State Auto Financial CORP
Form 11-K
June 18, 2014

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, 2013
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, 2013 and 2012 and Supplemental Schedule for the year ended December 31, 2013

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

Retirement Savings Plan Advisory 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, 2013 and 2012, 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. We were not engaged to perform an audit of the Plan's internal control over financial reporting. An audit includes 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, 2013 and 2012, 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.

Our audits were performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental schedule of assets (held at end of year) as of December 31, 2013 is presented for the purpose of additional analysis and is not a required part of the financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. This supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

/s/ Clark, Schaefer, Hackett & Co.
Columbus, Ohio
June 18, 2014

STATE AUTO INSURANCE COMPANIES RETIREMENT SAVINGS PLAN

Statement of Net Assets Available for Benefits

	December 31	
	2013	2012
Assets		
Investments, at fair value:		
Shares of registered investment companies	$ 244,085,335	$ 196,123,508
Money market	8,955,335	11,862,836
Common/collective trust	15,590,130	16,962,705
Affiliated stock	2,123,911	1,608,780
Self-directed brokerage accounts	1,765,646	894,443
Total investments	272,520,357	227,452,272
Receivables:		
Notes receivable from participants	4,977,912	4,276,247
Net assets reflecting investments at fair value	277,498,269	231,728,519
Adjustments from fair value to contract value for fully benefit-responsive investment contracts	(234,991)	(485,427)
Net assets available for benefits	$ 277,263,278	$ 231,243,092

See accompanying notes.

STATE AUTO INSURANCE COMPANIES RETIREMENT SAVINGS PLAN

Statement of Changes in Net Assets Available for Benefits

	Year Ended December 31	
	2013	2012
Investment income:		
Interest and dividends	$ 9,389,837	$ 6,310,260
Net appreciation in fair value of investments	39,011,567	18,626,147
Total investment income	48,401,404	24,936,407
Interest income on notes receivable from participants	156,995	145,317
Contributions:		
Employee contributions	13,225,381	12,613,605
Participant rollovers	1,099,387	1,900,226
Employer contributions	8,879,836	8,407,697
Total contributions	23,204,604	22,921,528
Deductions:		
Benefit payments	25,711,411	19,348,581
Participant loan fees	31,406	22,612
Total deductions	25,742,817	19,371,193
Net increase	46,020,186	28,632,059
Net assets available for benefits:		
Beginning of year	231,243,092	202,611,033
End of year	$ 277,263,278	$ 231,243,092

See accompanying notes.

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STATE AUTO INSURANCE COMPANIES RETIREMENT SAVINGS PLAN
Notes to the Financial Statements
December 31, 2013

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.

During 2012, the following amendments were made to the Plan:

- Amendment to add timing features for the Salary Reduction Contribution within the Qualified Automatic Contribution Arrangement ("QACA") framework to the Plan effective January 1, 2012;
- Amendment to grant past service credit for former employees of Risk Evaluation and Design, LLC ("RED"), an affiliated entity, to the Plan effective January 1, 2012;
- Amendment to remove the spousal consent requirement for certain participant distributions from the Plan effective January 1, 2013.

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 Plan 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 $17,500 for 2013 and $17,000 for 2012, may make additional “Catch-up Contributions” of up to $5,500.

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

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Notes to the Financial Statements (continued)
December 31, 2013

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 $392,219 and $202,158 were used to reduce the Company's contributions during 2013 and 2012, respectively.

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

All administrative expenses, excluding participant loan and QDRO processing fees, are paid by the Company.

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.

Valuation of Investments and Related Investment Income

The investments of the Plan at December 31, 2013 and 2012 consisted of shares of registered investment companies, a money market fund, a common/collective trust, 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

STATE AUTO INSURANCE COMPANIES RETIREMENT SAVINGS PLAN
Notes to the Financial Statements (continued)
December 31, 2013

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 trust, 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.

3. Investments

The following table sets forth the investments, at fair value, which represent 5% or more of assets available for benefits at December 31, 2013 and 2012:

	December 31	
	2013	2012
Investments in shares of registered investment companies:		
Fidelity Contrafund K	$51,972,401	$41,928,691
MFS Value Fund Class R4	—	18,492,791
MFS Value Fund Class R5	24,167,347	—
Fidelity Freedom K 2020 Fund	15,224,033	*
Money market:		
Fidelity U.S. Government Reserves	*	$11,862,836
Investment in common/collective trust:		
Fidelity Managed Income Portfolio	$15,590,130	$16,962,705

* Value is less than 5% of net assets available for benefits