

State Auto Financial CORP
Form 11-K
March 24, 2016

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

FORM 11-K

(Mark One)

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
Amended and Restated
Directors Deferred Compensation 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

See the accompanying financial statements for the State Auto Insurance Companies Amended and Restated Directors Deferred Compensation Plan as of December 31, 2015 and 2014, and for the years ended December 31, 2015, 2014 and 2013.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

State Auto Insurance Companies Amended and Restated Directors Deferred Compensation Plan

By: /s/ Steven E. English
Steven E. English
Senior Vice President, Chief Financial Officer

By: /s/ Melissa A. Centers
Melissa A. Centers
Senior Vice President, Secretary and General Counsel

Date: March 24, 2016

INDEX

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	<u>1</u>
Audited Financial Statements:	
<u>Statements of Net Assets Available for Benefits</u>	<u>2</u>
<u>Statements of Changes in Net Assets Available for Benefits</u>	<u>3</u>
<u>Notes to the Financial Statements</u>	<u>4</u>

Report of Independent Registered Public Accounting Firm

Board of Directors
State Auto Financial Corporation
Columbus, Ohio

We have audited the accompanying statements of net assets available for benefits of the State Auto Insurance Companies Amended and Restated Directors Deferred Compensation 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 ended December 31, 2015, 2014 and 2013. 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 audits 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 audits 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 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, as well as 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 ended December 31, 2015, 2014 and 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ Clark, Schaefer, Hackett & Co.

Columbus, Ohio
March 24, 2016

STATE AUTO INSURANCE COMPANIES
 AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Statements of Net Assets Available for Benefits

	December 31	
	2015	2014
Assets		
Investments, at fair value:		
Shares of registered investment companies (cost \$7,371,771 and \$6,736,798, respectively)	\$ 7,259,761	\$ 6,881,208
Interest-bearing cash	9,442	9,440
Affiliated stock (cost \$351,113 and \$342,765, respectively)	434,508	460,823
Total investments	7,703,711	7,351,471
Net assets available for benefits	\$ 7,703,711	\$ 7,351,471
See accompanying notes.		

STATE AUTO INSURANCE COMPANIES
 AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Statements of Changes in Net Assets Available for Benefits

	Year Ended December 31		
	2015	2014	2013
Investment income:			
Dividends	\$ 323,064	\$ 354,302	\$ 176,700
Unrealized (losses) gains	(291,083)	(501,032)	688,218
Realized (losses) gains	(1,607)	493,505	131,620
Total investment income	\$ 30,374	\$ 346,775	\$ 996,538
Contributions:			
Participant	\$ 364,305	\$ 403,375	\$ 443,375
Company	282,750	350,000	400,000
Total contributions	\$ 647,055	\$ 753,375	\$ 843,375
Deductions:			
Benefit payments	\$ 325,189	\$ 212,190	\$ 123,380
Total deductions	\$ 325,189	\$ 212,190	\$ 123,380
Net increase	\$ 352,240	\$ 887,960	\$ 1,716,533
Net assets available for benefits:			
Beginning of year	\$ 7,351,471	\$ 6,463,511	\$ 4,746,978
End of year	\$ 7,703,711	\$ 7,351,471	\$ 6,463,511

See accompanying notes.

STATE AUTO INSURANCE COMPANIES
AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements

December 31, 2015

1. Description of the Plan

Organization

The State Auto Companies Amended and Restated Directors Deferred Compensation Plan (the "Plan") became effective on August 1, 1995, was amended and restated in its entirety effective as of March 1, 2001, and was further amended effective as of December 1, 2005 (First Amendment), January 1, 2009 (Second and Third Amendments), November 1, 2010 (Fourth Amendment), and January 1, 2012 (Fifth Amendment). The Plan provides members of the Boards of Directors of State Automobile Mutual Insurance Company ("State Auto Mutual") and its affiliates (collectively, the "Company" or the "State Auto Companies") a retirement savings plan in which to defer the payment of director and committee meeting fees.

The benefits provided to participants under the Plan are paid from the Company's general assets. The Plan is intended to be an unfunded Plan for purposes of the Employee Retirement Income Security Act of 1974 ("ERISA") and is, therefore, exempt from certain ERISA requirements. Each participant's right to benefits under the Plan are equivalent to the rights of any unsecured creditor of the Company.

Participants must enroll within 30 days after becoming eligible to participate. For subsequent years, participants must enroll prior to the beginning of each new plan year.

Contributions

Participants are permitted to defer on a pre-tax basis (a) from 10% to 100% of his or her director fees in the calendar year and/or (b) 0% or 100% of committee meeting fees in the calendar year. In addition, for each of the members of the Board of Directors of State Auto Mutual, State Auto Mutual makes an annual cash contribution in the amount as determined at State Auto Mutual's discretion. For the years ended December 31, 2015, 2014, and 2013, the discretionary contribution amounted to \$56,550, \$50,000 and \$50,000, respectively.

Vesting

Each participant is fully vested in his or her contributions and any State Auto Mutual discretionary contributions.

Participant Accounts

Investment funds available under the Plan are merely devices used to calculate gains and losses on the amounts deferred by Plan participants. No participant has any rights or interests in any particular funds, securities or property of the Company or the trust described in Note 6, or in any investment vehicle in which deferrals are deemed to be invested, by virtue of any investment election. Each deferral account, however, is credited or charged in accordance with the Plan with gains and losses as if the participant in fact had made a corresponding actual investment. The Directors of State Auto Financial Corporation ("STFC") have the option to purchase STFC common stock ("Affiliated stock").

Payment of Benefits

The balance of each deferral account will be distributed upon retirement or termination of a participant from the Board of Directors of the Company. Payments will be made in cash and paid in 60 or 120 monthly installments, except for amounts deferred and fully vested prior to December 31, 2004, which can be distributed in alternative payment options as elected by the participant. The Company must receive at least 30 days written notice of the participant's intention to retire and receive retirement benefits.

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
AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN
Notes to the Financial Statements (continued)
December 31, 2015

Valuation of Investments and Related Investment Income

The investments of the Plan consist of shares of registered investment companies, interest-bearing cash, and affiliated stock. 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 3 for discussion on fair value measurements.

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. Dividend income is recorded on the ex-dividend date. Realized gains and losses on the sale of securities are determined based on the average cost method.

Benefit Payments

Benefit payments are recognized when paid.

Administrative Expenses

Administrative expenses are paid by the Company.

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 the amounts reported in the Plan's statements of net assets available for benefits.

3. 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).

The following is a description of the valuation methods used for assets measured at fair value:

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.

• Interest-bearing cash: The carrying value approximates fair value and is classified within Level 1 of the fair value hierarchy.

• Affiliated stock: The fair value is based on the unadjusted closing price reported on the active market on which the security is traded and is classified within Level 1 of the fair value hierarchy.

STATE AUTO INSURANCE COMPANIES
 AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN
 Notes to the Financial Statements (continued)
 December 31, 2015

The following tables reflect the Plan's investments within the fair value hierarchy at December 31, 2015 and 2014:

2015	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Registered investment companies:				
Large cap equity investments	\$ 1,934,493	1,934,493	—	—
Mid cap equity investments	683,595	683,595	—	—
Small cap equity investments	11,779	11,779	—	—
International equity investments	1,124,359	1,124,359	—	—
Blended fund investments	2,477,353	2,477,353	—	—
Income bond investments	1,028,182	1,028,182	—	—
Total registered investment companies	\$ 7,259,761	7,259,761	—	—
Interest-bearing cash	9,442	9,442	—	—
Affiliated stock	434,508	434,508	—	—
Total investments	\$ 7,703,711	7,703,711	—	—
2014	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Registered investment companies:				
Large cap equity investments	\$ 1,403,618	1,403,618	—	—
Mid cap equity investments	725,773	725,773	—	—
Small cap equity investments	14,132	14,132	—	—
International equity investments	1,065,901	1,065,901	—	—
Blended fund investments	2,534,507	2,534,507	—	—
Income bond investments	1,137,277	1,137,277	—	—
Total registered investment companies	\$ 6,881,208	6,881,208	—	—
Interest-bearing cash	9,440	9,440	—	—
Affiliated stock	460,823	460,823	—	—
Total investments	\$ 7,351,471	7,351,471	—	—

4. Participant Accounts

Participant balances for all funds are maintained in shares. Share values are determined on a periodic basis. At December 31, 2015 and 2014, there were 18 and 14 participants, respectively, in the Plan, with contributions in one or more of the following funds. The total number of participants in the Plan is less than the sum of the number of participants set forth in the following table because each participant may make contributions to more than one fund.

STATE AUTO INSURANCE COMPANIES
 AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2015

The total number of shares and share values as of December 31, 2015 and 2014, by fund, were as follows:
 2015

Investment Options:	Total Number of Shares	Net Asset Share Value	Number of Participants
Registered investment companies:			
ABF Small Cap Val Inst	524	\$ 22.46	1
Baron Growth Inst	7,801	64.31	3
FID Contrafund K	9,198	98.88	7
MFS Value R5	4,643	32.79	1
FID Total Bond	100,213	10.26	10
TRP Blue Chip Growth	8,502	72.38	3
MFS Inst Intl Equity	54,687	20.56	11
Spartan 500 Index Inst	3,584	71.81	4
Spartan EXT Mkt IDX ADV	3,624	50.20	7
VANG Target RET 2010	40,118	24.88	4
VANG Target RET 2015	4,056	14.23	1
VANG Target RET 2020	11,482	27.15	1
VANG Target RET 2025	61,444	15.62	3
VANG Target RET INC	12,048	12.45	1
Total registered investment companies	321,924		
Interest-bearing cash:			
FID Govt MMRK PRM	9,442	1.00	1
Total interest-bearing cash	9,442		
Affiliated stock:			
State Auto Financial Corporation	21,103	20.59	1
Total affiliated stock	21,103		
Total investments	352,469		

STATE AUTO INSURANCE COMPANIES
 AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2015

2014

Investment Options:	Total Number of Shares	Net Asset Share Value	Number of Participants
Registered investment companies:			
ABF Small Cap Val Inst	564	\$25.07	1
Baron Growth Inst	6,934	73.24	3
FID Contrafund K	8,072	97.90	6
MFS Value R5	3,775	34.94	1
PIM Total RT Inst	106,686	10.66	6
TRP Blue Chip Growth	3,748	67.27	2
MFS Inst Intl Equity	50,976	20.91	7
Spartan 500 Index Inst	3,148	72.86	4
Spartan EXT Mkt IDX ADV	3,950	55.18	3
VANG Target RET 2010	37,895	26.32	3
VANG Target RET 2015	1,975	15.29	1
VANG Target RET 2020	28,423	28.46	1
VANG Target RET 2025	31,528	16.53	3
VANG Target RET INC	13,698	12.91	1
Total registered investment companies	301,372		
Interest-bearing cash:			
Fidelity US Govt Bond	9,440	1.00	1
Total interest-bearing cash	9,440		
Affiliated stock:			
State Auto Financial Corporation	20,739	22.22	1
Total affiliated stock	20,739		
Total investments	331,551		

STATE AUTO INSURANCE COMPANIES
 AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2015

5. Investments

The Plan's investments and related changes at December 31, 2015, 2014 and 2013 and for the years then ended were as follows:

2015	Number of Shares	Fair Value	Dividends	Realized Gain (Loss)	Unrealized Gain (Loss)	Contributions	Benefit Payments
Registered investment companies:							
ABF Small Cap Val Inst	524	\$ 11,779	\$ 668	\$ 236	\$(1,528)	)\$—	\$(1,729)
Baron Growth Inst	7,801	501,655	43,195	407	(64,899)	)16,875	(1,746)
FID Contrafund K	9,198	909,505	46,572	4,001	2,553	)27,630	(18,461)
MFS Value R5	4,643	152,238	8,819	148	(9,809)	)21,198	—
PIM Total RT Inst	—	—	506	(13,178)	)33,448	—	—
FID Total Bond	100,213	1,028,182	38,252	(2,794)	)(55,186)	)49,222	(159,363)
TRP Blue Chip Growth	8,502	615,367	19,423	366	22,850	)20,625	—
MFS Inst Intl Equity	54,687	1,124,359	18,901	379	(22,366)	)82,161	(20,618)
Spartan 500 Index Inst	3,584	257,384	6,909	179	(4,026)	)27,630	(2,646)
Spartan EXT Mkt IDX ADV	3,624	181,940	11,458	92	(17,072)	)—	(30,487)
VANG Target RET 2010	40,118	998,142	52,934	889	(55,728)	)65,925	(63,270)
VANG Target RET 2015	4,056	57,720	3,778	366	(4,387)	)84,675	—
VANG Target RET 2020	11,482	311,737	12,418	4,647	(11,356)	)97,122	—
VANG Target RET 2025	61,444	959,751	45,558	2,591	(63,549)	)153,992	—
VANG Target RET INC	12,048	150,002	5,325	64	(5,365)	)—	(26,869)
Total registered investment companies	321,924	7,259,761	314,716	(1,607)	)(256,420)	)647,055	(325,189)
Interest-bearing cash:							
FID Govt MMRK PRM	9,442	9,442	—	—	—	—	—
Total interest-bearing cash	9,442	9,442	—	—	—	—	—
Affiliated stock:							
State Auto Financial Corporation	21,103	434,508	8,348	—	(34,663))—	—
Total affiliated stock	21,103	434,508	8,348	—	(34,663))—	—
Total assets held for investment	352,469	\$ 7,703,711	\$ 323,064	\$(1,607)	)(291,083)	)\$ 647,055	\$(325,189)

STATE AUTO INSURANCE COMPANIES
 AMENDED AND RESTATED DIRECTORS DEFERRED COMPENSATION PLAN

Notes to the Financial Statements (continued)

December 31, 2015

2014	Number of Shares	Fair Value	Dividends	Realized Gain (Loss)	Unrealized Gain (Loss)	Contributions	Benefit Payments
Registered investment companies:							
ABF Small Cap Val Inst	564	\$ 14,133	\$ 1,692	\$ 357	\$(1,401)	\$—	\$(1,662)
Baron Growth Inst	6,934	507,824	21,401	375	(313)	20,625	(1,635)
FID Contrafund K	8,072	790,295	54,229	4,445	10,565	118,175	(13,106)
FID Diversified Intl K	—	—	—	76,766	(74,985)	26,250	(2,436)
FID Freedom K 2005	—	—	3,850	4,593	(5,714)	—	(11,846)
FID Freedom K 2010	—	—	1,698	1,625	(2,351)	—	(2,333)
FID Freedom K 2015	—	—	11,464	55,671	(55,030))	