

Unum Group
Form DEFA14A
May 15, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

UNUM GROUP

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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- (2) Aggregate number of securities to which transaction applies:

- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

- (4) Proposed maximum aggregate value of transaction:

- (5) Total fee paid:

.. Fee paid previously with preliminary materials.

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- (1) Amount Previously Paid:

- (2) Form, Schedule or Registration Statement No.:

- (3) Filing Party:

- (4) Date Filed:

Executive Compensation:
Say-on-Pay
Stock Incentive Plan of 2012

Unum's Human Capital Committee and Board of Directors have always adhered to a philosophy and demonstrated practice of pay for performance and believe that the Company's executive compensation programs are fully aligned with the interests of shareholders

Executive pay is targeted at the median of appropriate comparison groups that include companies Unum competes with in the marketplace on a daily basis

In evaluating performance, the Committee considers total shareholder return over the short and long term, operating performance, and the overall strength and strategic position of the

company

In spite of the difficult environment, Unum continued in 2011 to deliver strong operating results and create greater shareholder value through dividend increases and share repurchases, while at the same time maintaining strong capital levels to position the Company for the future

The Board recommends that Unum shareholders vote FOR approval of the Company's executive compensation (Say on Pay) and FOR approval of the Stock Incentive Plan of 2012

Executive Summary

2

Governance and Executive Compensation

3

The Board has a demonstrated track record of good corporate governance

Board Chairman is an independent director

Committed to present proposal for declassification of the Board in 2013

Adopted majority voting in director elections

Prohibit

officers

and

directors

from

engaging

in

certain

hedging

transactions

involving Unum stock

The Human Capital Committee has a performance orientation and a culture of transparency. It has a history of responsible executive compensation policies and programs which are responsive to the concerns of shareholders, including:

Implementation of double-trigger

vesting of equity upon a change-in-control

Share ownership requirements and retention requirements for all directors and executive officers

Adoption of a clawback policy

Elimination of excise-tax gross-ups in new/materially amended agreements

Elimination of most perquisites and personal use of corporate aircraft

Policies and Practices

Shareholder Focus

4

Board of Directors and management are focused on returning value to shareholders, while building a strong capital position during

a

challenging economic period

Share repurchases

o

\$1.85 billion in share repurchases since 4Q2007

o

\$619.9 million in share repurchases during 2011

Dividend increases

o

23.8% increase announced May 1, 2012

o

Cumulative dividend increase of 73.3% since end of 2007

Holding company cash and marketable securities of \$575 million as of
March 31, 2012

Risk-based capital of 406% as of March 31, 2012

Operating results provided exclude certain items. For a reconciliation to the most comparable GAAP measures, refer to the Appendix

1

Indexed growth of annual operating EPS; Unum EPS excludes special items. Index comprised of AFL, AIZ, CNO, DFG, GNW

2

Indexed growth of annualized year-end dividends.

3

Total shares repurchased as a percent of prior year-end shares outstanding.

Source: SNL, Bloomberg, Company Financials

Strong Operating Performance and Value Creation

5

Total Shareholder Return

Share Repurchase³

Operating

EPS

Growth

1

Dividend Growth²

50

60

70

80

90

100

110

120

130

140

150

2007

2008

2009

2010

2011

Unum Group

Industry Average (ex-

UNM)

0%

5%

10%

15%

20%

25%

2007

2008

2009

2010

2011

Cumulative

Unum Group

Industry Average (ex-

UNM)

60

80

90

100

110

120

130

140

2007

2008

2009

2010

2011

Unum Group

Industry Average (ex-

UNM)

\$0

\$25

\$50

\$75

\$100

\$125

2006

2007

2008

2009

2010

2011

Unum Group

Unum Proxy Peer Group Average

ISS Peer Group Average

S&P Life and Health Index

70

Pay for Performance Focus

6

The Human Capital Committee and the Board of Directors have a demonstrated history of adopting executive compensation programs that reflect their philosophy of pay for performance and align the interest of the Company's executive officers with those of its shareholders

The Human Capital Committee carefully monitors corporate compensation trends and makes appropriate adjustments to the plan

The Human Capital Committee has been responsive to shareholder concerns related to executive compensation as well as other factors

Pay for Performance Focus

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Executive pay is targeted at the approximate median of those peers with which we typically compete for business and talent

CEO pay compared to Proxy Peer Group, which is comprised of a mix of insurance and financial services companies

Significant portion of pay is performance-based

For example, 88% of the CEO's total targeted compensation is at risk

Funding of the annual and long-term incentive plans is contingent on exceeding established performance thresholds

The plans reward the achievement of pre-determined goals and objectives as well as individual contributions

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Robust stock ownership and retention guidelines for executives,
with 2011 increase in requirements for CEO

Executive

Required

Actual

FYE 2011

CEO

6x

17x

Other NEOs

3x

5.2x -

9.2x

In spite of the difficult business and economic environment, Unum continued to deliver steady and disciplined operating performance (1) during 2011: Posted strong earnings that resulted in pre-tax operating income of \$1.3 billion

and consolidated after-tax operating income of \$896.8 million
Achieved operating earnings per share growth of 9.7%
Achieved operating return on equity of 14.6% for our core operating segments
Raised dividend by 13.5% and repurchased \$619.9 million of stock
Made the strategic decision to exit long-term care business
Sharpens focus on those products that provide greatest long-term opportunity
Strengthens Unum's risk profile

(1)
Operating results provided exclude special items. For a reconciliation to the most comparable GAAP measures, refer to the Appendix.

Pay for Performance Focus
2011 Company Performance

8

Pay for Performance Focus

9

Unum's compensation decisions for 2011 were consistent with its

pay for performance philosophy

Overall pay targeted at median

CEO

actual

pay

at

56

percentile

relative

to

proxy

peers

Modest base salary increases for 2011 performance

CEO has not received any salary increase since 2010

Other named executives salary increases ranged from 1.5% to 5.1%

(1)

Incentive awards to NEOs for 2011 performance directly reflect individual and business unit performance:

Annual incentive awards ranged from 83% to 133% of target

Long-term incentive awards ranged from 106% to 140% of target

(1) The increase of 5.1% included the assumption of additional responsibilities.

Compensation for 2011 Performance

th

Vote FOR

Say on Pay

In 2011, both ISS and Glass Lewis recommended that shareholders support our say on pay proposal, which received over 97% support. Glass Lewis has again recommended support for say on pay in 2012.

In 2012, Unum was responsive to concerns expressed by ISS and further strengthened its commitment to pay for performance:

The Human Capital Committee applied an additional performance condition to increases in the CEO's 2012 incentive targets, thereby addressing what we believed to be ISS's primary objection (see Appendix for copy of additional proxy

solicitation materials filed with SEC on May 10, 2012)

The increases will become effective only if Unum's 1-year and 3-year total shareholder returns (TSRs) for the periods ending December 31, 2012 exceed the

respective medians of the comparable TSRs of its proxy peer group

This action is consistent with the committee's philosophy that there should be a strong linkage between shareholder return metrics and incentive compensation and was fully supported by the CEO

Pay for Performance Commitment

10

Vote FOR

Say on Pay and Stock Plan of 2012

11

The peer group utilized by ISS is not representative of those companies that Unum competes with in the market place for business, executive talent and human resources

Of the 16 companies highlighted as peers:

o

Only six are a member of Unum's proxy peer group (see appendix for details)

o

Nine are primarily property and casualty or reinsurance companies
ISS's recommendations regarding 2011 executive compensation
appear to be largely based on changes to the CEO's incentive targets
for 2012

Since 2012 performance and payouts have yet to be determined, this penalizes
Unum in 2011 for theoretical 2012 compensation and without knowing whether
2012 performance would support any incentive payouts

ISS's Approach Not Appropriate for Unum

Vote FOR

Stock Incentive Plan of 2012

12

The Stock Incentive Plan of 2012 would replace the Stock Incentive Plan of 2007 for any grants made in the future

Approval of the plan would allow Unum to continue to be eligible to

deduct all performance-based compensation, which is in the best interest of shareholders

The plan has a shareholder friendly design including:

Prohibition on repricing
Minimum vesting requirements
Individual limitations on awards
Double trigger vesting of equity upon a change-in-control
No evergreen provision
Elimination of payment of dividends on unvested performance-based awards
Favorable burn rate and dilution tests under both Glass Lewis and
ISS guidelines
Favorable shareholder value transfer under ISS guidelines
Maintain Deductibility of Executive Equity Compensation

Vote FOR

Stock Incentive Plan of 2012

13

Unum's long-term incentive program was intentionally designed to conservatively manage shareholder dilution through the use of a combination of deferred cash and equity grants

Since 2003, we have used deferred cash incentive compensation for over 50% of our long-term incentive participants

Deferred cash reduces dilution, and does not impact our share reserve

Maintain Deductibility of Executive Equity Compensation

The Board and the Human Capital Committee strongly believe that Unum's compensation programs have been designed and implemented in the best interests of shareholders and tightly align pay to company performance. Therefore, the Board urges shareholders to vote FOR all the voting items including the following:

Say-on-Pay

Stock Incentive Plan of 2012

Voting Recommendations

Vote FOR Management Proposals

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Even if you have already voted, you can change your vote at any time before the 2012 Annual Meeting as described in more detail in the 2012 Proxy Statement.

For assistance in changing your vote, contact Innisfree M&A Incorporated toll-free at 1-888-750-5834.

Appendix

Reconciliation of Non-GAAP Financial Measures

\$ in millions

16

As Adjusted

Long-term

Care DAC

and Reserve

Charges

Individual

Disability

Closed Block

Reserve

Charge
As Reported
Operating Income (Loss) by Segment Before
Income Tax and Net Realized Investment Loss
Core Operations
Unum US
819.8
\$
-
\$
-
\$
819.8
\$
Unum UK
192.0
-
-
192.0
Colonial Life
282.1
-
-
282.1
Total Core Operations
1,293.9
-
-
1,293.9
Closed Block
125.4
(863.4)
(183.5)
(921.5)

Corporate
(110.3)

-

-

(110.3)

Total Operating Income (Loss) by Segment

1,309.0

\$

(863.4)

\$

(183.5)

\$

262.1

Net Realized Investment Loss

(4.9)

Income Tax

21.8

Net Income

235.4

\$

Twelve

Months

Ended

December

31

2011

After-tax Operating Income

896.8

\$

Deferred Acquisition Costs Impairment and Reserve
Charges for Long-term Care Closed Block, Net of Tax

(561.2)

Reserve Charge for Individual Disability

Closed Block, Net of Tax

(119.3)

Special Tax Items

22.7

Net Realized Investment Loss, Net of Tax

(3.6)

Net Income

235.4

\$

Twelve Months Ended December 31, 2011

Reconciliation of Non-GAAP Financial Measures

\$ in millions

17

Average

Allocated

Equity

Adjusted

After-Tax

Operating

Income

(Loss)

After-tax

Special Item
Adjustments
After-Tax
Operating
Income
(Loss)
Return on
Equity
Twelve Months Ended December 31, 2011
Core Operations
6,020.2
\$
876.1
\$
-
\$
876.1
\$
14.6%
Closed Block
2,195.1

91.0

(680.5)

(589.5)

Corporate
(347.6)

(70.3)

22.7

(47.6)

Total
7,867.7
\$
896.8
\$
(657.8)
\$
239.0
\$
11.4%
Twelve Months Ended December 31, 2007*
Core Operations
5,608.6

\$
782.0
\$
(43.1)
\$
738.9
\$
13.9%
Closed Block
2,739.3

88.3

8.6

96.9

Corporate
(1,313.6)

(84.1)

(36.1)

(120.2)

Total
7,034.3
\$
786.2
\$
(70.6)
\$
715.6
\$
11.2%
2011
2010
Total Stockholders' Equity, As Reported
8,577.0
\$
8,944.4
\$
Net Unrealized Gain on Securities
605.8

410.4

Net Gain on Cash Flow Hedges
408.7

361.0

Total Stockholders' Equity, As Adjusted

7,562.5

\$

8,173.0

\$

Average Equity, As Adjusted

Year Ended

7,867.7

\$

December 31

Reconciliation of Non-GAAP Financial Measures

\$ in millions

18

12/31/2011

12/31/2010

12/31/2009

12/31/2008

12/31/2007

Net Income

0.78

\$

2.71

\$
2.57
\$
1.62
\$
1.91
\$
Net Realized Investment Gain (Loss)
(0.01)

0.05

-

(0.89)

(0.12)

Income from Discontinued Operations
-

-

-

-

0.02

After-tax Operating Income from Continuing
Operations Excluding Net Realized
Investment Gain (Loss)
0.79

2.66

2.57

2.51

2.01

Special Tax Items and Debt Extinguishment Costs
0.08

(0.03)

-

-

(0.10)

Deferred Acquisition Costs Impairment and Reserve
Charges for Long-term Care Closed Block, Net of Tax
(1.85)

-

-

-

-

Reserve Charge for Individual Disability Closed
Block, Net of Tax
(0.39)

-

-

-

-

Regulatory Reassessment Charges, Net of Tax

-

-

-

-

(0.10)

After-tax Operating Income from Continuing
Operations Excluding Net Realized Investment
Gain (Loss) and Special Items

2.95

\$

2.69

\$

2.57

\$

2.51

\$

2.21

\$

* Amounts per diluted common share

Twelve Months Ended *

Peer Group Comparison
19
Company
Unum
Proxy
Peer
Group
ISS Peer
Group
Company
Unum
Proxy

Peer
Group
ISS Peer
Group
Ace Limited

Lincoln Financial

Aetna

Loews Corporation

Aflac

MBIA Inc

Allstate

Marsh & McLennan

American Financial Group

MetLife

Aon plc

Principal Financial

Assurant

Protective Life

CHUBB Corporation

Prudential Financial

Cigna

Reinsurance Group of America

CNA Financial

Stancorp Financial

CNO Financial

Torchmark

Genworth Financial

Travelers Companies

Hartford Financial Services

XL Group

Humana

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UNUM GROUP

(Name of Registrant as Specified in Its Charter)

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Responding to feedback on executive compensation

In response to feedback following the filing of its proxy statement on April 12, 2012, Unum Group (the Company) and the Human Capital Committee of the Board of Directors (the Committee) wish to address a specific concern that has been raised regarding increases to the incentive targets of its chief executive officer, Thomas R. Watjen, for 2012 performance. These targets were set by the Committee at its meeting in February 2012, at which time the Committee reviewed CEO compensation of the proxy peer group. Consistent with the objective of targeting the approximate median of the peer group and reflecting achievement of the Company's and individual performance objectives, the Committee increased Mr. Watjen's annual incentive target from 150% to 200% of base salary and his long-term incentive target from \$5 million to \$6 million. The Company has received feedback suggesting that there be a more direct link between Mr. Watjen's 2012 incentive targets and shareholder return metrics. The Committee has always operated under the principle that there should be a strong linkage between shareholder return metrics and incentive compensation. Consistent with that philosophy, the Committee, with Mr. Watjen's full support and concurrence, has decided to apply an additional performance condition to the increase in targets:

The increases to Mr. Watjen's annual and long-term incentive targets for 2012 performance will become effective only if the Company's 1-year and 3-year total shareholder returns (TSRs) for the periods ending on December 31, 2012 exceed the respective medians of the comparable 1-year and 3-year TSRs of the Company's proxy peer group identified on page 66 of its 2012 proxy statement. If the Company's TSR is at or below the proxy peer group median TSR for either the 1-year or 3-year period, there will be no increase to Mr. Watjen's 2012 annual and long-term incentive targets, and his 2011 targets will be used in determining his 2012 compensation.

The Company and the Committee also wish to clarify certain aspects of its executive compensation programs, as outlined below.

The annual incentive program rewards and motivates the achievement of pre-determined goals and objectives established by the Committee at the beginning of each year, as well as rewarding individual contributions related to the achievement of the Company's goals. The long-term incentive program is 100% performance-based. It evaluates performance against pre-established goals and objectives that are longer term in focus, including for 2011 long-term growth, measured by revenue, capital management effectiveness, measured by return on equity, and profitability, measured by after-tax operating earnings, and also recognizes individual executive strategic leadership.

The long-term incentive program was intentionally designed to conservatively manage shareholder dilution through the use of a combination of deferred cash and equity grants. Since 2003, the Company has used deferred cash incentive compensation for over 50% of its long-term incentive plan participants. The use of deferred cash significantly reduces dilution and does not impact the Company's share reserve. As a result, the Company's burn rate, overhang, and Shareholder Value Transfer are significantly lower than competitive norms and thresholds established by Institutional Shareholder Services. Because of the higher use of deferred cash, the Company's named executive officers receive a larger percentage of the total annual share grants than other companies who use equity for all participants.

In connection with the Company's Annual Meeting of Shareholders to be held on May 24, 2012, the Company has filed a proxy statement with the Securities and Exchange Commission, which was first mailed and made available electronically to shareholders on April 12, 2012. Shareholders are advised to read this supplemental information in conjunction with the proxy statement. The proxy statement and the Company's other public filings are available, free of charge, from the Internet website maintained by the SEC at www.sec.gov. The Company's public filings are also available through its website under the Investors tab at www.unum.com.