

StanCorp's 2012 Annual Guidance

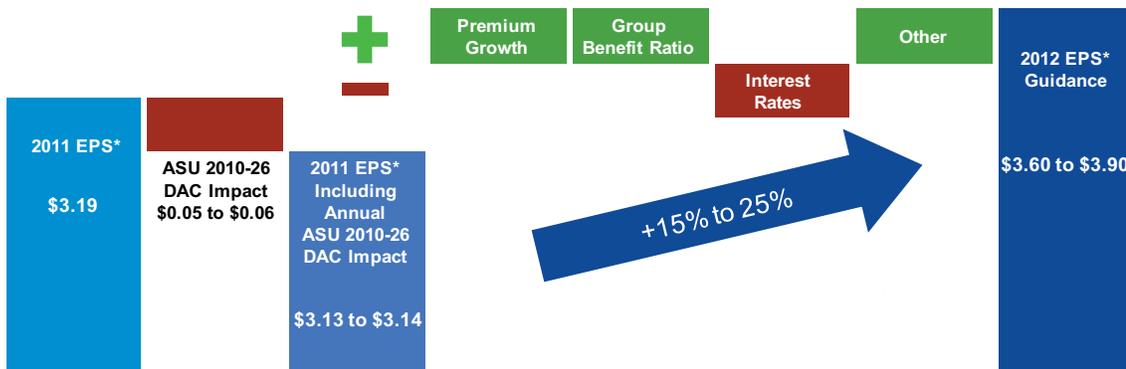


In the fourth quarter 2011 earnings release and conference call, StanCorp management presented their financial expectations for 2012. I want to take this opportunity to reiterate our 2012 guidance and highlight some of the major factors that will affect our 2012 profitability.

Our 2012 guidance focuses on two profitability measures: earnings per share and return on equity. In 2012, we expect:

- Net income per diluted share, excluding after-tax net capital gains and losses, to be in the range of \$3.60 to \$3.90.
- Return on average equity, excluding after-tax net capital gains and losses from net income and accumulated other comprehensive income from equity, to be in the range of 9% to 10%.

After adjusting for the \$3 to \$4 million annual increase in pre-tax expenses (\$0.05 to \$0.06 per share) that will result from adoption of Accounting Standards Update 2010-26, *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts*, the 2012 earnings per share range represents an increase of 15% to 25% over 2011 as shown in the chart below:



*Excluding after-tax net capital gains and losses

The following are the major factors that will affect our 2012 profitability:

- We expect group insurance premium growth to be relatively flat, given our pricing actions for both new and renewal long term disability business and the effect of the continued challenging economic environment on the employment and wage levels of our group insurance customers. However, strong customer retention in our group insurance business has created the potential for organic growth in premiums as wage growth and employment levels improve.
- Interest rate levels can affect our new money investment rates and the discount rates used to establish long term disability reserves. If the current interest rate environment persists, we estimate the discount rate would be lowered 25 to 50 basis points during 2012. Based on our current size, a 25 basis point increase or decrease in the discount rate results in a comparable increase or decrease in quarterly pre-tax income of \$1.6 million. The potential lowering of the discount rate is incorporated in our group insurance benefit ratio guidance range below.
- We expect that the annual benefit ratio for the group insurance business will be in the range of 80% to 82%. We expect the annual benefit ratio to return to a historical range of 74% to 78% when pricing actions on the long term disability business are completed and wage growth and employment levels return to historical levels.
- We expect to be conservative in capital deployment for 2012 with share repurchases in the range of \$40 million to \$80 million. We will evaluate share repurchases opportunistically based on equity markets, capital levels and other opportunities for capital deployment.
- We expect our effective income tax rate for 2012 will be approximately 26% to 27%.

As a reminder, guidance for any specific year may vary due to short-term market trends, changes in the interest rate environment and other factors.

Please let me know if you have questions.

Jeff

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