State Auto Financial CORP
Form 11-K
June 21, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 11-K

S ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR

¨TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 000-19289

A. Full title of the plan and address of the plan, if different from that of the issuer named below:
State Auto Insurance Companies Retirement Savings Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:
State Auto Financial Corporation
518 East Broad Street
Columbus, Ohio 43215-3976

REQUIRED INFORMATION

The following financial statements and supplemental schedule for the State Auto Insurance Companies Retirement Savings Plan are being filed herewith:

Financial Statements for the two years ended December 31, 2015 and 2014 and Supplemental Schedule for the year ended December 31, 2015

The following exhibits are being filed herewith:
Exhibit No. Description

1	Consent of Independent Registered Public Accounting Firm	Included herein

Report of Independent Registered Public Accounting Firm

Benefits Committee
State Auto Insurance Companies Retirement Savings Plan
Columbus, Ohio

We have audited the accompanying statements of net assets available for benefits of the State Auto Insurance Companies Retirement Savings Plan (the Plan) as of December 31, 2015 and 2014, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of the Plan's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2015 and 2014, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2015 has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental schedule is the responsibility of the Plan's management. Our procedures included determining whether the supplemental schedule reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the supplemental schedule is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ Clark, Schaefer, Hackett & Co.
Columbus, Ohio
June 21, 2016

STATE AUTO INSURANCE COMPANIES RETIREMENT SAVINGS PLAN

Statements of Net Assets Available for Benefits

	December 31	
	2015	2014
Assets		
Investments:		
Shares of registered investment companies	$201,802,721	$209,647,780
Money market	8,277,104	9,480,417
Common/collective trusts	75,250,853	68,459,287
Affiliated stock	1,886,110	2,022,792
Self-directed brokerage accounts	3,177,406	3,284,689
Total investments	290,394,194	292,894,965
Receivables:		
Notes receivable from participants	4,515,970	4,940,247
Net assets reflecting investments at fair value	294,910,164	297,835,212
Adjustments from fair value to contract value for fully benefit-responsive investment contracts	(102,904)	(243,925)
Net assets available for benefits	$294,807,260	$297,591,287

See accompanying notes.

STATE AUTO INSURANCE COMPANIES RETIREMENT SAVINGS PLAN

Statements of Changes in Net Assets Available for Benefits

	Year Ended December 31	
	2015	2014
Investment income:		
Interest and dividends	$8,822,175	$13,221,447
Net (depreciation)/appreciation in fair value of investments	(6,332,056)	4,643,056
Total investment income	2,490,119	17,864,503
Interest income on notes receivable from participants	157,385	161,098
Contributions:		
Employee contributions	14,233,670	13,846,937
Participant rollovers	2,725,858	1,373,769
Employer contributions	10,062,160	9,744,399
Total contributions	27,021,688	24,965,105
Deductions:		
Benefit payments	32,286,668	22,634,453
Participant fees	166,551	28,244
Total deductions	32,453,219	22,662,697
Net (decrease)/increase	(2,784,027)	20,328,009
Net assets available for benefits:		
Beginning of year	297,591,287	277,263,278
End of year	$294,807,260	$297,591,287

See accompanying notes.

STATE AUTO INSURANCE COMPANIES RETIREMENT SAVINGS PLAN
Notes to the Financial Statements
December 31, 2015

1. Description of the Plan

Organization

The State Auto Insurance Companies Retirement Savings Plan (the "Plan") is a defined contribution plan which qualifies as a 401(k) plan. The Plan was adopted effective June 1, 1982, by State Automobile Mutual Insurance Company ("State Auto Mutual") and its affiliates ("the Company") for the purpose of providing a savings plan for the benefit of its employees.

The following description of the Plan provides only general information. Participants should refer to the Plan document for a complete description of the Plan.

General

An employee of the Company is eligible to participate in the Plan as of the first day of the pay period coincident with or after the completion of 90 days of employment with the Company provided the employee is or will attain age 21 within the first calendar year that commences after the employee’s hire date or the employee’s attainment of age 20. A participant will be automatically enrolled in the Plan upon meeting eligibility requirements.

Contributions

Each participant may contribute any whole percentage between 1% and 50% of his or her salary ("basic contribution") up to the maximum Internal Revenue Code (the "Code") limit. Subject to certain limitations, the Company makes safe harbor matching contributions for the first 1% of basic contributions of a participant’s salary at the rate of $1.00 for each $1.00 contributed by the participant and for basic contributions from 2% to 6% of a participant’s salary at the rate of $0.50 for each $1.00 contributed by the participant. Participants can change their rate of deferral as of any given pay date. Participants who are automatically enrolled in the Plan and who do not affirmatively elect a different contribution percentage contribute 3% of their salary with automatic increases to 4% in the first plan year following enrollment, 5% in the second plan year following enrollment and 6% in the third and subsequent plan years following enrollment. Participants may also suspend contributions at any time. Total participant contributions may not exceed 50% of a participant’s salary.

The Company also makes non-elective contributions of 5% of an eligible participant’s salary. Participants eligible for the non-elective contributions are those employees hired on or after January 1, 2010, and those participants who irrevocably elected to freeze their future benefit accruals under the State Auto Insurance Companies Employee Retirement Plan, a defined benefit pension plan, effective June 30, 2010. The percentage of the non-elective contribution is determined by the Compensation Committee of the Board of Directors of the State Auto Property and Casualty Insurance Company and can be changed at its discretion.

All Plan participants who are 50 and older as of the beginning of the calendar year, or who attain age 50 during the calendar year and are making the maximum Code pre-tax contribution of $18,000 for 2015 and $17,500 for 2014, may make additional “Catch-up Contributions” of up to $6,000 for 2015 and $5,500 for 2014.

Vesting

Plan participants are fully vested in employee contributions and related net earnings or losses. Plan participants are 100% vested in the safe harbor matching contributions and related earnings or losses after two years. Full vesting in non-elective contributions and related net earnings and losses occurs upon completion of three years of service. Any employee terminating prior to completing years of service requirements for vesting will forfeit the unvested portion of their account. In addition, employer matching contributions and related net earnings or losses are fully vested upon retirement at age 65, death or total and permanent disability. Any forfeiture of non-vested employer contributions and related net earnings or losses is first used to restore balances of participants who are re-employed and any remaining forfeiture reduces future employer contributions. Forfeitures of $152,552 and $211,237 were used to reduce the Company's contributions during 2015 and 2014, respectively.

STATE AUTO INSURANCE COMPANIES RETIREMENT SAVINGS PLAN
Notes to the Financial Statements (continued)
December 31, 2015

Participant’s Accounts

Each participant’s account is credited with the participant’s contributions and allocations of a) the Company’s contributions and b) Plan earnings, and is charged with applicable participant loan or Qualified Domestic Relations Order ("QDRO") processing fees. Allocations are based on participant earnings or account balances, as defined. The benefit to which a participant is entitled is the benefit that can be provided from the participant’s account.

Notes Receivable from Participants

Notes receivable from participants ("loans") are valued at their unpaid balance plus any accrued but unpaid interest. Participants may borrow from their fund accounts a minimum of $1,000 up to a maximum of the lesser of $50,000 or 50% of their vested account balance. Loan terms range from one to five years, or up to 10 years for the purchase of a primary residence. The loans are secured by the balance in the participant’s account and bear interest at a rate based on the current Reuters prime rate. Principal and interest is paid ratably through bi-weekly payroll deductions.

Administrative Expenses

Certain expenses of maintaining the Plan are paid by the Plan, unless otherwise paid by the Company. Expenses that are paid by the Company are excluded from these financial statements. Fees related to the administration of participant loan and QDRO processing fees are charged directly to the participant's account and are included in administrative expenses. Investment related expenses are included in net appreciation of fair value of investments.

Payment of Benefits

Upon termination of service, participants generally receive a lump-sum amount equal to the value of their vested account less outstanding loan balances.

Participants may semiannually withdraw from their supplemental accumulated contributions and, subject to certain conditions, participants may withdraw from their vested account based on financial hardship. Participants may withdraw the vested portion of employer matching contributions credited to their account prior to January 1, 2008, subject to certain conditions.

Plan Termination

While the Company has not expressed any intent to terminate the Plan or to discontinue contributions, it is free to do so at any time, subject to the provisions set forth in the Employee Retirement Income Security Act of 1974. If the Plan terminates at some future date, all participants will become 100% vested in benefits earned as of the termination date.

2. Significant Accounting Policies

Basis of Presentation

The accounting records of the Plan are maintained in conformity with U.S. generally accepted accounting principles ("GAAP").

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

STATE AUTO INSURANCE COMPANIES RETIREMENT SAVINGS PLAN
Notes to the Financial Statements (continued)
December 31, 2015

Valuation of Investments and Related Investment Income

The investments of the Plan at December 31, 2015 and 2014 consisted of shares of registered investment companies, a money market fund, common/collective trusts, shares of the State Auto Financial Corporation Common Stock Fund (“Affiliated stock”) and self-directed brokerage accounts. The Plan’s investments are stated at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. See Note 4 for discussion on fair value measurements.

In accordance with the Plan Accounting - Defined Contribution Pension Plans Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"), the Plan’s common/collective trusts, which includes a fully benefit-responsive investment contract, is reported at fair value based on information reported by Fidelity Management Trust Company (the "fund trustee"), with a corresponding adjustment on the statements of net assets available for benefits to reflect the investment at contract value. The statements of changes in net assets available for benefits are prepared on a contract value basis.

Investment income, including appreciation and depreciation in fair value of investments, is allocated to participant accounts daily based upon the ratio of each participant’s account to the total fund balance.

Benefit Payments

Benefit payments are recognized when paid.

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants’ account balances and the amounts reported in the Plan’s statements of net assets available for benefits.

Reclassification

Certain amounts in the 2014 financial statements have been reclassified to conform to the 2015 presentation.

Adoption of Recent Accounting Pronouncements

The FASB issued Accounting Standards Update ("ASU") 2015-12, "Plan Accounting: Defined Contribution Pension Plans (Topic 962): (Part I) Fully Benefit-Responsive Investment Contracts, (Part II) Plan Investment Disclosures, and (Part III) Measurement Date - Practical Expedient". ASU 2015-12 simplifies disclosures and reporting by employee benefit plans. ASU 2015-12 is effective for fiscal years beginning December 15, 2015, with earlier adoption permitted. The Plan elected to early adopt Part II of this guidance, applied retrospectively to all periods presented. This change has no impact on net assets available for benefits.

3. Investments

The following table sets forth the appreciation (depreciation) in value of the Plan's investments (including investments bought and sold, as well as held during the year) for the years ended December 31, 2015 and 2014:

	2015	2014
Realized appreciation	802,036	4,508,732
Unrealized (depreciation)/appreciation	(7,134,092)	134,324
Net (depreciation)/appreciation in fair value of investments	$(6,332,056)	$4,643,056

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STATE AUTO INSURANCE COMPANIES RETIREMENT SAVINGS PLAN
Notes to the Financial Statements (continued)
December 31, 2015

4. Fair Value Measurements

Below is the fair value hierarchy that categorizes into three levels the inputs to valuation techniques that are used to measure fair value:

- Level 1 includes observable inputs which reflect quoted prices for identical assets or liabilities in active markets at the measurement date.
- Level 2 includes observable inputs for assets or liabilities other than quoted prices included in Level 1, and it includes valuation techniques which use prices for similar assets and liabilities.
- Level 3 includes unobservable inputs which reflect the reporting entity’s estimates of the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Transfers between level categorizations may occur due to changes in the availability of market observable inputs. Transfers in and out of level categorizations are reported as having occurred at the beginning of the year in which the transfer occurred. There were no transfers between level categorizations during the years ended December 31, 2015 and 2014.

The following is a description of the valuation methods used for assets measured at fair value. There have been no changes in methodologies used at December 31, 2015.

- Registered investment companies: Registered investment companies are public investment vehicles valued using net asset value (“NAV”) provided by the administrator of the mutual fund. The NAV is an unadjusted quoted price on an active market and classified within Level 1 of the fair value hierarchy.
- Money market: The carrying value approximates fair value and is classified within Level 1 of the fair value hierarchy.
- Common/collective trusts: The common/collective trusts are public investment vehicles valued using the NAV provided by the fund trustee based on the value of the underlying assets owned by the trust, minus its liabilities, and then divided