
Total	9,158.3	9,522.7	10,069.9	9,565.4	10,563.5
Income (Loss) from Continuing Operations Before Income Tax	824.0	997.2	465.4	693.9	(275.7)
Income Tax (Benefit) (4)	270.8	324.8	61.8	189.9	(74.3)
Income (Loss) from Continuing Operations	553.2	672.4	403.6	504.0	(201.4)
Income (Loss) from Discontinued Operations (5)	-	6.9	7.4	9.6	(51.6)
Net Income (Loss)	$ 553.2	$ 679.3	$ 411.0	$ 513.6	$ (253.0)
Balance Sheet Data					
Assets (6)	$ 49,417.4	$ 52,701.9	$ 52,977.8	$ 51,975.8	$ 50,905.5
Long-term Debt	$ 2,259.4	$ 2,515.2	$ 2,659.6	$ 3,261.6	$ 2,862.0
Accumulated Other Comprehensive Income (Loss)	$ (958.2)	$ 463.5	$ 612.8	$ 1,163.5	$ 1,481.1
Other Stockholders Equity	7,356.1	7,576.4	7,106.0	6,200.4	5,743.0
Total Stockholders Equity	$ 6,397.9	$ 8,039.9	$ 7,718.8	$ 7,363.9	$ 7,224.1

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	At or for the Year Ended December 31				
	2008	2007	2006	2005	2004
Per Share Data					
Income (Loss) from Continuing Operations					
Basic	$ 1.62	$ 1.90	$ 1.25	$ 1.71	$ (0.68)
Assuming Dilution	$ 1.62	$ 1.89	$ 1.21	$ 1.61	$ (0.68)
Income (Loss) from Discontinued Operations					
Basic	$ -	$ 0.02	$ 0.02	$ 0.03	$ (0.18)
Assuming Dilution	$ -	$ 0.02	$ 0.02	$ 0.03	$ (0.18)
Net Income (Loss)					
Basic	$ 1.62	$ 1.92	$ 1.27	$ 1.74	$ (0.86)
Assuming Dilution	$ 1.62	$ 1.91	$ 1.23	$ 1.64	$ (0.86)
Stockholders Equity	$ 19.32	$ 22.28	$ 22.53	$ 24.66	$ 24.36
Cash Dividends	$ 0.30	$ 0.30	$ 0.30	$ 0.30	$ 0.30
Weighted Average Common Shares Outstanding					
Basic (000s)	341,022.8	352,969.1	324,654.9	295,776.4	295,224.3
Assuming Dilution (000s)	341,560.3	355,776.5	334,361.7	312,512.6	295,224.3

(1) Included are regulatory claim reassessment charges of $65.8 million, $396.4 million, $52.7 million, and $84.5 million in 2007, 2006, 2005, and 2004, respectively, and reserve strengthening of $110.6 million in 2004 related to the restructuring of the individual disability closed block.

(2) Included are costs related to early retirement of debt of $0.4 million, $58.8 million, and $25.8 million in 2008, 2007, and 2006, respectively.

(3) Includes the net increase in deferred acquisition costs, compensation expense, and other expenses. Included in these expenses are regulatory claim reassessment charges (credits) and broker compensation settlement expenses of $(12.8) million, $33.5 million, $22.3 million, and $42.5 million in 2007, 2006, 2005, and 2004, respectively, and, in 2004, charges related to the impairment of the individual disability closed block deferred acquisition costs, value of business acquired, and goodwill balances of $282.2 million, $367.1 million, and $207.1 million, respectively.

(4) Amounts reported for 2006 and 2005 include income tax benefits of $91.9 million primarily as the result of group relief benefits obtained from the use of net operating losses in a foreign jurisdiction in which our businesses operate and $42.8 million related to the reduction of income tax liabilities, respectively.

(5) Includes after-tax losses of $71.3 million from the Canadian branch sale and write-downs in 2004.

(6) Prior year amounts have been reclassified to conform to current year presentation, as discussed in Note 1 of the Notes to Consolidated Financial Statements contained herein in Item 8.

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

The discussion and analysis presented in this section should be read in conjunction with our consolidated financial statements and notes thereto in Item 8.

Executive Summary

Our primary objectives for 2008 included:

- Consistent execution of our operating plans. We continued our emphasis on disciplined, profitable growth.
- Continued innovation throughout our businesses. Within Unum US, we broadly launched *Simply Unum* in the small to mid sized employer marketplace. We capitalized on the introduction of a number of health related products for Colonial Life and continued to expand our enrollment capabilities and product offerings. In Unum UK, we worked on the development of new product offerings and the improvement of corporate efficiencies.
- Leveraging of our leadership positions and marketplace reputation. We built on the momentum of 2007 with increased brand and product awareness.
- Execution of our capital management strategy. We completed our share repurchase program and maintained our financial measurements at favorable levels relative to our targets.
- Professional development of our employees. We continued our emphasis on training and leadership development and talent management throughout our organization.

Through focusing on these objectives, we believe that we have instilled greater confidence in our company among our constituents. In commenting on our results for 2008, we will discuss our operating performance, strategic and capital initiatives, the current economic environment, and our major areas of focus for 2009.

Operating Performance

During 2008, Unum US reported an increase in segment operating income of 12.5 percent compared to the prior year and excluding the 2007 revision to the claim reassessment reserve estimate. The group disability benefit ratio was 88.7 percent for the fourth quarter of 2008 and 89.9 percent for full year 2008, consistent with our goal of continual profit margin improvement for this line of business. Unum US sales increased 11.0 percent in 2008 compared to 2007. Our group core market segment, which we define for Unum US as employee groups with less than 2,000 lives, had a sales increase of 23.7 percent over the prior year, and the number of new accounts increased 16.4 percent. Our supplemental and voluntary sales increased 6.8 percent in 2008 compared to last year, with a 14.6 percent increase in voluntary sales offsetting the expected decrease in sales of individual long-term care. Sales in the group large case market segment declined 1.8 percent compared to the prior year. During the third quarter of 2007, we introduced *Simply Unum*, an integrated platform of products and online services that we believe will transform the benefits marketplace through innovative solutions for our group core market segment and our voluntary market. The initial limited market rollout occurred in 2007, and we have now expanded the availability of *Simply Unum* to 45 states nationwide. We will complete the rollout to the remaining states as state approvals are received. We are also in the process of developing additional products and services.

Our Unum UK segment continues to produce excellent operating results, with an increase in segment operating income of 6.5 percent for 2008, as measured in Unum UK s local currency, relative to 2007. The functional currency of Unum UK is the British pound sterling, and we translate Unum UK s pound-denominated financial statements into dollars for our consolidated financial reporting. The recent fluctuations in the pound to dollar exchange rate have decreased our current year results relative to 2007, particularly results reported for the second half of 2008. We expect this volatility in translated financial results, which is a financial reporting issue and is not indicative of an operating problem, to continue in 2009. Overall sales in Unum UK increased 3.6 percent in 2008 compared to the prior year. Sales in 2007 benefited from the change in age equality legislation more so than in 2008. Excluding sales related to the change in age equality legislation from all comparable periods, Unum UK achieved underlying sales growth of approximately 16 percent in 2008 relative to 2007. The U.K. market remains highly competitive. We are developing new products and services to target new customer segments. During 2008 we launched a dual benefit group disability product designed for the needs of the smaller employer.

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Our Colonial Life segment reported an increase in segment operating income of 9.1 percent in 2008 compared to the prior year. Colonial Life s sales increased 1.6 percent in 2008 relative to last year, with sales in the commercial market segment for employee groups with less than 100 lives increasing 6.9 percent. The number of new accounts and the average new case size both increased over the prior year. During the latter part of 2007, we introduced a new hospital confinement indemnity insurance plan product and a group limited benefit medical plan product, and in the first quarter of 2008, we introduced the new Colonial Life brand. We are pleased with the marketplace reception for our new Colonial Life brand and these new product offerings. Colonial Life continues to expand its enrollment capabilities and its product offerings. In the third quarter of 2008, Colonial Life introduced two new life products and the latest release of its enrollment system, *Harmony*, which offers multiple enrollment solutions. In addition, all of Colonial Life s individual products, including the two new life products, are available on *Harmony*.

Our investment strategy continues to provide benefits to our overall business performance. We are focused on both the quality of our investment portfolio and on investing new money in investments appropriate for our liabilities and with yields that will increase our portfolio yield. Our net investment income in 2008 was slightly below the level of 2007 due primarily to a decrease in the level of bond call premiums. Included in 2008 results are net realized investment losses from sales and write-downs of investments related primarily to fixed maturity securities in the financial institutions, automotive, and media sectors that we either sold or considered other than temporarily impaired during the third and fourth quarters of 2008. We believe our investment portfolio is well positioned for the current environment, with historically low levels of below-investment-grade securities, no exposure to subprime mortgages, Alt-A loans, or collateralized debt obligations in our asset-backed or mortgage-backed securities portfolios, and minimal exposure to collateralized debt obligations within our public bond portfolio. Further discussion is included in Investments contained in this Item 7.

Strategic and Capital Initiatives

The first priority of our capital management strategy is to maintain sufficient financial flexibility to support our operations over various economic cycles and to respond to opportunities in the marketplace while positioning our Company for improvements in its credit ratings. We have several financial targets which guide our capital management decisions including:

- Maintain a risk based capital ratio of 300 percent or greater for our traditional U.S. insurance subsidiaries. This is to be measured on a weighted average basis using the NAIC Company Action Level formula.
- Maintain leverage at approximately 25 percent. Leverage will be measured as total debt to total capital, which we define as total long-term and short-term debt plus stockholders equity, excluding the net unrealized gain or loss on securities and the net gain or loss on cash flow hedges. This target level excludes the non-recourse debt and associated capital of Tailwind Holdings and Northwind Holdings.
- Maintain cash and liquid investments at our holding companies sufficient to cover one year of fixed charges (measured as interest expense plus common stock dividends) plus a capital fund which will vary with business and economic conditions.
- Maintain a common stock dividend yield that is near the median of our peer companies.

At the end of 2008, all of our financial measurements for capital management continue to compare favorably to our target levels. We have completed our $700.0 million authorized share repurchase program, and we have maintained our leverage at 21.5 percent, compared to 21.4 percent at the end of 2007.

See Liquidity and Capital Resources contained in this Item 7 for further detail.

Economic Environment

Analysis and stress testing are important aspects of understanding our financial risk exposure and developing proactive risk management efforts. As part of our recessionary analysis, we have identified the following potential challenges to our 2009 business outlook, as well as what we perceive to be opportunities and mitigating factors, resulting from the current economy.

Potential Challenges

- Lower premium income from fewer employees in the work-force of our markets; employer- and employee-paid cost pressures may also limit sales and reduce persistency.
- Lower net investment income from fewer long-term assets to match our liability portfolio; lower bond call prepayment income.
- Lower investment income and/or higher realized investment losses due to an increase in defaults.
- Higher unrealized investment losses.
- Higher disability claim costs.
- Higher operating expense ratios due to declining premiums.

Opportunities and Mitigating Factors

- Lower premium income may be mitigated by mix of business and by our growing position in the voluntary market.
- Lower premium income may be mitigated by the flexibility of our product design and pricing.
- We may achieve higher investment income from wider corporate spreads which enhance investment income associated with new purchases of fixed maturity securities.
- We have low levels of exposure to high risk investments.
- We believe our claim reserve discount rates are adequate relative to investment portfolio yield rates.
- We believe our risk management is strong; we have a diversified business mix, with a core market focus which generally has lower and less volatile claim incidence.
- Our historical pattern of benefits paid to revenues is consistent, even during cycles of economic downturns.
- We manage our expenses aggressively and have cost management initiatives in place.
- We believe our risk-based capital and holding company liquidity position us well for an economic downturn.

Our business outlook recognizes both the challenges of the current economic environment as well as the mitigating impact of risk-reducing actions we have taken in recent years, including product diversification across sectors and locations, our mix of business, our disciplined underwriting, pricing, claims, and expense management, a reduced credit risk profile in our investment portfolio, our capital management strategy, and better risk management practices. Our outlook is responsive to our risk management framework and is consistent with our risk appetite. Although occurrence of one or more of the risk factors previously discussed herein in Item 1A may cause our results to differ from our outlook, we believe that our business outlook is built on sound operating plans that have been tested against many of the challenges presented by the current economic environment.

Focus for 2009

During 2009, we intend to continue our focus on a number of key areas.

- Consistent execution of our operating plans. We will continue our emphasis on disciplined, profitable growth.
- Maintain a strong investment portfolio. We will maintain disciplined credit analysis in our selection of investment assets and continue to be conservative within our investment risk tolerances.
- Build and effectively use capital. We intend to continue to build capital and manage it effectively within our stated capital management strategy objectives.
- Professional development of our employees. We will continue our focus on employee training and development as well as talent management.

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2008 Significant Transactions and Events

Legal and Regulatory Issues

On January 12, 2009, in a two-to-one decision, the Sixth Circuit Court of Appeals reversed the District Court s earlier ruling certifying a class in the case styled, In re UnumProvident Corp. ERISA Benefits Denial Actions. On January 26, 2009, the plaintiffs filed a petition for rehearing of this decision by the full court. The District Court has yet to rule on our pending motions for judgment on the pleadings or for summary judgment.

During 2008, we reached a settlement in the Shareholder Derivative action that was originally filed in 2002. Under the terms of the settlement, which is subject to approval of the court, we have agreed to implement or continue certain corporate governance measures and pay plaintiffs attorneys fees in an amount to be determined by the court.

Also during 2008, we reached a settlement with the U.S. Attorney in San Diego regarding broker compensation disclosure practices dating back several years. While this settlement was only recently finalized, it covers issues that were resolved several years ago with other regulators. We have worked cooperatively with the U.S. Attorney s office since its inquiry into the industry s compensation practices began. As part of the settlement, we agreed to a payment of $5.6 million and included this expense in our 2008 results. Compliance with the terms of the settlement agreement will not require any further changes in our business practices, as we previously made changes to our broker compensation program.

During 2007, we completed the claim reassessment process required by the 2004 and 2005 regulatory settlement agreements. The lead regulators conducted a final examination and presented their findings to Unum Group s board of directors and management on April 14, 2008. The report of the multistate market conduct examination for the Maine Bureau of Insurance, Massachusetts Division of Insurance, New York State Insurance Department, Tennessee Department of Commerce and Insurance, and other participating jurisdictions as well as the report of the California Department of Insurance market conduct examination both provided that we satisfactorily complied with each of the agreements mandates and that no fines will be assessed.

We continue to work closely with our regulators and also continue to work toward resolution of other outstanding legal and regulatory issues. See Note 14 of the Notes to Consolidated Financial Statements contained herein in Item 8 for information on our legal proceedings.

Financing

During 2007, Unum Group s board of directors authorized the repurchase of up to $700.0 million of Unum Group common stock. During 2008, we completed our share repurchase program and purchased 29.9 million shares of Unum Group common stock for $700.0 million.

During the second quarter of 2008, we retired the remaining $175.0 million of our 5.997% senior notes. During 2008, we made principal payments of $59.3 million and $10.0 million on our senior secured non-recourse variable rate notes issued by Northwind Holdings and Tailwind Holdings, respectively. We also purchased and retired $36.6 million of our 6.85% senior debentures due 2015 and $17.8 million of our outstanding 5.859% senior notes due in May 2009.

In December 2008, we obtained a new credit facility. The current facility establishes a $250.0 million unsecured revolving line of credit and replaces an existing facility. We intend to use any drawn borrowings from the facility for general corporate purposes. Any actions that we may take will be consistent with our stated capital management strategy.

See Liquidity and Capital Resources contained in this Item 7 and Note 8 of the Notes to Consolidated Financial Statements contained herein in Item 8 for additional information.

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Other

During the first quarter of 2008, we established a new non-insurance company, Unum Ireland Limited, which is an indirect wholly-owned subsidiary of Unum Group. The purpose of Unum Ireland Limited is to expand our information technology resource options to ensure that our resource capacity keeps pace with the growing demand for information technology support. This subsidiary, which is located in Carlow, Ireland, had approximately 40 full-time employees at the end of 2008.

Accounting Pronouncements

Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The adoption of SFAS 157 did not have a material effect on our financial position or results of operations.

Effective December 31, 2008, we adopted the provisions of FASB Staff Position No. EITF 99-20-1, (FSP EITF 99-20-1), *Amendments to the Impairment Guidance of EITF Issue No. 99-20*. This FSP amends the impairment guidance in Emerging Issues Task Force (EITF) Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities,* and other related guidance. The adoption of FSP EITF 99-20-1 did not have a material effect on our financial position or results of operations.

Statement of Financial Accounting Standards No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*, was issued in March 2008. SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. We will adopt the provisions of SFAS 161 effective January 1, 2009. The adoption of SFAS 161 will amend our disclosures but will have no effect on our financial position or results of operations.

FASB Staff Position No. FAS 132(R)-1, (FSP FAS 132(R)-1), *Employers Disclosures about Postretirement Benefit Plan Assets*, was issued December 30, 2008. This FSP amends Statement of Financial Accounting Standards No. 132 (revised 2003), *Employers Disclosures about Pensions and Other Postretirement Benefits,* to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by this FSP are required for fiscal years ending after December 15, 2009. The adoption of FSP FAS 132(R)-1 will amend our disclosures but will have no effect on our financial position or results of operations.

2007 Significant Transactions and Events

Legal and Regulatory Issues

Revised Claim Reassessment Reserve Estimate

As previously noted, during 2007 we completed the claim reassessment process required by the 2004 and 2005 regulatory settlement agreements. Prior to completion of the claim reassessment process, in the second quarter of 2007 we increased our provision for the estimated cost of the claim reassessment process $53.0 million before tax and $34.5 million after tax based on changes in our emerging experience for the number of decisions being overturned and the average cost per reassessed claim. The revised second quarter of 2007 estimate was based on the cost of approximately 99 percent of the potential inventory of claim reassessment information forms returned to us, with our claim reassessment on approximately 88 percent of the forms completed at that time. At the time of our second quarter of 2007 revision, we had not yet finalized our claim reassessment on the remaining forms but had performed a financial review and included that information in our analysis of emerging experience. Additional information regarding the second quarter revision to our estimate is as follows:

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1. We increased our previous estimate for benefit costs for claims reopened for our Unum US group long-term disability product line $76.5 million. The revision related to the increase during the second quarter of 2007 in the overturn rate and the average cost, as well as a slightly higher number of claims.

2. We decreased our previous estimate for benefit costs for claims reopened for our Individual Disability Closed Block segment $10.7 million. Although the experience relative to our assumptions for the overturn rate was slightly higher, experience indicated that the total number of claims for this segment would be less than our previous assumptions.

3. We decreased our previous estimate for the additional incremental direct claim reassessment operating expenses $12.8 million due to our projections for an earlier completion of the reassessment process. We released $10.3 million for Unum US group long-term disability and $2.5 million for our Individual Disability Closed Block segment.

4. These second quarter of 2007 adjustments to our claim reassessment costs decreased 2007 before-tax operating earnings for our Unum US group disability line of business $66.2 million and increased 2007 before-tax operating earnings for our Individual Disability Closed Block segment $13.2 million.

Financing

The scheduled remarketing of the senior note element of our 2004 adjustable conversion-rate equity units (units) occurred in February 2007, as stipulated by the terms of the original offering, and we reset the interest rate on $300.0 million of senior notes due May 15, 2009 to 5.859%. We purchased $150.0 million of the senior notes in the remarketing which were subsequently retired. In May 2007, we settled the purchase contract element of the 2004 units by issuing 17.7 million shares of common stock. We received proceeds of approximately $300.0 million from the transaction.

Throughout 2007, we repaid an additional $619.5 million of our outstanding debt, for total long-term debt repayments of $769.5 million. The cost related to the early retirement of debt during 2007 decreased our 2007 operating results approximately $58.8 million before tax, or $38.3 million after tax.

On October 31, 2007, Northwind Holdings issued $800.0 million of floating rate, insured, senior, secured notes due 2037 in a private offering. The notes bear interest at a floating rate equal to the three month London Interbank Offered Rate (LIBOR) plus 0.78%. Recourse for the payment of principal, interest, and other amounts due on the notes will be dependent principally on the receipt of dividends from Northwind Reinsurance Company (Northwind Re), the sole subsidiary of Northwind Holdings. See Liquidity and Capital Resources contained in this Item 7 and Notes 8 and 15 of the Notes to Consolidated Financial Statements contained herein in Item 8 for additional information on Northwind Holdings and Northwind Re.

In December 2007, we established a $400.0 million unsecured revolving credit facility.

Dispositions

During the first quarter of 2007, we completed the sale of our wholly-owned subsidiary, GENEX Services, Inc. (GENEX), a leading workers compensation and medical cost containment services provider. Our growth strategy is focused on the development of our primary markets, and GENEX s specialty role in case management and medical cost containment related to the workers compensation market was no longer consistent with our overall strategic direction. We recognized an after-tax gain on the transaction of approximately $6.2 million. See Note 2 of the Notes to Consolidated Financial Statements contained herein in Item 8 for additional information.

Accounting Pronouncements

Effective January 1, 2007, we adopted the provisions of Statement of Position 05-1 (SOP 05-1), *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection With Modifications or Exchanges of Insurance Contracts*. SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs

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(DAC) on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments.* The cumulative effect of applying the provisions of SOP 05-1 decreased our 2007 opening balance of retained earnings $445.2 million.

Effective January 1, 2007, we adopted the provisions of Financial Accounting Standards Board Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (SFAS 109).* FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS 109. Unlike SFAS 109, FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additionally, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The cumulative effect of applying the provisions of FIN 48 increased our 2007 opening balance of retained earnings $22.7 million.

Effective January 1, 2007, we adopted the provisions of Statement of Financial Accounting Standards No. 155 (SFAS 155), *Accounting for Certain Hybrid Financial Instruments, an amendment of Statement of Financial Accounting Standards Nos. 133 (SFAS 133) and 140 (SFAS 140).* SFAS 155: (a) permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; (b) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; (c) establishes a requirement to evaluate beneficial interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (d) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and, (e) eliminates restrictions on a qualifying special-purpose entity s ability to hold passive derivative financial instruments that pertain to beneficial interests that are or contain a derivative financial instrument. The adoption of SFAS 155 did not have a material effect on our financial position or results of operations.

2006 Significant Transactions and Events

Legal and Regulatory Issues

Revised Claim Reassessment Reserve Estimate

In the first quarter of 2006, we completed an analysis of our assumptions related to the reserves we established for our claim reassessment process. Our analysis was based on preliminary data as of the end of the first quarter of 2006, when actual results to date were considered credible enough to enable us to update our initial expectations of costs related to the reassessment process. We concluded that a change in our initial assumptions, primarily related to the number of claimants for whom payments will continue because the claimant remains eligible for disability payments, was warranted. We based our conclusion and our revised estimate on the information that existed at that time, which was the actual cost related to approximately 20 percent of the projected ultimate total number of claims expected to be reassessed. The characteristics, profile, and cost of those initial 20 percent of claims were more statistically credible than the information on which we based the initial charges in 2004 and 2005. Based on our analysis, in the first quarter of 2006 we recorded a charge of $86.0 million before tax, or $55.9 million after tax, to reflect our then current estimate of future obligations for benefit costs for claims reopened in the reassessment. The first quarter charge decreased 2006 before-tax operating results for our Unum US group disability line of business $72.8 million and our Individual Disability Closed Block segment $13.2 million.

In the third quarter of 2006, we increased our provision for the cost of the reassessment process $325.4 million before tax and $211.5 million after tax based on changes in our emerging experience for the number of decisions being overturned by the reassessment process and the average cost per reassessed claim. The revised third quarter estimate was based on the cost of approximately 55 percent of the projected ultimate total number of claims expected to be reassessed. The third quarter charge was comprised of $310.4 million to reflect our revised estimate of future obligations for benefit costs for claims reopened in the reassessment and $15.0 million for additional incremental direct claim reassessment operating expenses because of the additional time then estimated to complete the process. Our best estimate of $310.4 million for the reopened claims assumed that the nature and characteristics of the approximately 45 percent remaining claims estimated to be reassessed at that time would be similar to the

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average profile of the 55 percent already reviewed at that time. The third quarter charge decreased before-tax operating results for our Unum US group disability line of business $291.4 million and our Individual Disability Closed Block segment $34.0 million.

Regulatory Investigations

Beginning in 2004, several of our insurance subsidiaries insurance regulators requested information relating to the subsidiaries policies and practices on one or more aspects of broker compensation, quoting insurance business, and related matters. Additionally, we responded to investigations about certain of these same matters by state attorneys general and the U.S. Department of Labor (DOL). Following highly publicized litigation involving the alleged practices of a major insurance broker, the NAIC has undertaken to provide a uniform Compensation Disclosure Amendment to the Producer Licensing Model Act that can be adopted by states in an effort to provide uniform guidance to insurers, brokers, and customers relating to disclosure of broker compensation. We expect there to be continued uncertainty surrounding this matter until clearer regulatory guidelines are established.

In June 2004, we received a subpoena from the NYAG requesting documents and information relating to compensation arrangements between insurance brokers or intermediaries and us and our subsidiaries. In November 2006, we entered into a settlement agreement on broker compensation with the NYAG in the form of an assurance of discontinuance that provided for a national restitution fund of $15.5 million and a fine of $1.9 million.

We support the full disclosure of compensation paid to both brokers and agents and have implemented policies to facilitate customers obtaining information regarding broker compensation from their brokers. Additionally, we provide appropriate notices to customers stating our policy surrounding disclosure and provide information on our Company website about our broker compensation programs. Under these policies, any customer who wants specific broker compensation related information can obtain this information by contacting our Broker Compensation Services at a toll-free number. Other changes implemented during 2006 included requiring customer approval of compensation paid by us to the broker when the customer is also paying a fee to the broker and strengthening certain policies and procedures associated with new business and quoting activities.

Financing

The scheduled remarketing of the senior note element of our 2003 units occurred in February 2006, as stipulated by the terms of the original offering, and we reset the interest rate on $575.0 million of senior notes due May 15, 2008 to 5.997%. We purchased $400.0 million of the senior notes in the remarketing which were subsequently retired. In May 2006, we settled the purchase contract element of the units by issuing 43.3 million shares of common stock. We received proceeds of approximately $575.0 million from the transaction.

Throughout 2006, we repaid an additional $332.0 million of our outstanding debt, for total long-term debt repayments of $732.0 million. The cost related to the early retirement of debt decreased our 2006 annual income approximately $25.8 million before tax, or $16.9 million after tax.

In November 2006, Tailwind Holdings, a Delaware limited liability company and a wholly-owned subsidiary of Unum Group, issued $130.0 million of floating rate, insured, senior, secured notes in a private offering. The payment of principal, interest, and other amounts due on the notes will be dependent principally on the receipt of dividends from Tailwind Reinsurance Company (Tailwind Re), the sole subsidiary of Tailwind Holdings. See Liquidity and Capital Resources contained in this Item 7 and Notes 8 and 15 of the Notes to Consolidated Financial Statements contained herein in Item 8 for additional information on Tailwind Holdings and Tailwind Re.

Income Tax

During 2006, we recognized an income tax benefit of approximately $91.9 million as the result of the reversal of tax liabilities related primarily to group relief benefits recognized from the use of net operating losses in a foreign jurisdiction in which our businesses operate.

Accounting Pronouncements

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123(R)), *Share-Based Payment*, which is a revision to Statement of Financial Accounting Standards No. 123 (SFAS 123), *Accounting for Stock-Based Compensation*. SFAS 123(R) focuses primarily on accounting for transactions in which an entity obtains employee service in exchange for share-based payments. Under SFAS 123(R), share-based awards that do not require future service (i.e., vesting awards) are expensed immediately. Share-based employee awards that require future service are amortized over the relevant service period. We adopted SFAS 123(R) using the modified prospective transition method. Under this method, the provisions are generally applied only to share-based awards granted after adoption. The adoption of SFAS 123(R) did not have a material effect on our financial position or results of operations. Additional information concerning the adoption of SFAS 123(R) can be found in Notes 1 and 11 of the Notes to Consolidated Financial Statements contained herein in Item 8.

Effective January 1, 2006, we adopted the provisions of FASB Staff Position No. FAS 115-1 (FSP 115-1), *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, which addresses the determination of when an investment is considered impaired, whether the impairment is other than temporary, and the measurement of an impairment loss. FSP 115-1 also includes accounting considerations subsequent to the recognition of other-than-temporary impairment and requires certain disclosures about unrealized losses. The adoption of FSP 115-1 did not have a material effect on our financial position or results of operations.

Effective December 31, 2006, we adopted the provisions of Statement of Financial Accounting Standards No. 158 (SFAS 158), *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)*. SFAS 158 requires an employer to recognize the overfunded or underfunded status of defined benefit pension and other postretirement plans as an asset or liability in its balance sheet and to recognize changes in that funded status through comprehensive income. Also, under SFAS 158, defined benefit pension and other postretirement plan assets and obligations are to be measured as of the date of the employer s fiscal year-end. The adoption of SFAS 158, which resulted in an $84.1 million decrease in accumulated other comprehensive income in stockholders equity, had no effect on our results of operations.

Critical Accounting Estimates

We prepare our financial statements in accordance with GAAP. The preparation of financial statements in conformity with GAAP requires us to make estimates and assumptions that affect amounts reported in our financial statements and accompanying notes. The accounting estimates we deem to be most critical to our results of operations and balance sheets are those related to reserves for policy and contract benefits, deferred acquisition costs, investments, and income taxes. Estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed in our financial statements.

For additional information, refer to our significant accounting policies in Note 1 of the Notes to Consolidated Financial Statements contained herein in Item 8.

Reserves for Policy and Contract Benefits

Our largest liabilities are reserves for claims that we estimate we will eventually pay to our policyholders. The two primary categories of reserves are policy reserves for claims not yet incurred and claim reserves for claims that have been incurred or are estimated to have been incurred but not yet reported to us. These reserves equaled $37.2 billion and $36.9 billion at December 31, 2008 and 2007, respectively, or approximately 85 percent of our total liabilities. Reserves ceded to reinsurers were $6.7 billion and $6.6 billion at December 31, 2008 and 2007, respectively, and are reported as a reinsurance recoverable in our consolidated balance sheets.

Policy Reserves

Policy reserves are established in the same period we issue a policy and equal the difference between projected future policy benefits and future premiums, allowing a margin for expenses and profit. These reserves relate primarily to our traditional non interest-sensitive products, including our individual disability, individual and group long-term care, and voluntary benefits products in our Unum US segment; individual disability products in our

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Unum UK segment; disability and cancer and critical illness policies in our Colonial Life segment; and, the Individual Disability Closed Block segment products. The reserves are calculated based on assumptions that were appropriate at the date the policy was issued and are not subsequently modified unless the policy reserves become inadequate (i.e., loss recognition occurs).

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

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

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

We maintain policy reserves for a policy for as long as the policy remains in force, even after a separate claim reserve is established.

Policy reserves for Unum US, Unum UK, and Colonial Life products, which at December 31, 2008 represented approximately 34.6 percent, 0.2 percent, and 9.2 percent, respectively, of our total gross policy reserves, are determined using the net level premium method as prescribed by GAAP. In applying this method, we use, as applicable by product type, morbidity and mortality incidence rate assumptions, claim resolution rate assumptions, and policy persistency assumptions, among others, to determine our expected future claim payments and expected future premium income. We then apply an interest, or discount, rate to determine the present value of the expected future claims, commissions, and expenses we will pay and the expected future premiums we will receive, with a provision for profit allowed.

Policy reserves for our Individual Disability Closed Block segment, which at December 31, 2008, represented approximately 12.0 percent of our total gross policy reserves, are determined using the gross premium valuation method based on assumptions established as of January 1, 2004, the date of loss recognition. Key assumptions are policy persistency, claim incidence, claim resolution rates, commission rates, and maintenance expense rates. We then apply an interest, or discount, rate to determine the present value of the expected future claims, commissions, and expenses we will pay as well as the expected future premiums we will receive. There is no provision for profit. The interest rate is based on our expected net investment returns on the investment portfolio supporting the reserves for this segment. Under the gross premium valuation method, we do not include an embedded provision for the risk of adverse deviation from these assumptions. Gross premium valuation assumptions do not change after the date of loss recognition unless reserves are again determined to be deficient. We perform loss recognition tests on the policy reserves for this block of business quarterly.

The Corporate and Other segment includes certain products no longer actively marketed, the majority of which have been reinsured. Policy reserves for this segment represent $5.6 billion on a gross basis, or approximately 44.0 percent, of our total policy reserves. We have ceded $4.2 billion of the related policy reserves to reinsurers. The ceded reserve balance is reported in our consolidated balance sheets as a reinsurance recoverable. We continue to service a block of group pension products, which we have not ceded, and the policy reserves for these products are based on expected mortality rates and retirement rates. Expected future payments are discounted at interest rates reflecting the anticipated investment returns for the assets supporting the liabilities.

Claim Reserves

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

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

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

Claim reserves supporting our Unum US group and individual disability and group and individual long-term care lines of business and our Individual Disability Closed Block segment represent approximately 39.6 percent and 43.4 percent, respectively, of our total claim reserves at December 31, 2008. We use a tabular reserve methodology for group and individual long-term disability and group and individual long-term care claims that have been reported. Under the tabular reserve methodology, reserves for reported claims are based on certain characteristics of the actual reported claimants, such as age, length of time disabled, and medical diagnosis. We believe the tabular reserve method is the most accurate to calculate long-term liabilities and allows us to use the most available known facts about each claim. IBNR claim reserves for our long-term products are calculated using the count and severity method using historical patterns of the claims to be reported and the associated claim costs. For group short-term disability products, an estimate of the value of future payments to be made on claims already submitted, as well as IBNR claims, is determined in aggregate rather than on the individual claimant basis that we use for our long-term products, using historical patterns of claim incidence as well as historical patterns of aggregate claim resolution rates. The average length of time between the event triggering a claim under a policy and the final resolution of those claims is much shorter for these products than for our long-term liabilities and results in less estimation variability.

Claim reserves supporting the Unum US group life and accidental death and dismemberment products represent approximately 3.8 percent of our total claim reserves at December 31, 2008. Claim reserves for these products are related primarily to death claims reported but not yet paid, IBNR death claims, and a liability for waiver of premium benefits. The death claim reserve is based on the actual face amount to be paid, the IBNR reserve is calculated using the count and severity method, and the waiver of premium benefits reserve is calculated using the tabular reserve methodology.

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Claim reserves supporting our Unum UK segment represent approximately 8.5 percent of our total claim reserves at December 31, 2008, and are calculated using generally the same methodology that we use for Unum US disability and group life reserves. The assumptions used in calculating claim reserves for this line of business are based on standard United Kingdom industry experience, adjusted for Unum UK s own experience.

The majority of the Colonial Life segment lines of business have short-term benefits, which have less estimation variability than our long-term products because of the shorter claim payout period. Our claim reserves for Colonial Life s lines of business, which approximate 1.4 percent of our total claim reserves at December 31, 2008, are predominantly determined using the incurred loss development method based on our own experience. The incurred loss development method uses the historical patterns of payments by loss date to predict future claim payments for each loss date. Where the incurred loss development method may not be appropriate, we estimate the incurred claims using an expected claim cost per policy or other measure of exposure. The key assumptions for claim reserves for the Colonial Life lines of business are: (1) the timing, rate, and amount of estimated future claim payments; and (2) the estimated expenses associated with the payment of claims.

The following table displays policy reserves, incurred claim reserves, and IBNR claim reserves by major product line, with the summation of the policy reserves and claim reserves shown both gross and net of the associated reinsurance recoverable. Incurred claim reserves represent reserves determined for each incurred claim and also include estimated amounts for litigation expenses and other expenses associated with the payment of the claims as well as provisions for claims which we estimate will be reopened for our long-term care products. IBNR claim reserves include provisions for incurred but not reported claims and a provision for reopened claims for our disability products. The IBNR and reopen claim reserves for our disability products are developed and maintained in aggregate based on historical monitoring that has only been on a combined basis.

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(in millions of dollars)

	December 31, 2008							
	Policy Reserves	%	Gross Claim Reserves Incurred	IBNR	%	Total	Total Reinsurance Ceded	Total Net
Group Disability	$ -	- %	$ 7,799.1	$ 583.1	34.3 %	$ 8,382.2	$ 81.1	$ 8,301.1
Group Life and Accidental Death & Dismemberment	72.9	0.6	750.1	170.3	3.8	993.3	0.9	992.4
Individual Disability - Recently Issued	493.6	3.9	882.5	90.3	4.0	1,466.4	84.1	1,382.3
Long-term Care	2,915.3	22.9	295.9	35.2	1.3	3,246.4	48.9	3,197.5
Voluntary Benefits	925.5	7.2	21.1	37.0	0.2	983.6	19.1	964.5
Unum US Segment	4,407.3	34.6	9,748.7	915.9	43.6	15,071.9	234.1	14,837.8
Unum UK Segment	22.6	0.2	1,887.6	181.5	8.5	2,091.7	102.7	1,989.0
Colonial Life Segment	1,172.2	9.2	237.0	97.3	1.4	1,506.5	31.1	1,475.4
Individual Disability - Closed Block Segment	1,527.6	12.0	10,239.9	350.3	43.4	12,117.8	1,456.6	10,661.2
Corporate and Other Segment	5,605.4	44.0	490.7	270.1	3.1	6,366.2	4,853.8	1,512.4
Subtotal, Excl. Unrealized Adj.	$ 12,735.1	100.0 %	$ 22,603.9	$ 1,815.1	100.0 %	37,154.1	6,678.3	30,475.8
Adjustment to Reserves for Unrealized Investment Losses						(803.1)	(31.9)	(771.2)
Consolidated						$ 36,351.0	$ 6,646.4	$ 29,704.6

	December 31, 2007							
	Policy Reserves	%	Gross Claim Reserves Incurred	IBNR	%	Total	Total Reinsurance Ceded	Total Net
Group Disability	$ -	- %	$ 7,770.4	$ 596.9	33.8 %	$ 8,367.3	$ 92.9	$ 8,274.4
Group Life and Accidental Death & Dismemberment	73.9	0.6	772.4	178.5	3.8	1,024.8	3.4	1,021.4
Individual Disability - Recently Issued (1)	458.4	3.8	808.3	86.6	3.6	1,353.3	79.4	1,273.9
Long-term Care	2,478.2	20.4	244.3	32.6	1.1	2,755.1	52.6	2,702.5
Voluntary Benefits	853.1	7.0	19.1	35.0	0.2	907.2	14.6	892.6
Unum US Segment	3,863.6	31.8	9,614.5	929.6	42.5	14,407.7	242.9	14,164.8
Unum UK Segment	30.7	0.2	2,420.4	268.8	10.8	2,719.9	149.3	2,570.6
Colonial Life Segment	1,091.7	9.0	239.9	104.1	1.4	1,435.7	33.4	1,402.3
Individual Disability - Closed Block Segment (1)	1,657.2	13.6	10,043.5	362.0	42.0	12,062.7	1,374.4	10,688.3
Corporate and Other Segment	5,515.2	45.4	518.3	288.9	3.3	6,322.4	4,770.8	1,551.6
Subtotal, Excl. Unrealized Adj.	$ 12,158.4	100.0 %	$ 22,836.6	$ 1,953.4	100.0 %	36,948.4	6,570.8	30,377.6

Adjustment to Reserves for Unrealized Investment Gains	859.3	-	859.3
Consolidated	$ 37,807.7	$ 6,570.8	$ 31,236.9

(1) Amounts have been reclassified to conform to current year presentation.

Key Assumptions

The calculation of policy and claim reserves involves numerous assumptions, but the primary assumptions used to calculate reserves are (1) the discount rate, (2) the claim resolution rate, and (3) the claim incidence rate for policy reserves and IBNR claim reserves. Of these assumptions, our discount rate and claim resolution rate assumptions

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have historically had the most significant effects on our level of reserves because many of our product lines provide benefit payments over an extended period of time.

1. The *discount rate*, which is used in calculating both policy reserves and incurred and IBNR claim reserves, is the interest rate that we use to discount future claim payments to determine the present value. A higher discount rate produces a lower reserve. If the discount rate is higher than our future investment returns, our invested assets will not earn enough investment income to support our future claim payments. In this case, the reserves may eventually be insufficient. We set our assumptions based on our current and expected future investment yield of the assets supporting the reserves, considering current and expected future market conditions. If the investment yield on new investments that are purchased is below or above the investment yield of the existing investment portfolio, it is likely that the discount rate assumption on claims will be established to reflect the effect of the new investment yield.

2. The *claim resolution rate*, used for both policy reserves and incurred and IBNR claim reserves, is the probability that a disability claim will close due to recovery or death of the insured. It is important because it is used to estimate how long benefits will be paid for a claim. Estimated resolution rates that are set too high will result in reserves that are lower than they need to be to pay the claim benefits over time. Claim resolution assumptions involve many factors, including the cause of disability, the policyholder s age, the type of contractual benefits provided, and the time since initially becoming disabled. We use our own claim experience to develop our claim resolution assumptions. These assumptions are established for the probability of death and the probability of recovery from disability. Our studies review actual claim resolution experience over a number of years, with more weight placed on our experience in the more recent years. We also consider any expected future changes in claim resolution experience.

3. The *incidence rate*, used for policy reserves and IBNR claim reserves, is the rate at which new claims are submitted to us. The incidence rate is affected by many factors including the age of the insured, the insured s occupation or industry, the benefit plan design, and certain external factors such as consumer confidence and levels of unemployment. We establish our incidence assumption using a historical review of actual incidence results along with an outlook of future incidence expectations.

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

<u>Trends in Key Assumptions</u>

Because our actual experience regarding persistency and claim incidence has varied very little from our policy reserve and IBNR claim reserve assumptions, we have had minimal adjustments to our persistency assumptions and claim incidence assumptions during the years 2006 through 2008. Generally, we do not expect our mortality and morbidity claim incidence trends or our persistency trends to change significantly in the short-term, and to the extent

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that these trends do change, we expect those changes to be gradual over a longer period of time. However, we have historically experienced an increase in our group long-term disability morbidity claim incidence trends during and following a recessionary period, particularly in our Unum US operations. Given the current weakening economy, it is possible that our claim incidence rates for this type of product may increase.

Actual new money interest rates varied throughout 2008 but generally trended downward for all segments and product lines during 2007 and 2006. The assumptions we use to discount our reserves generally trended downward slightly for all segments and product lines during 2008, 2007, and 2006. Reserve discount rate assumptions for new policies and new claims have been adjusted to reflect our current and expected net investment returns. Changes in our discount rate assumptions tend to occur gradually over a longer period of time because of the long duration investment portfolio needed to support the reserves for the majority of our lines of business.

Both the mortality rate experience and the retirement rate experience for our block of group pension products have remained stable and consistent with expectations.

Claim resolution rates have a greater chance of significant variability in a shorter period of time than our other reserve assumptions. These rates are reviewed on a quarterly basis for the death and recovery components separately. Claim resolution rates in our Unum US segment group and individual long-term disability product lines and our Individual Disability Closed Block segment have over the last several years exhibited some variability. Relative to the resolution rate we expect to experience over the life of the block of business, actual quarterly rates during the period 2006 through 2008 have varied by +7 and -5 percent in our Unum US group long-term disability line of business, between +10 and -5 percent in our Unum US individual disability recently issued line of business, and between +8 and -6 percent in our Individual Disability Closed Block segment.

Claim resolution rates are very sensitive to operational and environmental changes and can be volatile over short periods of time. During 2006, we experienced quarter to quarter variability in our claim resolution rates. We believe this variability was primarily the result of a short-term reduction in the operating effectiveness of our Unum US and Individual Disability Closed Block segment claims management performance. During 2007 and continuing throughout 2008, we gained more stability in our claims management performance, and our claim resolution rates were more consistent with our long-term assumptions. Our claim resolution rate assumption used in determining reserves is our expectation of the resolution rate we will experience over the life of the block of business and will vary from actual experience in any one period, both favorably and unfavorably.

We monitor and test our reserves for adequacy relative to all of our assumptions in the aggregate. In our estimation, scenarios based on reasonably possible variations in each of our reserve assumptions, when modeled together in aggregate, could produce a potential result, either positive or negative, in our Unum US group disability line of business that would change our reserve balance by +/- 2.5 percent. Using our actual claim reserve balance at December 31, 2008, this variation would have resulted in an approximate change (either positive or negative) of $200 million to our claim reserves. Using the same sensitivity analysis approach for our Individual Disability Closed Block segment, the claim reserve balance could potentially vary by +/- 2.2 percent of our reported balance, which at December 31, 2008, would have resulted in an approximate change (either positive or negative) of $225 million to our claim reserves. The major contributor to the variance for both the group long-term disability line of business and the Individual Disability Closed Block segment is the claim resolution rate. We believe that these ranges provide a reasonable estimate of the possible changes in reserve balances for those product lines where we believe it is possible that variability in the assumptions, in the aggregate, could result in a material impact on our reserve levels, but we record our reserves based on our long-term best estimate. Because these product lines have long-term claim payout periods, there is a greater potential for significant variability in claim costs, either positive or negative.

Deferred Acquisition Costs (DAC)

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

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Over 90 percent of our DAC relates to traditional non interest-sensitive products, and we amortize DAC in proportion to the premium income we expect to receive over the life of the policies in accordance with the provisions of Statement of Financial Accounting Standards No. 60, *Accounting and Reporting by Insurance Enterprises*. Key assumptions used in developing the future amortization of DAC are future persistency and future premium income. We use our own historical experience and expectation of the future performance of our businesses in determining the expected persistency and premium income. The estimated premium income in the early years of the amortization period is generally higher than in the later years due to higher anticipated policy persistency in the early years, which results in a greater proportion of the costs being amortized in the early years of the life of the policy. During 2006, our key assumptions used to develop the future amortization did not change materially from those we had previously used. We adopted the provisions of SOP 05-1 effective January 1, 2007. The adoption of SOP 05-1 shortened the amortization period of our Unum US and Unum UK group disability, group life, and group accidental death and dismemberment products, as shown below. The amortization periods for the other product lines were not impacted by the adoption of SOP 05-1. Generally, we do not expect our persistency or interest rates to change significantly in the short-term, and to the extent that these trends do change, we expect those changes to be gradual over a longer period of time.

Presented below are our assumptions, both before and after the adoption of SOP 05-1, for the years 2008, 2007, and 2006, regarding the length of our amortization periods and the approximate DAC balance that remains at the end of years 3, 10, and 15, as a percentage of the cost initially deferred.

	2008 and 2007				2006		
		Balance Remaining as a % of Initial Deferral				Balance Remaining as a % of Initial Deferral	
	Amortization Period	Year 3	Year 10	Year 15	Amortization Period	Year 10	Year 15
Unum US							
Group Disability	6	25%	0%	0%	20	25%	10%
Group Life and Accidental							
Death & Dismemberment	6	20% to 25%	0%	0%	15	15%	0%
Supplemental and Voluntary							
Individual Disability -							
Recently Issued	20	75%	50%	25%	20	50%	25%
Long-term Care	20	80%	55%	25% to 30%	20	55%	25%
Voluntary Benefits	15	55% to 60%	15%	0%	15	15%	0%
Unum UK							
Group Disability	6	25%	0%	0%	15	20%	0%
Group Life	6	20%	0%	0%	15	20%	0%
Individual Disability	15	60%	15%	0%	15	15%	0%
Colonial Life	17	60%	20% to 25%	10%	17	20%	10%

Amortization of DAC on traditional products is adjusted to reflect the actual policy persistency as compared to the anticipated experience, and as a result, the unamortized balance of DAC reflects actual persistency. We may experience accelerated amortization if policies terminate earlier than projected. Because our actual experience regarding persistency and premium income has varied very little from our assumptions during the last three years, we have had minimal adjustments to our projected amortization of DAC during those years. We measure the recoverability of DAC annually by performing gross premium valuations. Our testing indicates that our DAC is recoverable.

Valuation of Investments

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

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Effective January 1, 2008, we adopted the provisions of Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The adoption of SFAS 157 did not materially change the approach or methods we utilize for determining fair value measurements or the fair values derived under those methods.

Definition of 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 and, therefore, represents an exit price, not an entry price. The exit price objective applies regardless of a reporting entity s intent and/or ability to sell the asset or transfer the liability at the measurement date.

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

Valuation Techniques

Valuation techniques used for assets and liabilities accounted for at fair value are generally categorized into three types:

1. The *market approach* uses prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach often use market multiples derived from a set of comparables or matrix pricing. Market multiples might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities but comparing the securities to benchmark or comparable securities.

2. The *income approach* converts future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. Income approach techniques rely on current market expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models that incorporate present value techniques, and the multi-period excess earnings method.

3. The *cost approach* is based upon the amount that currently would be required to replace the service capacity of an asset, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

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

The selection of the valuation method(s) to apply considers the definition of an exit price and depends on the nature of the asset or liability being valued. For assets and liabilities accounted for at fair value, we generally use valuation techniques consistent with the market approach, and to a lesser extent, the income approach. We believe the market approach valuation technique provides more observable data than the income approach, considering the type of investments we hold. Our fair value measurements could differ significantly based on the valuation technique and available inputs. When markets are less active, brokers may rely more on models with inputs based on the information available only to the broker. In weighing a broker quote as an input to fair value, we place less reliance on quotes that do not reflect the result of market transactions. We also consider the nature of the quote, particularly whether the quote is an indicative price or a binding offer. If prices in an inactive market do not reflect current prices for the same or similar assets, adjustments may be necessary to arrive at fair value. When relevant market data is unavailable, which may be the case during periods of market uncertainty, the income approach can, in appropriate circumstances, provide a more appropriate fair value. During 2008, we have applied valuation techniques on a consistent basis to similar assets and liabilities and consistent with those techniques used at year end 2007. Due to recent market conditions, the mix and availability of observable inputs for valuation techniques have been volatile, and the risk inherent in the inputs is elevated relative to prior periods.

Inputs to Valuation Techniques

Inputs refer broadly to the assumptions that market participants use in pricing assets or liabilities, including assumptions about risk, for example, the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique. Inputs may be observable or unobservable.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources.

Unobservable inputs are inputs that reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Observable inputs which we utilize to determine the fair values of our investments and derivative financial instruments include indicative broker prices and prices obtained from external pricing services. At December 31, 2008, approximately 87.6 percent of our fixed maturity securities were valued based on active trades and/or broker quotes or prices obtained from pricing services that generally use observable inputs in their valuation techniques, with no additional adjustments to the prices. These assets were classified as either Level 1 or Level 2, with the categorization dependent on whether the price was for an actual representative sale, for identical assets actively traded, and/or the quote binding or non-binding. We generally obtain, on average, one quote per financial instrument. We review the prices obtained to ensure they are consistent with a variety of observable market inputs and to verify the validity of a security s price. These inputs, along with our knowledge of the financial conditions and industry in which the issuer operates, will be considered in determining whether the quoted or indicated price, as well as the change in price from quarter to quarter, are valid.

On selected securities where there is not an indicated price or where we cannot validate the price, some combination of market inputs may be used to determine a price using a pricing matrix, or we may use pricing inputs from a comparable security. At December 31, 2008, we valued approximately 9.8 percent of our fixed maturity securities using this method. These assets were classified as Level 2. The parameters and inputs used to validate a price on a security may be adjusted for assumptions about risk and current market conditions on a quarter to quarter basis, as certain features may be more significant drivers of valuation at the time of pricing. Changes to inputs in valuations are not changes to valuation methodologies; rather, the inputs are modified to reflect direct or indirect impacts on asset classes from changes in market conditions.

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

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Inputs that may be used include the following:

- Benchmark yields (Treasury and swap curves)
- Transactional data for new issuance and secondary trades
- Broker/dealer quotes and pricing
- Security cash flows and structures
- Recent issuance/supply
- Sector and issuer level spreads
- Credit ratings/maturity/weighted average life/seasoning/capital structure
- Security optionality
- Corporate actions
- Underlying collateral
- Prepayment speeds/loan performance/delinquencies
- Public covenants
- Comparative bond analysis
- Derivative spreads
- Third-party pricing sources
- Relevant reports issued by analysts and rating agencies

The overall valuation process for determining fair values may include adjustments to valuations obtained from our pricing sources when they do not represent a valid exit price. These adjustments may be made when, in our judgment, certain features of the financial instrument, such as its complexity or the market in which the financial instrument is traded (such as counterparty, credit, concentration, or liquidity), require that an adjustment be made to the value originally obtained from our pricing sources. Additionally, an adjustment to the price derived from a model typically reflects our judgment of the inputs that other participants in the market for the financial instrument being measured at fair value would consider in pricing that same financial instrument.

We analyze credit default swap spreads relative to the average credit spread embedded within the London Interbank Offered Rate (LIBOR) setting syndicate in determining the effect of credit risk on our derivatives fair values. If counterparty credit risk for a derivative asset is determined to be material and is not adequately reflected in the LIBOR-based fair value obtained from our pricing sources, we adjust the valuations obtained from our pricing sources. In regards to our own credit risk component, we adjust the valuation of derivative liabilities wherein the counterparty is exposed to our credit risk when the LIBOR-based valuation of our derivatives obtained from pricing sources does not effectively include an adequate credit component for our own credit risk.

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

As of December 31, 2008, the key assumptions we generally used to estimate the fair value of these types of securities included those listed below. Where appropriate, we have noted the assumption used for the prior period as well as the reason for the change.

- Risk free interest rates of 1.55 percent for five-year maturities to 2.68 percent for 30-year maturities were derived from the current yield curve for U.S. Treasury Bonds with similar maturities. This compares to interest rates of 3.44 percent for five-year maturities to 4.45 percent for 30-year maturities used at December 31, 2007.
- Current Baa corporate bond spreads ranging from 5.28 percent to 7.75 percent plus an additional 20 basis points were added to the risk free rate to reflect the lack of liquidity. We used spreads ranging from 1.81 percent to 2.15 percent plus an additional 20 basis points at December 31, 2007. The changes were based

on observable market spreads. Newly issued private placement securities have historically offered yield premiums of 20 basis points over comparable newly issued public securities.

An additional five basis points were added to the risk free rates for foreign investments, consistent with December 31, 2007.

Additional basis points were added as deemed appropriate for certain industries and for individual securities in certain industries that are considered to be of greater risk.

Increasing the 20 basis points added to the risk free rate for lack of liquidity by 1.5 basis points, increasing the five basis points added to the risk free rates for foreign investments by one basis point, and increasing the additional basis points added to each industry considered to be of greater risk by one basis point would have decreased the December 31, 2008 fair value of our fixed maturity securities portfolio by approximately $1.1 million. We believe this range of variability is appropriate, and although the current market is very volatile, historically the inputs noted have generally not deviated outside the range provided.

We regularly test the validity of the fair values determined by our valuation techniques by comparing the prices of assets sold to the fair values reported for the assets in the immediately preceding reporting period. Historically, our realized gains or losses on dispositions of investments have not varied significantly from amounts estimated under the valuation methodologies described above, which, combined with the results of our testing, indicates to us that our pricing methodologies are appropriate.

Fair Value Hierarchy

Financial instruments measured at fair value are categorized into a three-level classification. The lowest level input that is significant to the fair value measurement of a financial instrument is used to categorize the instrument and reflects the judgment of management. Financial assets and liabilities presented at fair value in our consolidated balance sheets generally are categorized as follows:

Level 1 Inputs are unadjusted and represent quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument s anticipated life. Level 2 inputs include, for example, indicative prices obtained from brokers or pricing services validated to other observable market data and quoted prices for similar assets or liabilities.

Level 3 Inputs reflect our best estimate of what market participants would use in pricing the asset or liability at the measurement date. Generally, assets and liabilities carried at fair value and included in this category are comprised of certain mortgage and asset-backed securities, certain corporate fixed maturity securities, certain private equity investments, and certain derivatives. Financial assets and liabilities presented at fair value and categorized as Level 3 are generally those that are valued using unobservable inputs to extrapolate an estimated fair value. The inputs reflect our assumptions about the assumptions that market participants would use in pricing the instrument in a current period transaction, and outputs represent an exit price and expected future cash flows. Unobservable inputs are primarily internally derived credit spread assumptions and lack of liquidity assumptions and are unobservable due to the lack of an active market pertaining to these securities.

As of December 31, 2008, approximately 9.4 percent of our fixed maturity securities were categorized as Level 1, 88.3 percent as Level 2, and 2.3 percent as Level 3. During 2008, we transferred $672.6 million of fixed maturity securities into Level 3 and $160.0 million of fixed maturity securities out of Level 3. The reclassifications between levels resulted primarily from a change in observability of three inputs used to determine fair values of the securities reclassified: (1) transactional data for new issuance and secondary trades, (2) broker/dealer quotes and pricing, primarily related to the lack of an active and orderly market, and (3) comparable bond metrics from which to perform an analysis. For fair value measurements of financial instruments that were transferred either into or out of Level 3, we reflect the transfers using the fair value at the beginning of the period. We believe this allows for

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greater transparency as all changes in fair value that arise during the reporting period of the transfer are disclosed as a component of our Level 3 reconciliation as shown in Note 4 of the Notes to Consolidated Financial Statements contained herein in Item 8.

Other than Temporary Impairment Analysis for Investments

In determining other than temporary impairments for our investment portfolio, we evaluate the following factors, as applicable for each type of investment:

- The probability of recovering principal and interest.
- Our ability and intent to retain the security for a sufficient period of time for it to recover.
- Whether the security is current as to principal and interest payments.
- The significance of the decline in value.
- The time period during which there has been a significant decline in value.
- Current and future business prospects and trends of earnings.
- The valuation of the security s underlying collateral.
- Relevant industry conditions and trends relative to their historical cycles.
- Market conditions.
- Rating agency actions.
- Bid and offering prices and the level of trading activity.
- Adverse changes in estimated cash flows for securitized investments.
- Any other key measures for the related security.

Our review procedures include, but are not limited to, monthly meetings of certain members of our senior management personnel to review reports on the entire portfolio, identifying investments with changes in market value of five percent or more, investments with changes in rating either by external rating agencies or internal analysts, investments segmented by issuer, industry, and foreign exposure levels, and any other relevant investment information to help identify our exposure to possible credit losses. We also determine if our investment portfolio is overexposed to an issuer that is showing warning signs of deterioration and, if so, we make no further purchases of that issuer s securities and may seek opportunities to sell securities we hold from that issuer to reduce our exposure.

We monitor below-investment-grade fixed maturity securities as to individual exposures and in comparison to the entire portfolio as an additional credit risk management strategy, looking specifically at our exposure to individual securities currently classified as below-investment-grade. In determining current and future business prospects and cash availability, we consider the parental support of an issuer in our analysis but do not rely heavily on this support.

We use a comprehensive rating system to evaluate the investment and credit risk of our mortgage loans and to identify specific properties for inspection and reevaluation. Mortgage loans are considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. We establish an allowance for probable losses on mortgage loans based on a review of individual loans and the overall loan portfolio, considering the value of the underlying collateral.

Based on our review of the entire investment portfolio, individual investments may be added to or removed from our watch list, which is a list of investments subject to enhanced monitoring and a more intensive review. If we determine that the decline in value of an investment is other than temporary, the investment is written down to fair value, and an impairment loss is recognized in the current period to the extent of the decline in value. If the decline is considered temporary, the investment continues to be carefully monitored. These controls have been established to identify our exposure to possible credit losses and are intended to give us the ability to respond rapidly.

Changes in the fair values of fixed maturity securities and derivative financial instruments designated as cash flow hedges, other than declines that are determined to be other than temporary, are reported as a component of other comprehensive income in stockholders equity. If we subsequently determine that any of these securities are other than temporarily impaired, the impairment loss is reported as a realized investment loss in our consolidated statements of income. The recognition of the impairment loss does not affect total stockholders equity to the extent that the decline in value had been previously reflected in other comprehensive income. Mortgage loans are not

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reported at fair value in our consolidated balance sheets unless the decline in value is considered to be other than temporary, in which case the reduction is recognized as a realized investment loss in our consolidated statements of income.

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

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

Pension and Postretirement Benefit Plans

We sponsor several defined benefit pension and other postretirement benefit (OPEB) plans for our employees, including non-qualified pension plans. The U.S. pension plans comprise the majority of our total benefit obligation and pension expense. Our U.K. operation maintains a separate defined benefit plan for eligible employees. The U.K. defined benefit pension plan was closed to new entrants on December 31, 2002.

We follow Statements of Financial Accounting Standards No. 87 (SFAS 87), *Employers Accounting for Pensions*, No. 106 (SFAS 106), *Employers Accounting for Postretirement Benefits Other Than Pensions*, No. 132 (SFAS 132), *Employers Disclosures about Pensions and Other Postretirement Benefits*, and No. 158 (SFAS 158), *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R)* in our financial reporting and accounting for our pension and postretirement benefit plans. See Note 9 of the Notes to Consolidated Financial Statements contained herein in Item 8 for further discussion.

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

The assumptions chosen for our pension and OPEB plans generally use consistent methodology but reflect the differences in the plan obligations. The assumptions are reviewed annually, and we use a December 31 measurement date for each of our plans. The discount rate assumptions and expected long-term rate of return assumptions have the most significant effect on our net periodic benefit costs associated with these plans. In addition to the effect of changes in our assumptions, the net periodic cost or benefit obligation under our pension and OPEB plans may change due to factors such as actual experience being different from our assumptions, special benefits to terminated employees, or changes in benefits provided under the plans.

Discount Rate Assumptions

The *discount rate* is an interest assumption used to convert the benefit payment stream to a present value. We set the discount rate assumption at the measurement date for each of our retirement related benefit plans to reflect the yield of a portfolio of high quality fixed income debt instruments matched against the timing and amounts of projected future benefits. A lower discount rate increases the present value of benefit obligations and increases our costs.

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The discount rate we used to determine our 2009 net periodic benefit costs for our U.S. pension plans was 6.40 percent, compared to 6.50 percent for 2008. The discount rate used for the net periodic benefit costs for 2009 and 2008 for our U.K. pension plan was 6.40 percent and 5.80 percent, respectively. The discount rate used in the net periodic benefit cost for our OPEB plan for 2009 and 2008 was 6.10 percent and 6.30 percent, respectively.

Reducing the discount rate assumption by 50 basis points would have resulted in an increase in our 2008 pension expense of approximately $11.5 million, before tax, and an increase in our benefit obligation of approximately $101.1 million as of December 31, 2008, resulting in an after-tax decrease in stockholders equity of approximately $66.9 million as of December 31, 2008. A 50 basis point reduction in the discount rate assumption would not change our annual OPEB costs.

Increasing the discount rate assumption by 50 basis points would have resulted in a decrease in our 2008 pension expense of approximately $10.4 million, before tax, and a decrease in our benefit obligation of approximately $89.6 million as of December 31, 2008, resulting in an after-tax increase in stockholders equity of approximately $59.3 million as of December 31, 2008. A 50 basis point increase in the discount rate assumption would not change our annual OPEB costs.

Long-term Rate of Return Assumptions

The *long-term rate of return* assumption is the best estimate of the average annual assumed return that will be produced from the pension trust assets until current benefits are paid. We use a compound interest method in computing the rate of return on pension plan assets. The investment portfolio for our U.S. pension plans contains a diversified blend of domestic and international large cap, mid cap, and small cap equity securities, investment-grade and below-investment-grade fixed income securities, private equity funds of funds, and hedge funds of funds. Assets for our U.K. pension plan are invested in pooled funds, with approximately 57 percent in diversified growth assets including global equities, hedge funds, commodities, below-investment-grade fixed income securities, and currencies. The remainder of the assets for our U.K. plan is predominantly invested in fixed interest U.K. corporate bonds and index linked U.K. government bonds. Assets for our OPEB plan are invested primarily within life insurance contracts issued by one of our insurance subsidiaries. The terms of these contracts are consistent in all material respects with those the subsidiary offers to unaffiliated parties that are similarly situated. We believe our investment portfolios are well diversified by asset class and sector, with no potential risk concentrations in any one category.

Our expectations for the future investment returns of the asset categories are based on a combination of historical market performance and evaluations of investment forecasts obtained from external consultants and economists. The methodology underlying the return assumption included the various elements of the expected return for each asset class such as long-term rates of return, volatility of returns, and the correlation of returns between various asset classes. The expected return for the total portfolio is calculated based on the plan s strategic asset allocation. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies, and quarterly investment portfolio reviews. Risk tolerance is established through consideration of plan liabilities, plan funded status, and corporate financial condition.

The long-term rate of return on assets used in the net periodic pension costs for our U.S. qualified defined benefit pension plan for 2009 and 2008 was 7.50 percent for both years. The long-term rate of return on asset assumption used for 2009 and 2008 for our U.K. pension plan was 7.20 percent and 6.90 percent, respectively, and for our OPEB plan, 5.75 percent for both years. The actual rate of return on plan assets is determined based on the fair value of the plan assets at the beginning and the end of the period, adjusted for contributions and benefit payments.

Changing the expected long-term rate of return on the plan assets by +/-50 basis points would have changed our 2008 pension plan expense by approximately $4.9 million before tax, but our OPEB plan expense would not change. A lower rate of return on plan assets increases our expense.

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Benefit Obligation and Fair Value of Plan Assets

The market related value equals the fair value of assets, determined as of the measurement date. The assets are not smoothed for purposes of SFAS 87. The expected return on assets, therefore, fully recognizes all asset gains and losses, including changes in fair value, through the measurement date.

The fair value of our plan assets is determined in accordance with SFAS 157. During 2008, the fair value of our plan assets in our U.S. qualified defined benefit pension plan declined $126.2 million, or approximately 16.1 percent. The fair value of plan assets for our U.K. pension plan declined £11.7 million, or approximately 12.5 percent, during 2008. Although the effect of these declines had no impact on our 2008 net periodic pension costs, the unfavorable rate of return on plan assets in 2008 increases our net periodic pension costs for 2009. We expect that our 2009 pension costs will be approximately $42.5 million higher than our pension costs for 2008. We believe our assumptions appropriately reflect the impact of a prolonged market decline.

Our pension and OPEB plans have an aggregate unrecognized net actuarial loss and an unrecognized prior service credit, which represent the cumulative liability and asset gains and losses and the portion of prior service credits that have not been recognized in pension expense. As of December 31, 2008, the unrecognized net loss for these two items combined was approximately $622.0 million compared to $301.8 million at December 31, 2007. The increase is primarily due to the unfavorable rate of return on plan assets in 2008 and to the decrease in the year end discount rate for our U.S. pension plans. Prior to the adoption of SFAS 158, unrecognized actuarial gains or losses and prior service costs or credits were amortized as a component of pension expense but were not reported in companies balance sheets. SFAS 158 requires that actuarial gains or losses and prior service costs or credits that have not yet been included in net periodic benefit cost as of the adoption date of SFAS 158 be recognized as components of accumulated other comprehensive income, net of tax. The unrecognized gains or losses will be amortized out of accumulated other comprehensive income and included as a component of the net benefit cost, as they were prior to the adoption of SFAS 158. Our 2008, 2007, and 2006 pension and OPEB expense includes $10.6 million, $15.3 million, and $17.8 million, respectively, of amortization of the unrecognized net actuarial loss and prior service credit. The unrecognized net actuarial loss for our pension plans, which is $625.7 million at December 31, 2008, will be amortized over the average future working life of pension plan participants, currently estimated at 12 years for U.S. participants and 15 years for U.K. participants. The unrecognized net actuarial loss of $6.2 million for our OPEB plan will be amortized over the average future working life of OPEB plan participants, currently estimated at 10 years, to the extent the loss is outside of a corridor established in accordance with GAAP. The corridor is established based on the greater of 10 percent of the plan assets or 10 percent of the accumulated postretirement benefit obligation. At December 31, 2008, none of the actuarial loss was outside of the corridor.

The fair value of plan assets in our U.S. qualified defined benefit pension plan was $658.1 million at December 31, 2008, compared to $784.3 million at year end 2007. This decline in fair value of plan assets, as well as the decrease in the discount rate, more than offset the effect of the plan contribution during 2008, resulting in a year end deficit funding level in the plan of $266.9 million as of December 31, 2008, compared to a deficit of $43.8 million as of December 31, 2007.

The fair value of plan assets in our OPEB plan was $12.0 million at December 31, 2008 and 2007. These assets represent life insurance reserves to fund the life insurance benefit portion of our OPEB plan. Our OPEB plan represents a non-vested, non-guaranteed obligation, and current regulations do not require specific funding levels for these benefits, which are comprised of retiree life, medical, and dental benefits. It is our practice to use general assets to pay medical and dental claims as they come due in lieu of utilizing plan assets for the medical and dental benefit portions of our OPEB plan. We expect to receive subsidies under the Medicare Prescription Drug, Improvement and Modernization Act of 2003 to partially offset these payments.

Our expected return on plan assets and discount rate discussed above will not affect the cash contributions we are required to make to our U.S. pension and OPEB plans because we have met all minimum funding requirements set forth by ERISA. We had no regulatory contribution requirements for 2008 and 2007; however, we elected to make voluntary contributions of $130.0 million and $110.0 million, respectively, to our U.S. qualified defined benefit pension plan. We expect to make a voluntary contribution of approximately $70.0 million in 2009, based on current tax law.

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During 2006, the federal government enacted the Pension Protection Act of 2006 which requires companies to fully fund defined benefit pension plans over a seven year period. We have evaluated this requirement and have made estimates of amounts to be funded in the future. Based on this assessment, we do not believe that the funding requirements of the Pension Protection Act will cause a material adverse effect on our liquidity.

The fair value of plan assets for our U.K. pension plan was £82.1 million at December 31, 2008, compared to £93.8 million at December 31, 2007. The U.K. pension plan has a deficit of £4.7 million at December 31, 2008, compared to £0.9 million at December 31, 2007. We contribute to the plan in accordance with a schedule of contributions which requires that we contribute to the plan at the rate of at least 15.0 percent of employee salaries, sufficient to meet the minimum funding requirement under U.K. legislation. During 2008, we made a required contribution of £4.0 million. During 2007, we made a required contribution of £5.3 million. We anticipate that we will make contributions during 2009 of approximately £3.5 million.

Income Taxes

We record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. Our valuation allowance relates primarily to assets for foreign net operating loss carryforwards and assets for our basis in certain of our foreign subsidiaries that are not likely to be realized in the future based on our expectations using currently available evidence. In evaluating the ability to recover deferred tax assets, we have considered all available positive and negative evidence including past operating results, the existence of cumulative losses in the most recent years, forecasted earnings, future taxable income, and prudent and feasible tax planning strategies. In the event we determine that we most likely would not be able to realize all or part of our deferred tax assets in the future, an increase to the valuation allowance would be charged to earnings in the period such determination is made. Likewise, if it is later determined that it is more likely than not that those deferred tax assets would be realized, the previously provided valuation allowance would be reversed.

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

FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in income tax returns. The evaluation of a tax position under FIN 48 is a two step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The second step is to measure a position that satisfies the recognition threshold at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more likely than not threshold but that now satisfy the recognition threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more likely than not recognition threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. If a previously recognized tax position is settled for an amount that is different from the amount initially measured under FIN 48, the difference will be recognized as a tax benefit or expense in the period the settlement is effective. We believe that tax positions have been reflected in our financial statements at appropriate amounts in conformity with FIN 48.

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Consolidated Operating Results

(in millions of dollars)

	Year Ended December 31				
	2008	% Change	2007	% Change	2006
Revenue					
Premium Income	$ 7,783.3	(1.5) %	$ 7,901.1	(0.6) %	$ 7,948.2
Net Investment Income	2,389.0	(0.9)	2,409.9	3.8	2,320.6
Net Realized Investment Gain (Loss)	(465.9)	N.M.	(65.2)	N.M.	2.2
Other Income	275.9	0.7	274.1	3.7	264.3
Total	9,982.3	(5.1)	10,519.9	(0.1)	10,535.3
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	6,626.4	(5.2)	6,988.2	(7.8)	7,577.2
Commissions	853.3	1.5	841.1	2.7	819.0
Interest and Debt Expense	156.7	(35.2)	241.9	11.2	217.6
Deferral of Acquisition Costs	(590.9)	6.2	(556.3)	5.3	(528.2)
Amortization of Deferred Acquisition Costs	519.1	8.1	480.4	0.4	478.6
Compensation Expense	772.6	6.9	722.4	6.2	680.5
Other Expenses	821.1	2.0	805.0	(2.4)	825.2
Total	9,158.3	(3.8)	9,522.7	(5.4)	10,069.9
Income from Continuing Operations Before Income Tax	824.0	(17.4)	997.2	114.3	465.4
Income Tax	270.8	(16.6)	324.8	N.M.	61.8
Income from Continuing Operations	553.2	(17.7)	672.4	66.6	403.6
Income from Discontinued Operations	-	(100.0)	6.9	(6.8)	7.4
Net Income	**$ 553.2**	**(18.6)**	**$ 679.3**	**65.3**	**$ 411.0**

N.M. = not a meaningful percentage

The following chart lists charges in 2007 and 2006 which affect the comparability of our financial results. In describing our results, we may at times note these items and exclude the impact on financial ratios and metrics to enhance the understanding and comparability of our Company s performance and the underlying fundamentals in our operations, but this exclusion is not an indication that similar items may not recur.

(in millions of dollars)

	Year Ended December 31	
	2007	2006

Benefits and Change in Reserves for Future Benefits		
Regulatory Claim Reassessment Charges	$ 65.8	$ 396.4
Other Operating Expenses		
Regulatory Claim Reassessment Charges	(12.8)	15.0
Broker Compensation Settlements	-	18.5
Total Charges, Before Tax	$ 53.0	$ 429.9
Total Charges, After Tax	$ 34.5	$ 280.1

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Also affecting comparability of our financial results between years is the fluctuation in the British pound sterling to dollar exchange rate. The functional currency of our U.K. operations is the British pound sterling. In periods when the pound weakens, translating pounds into dollars decreases current period results relative to the prior period. In periods when the pound strengthens, translating pounds into dollars increases current period results in relation to the prior period. However, it is important to distinguish between translating and converting foreign currency. Except for a limited number of transactions, we do not actually convert pounds into dollars. As a result, we view foreign currency translation as a financial reporting issue and not a reflection of operations or profitability in the U.K. Because of the volatility in the weighted average pound/dollar exchange rate during the last three years, results translated into dollars are not comparable between years. Our weighted average pound/dollar exchange rate was 1.871, 2.004, and 1.851 for the years ended 2008, 2007, and 2006, respectively. Our operating revenue and operating income by segment would have been higher in 2008 by approximately $86.7 million and $24.2 million, respectively, and higher in 2006 by approximately $86.7 million and $21.3 million, respectively, if the results for our U.K. operations had been translated at a constant exchange rate of 2.004, the rate for 2007.

Consolidated premium income for both 2008 and 2007 includes premium growth, relative to the preceding year, for Unum US supplemental and voluntary lines of business and Colonial Life. Unum US group disability and group life and accidental death and dismemberment lines of business experienced year over year declines in premium income during 2008 and 2007, as expected, due primarily to our continued pricing discipline for our Unum US group business and our strategy of developing a more balanced business mix. However, both premium and case persistency for these lines of business improved during 2008 relative to 2007 and 2006, indicating that persistency for these product lines has begun to stabilize as expected. Unum UK premium income, in local currency, increased in 2007 relative to the prior year but declined in 2008 due to lower persistency in the group long-term disability line of business. Premium income in the Individual Disability Closed Block segment decreased in 2008 and 2007, as expected in this closed block of business.

Net investment income is marginally lower in 2008 relative to the prior year. Our portfolio yield has increased slightly year over year due to the investment of new cash at higher rates than that of prior periods, particularly during the last two quarters of 2008. We also received fewer bond call premiums in 2008 relative to prior year periods, and the level of prepayment income on mortgage-backed securities declined in 2008 relative to the preceding year. The weaker pound in 2008 relative to 2007 also unfavorably affected translated results for net investment income. Somewhat mitigating the impact of these items is continued growth in the level of invested assets.

Net investment income increased in 2007 relative to the prior year. The increase was due primarily to growth in invested assets, partially offset by a lower yield due to the investment of new cash at lower rates than that of our existing portfolio yield and a decline in the level of prepayment income on mortgage-backed securities. The pound strengthened during 2007 relative to 2006, which favorably affected translated results for net investment income.

We reported a net realized investment loss of $465.9 million in 2008 compared to a loss of $65.2 million in 2007 and a gain of $2.2 million in 2006. Included in 2008 realized investment losses are $174.2 million of net realized investment losses from sales and write-downs of investments. The 2008 losses relate primarily to fixed maturity securities in the financial institutions, automotive, and media sectors that we either sold or considered other than temporarily impaired during the third and fourth quarters of 2008. Also reported as realized investment gains and losses is the change in the fair value of an embedded derivative, as required under the provisions of Statement of Financial Accounting Standards No. 133 Implementation Issue B36 (DIG Issue B36), *Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposure That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor Under Those Instruments*. During 2008, changes in the fair value of the embedded derivative resulted in net realized losses of $291.7 million compared to net realized losses of $57.3 million and $5.3 million in 2007 and 2006, respectively. The DIG Issue B36 losses in both 2008 and 2007 resulted primarily from a widening of credit spreads in the overall investment market.

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DIG Issue B36 relates to one modified coinsurance arrangement entered into in 2000 wherein we assumed the profits and losses related to a closed block of individual disability business. DIG Issue B36 requires us to include in our realized investment gains and losses a calculation intended to estimate the value of the option of our reinsurance counterparty to cancel the reinsurance contract with us. However, neither party can unilaterally terminate the reinsurance agreement except in extreme circumstances resulting from regulatory supervision, delinquency proceedings, or other direct regulatory action. Cash settlements or collateral related to this embedded derivative are not required at any time during the reinsurance contract or at termination of the reinsurance contract, and any accumulated embedded derivative gain or loss reduces to zero over time as the reinsured business winds down. We therefore view DIG Issue B36 as a reporting requirement that will not result in a permanent reduction of assets or stockholders equity. See Investments contained in this Item 7 for further discussion.

The reported ratio of benefits and change in reserves for future benefits to premium income was 85.1 percent in 2008 compared to 88.4 percent in 2007 and 95.3 percent for 2006, with improved risk results in each of our segments and in most lines of business within the Unum US segment. As previously discussed, our reported benefits and change in reserves for future benefits in 2007 and 2006 include charges pertaining to our claim reassessment process required by the regulatory settlement agreements. Excluding these charges, the ratio of benefits and change in reserves for future benefits to premium income was 87.6 percent for 2007 and 90.3 percent for 2006. See Segment Results as follows for discussions of line of business risk results and claims management performance in each of our segments.

Interest and debt expense for 2008 is lower than 2007 due to lower rates of interest on our outstanding debt, primarily as a result of the replacement of older fixed rate debt with non-recourse floating rate debt, and due to lower cost for early retirement of debt. Interest and debt expense in 2007 increased from the level of 2006 due to an increase in cost related to early retirement of debt, offset partially by the reduction in our outstanding debt. The cost related to early retirement of debt is minimal in 2008. Costs related to early retirement of debt for 2007 and 2006 were $58.8 million and $25.8 million, respectively, and were related to our $769.5 million and $732.0 million debt repurchases during those two years. See Debt contained in this Item 7 for additional information.

The deferral and amortization of deferred acquisition costs was higher in both 2008 and 2007 relative to the prior year comparable period due primarily to continued growth in certain of our product lines. Amortization also increased in 2008 due to an increase in the amortization related to Unum US internal replacement transactions that result in a policy that is substantially changed as well as slightly elevated persistency in certain policy issue years.

Operating expenses have increased year over year for expenditures related to our investment in brand and product promotion and an increase in product and service development costs in our core lines of business. In addition to the adjustments to other operating expenses as noted in the preceding chart, additional expenses of note in 2008 include a $5.6 million settlement regarding broker compensation as well as litigation expenses related to two pending cases in our individual disability closed block segment. During 2007, expenses include an $11.6 million settlement related to a plan beneficiary class action. We intend to aggressively manage our expenses while continuing to increase the effectiveness of our operating processes.

Income tax for 2006 includes tax benefits of $91.9 million as a result of the reversal of tax liabilities related primarily to group relief benefits recognized from the use of net operating losses in a foreign jurisdiction in which our businesses operate.

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Consolidated Sales Results

(in millions of dollars)

	Year Ended December 31				
	2008	% Change	2007	% Change	2006
Unum US					
Fully Insured Products	$ 701.5	11.2 %	$ 631.0	(6.1) %	$ 671.8
Administrative Services Only (ASO) Products	7.2	-	7.2	(47.4)	13.7
Total Unum US	708.7	11.0	638.2	(6.9)	685.5
Unum UK	99.5	(5.6)	105.4	4.3	101.1
Colonial Life	340.2	1.6	334.9	6.3	315.1
Individual Disability - Closed Block	2.4	(20.0)	3.0	(31.8)	4.4
Consolidated	$ 1,150.8	6.4	$ 1,081.5	(2.2)	$ 1,106.1

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

Premiums for fully insured products are reported as premium income. Fees for ASO products (those where the risk and responsibility for funding claim payments remain with the customer and we only provide services) are included in other income. Sales, persistency of the existing block of business, and the effectiveness of the renewal program are indicators of growth in our premium and fee income. Trends in new sales, as well as existing market share, also indicate our potential for growth in our respective markets and the level of market acceptance of price changes and new product offerings. Sales results may fluctuate significantly due to case size and timing of sales submissions.

We intend to continue with our disciplined approach to pricing and also with our strategy of developing a more balanced business mix. This strategy is expected to result in a lower premium persistency or market share, particularly in the large case Unum US group market, but historically the profitability of business that terminates has generally been lower than the profitability of retained business. We do not anticipate a decline in the number of cases, or case persistency, for our Unum US group market on an aggregate basis.

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

Segment Results

Our reporting segments are comprised of the following: Unum US, Unum UK, Colonial Life, Individual Disability Closed Block, and Corporate and Other. Effective with the fourth quarter of 2008, we made slight modifications to our reporting segments to better align the debt of our securitizations with the business segments and to align the allocation of capital for Unum UK similar to that of Unum US and Colonial Life. Specifically, we transferred the assets, non-recourse debt, and associated capital of Tailwind Holdings, LLC (Tailwind Holdings) and Northwind Holdings, LLC (Northwind Holdings) from our former Corporate segment to Unum US group disability and Individual Disability Closed Block, respectively. We transferred excess assets, capital in excess of target, and the associated investment income from Unum UK to our Corporate and Other segment. We also modified the investment income allocation on capital supporting certain of our group disability and long-term care product lines within Unum US and have also aggregated our former Other segment and Corporate segment into one reporting segment. Financial results previously reported have been revised to reflect these reclassifications.

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In the following segment financial data and discussions of segment results, operating revenue excludes net realized investment gains and losses. Operating income or operating loss excludes net realized investment gains and losses and income tax. These are considered non-GAAP financial measures. A non-GAAP financial measure is a numerical measure of a company s performance, financial position, or cash flows that excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP.

These non-GAAP financial measures of operating revenue and operating income or operating loss differ from revenue and income (loss) from continuing operations before income tax as presented in our consolidated operating results and in income statements prepared in accordance with GAAP due to the exclusion of before tax realized investment gains and losses. We measure segment performance for purposes of Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information*, excluding realized investment gains and losses because we believe that this performance measure is a better indicator of the ongoing businesses and the underlying trends in the businesses. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains and losses, and a long-term focus is necessary to maintain profitability over the life of the business. Realized investment gains and losses depend on market conditions and do not necessarily relate to decisions regarding the underlying business of our segments. However, income or loss excluding realized investment gains and losses does not replace net income or net loss as a measure of overall profitability. We may experience realized investment losses, which will affect future earnings levels since our underlying business is long-term in nature and we need to earn the assumed interest rates in our liabilities.

A reconciliation of total operating revenue by segment to total consolidated revenue and total operating income by segment to consolidated net income is as follows:

(in millions of dollars)

	Year Ended December 31		
	2008	2007	2006
Operating Revenue by Segment	$ 10,448.2	$ 10,585.1	$ 10,533.1
Net Realized Investment Gain (Loss)	(465.9)	(65.2)	2.2
Revenue	$ 9,982.3	$ 10,519.9	$ 10,535.3
Operating Income by Segment	$ 1,289.9	$ 1,062.4	$ 463.2
Net Realized Investment Gain (Loss)	(465.9)	(65.2)	2.2
Income Tax	270.8	324.8	61.8
Income from Discontinued Operations	-	6.9	7.4
Net Income	$ 553.2	$ 679.3	$ 411.0

As previously noted, included in the before-tax operating income by segment shown above are before-tax charges of $53.0 million and $411.4 million in 2007 and 2006, respectively, related to the claim reassessment process and $18.5 million in 2006 for the broker compensation settlement. Also as previously discussed, operating revenue and operating income by segment would have been higher in 2008 by approximately $86.7 million and $24.2 million, respectively, and higher in 2006 by approximately $86.7 million and $21.3 million, respectively, if the results for our U.K. operations had been translated at a constant exchange rate of 2.004, the rate for 2007.

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Unum US Segment

The Unum US segment includes group long-term and short-term disability insurance, group life and accidental death and dismemberment (AD&D) products, and supplemental and voluntary lines of business. The supplemental and voluntary lines of business are comprised of recently issued disability insurance, group and individual long-term care insurance, and voluntary benefits products. Effective with the fourth quarter of 2008, we made slight modifications to our reporting segments to better align the debt of our securitizations with our business segments. The assets, non-recourse debt, and associated capital of Tailwind Holdings are now reported in our Unum US segment in the group disability line of business. The primary effect on operating results from the movement of Tailwind Holdings to Unum US is the inclusion of interest and debt expense associated with the Tailwind Holdings non-recourse debt. We also modified the investment income allocation on capital supporting certain of our group disability and long-term care product lines within Unum US. Financial results previously reported have been revised to reflect these reclassifications.

Unum US Operating Results

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

(in millions of dollars)

	Year Ended December 31				
	2008	% Change	2007	% Change	2006
Operating Revenue					
Premium Income	$ 4,963.0	(1.0) %	$ 5,014.0	(3.5) %	$ 5,196.0
Net Investment Income	1,136.4	2.0	1,114.0	5.3	1,057.5
Other Income	132.7	(2.1)	135.6	25.0	108.5
Total	6,232.1	(0.5)	6,263.6	(1.5)	6,362.0
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	3,998.4	(5.8)	4,246.4	(10.6)	4,752.1
Commissions	518.6	3.4	501.5	(0.7)	505.2
Interest and Debt Expense	4.2	(44.0)	7.5	N.M.	1.3
Deferral of Acquisition Costs	(329.7)	8.4	(304.2)	(0.7)	(306.2)
Amortization of Deferred Acquisition Costs	320.3	15.6	277.1	(8.3)	302.2
Other Expenses	1,036.2	4.3	993.2	(2.5)	1,018.7
Total	5,548.0	(3.0)	5,721.5	(8.8)	6,273.3
Operating Income Before Income Tax and Net Realized Investment Gains and Losses	$ 684.1	26.2	$ 542.1	N.M.	$ 88.7

N.M. = not a meaningful percentage

As previously discussed, included in operating income for Unum US are before-tax charges of $66.2 million and $364.2 million in 2007 and 2006, respectively, related to the claim reassessment process.

We adopted the provisions of SOP 05-1 effective January 1, 2007, and recorded a cumulative effect adjustment which decreased our 2007 opening balance of Unum US DAC $589.8 million. SOP 05-1 provides guidance on accounting for DAC on internal replacements and effectively shortens the amortization period for DAC for many of our group products.

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Unum US Sales

(in millions of dollars)

	Year Ended December 31				
	2008	% Change	2007	% Change	2006
Sales by Product					
Fully Insured Products					
Group Disability, Group Life, and AD&D					
Group Long-term Disability	$ 190.3	7.1 %	$ 177.7	(14.8) %	$ 208.5
Group Short-term Disability	71.5	10.5	64.7	(12.7)	74.1
Group Life	165.4	23.4	134.0	(10.5)	149.8
AD&D	17.2	24.6	13.8	0.7	13.7
Subtotal	444.4	13.9	390.2	(12.5)	446.1
Supplemental and Voluntary					
Individual Disability - Recently Issued	57.9	(3.0)	59.7	7.8	55.4
Group Long-term Care	32.2	(1.8)	32.8	30.7	25.1
Individual Long-term Care	8.4	(15.2)	9.9	(10.0)	11.0
Voluntary Benefits	158.6	14.6	138.4	3.1	134.2
Subtotal	257.1	6.8	240.8	6.7	225.7
Total Fully Insured Products	701.5	11.2	631.0	(6.1)	671.8
Administrative Services Only (ASO) Products	7.2	-	7.2	(47.4)	13.7
Total Sales	$ 708.7	11.0	$ 638.2	(6.9)	$ 685.5
Sales by Market Sector					
Group Disability, Group Life, and AD&D					
Core Market (< 2,000 lives)	$ 297.2	23.7 %	$ 240.3	0.6 %	$ 238.9
Large Case Market	147.2	(1.8)	149.9	(27.7)	207.2
Subtotal	444.4	13.9	390.2	(12.5)	446.1
Supplemental and Voluntary	257.1	6.8	240.8	6.7	225.7
Total Fully Insured Products	701.5	11.2	631.0	(6.1)	671.8
Administrative Services Only (ASO) Products	7.2	-	7.2	(47.4)	13.7
Total Sales	$ 708.7	11.0	$ 638.2	(6.9)	$ 685.5

Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Unum US sales increased 11.0 percent in 2008 compared to 2007. Our group core market segment, which we define for Unum US as employee groups with less than 2,000 lives, had a sales increase of 23.7 percent over the prior year, and the number of new accounts increased 16.4 percent. We had a sales mix of approximately 67 percent core market and 33 percent large case market in 2008, in line with our targeted 60 percent core/40 percent large case market distribution mix. Our supplemental and voluntary sales increased 6.8 percent in 2008 compared to last year, with a 14.6 percent increase in voluntary sales offsetting the expected decrease in sales of individual long-term care.

Sales in the group large case market segment declined 1.8 percent compared to the prior year. Sales for our individual disability line of business, of which approximately 91.0 percent are in the multi-life market, decreased slightly during 2008 compared to 2007.

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During 2009 we will continue to focus on our group core market segment, group long-term care, and voluntary products market, as well as disciplined growth in our group large case and individual disability markets. In order to focus more completely on the group long-term care market, we have decided to discontinue selling individual long-term care insurance on an active basis effective in 2009.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

While overall sales for Unum US declined in 2007 relative to 2006, we maintained our disciplined pricing and our sales mix was generally in line with our target mix. In 2007, we had a sales mix of approximately 62 percent core market and 38 percent large case market. Although sales on an annualized premium basis declined year over year in our group core market segment, the number of new accounts in this segment increased over 2006.

Sales for our individual disability line of business increased over 2006. Long-term care sales were generally in line with our strategy for this product line, with growth in the group product and a decline in sales for individual long-term care. Our voluntary benefits sales increased in 2007 relative to 2006, consistent with our focus on sales growth in our voluntary product lines.

Because our focus for our 2007 renewal program was aimed primarily at improving the profitability of our large case group business, sales and persistency for the large case market segment declined during 2007, as expected.

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Unum US Group Disability Operating Results

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

(in millions of dollars, except ratios)

	Year Ended December 31				
	2008	% Change	2007	% Change	2006
Operating Revenue					
Premium Income					
Group Long-term Disability	$ 1,838.5	(3.0) %	$ 1,895.7	(2.9) %	$ 1,953.3
Group Short-term Disability	435.1	(10.4)	485.6	(8.4)	530.2
Total Premium Income	2,273.6	(4.5)	2,381.3	(4.1)	2,483.5
Net Investment Income	631.3	(2.7)	648.7	1.6	638.5
Other Income	100.2	0.1	100.1	21.6	82.3
Total	3,005.1	(4.0)	3,130.1	(2.3)	3,204.3
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	2,043.9	(10.3)	2,277.4	(15.7)	2,702.5
Commissions	165.9	(1.1)	167.7	(4.6)	175.8
Interest and Debt Expense	4.2	(44.0)	7.5	N.M.	1.3
Deferral of Acquisition Costs	(59.4)	(1.7)	(60.4)	(6.4)	(64.5)
Amortization of Deferred Acquisition Costs	76.7	15.9	66.2	(23.4)	86.4
Other Expenses	572.4	1.9	561.6	(4.6)	588.7
Total	2,803.7	(7.2)	3,020.0	(13.5)	3,490.2
Operating Income (Loss) Before Income Tax and Net Realized Investment Gains and Losses	$ 201.4	82.9	$ 110.1	138.5	$ (285.9)
Operating Ratios (% of Premium Income):					
Benefit Ratio (1)	89.9%		95.6%		108.8%
Other Expense Ratio (2)	25.2%		23.6%		23.7%
Before-tax Operating Income (Loss) Ratio (3)	8.9%		4.6%		(11.5)%
Premium Persistency:					
Group Long-term Disability	87.8%		85.1%		87.8%
Group Short-term Disability	82.1%		74.0%		85.6%
Case Persistency:					
Group Long-term Disability	89.2%		88.4%		87.4%
Group Short-term Disability	88.2%		87.4%		86.2%

N.M. = not a meaningful percentage

(1) Included in these ratios are charges of $76.5 million and $349.2 million in 2007 and 2006, respectively, related to the claim reassessment process. Excluding these charges, the benefit ratios for 2007 and 2006 would have been 92.4% and 94.8%, respectively.

(2) Included in these ratios are increases (decreases) of $(10.3) million and $15.0 million in 2007 and 2006, respectively, related to the claim reassessment process. Excluding these items, the other expense ratios for 2007 and 2006 would have been 24.0% and 23.1%, respectively.

(3) Included in these ratios are charges of $66.2 million and $364.2 million in 2007 and 2006, respectively, related to the claim reassessment process. Excluding these charges, the before-tax operating income ratio for 2007 and 2006 would have been 7.4% and 3.2%, respectively.

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Year Ended December 31, 2008 Compared with Year Ended December 31, 2007

Premium income for group disability decreased in 2008 relative to the prior year, as expected, due primarily to our pricing, renewal, and risk selection strategy as well as the termination of one large case group in September 2007. However, premium persistency and case persistency both improved over the prior year in both the core and large case markets, indicating that persistency for these lines is beginning to stabilize as expected. Net investment income declined in 2008 in comparison to the prior year due primarily to a lower yield on assets supporting this line of business resulting from the investment of new cash at a lower yield than that of the existing portfolio and also due to a decrease in bond call premiums. The decline in yield and bond call premiums was partially offset by an increase in the level of assets in the portfolio. Other income includes ASO fees of $64.8 million and $65.2 million for 2008 and 2007, respectively.

The benefit ratio for 2008 was lower than the benefit ratio for the prior year, excluding the 2007 revision to our estimate for the claim reassessment costs, due primarily to a higher rate of claim recoveries in group long-term disability and lower paid claims in short-term disability. Annual claim incidence rates for both group long-term and short-term disability are slightly lower than the prior year, with no unusual trends noted by sector or by case size. An increase in incidence rates for group short-term disability generally precedes an increase in long-term disability submitted incidence.

Interest and debt expense related to the debt issued by Tailwind Holdings decreased from the prior year due to a decrease in the variable rate of interest during 2008 compared to 2007 and a decrease in the amount of outstanding debt resulting from principal payments made during 2008 and 2007.

The deferral of acquisition costs was generally consistent with the prior year. Amortization was higher in 2008 relative to the prior year due to an increase in amortization related to internal replacement transactions that result in a policy that is substantially changed. These transactions are accounted for as an extinguishment of the original policy and the issuance of a new policy.

The other expense ratio increased in 2008 compared to the prior year due primarily to the decline in premium income and an increase in policy maintenance expenses and product service and development costs. Also contributing to the increase in the other expense ratio was the expense related to the broker compensation settlement previously discussed, of which $4.4 million was included in 2008 expenses for group disability.

As discussed under Cautionary Statement Regarding Forward-Looking Statements, certain risks and uncertainties are inherent in group disability business. Components of claims experience, including, but not limited to, incidence and recovery rates, may be worse than we expect. Both economic and societal factors can affect claim incidence. Disability claim incidence and claim recovery rates may be influenced by, among other factors, the rate of unemployment and consumer confidence. The relationship between these and other factors and overall incidence is very complex and will vary due to contract design features and the degree of expertise within the insuring organization to price, underwrite, and adjudicate the claims. Adjustments to reserve amounts may be required if there are changes in assumptions regarding the incidence of claims or the rate of recovery, as well as persistency, mortality, and interest rates used in calculating the reserve amounts. Within the group disability market, pricing and renewal actions can be taken to react to higher claim rates. However, these actions take time to implement, and there is a risk that the market will not sustain increased prices. In addition, changes in economic and external conditions may not manifest themselves in claims experience for an extended period of time.

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

Premium income for group disability decreased in 2007 relative to 2006 due primarily to our strategy on pricing, renewals, and risk selection. Premium persistency and case persistency were both consistent with our expectations given our business mix strategy. Net investment income increased in 2007 in comparison to 2006 due to the growth in the level of assets supporting these lines of business, partially offset by the impact of the lower yield resulting from the lower interest rate environment and a decrease in bond call premiums. Other income includes ASO fees of $65.2 million and $60.9 million for 2007 and 2006, respectively.

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Excluding the revisions to our estimate for claim reassessment costs, the benefit ratio for 2007 was lower than the benefit ratio for 2006 due primarily to lower paid claims in both group long-term and short-term disability and a higher rate of claim recoveries relative to 2006. Our claim operational effectiveness continued to improve during 2007 as a result of our organizational and process changes.

Interest and debt expense in 2007 is related to the Tailwind Holdings debt that was issued in the fourth quarter of 2006.

The net decrease in the amortization of DAC was due primarily to the decrease in the level of DAC as a result of the adoption of the new accounting policy related to DAC on internal replacements, offset somewhat by higher amortization resulting from the shorter amortization period for DAC. The other expense ratio, excluding the adjustments to our claim reassessment incremental operating expense estimate, increased in 2007 compared to 2006 due to the decline in premium income as well as an increase in advertising and branding expenses and product and service development costs.

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Unum US Group Life and Accidental Death and Dismemberment Operating Results

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

(in millions of dollars, except ratios)

	Year Ended December 31				
	2008	% Change	2007	% Change	2006
Operating Revenue					
Premium Income					
Group Life	$ 1,062.8	(4.0) %	$ 1,107.4	(11.3) %	$ 1,248.1
Accidental Death & Dismemberment	127.6	(2.6)	131.0	(13.6)	151.6
Total Premium Income	1,190.4	(3.9)	1,238.4	(11.5)	1,399.7
Net Investment Income	126.0	(6.6)	134.9	(4.5)	141.3
Other Income	2.3	(4.2)	2.4	N.M.	-
Total	1,318.7	(4.1)	1,375.7	(10.7)	1,541.0
Benefits and Expenses					
Benefits and Change in Reserves for Future Benefits	827.6	(8.2)	901.6	(15.5)	1,067.3
Commissions	85.4	(3.7)	88.7	(1.6)	90.1
Deferral of Acquisition Costs	(40.3)	11.6	(36.1)	(4.2)	(37.7)
Amortization of Deferred Acquisition Costs	55.0	39.6	39.4	(39.4)	65.0
Other Expenses					