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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brighthouse Financial Fourth Quarter and Full Year 2022 Earnings Conference Call. My name is Carmen, and I'll be your coordinator for today. (Operator Instructions) As a reminder, the conference is being recorded for replay purposes. I will now turn the presentation over to Dana Amante, Head of Investor Relations. Ms. Amante, you may proceed.

Dana Amante - *Brighthouse Financial, Inc. - Head of IR*

Thank you, Carmen, and good morning. Welcome to Brighthouse Financial's Fourth Quarter and Full Year 2022 Earnings Call. Materials for today's call were released last night and can be found on the Investor Relations section of our website. We encourage you to review all of these materials. Today, you will hear from Eric Steigerwalt, our President and Chief Executive Officer; and Ed Spehar, our Chief Financial Officer. Following our prepared remarks, we will open the call up for a question-and-answer period. Also here with us today to participate in the discussions are other members of senior management.

Before we begin, I'd like to note that our discussion during this call may include forward-looking statements within the meaning of the federal securities laws. Brighthouse Financial's actual results may differ materially from the results anticipated in the forward-looking statements as a result of the risks and uncertainties described from time to time in Brighthouse Financial's filings with the U.S. Securities and Exchange Commission.

Information discussed on today's call speaks only as of today, February 10, 2023. The company undertakes no obligation to update any information discussed on today's call. During this call, we will be discussing certain financial measures that are not based on generally accepted accounting principles, also known as non-GAAP measures. Reconciliation of these non-GAAP measures on a historical basis to the most directly comparable GAAP measures and related definitions may be found on the Investor Relations portion of our website, in our earnings release, slide presentation and financial supplement. And finally, references to statutory results, including certain statutory-based measures used by management are preliminary due to the timing of the filing of the statutory statement. And now I'll turn the call over to our CEO, Eric Steigerwalt.

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Thank you, Dana, and good morning, everyone. Brighthouse Financial's fourth quarter results were a strong finish to a successful year in which we maintained a robust capital and liquidity position, exceeded our total annuity sales expectations and continued to return capital to our shareholders through our common stock repurchase program.

Before I provide comments on the fourth quarter results, I'd like to take a moment to reflect on the year. 2022 was a difficult year for markets with equity and fixed income indices down significantly amid continued high inflation. While market performance was a negative for separate account returns, our industry benefited from interest rates up over 230 basis points as measured by the 10-year U.S. Treasury.

Despite the challenging environments, 2022 marked a year of significant milestones for Brighthouse Financial as we continued to execute on our strategy and remain disciplined in our financial and risk management. As I have said in the past, one of our top priorities is balance sheet strength, which we continued to display in 2022.

As we communicated previously, in the rising interest rate environment earlier in 2022, we took the opportunity to add a substantial amount of low interest rate protection. We took additional actions through year-end 2022 to further enhance our interest rate protection and our shift to a more strategic interest rate hedge positioning.

These actions reflect our continued focus on protecting our balance sheet, optimizing our distributable earnings and supporting the growth of our franchise through a broad range of market scenarios. We delivered another record year of annuity sales with total annuity sales of $11.5 billion for full year 2022, up 26% compared with 2021. These strong results demonstrate the strength and complementary nature of our product suite.

And in August of 2022, we launched a new annuity product, Brighthouse Shield Level Pay Plus expanding our flagship Shield Level annuity suite. This product is specifically designed to help meet an important need in retirement planning, income that lasts for life. We are very pleased with the addition of this product to our suite of Shield annuities and remain focused on offering a portfolio of products that help meet the evolving needs of clients.

Another significant milestone that we achieved in 2022 was the completion of all our major system conversions. This marks the full implementation of our future state operations and technology platform and the end of establishment costs. This accomplishment allows us to increase our focus on growth, the evolution of our business mix and supporting our distribution franchise. These strategic and operational milestones have further enhanced the strong franchise that we have built at Brighthouse Financial.

Additionally, in 2022, we returned capital to our shareholders through the repurchase of $488 million of common stock, which included $93 million of common stock repurchased in the fourth quarter. As of year-end 2022, we have reduced the number of shares outstanding by 43% since we began our common stock repurchase program just over 4 years ago in August of 2018.

I'm incredibly proud of all that we achieved in 2022. I would once again like to thank our employees for their hard work and dedication. And I would also like to thank our distribution partners for the important role that they play in our success.

Now moving to fourth quarter results. Our balance sheet and liquidity remained strong in the fourth quarter. We estimate our combined risk-based capital or RBC ratio was approximately 440% at year-end. This is at the high end of our target RBC ratio range of 400% to 450% in normal markets.

Additionally, we ended the year with $1 billion of holding company liquid assets. As I mentioned earlier, full year 2022 was a record year for annuity sales and the fourth quarter was a strong contributor with total annuity sales of $3.2 billion, an increase of 36% compared with the fourth quarter of 2021.

In the fourth quarter of 2022, we continued to see strong sales of our fixed deferred annuity and Shield annuity products as our complementary annuity product suite continues to meet the needs of our distributors and their clients in different market environments. As we sell the products that we offer today, offer product enhancements and launch new products while continuing to run off our older, less profitable business, we expect our business mix to continue to evolve to a higher cash flow generating and less capital-intensive business.

Turning to life insurance. In the fourth quarter, we generated $22 million of life insurance sales. Though life insurance sales were down year-over-year, reflecting the headwinds from the economic backdrop in 2022, we maintained a consistent level of life insurance sales throughout the year. Importantly, we remain confident in our life insurance strategy.

In 2023, we plan to introduce a new life insurance product which we expect will further diversify and strengthen our life product suite, and we will continue to focus on maintaining and enhancing our suite of life insurance products as well as expanding our distribution footprint into the future.

I am pleased with the results that we delivered in both the full year and the fourth quarter of 2022. We achieved significant strategic and operational milestones, and we believe that we are well positioned to continue to execute our focused strategy in 2023. We continue to prudently manage statutory capital and target a combined RBC ratio, as you know, of between 400% and 450% in normal markets.

As I mentioned, in 2022, we took actions to move towards a more strategic position on interest rate risk and we plan to continue to dynamically adjust our hedge portfolio to evolving market conditions. Regarding capital return, year-to-date through February 7, we repurchased approximately $27 million of our common stock.

We remain committed to returning capital to shareholders and intend to maintain an active and opportunistic share repurchase program. However, as we have demonstrated in uncertain market environments, we are focused on protecting our distribution franchise. To that end, while we continue to repurchase our common stock, we have reduced the level of buybacks to reflect a cautious view on both the market and economic environment.

As I also mentioned, with the completion of our major system conversions in 2022, we can further increase our focus on growth, the evolution of our business mix and supporting our distribution franchise. To wrap up, despite the challenging market environment in 2022, Brighthouse Financial delivered strong results. We maintained a robust capital and liquidity position, and we achieved several major strategic and operational milestones. We are looking forward to 2023 as the Brighthouse Financial franchise continues to grow and evolve to a more diversified company. With that, I will turn the call over to Ed to discuss the financial results.

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Thank you, Eric, and good morning, everyone. Protecting and supporting our distribution franchise remains a top priority and our financial and risk management strategy plays a critical role. As you have heard me say repeatedly, it is our goal to maintain a strong balance sheet under a multiyear, multi-scenario framework.

As our fourth quarter and full year 2022 results demonstrate, we maintained a robust capital and liquidity position through the difficult market environment of last year. At December 31, our combined total adjusted capital, or TAC, was $8.1 billion compared with $8 billion at September 30. While equity markets were down significantly for the full year, the market performance in the fourth quarter was positive, which contributed to the increase in TAC.

We completed the variable annuity actuarial model conversion in the fourth quarter along with the annual variable annuity statutory assumption updates. The combined impact of these 2 items was relatively modest, reducing TAC by less than $200 million.

Our combined risk-based capital or RBC ratio was approximately 440%, which is near the top end of our target range of 400% to 450% in normal markets. This ratio was down from an estimated range of 450% to 470% at September 30. The sequential decline in the RBC ratio is due to the strong variable annuity or VA results, which were more than offset by the impact from the model conversion and actuarial assumption update, nontrendable items, and capital used to fund a high level of annuity sales.

The strong new business trends we saw in the third quarter continued through the end of the year and drove another quarter of above normal capital usage to fund growth. Growth is essential to drive our business mix toward lower risk, higher return products and away from legacy variable annuities. Therefore, we decided to retain capital at Brighthouse Life Insurance Company, or BLIC, to support excess new business growth rather than fund an ordinary dividend to the holding company in 2022.

We intend to resume dividends from BLIC to the holding company in 2023. Normalized statutory earnings were approximately $500 million in the fourth quarter, which brought full year normalized statutory earnings to approximately $1 billion. We had a conservative position in the hedge portfolio for equities throughout 2022, and we benefited from the significant increase in interest rates last year.

Additionally, as Eric mentioned earlier, we took the opportunity in 2022 to add a substantial amount of low interest rate protection and in the fourth quarter extended the duration of that protection. Moving to the holding company. We ended the year in a strong position with $1 billion of cash and liquid assets. In the fourth quarter, New England Life Insurance Company, or NELICO, paid a $38 million ordinary dividend to the holding company, which was more than offset by $93 million of common stock repurchased in the quarter. As we have said previously, the nondividend flows to the holding company cover most of our fixed charges, and we do not have any debt maturities until 2027.

As a life insurance company, we believe it is appropriate to have a conservative position at the holding company. Given the uncertain market and macroeconomic environments, we feel very good about our strong position at both the operating companies and the holding company.

Now turning to adjusted earnings results in the fourth quarter. Adjusted earnings, excluding the impact from notable items, were $245 million, which compares with an adjusted loss on the same basis of $3 million in the third quarter of 2022, and adjusted earnings of $416 million in the fourth quarter of 2021.

On a combined basis, the notable items in the quarter had a modest impact on results, reducing earnings by only $3 million after tax. The notable items included a $39 million unfavorable impact related to actuarial items in the quarter, which included a reinsurance recapture impacting the runoff segment and refinements of certain actuarial assumptions for the life segment. Establishment costs of $15 million. As Eric mentioned, the fourth quarter was the last quarter of establishment costs as we have completed all major systems conversions; and a $51 million favorable impact related to the resolution of prior year tax matters.

Excluding the impact of these notable items, fourth quarter adjusted earnings compared with our quarterly run rate expectation were primarily driven by negative alternative investment performance, partially offset by positive VA separate account performance in the quarter.

The alternative investment performance in the fourth quarter drove lower-than-expected net investment income of $86 million or $1.23 per share. As a reminder, we expect an annual 9% to 11% alternative investment yield over the long term. In the fourth quarter of 2022, the alternative investment yield was negative 0.2%, which was below our quarterly expectation, though higher than the negative yield in the third quarter. As a result, net investment income was higher sequentially driven by the alternative investment returns as well as continued asset growth.

The other major driver of adjusted earnings less notable items, when compared with our expected quarterly run rate was the impact of the positive equity market in the fourth quarter, which drove VA separate account returns of 6.8%. This corresponded to actuarial adjustments, which had a favorable impact to earnings of $46 million after tax or $0.66 per share, above our quarterly expectation, and is reflected through lower deferred acquisition costs or DAC amortization and lower reserves in the Annuity segment.

Keep in mind, the quarter-to-quarter fluctuation we see in DAC amortization related to changes in the market will not continue in 2023 and beyond. Under long-duration targeted improvements, or LDTI, which is the new life insurance industry accounting standard.

Turning to adjusted earnings by segment. In the fourth quarter, the Annuities segment reported adjusted earnings of $286 million. Sequentially, Annuity results were driven by the impact of higher VA separate account returns, which resulted in lower reserves and lower DAC amortization. The Annuity segment also benefited from higher net investment income sequentially, which was partially offset by lower fees and higher expenses.

The Life segment reported an adjusted loss, excluding notable items of $5 million. On a sequential basis, results were driven by higher DAC amortization and higher expenses partially offset by higher net investment income. The Run-off segment, excluding notable items, reported an adjusted loss of $96 million. Sequentially, results reflect higher net investment income, partially offset by higher expenses.

Corporate and Other reported adjusted earnings, excluding notable items, of $60 million. On a sequential basis, results were driven by a higher tax benefit and lower expenses.

In closing, despite a tough year for the markets, we maintained our balance sheet strength to protect and support our distribution franchise and the customers they serve. We continue to manage the company using a multiyear, multi-scenario framework. And given what we perceive to be an elevated level of uncertainty in markets and the economy, we have been more conservative on capital return recently. With that, we would like to turn the call over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) It comes for the line of Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

My first question, Ed, you mentioned that you guys would look to resume dividends from BLIC in 2023. Do you have a sense of just the timing and the magnitude of dividends that you guys will look to take this year?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Elyse, I think $300 million for dividends this year is a good expectation with most of that coming from BLIC. And in terms of timing, I don't really have anything for you on timing.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

Okay. And then my second question, do you guys have a sense of earnings, emergence thoughts surrounding LDTI and then are you guys considering adding any additional non-GAAP measures to your disclosures?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

At this point, no.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

And then do you have a sense of just how the impact of the accounting changes would be on your adjusted earnings based on your current disclosures.

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Sure. At this point, I would say a pretty modest impact on adjusted earnings from the new accounting standard. So in terms of pieces, there's a portion of fee income in under current accounting that will now go below the line with MRB, so that's a negative. But an offset to that will be any death benefit claims and related reserves that are now above the line are also going below the line with MRB.

And then the final piece DAC amortization, while all DAC amortization will now be above the line versus some of it below the line today, with the new simplified approach to amortization, we don't see a material change in that number relative to what we would expect in a normal quarter under current GAAP. And remember, there will be no more volatility in the DAC like you saw this quarter from markets.

So overall adjusted earnings, I would expect to be pretty close to what we have today. In terms of net income, I would just first start off by saying, as you all know, we manage the company for stat and cash. So we are not managing the company for GAAP. And so I would expect you'll still see volatility associated with the difference between how we manage the company and the GAAP accounting framework.

However, I think it has to be an improvement on the net income line versus what we have today because what we have today is really doesn't work. If you look at net income, for example, or net results this quarter, right, the stock market was strong in the fourth quarter. Interest rates were up. So good stuff, and we lost $1 billion on a net basis. So clearly, current accounting does not capture the fundamentals of the business.

Operator

And it comes from the line of Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Can you touch on the reinsurance recapture in the runoff segment? Was that a life product subject to YRT treaty? And if so, which one, I mean, if you could share the net amount of risk or amount in for?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes. Tracy, Yes. I mean I think we're going to keep it a little bit higher level than that. We had a $39 million unfavorable impact from actuarial items. And the biggest piece of that was a $24 million impact from a reinsurance recapture. And as you said, I believe you said it was in the runoff segment. We've had these from time to time. We get a rate increase from a reinsurer. We evaluate whether it makes sense to accept that or to recapture the business. And in this case, as has often been the case, it made economic sense for us to recapture the business.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Okay. And part of your playbook to grow fixed annuity sales is utilizing reinsurance flow as there's a penalty on the C4 charge on first year sales. I imagine this year, there will be greater demand for reinsurance flow by a number of cedent's. Can you touch on reinsurance capacity to meet this demand if there's any deterioration in reinsurance costs where you may wish to retain more of this risk?

David Rosenbaum - *Brighthouse Financial, Inc. - Head of Product Strategy and Pricing*

Tracy, this is David. I'll start with that one. So we're not going to get into necessarily the structure of our reinsurance agreement. But 2022 was across the industry a record year for fixed annuities. And we benefited from that as well, and that was partly in conjunction with our reinsurer. We had a competitive offering and strong distribution to sell the products. So we had adequate reinsurance capacity to meet that demand. As we think forward into 2023, we're not expecting a similar consumer demand to what we saw in 2022, but we will continue to assess that demand with -- in conjunction with our reinsurance partner.

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Sorry, one comment you made, I think, about the C4 charge. We have the full C4 charge on the fixed annuity premium. I think you said a portion of it, but we booked the full charge.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

No, I said penalty, not portion. Yes. So that relationship you have, you have that preferred relationship where you would be first in line for capacity in '23?

David Rosenbaum - *Brighthouse Financial, Inc. - Head of Product Strategy and Pricing*

I'm not going to get into the structure, but we have a reinsurance relationship with Athene for fixed rate annuities.

Operator

And it comes from the line of Ryan Krueger with KBW.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

My first question was, can you help us think about the, I guess, the level of new business strain that you would, I guess, that either maybe occurred in the fourth quarter or you'd expect on a run rate basis as we move into '23?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Sure. Ryan. For full year, we had a little bit more than 30 points of strain from new business. And in the fourth quarter, it was around 10%. So I would say for the full year, strain was maybe 50% more than what we would see in a typical year. It's good news because more strain meant more growth. And that was our decision to retain capital in BLIC because of the fact that we had this opportunity to produce more sales in the second half of the year than what we had anticipated on the fixed side.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

And then are you planning to provide updated distributable earnings scenarios like you've done in the past?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes is the short answer. I think timing will be different because as we head into this year, we have a lot of work to do on recasting financial supplement for LDTI, filing an 8-K that will effectively be a recast of our 10-K for LDTI. And in addition, leveraging our new valuation environment, that we completed actuarial transformation in 2022, leveraging that to enhance our DE projections. So all that suggests that timing of DE disclosure this year will be closer to midyear versus historically, we've done it in March.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

Got it. And then if I could sneak in one more. I think the statutory mean reversion rate when -- I believe it went up 25 basis points at the start of this year. If that's -- well, one, is that accurate? And then two, what would be the impact of that on your RBC ratio?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes. So it did go up. And we have seen $200 million to $300 million impact from that. Last year, the impact was negative $250 to $300 million, so it was on the higher end. So we'll get that benefit in the first quarter. In addition, given where rates are today, you would be looking at another 50 to 75 basis point increase in the mean reversion point if you look out '24 and '25.

Operator

I see a question from the line of Suneet Kamath with Jefferies.

Suneet Laxman L. Kamath - *Jefferies LLC, Research Division - Equity Analyst*

Can you give us a sense maybe of how your fixed annuity spreads that you wrote on new business in the sort of fourth quarter and the third quarter kind of compared to the in-force?

David Rosenbaum - *Brighthouse Financial, Inc. - Head of Product Strategy and Pricing*

Yes. So Suneet, this is David. I'd say given the rate environment and with the investment achievables and where crediting was, the spreads on the product were strong, and we were very comfortable with the profitability as well as the competitive nature of the product that we wrote in the quarter.

Suneet Laxman L. Kamath - *Jefferies LLC, Research Division - Equity Analyst*

Got it. And then you made a comment about not expecting, I guess, the same level of fixed annuity sales in 2023. A I guess, where do you see the best growth opportunities in terms of annuities? I mean you mentioned a new Shield product. But just curious kind of where you think the puck is going on that business.

Myles Joseph Lambert - *Brighthouse Financial, Inc. - Executive VP and Chief Distribution & Marketing Officer*

Suneet, it's Myles. I'll take that one. So yes, we're highly focused on growing Shield sales, a suite of Shield products this year, and that's where we're going to -- we expect to see most of the growth.

Operator

And it comes from the line of John Barnidge with Piper Sandler.

John Bakewell Barnidge - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

I noticed on the investment portfolio, mortgage loan exposure grew from 15% to 20% over the last year. Can you maybe talk about the attractiveness of that asset class where rates are. I get it pairs nicely with spread products, but curious on that growth through third-party investment managers.

John Lloyd Rosenthal - *Brighthouse Financial, Inc. - Executive VP & CIO*

John, it's John. And yes, the -- our mortgage loan portfolio grew from about 16% of our assets to 20%. So you're -- pretty nice growth during the year. We like -- well, as a reminder, it's not just commercial mortgage loans. Although they do make up the majority at about $13.5 billion, we have a $5 billion allocation to residential whole loans and a little over $4 billion in agricultural mortgages. We like all 3 of those asset classes for their relative value as well as a diversifier away from corporate credit, which is our biggest exposure, as you know. So we intended to grow the asset class. And you're right, these loans are a really good fit for our institutional spread margin business, which grew by about $5 billion during the year and accounted for a nice portion of the commercial loan growth.

Operator

(Operator Instructions) And the question comes from the line of Tom Gallagher with Evercore ISI.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Eric, I just wanted to start on you're getting a little more cautious on capital return. Can you just give some indication about what guidepost you're looking at? Is it really just the passage of time in terms of the Fed tightening cycle ending and seeing what the impact is before you pivot back to kind of going back to a higher level of capital return? Any color on that?

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Sure, Tom. Look, I think you got it, but I'm happy to talk for a little bit about it. We're watching the macroeconomic environment. Obviously, us and everybody else is watching what the Fed is doing. Are we going to have a real credit cycle or not? We want to return capital, we continue to do so as we speak in the first 5 weeks, we repurchased about 0.7% of our shares. So it's not like we've stopped returning capital, and it's definitely strategically not like we're going to stop returning capital. But we're cautious. We've said this many times. You've seen what we've done over the last 4 years.

We want to protect what we've built here. We've got an outstanding distribution franchise. And I want to make sure that we're in a situation where we can sell. You saw we were able to pivot last year, and I know we've gotten a couple of questions today with respect to what's going to happen? What are you expecting like on fixed annuities. We're not expecting to sell as much fixed annuities in '23, but we're prepared if the opportunity arises. So with respect to stock repurchases, we're watching the Fed. We're watching to see what kind of credit cycle might happen. But nothing has changed strategically. We want to return capital. I hope that helped to some degree, Tom.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

That does. And my follow-up is can you -- it's really about the competitive conditions in your buffer annuity space and then in the fixed annuity space. From what I've heard, the buffer annuity space has a lot more entrants. But whenever I hear that, I get worried about price competitiveness. And I know you are one of the founders of that business. But just curious, with a lot more competition coming in, are you seeing pricing pressure? Is it affecting margins? Or is that still pretty rational? And then a similar question on the fixed annuity space. you've had 2 quarters of very strong growth, or I should say, strong sales levels. That's considered among the most commoditized products in the industry. And you know the private equity firms with a lot of unique investment strategies are big into that space. So whenever you see sales growth in a space like that, it has to make you wonder from my perspective, what's going on and what the margins look like. But anyway, sorry for the long-winded questions.

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Yes. I'll start out. I think everybody is going to jump in here, Tom. And you asked a similar question last quarter. Look, I see a reasonable level of discipline. You've heard other companies talk about the fact that they're really happy with the returns that they're getting in the fixed space. And although you're seeing a lot more competition or peer companies entering the RILA space. Generally, I see, we see decent discipline here. I mean we think this is an excellent product for consumers. Our distributors love it, and we love it as a manufacturer. So again, I'm using the word generally, Tom, but generally, across the various sales classes or product classes, I'm seeing reasonable discipline. David, Myles, even Ed looks like he wants to jump in. Tom, you got a live one here.

David Rosenbaum - *Brighthouse Financial, Inc. - Head of Product Strategy and Pricing*

All right. I'll start. So I think in addition to what Eric said on the pricing and the economics, we think that simplicity and transparency do matter. We've continued to enhance our Shield suite of products, and we'll continue to keep the product up to date to compete in a variety of market conditions. We're also thinking about ways to address other consumer needs, and we did that successfully with Shield Level Pay Plus.

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Tom, just very quickly. So yes, the RILA space is more competitive as you went from 3 carriers to whatever it is now, 20, whatever the number is. But I would just point out that the returns initially when there were 3 carriers were very high. So yes, they are lower today, but still attractive, just not what they were when they were -- when you had basically oligopolistic pricing with 3 players. If I look at the question you had about competition from alternative asset managers, remember what David said, we have a partnership, a reinsurance arrangement with Athene. So we are benefiting from that element of the competitive market with the relationship we have.

Myles Joseph Lambert - *Brighthouse Financial, Inc. - Executive VP and Chief Distribution & Marketing Officer*

Yes. So then it's Myles again, I'll kind of wrap this up. But to Eric's point, we all were jumping at this question, and I'm going to focus my comments specifically on the RILA category. And look, I guess, as it relates to competition and sales, yes, it's had an impact on sales. But the way we think about it is it's a really positive development for advisers and consumers with more entrants in the space. We like the competitiveness of our product. We have a very strong distribution footprint. We remain pleased with ourselves, and you're seeing us continue to evolve our portfolio of Shield products with the new level -- with our new Shield Level Pay Plus product, which gets us into the income category as well.

Operator

And it comes from the line of Erik Bass with Autonomous Research.

Erik James Bass - *Bernstein Autonomous LLP*

I was just hoping you could provide some more color on corporate expenses this quarter, which it looks like it may have had sort of a positive favorable item in there? And then related, now that established costs are done, how should we think about the expense outlook going forward?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Eric. So there was favorability in the corporate line in the fourth quarter. We tend to call out the biggest items when we put the numbers out the night before because there are always puts and takes. So I would say that while there was favorability in the corporate line, we also had some elevated corporate expenses that were impacting other segments. So I think if you look at the number that you would calculate from our disclosures of $4.09, I think it was $4.09 of earnings ex those items we identified, I would guide you back to the third quarter when we said -- I think I said something like run rate looked like $3.60 plus or something. Obviously, we had buybacks that would have benefited in the fourth quarter relative to that number. But I would gravitate more toward that end as a kind of go-forward number than the north of $4 that you would come up with from what we disclosed last night.

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

I'll take your establishment costs comment, Eric. We're done with establishment costs going forward, so you won't see them anymore. But is there a little holdover into '23? Is that part of what will maybe have our corporate expenses up a little bit in '23, Yes. There's some cleanup stuff as you can imagine. You've heard companies like us talk about this for years when you've got secondary stuff that you got to clean up. But generally, the future state environment for us is done. It's finished, and you won't see any more establishment costs. So we did 870-ish of corporate expenses in 2022. That number will go up a little bit for 2 reasons. One, I already said, just some cleanup stuff that we'll do in 2023 from a technology point of view and inflation. Certainly, we will be experiencing some inflation, employee costs, vendor contracts, et cetera. But I'm very pleased with where we are with respect to expenses. You're not going to see a large-scale expense initiative here, though we remain laser-focused on expenses every day.

Erik James Bass - *Bernstein Autonomous LLP*

Got it. And then, Ed, I was just hoping you could maybe provide an update on the expected book value impact for LDTI as of year-end.

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Well, I can give you -- I guess I would reiterate what I said last quarter because I think it still stands. We gave you the impacts, if you look back, and then I said we didn't give you anything as of the third quarter, but I said given where rates were we expected, I can't remember, substantial improvement, significant, whatever word I used. That still applies as of year-end. And just a reminder, remember, we had said that at 12/31/21 that the range was $6 billion to $8 billion to total equity and $3 billion to $4 billion equity ex AOCI. So the application of substantial improvement is relative to those numbers.

Operator

And it comes from the line of Alex Scott with Goldman Sachs.

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

First one I had is just on the drag on new business. When I look at like overall flows and the organic growth rate, it seems like maybe there's probably a bigger drag that's not being released on the legacy products, when do we get to more of a state where if you're deploying capital behind new business in a bigger way where it's actually pushing your organic growth up, I mean is that years away? Is it -- does that start to unfold more medium term? How do we think about that?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Alex, it's Ed. So let me see if I can help out a little bit. If you look at our TAC and our RBC this year, right, because I think you're getting to -- well, you're using up, it seems a lot of capital to fund growth and where -- when are you releasing capital from other products. I think the numbers this year mask what's going on a bit here, okay? If you look at our TAC, it was down from $9.4 billion to $8.1 billion year-over-year, right?

So of that $1.3 billion decline, I would say $1.2 billion of that would be nontrendable items. And I would say that a good portion of those we would expect to reverse over time. So specifically, the DTA write-down was about $400 million. We fully expect to utilize our tax attributes over the long term. Second, the MRP impact was $250 million to $300 million negative in 2022. And not only is that reversing, but as I said, it's going in the other direction as we get 25 basis points up in the first quarter of this year and another 50 to 75 basis points in '24 and '25.

And then third, we had some AAT reserves this year that was around $200 million. And in this instance, I consider those reserves to be equity. I don't believe we're going to need them. So I think you're going to see that reverse over time. So you're talking about a very significant amount of tax that I don't deem to be really representative of the economics of what's going on at the company.

Putting that into RBC terms, right, RBC ratio for the year went down from 500% to 440%. Of that 60-point decline, approximately 50 points, I would think, reverses over time. The DTA impact is over a longer period of time. The MRP impact is happening now and the AAT TBD. So when you're trying to get to what actually was going on here at the company, you had 30 points that was used for growth. You had about 75 points that I would say would be nontrendable items and you had about 45 points of core capital generation.

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

That was really helpful. Second one I had is just on the system conversion. I mean it seems like as it relates to RBC, that was a reasonably good outcome getting through all of that. As we think about the next piece of information that's going to potentially be impacted by the distributable earnings tables, do you expect to have much of an impact there? I'm just thinking about the mean reversion point is obviously a tailwind, but does that system conversion materially change the way you project your cash flows into the future?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes, Alex. I mean I don't think there's any material change in how we project, but we're doing it with -- we're doing more in-house work with a new projection model. And so it remains to be seen what the impact will be. But whatever the number is, I'm going to have more confidence in the numbers because of the position we're in now from an actuarial system and projection standpoint. And just to -- I think there were some questions on this last night. So just to get it out there. The impact of the systems conversion to VA and the assumption updates was, as I said in my prepared remarks, less than $200 million, the pieces would be the assumption update component of that was essentially 0. So you can think about the systems conversion being really what drove the number.

Operator

And I have no further questions in queue. I will turn the call to Dana Amante for final thoughts.

Dana Amante - *Brighthouse Financial, Inc. - Head of IR*

Thank you, Carmen, and thank you all for joining us today and for your interest in Brighthouse Financial. Have a great day.

Operator

And thank you, ladies and gentlemen, that concludes today's call. Thank you for participating, and you may now disconnect.
