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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Dana Amante *Brighthouse Financial Inc - Head of Investor Relations*

Eric Steigerwalt *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Edward Spehar *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

David Rosenbaum *Brighthouse Financial Inc - Executive Vice President and Head of Product and Underwriting*

CONFERENCE CALL PARTICIPANTS

Suneet Kamath *Jefferies LLC - Analyst*

Ryan Krueger *Keefe, Bruyette, & Woods, Inc. - Analyst*

John Barnidge *Piper Sandler & Co. - Analyst*

Alex Scott *Barclays - Analyst*

Nicholas Annitto *Wells Fargo - Analyst*

Wes Carmichael *Autonomous Research US LP - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Brighthouse Financial's third-quarter 2024 earnings conference call. My name is Michelle, and I will be your coordinator today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the presentation over to Dana Amante, Head of Investor Relations. Ms. Amante, please proceed.

Dana Amante - *Brighthouse Financial Inc - Head of Investor Relations*

Thank you, and good morning. Welcome to Brighthouse Financial's third-quarter 2024 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 Myles Lambert, our Chief Distribution and Marketing Officer; David Rosenbaum, Head of Product and Underwriting; and John Rosenthal, our Chief Investment Officer.

Before we begin, I would 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 risks and uncertainties described from time to time in Brighthouse Financial's filings with the SEC. Information discussed on today's call speaks only as of today, November 8, 2024. 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 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.

I'll now turn the call over to our CEO, Eric Steigerwalt.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Thank you, Dana, and good morning, everyone. Today, I will provide an update on the strategic initiatives that we discussed on our second-quarter earnings call followed by some highlights from the third quarter.

Following my remarks, Ed will provide more detail on our financial results in the quarter. I am pleased to share that in the third quarter, we continued to make progress on our strategic initiatives designed to improve capital efficiency, unlock capital, and return our combined risk-based capital or RBC ratio to our target range of 400% to 450% in normal market conditions. As I said on our second-quarter conference call, we are comfortable operating below our targeted RBC range for temporary periods. The reason for that is twofold: one, we have a number of strategic initiatives underway that we are confident will improve our RBC ratio. And two, we had $1.3 billion of liquid assets at the holding company as of the end of the third quarter.

Our strategic initiatives include reinsurance opportunities, along with actions to help simplify our hedging strategy. We are working on multiple reinsurance opportunities, both in-force and flow reinsurance. We have been working on one particular agreement with a third party to reinsure a legacy block of fixed and payout annuities. We are in the final stages and expect to enter into this reinsurance agreement before year-end. Pro forma for this reinsurance agreement, our September 30 estimated combined RBC ratio, would be at the lower end of our targeted range in normal markets.

In addition, we have made substantial progress on simplifying our hedging strategy. As we have discussed previously, the significant growth we have seen in our Shield annuity block over the past several years has resulted in a balanced risk profile for our annuity business but has also increased the complexity of managing our variable annuity or VA and Shield business on a combined basis. To address this issue, we started to hedge Shield sales on a stand-alone basis with the launch of our new Shield product in July, which we discussed on our second-quarter earnings call. We are expanding that approach in the fourth quarter to include our Shield Level Pay Plus product that was launched in August of 2022 and any remaining sales associated with our Shield product suite.

Additionally, we are formulating a revised hedging strategy for our in-force book, which will now essentially be a closed block of business. Despite the refinements to our hedging program, our overall focus remains the same, which is to protect our statutory balance sheet under adverse market scenarios. At the end of the third quarter, we estimate that our combined RBC ratio was between 365% and 385%, and Ed will discuss that in more detail in a moment.

As I mentioned earlier, we expect our combined RBC ratio would be at the low end of our target range in normal markets, assuming the entry into the reinsurance agreement on our fixed and payout annuity in-force business. Also, at the end of the quarter, our holding company liquid assets remained very robust and were approximately $1.3 billion. We have consistently stated that it's appropriate for a life insurer to have a conservative cash and liquidity position at the holding company, and our recent experience illustrates why this is a prudent strategy.

Our substantial cash at the holding company also supports our common stock repurchase program. In the third quarter, we repurchased $64 million of our common stock with an additional approximately $25 million repurchased through November 1. From the beginning of our share repurchase program, which started in August of 2018, through November 1 of this year, we have repurchased over $2.4 billion of our common stock, reducing our shares outstanding by over 50% over that time and since we became an independent public company in 2017.

Along with our commitment to prudent financial management, our overall priorities at Brighthouse Financial have been consistent over the years and are focused on executing our growth strategy, which is centered around our complementary and competitive market offerings as well as our expansive third-party distribution footprint and efficiently managing our expenses as we recognize that being a low-cost producer is very important in our industry.

We have continued to execute on this focused strategy which is demonstrated both by our strong sales results through the third quarter of this year and the year-to-date reduction in our corporate expenses. On a year-to-date basis, through September 30, our total annuity sales were $7.8 billion, consistent with the same period in 2023. Sales of our flagship Shield annuity products have remained very strong at $5.8 billion year to date, a 15% increase over 2023 and a record level for Brighthouse. We intend to remain a leader in the registered index-linked annuity or RILA market with continued growth in our Shield sales.

Additionally, we remain pleased with our fixed annuity sales as we continue to see year-over-year growth in our fixed index annuities driven by our SecureKey product. While sales of fixed deferred annuities were down on a year-to-date basis, they picked back up in the third quarter as expected as we transitioned to a new reinsurer in June. We've continued to grow in the life insurance space with life insurance sales of $87 million year to date through September 30, an increase of 19% compared with the same period last year.

I'm pleased with the strong sales results that we continue to deliver and expect further growth in both annuities and life insurance sales as we remain focused on providing a comprehensive and complementary suite of products. I would also like to touch on our expansion into the institutional space with the launch of BlackRock's LifePath Paycheck product earlier this year. As we discussed on our second-quarter earnings call, when we received our first deposits, we did not expect to see much activity in the third quarter as the inflows associated with LifePath Paycheck will be uneven on a quarter-to-quarter basis as defined contribution plans implement the solution.

While we expect limited activity through the end of this year, we do expect to see additional inflows in 2025, and we remain very excited about this product and its success to date. Along with the continued success in our growth strategy, we remain disciplined with our expense management.

Corporate expenses were $203 million in the third quarter and $610 million on a year-to-date basis, a 5% decrease year over year. As I have said previously, we expect an increase in the fourth quarter expenses as a result of typical seasonality. We still anticipate full-year 2024 corporate expenses to come in lower than full-year 2023.

In closing, I am pleased with all the progress we have made on our strategic initiatives, which are designed to create more capital efficiency, unlock capital, and return our combined RBC ratio to within our target range under normal market conditions. While our work continues, we remain focused on continuing to execute on our strategy, and I look forward to keeping you updated on our progress.

With that, I will turn the call over to Ed to discuss our financial results in more detail.

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Thank you, Eric, and good morning, everyone. As of September 30, our statutory combined total adjusted capital or TAC was $5.7 billion, an increase of $300 million from $5.4 billion at the end of the second quarter. The increase in TAC is associated with our efforts to simplify our VA and Shield hedging program.

As Eric mentioned, we have expanded our stand-alone hedging strategy for new business, which creates a simplified approach for risk management. We began the process of managing our Shield product sales on a stand-alone basis in July with the launch of our new product suite. We are expanding that approach in the fourth quarter to include our Shield product with lifetime withdrawal benefits known as Shield Level Pay Plus, and the residual sales of our old Shield product suite. As part of this process, we have separated the annuity business into two categories. The first is Shield new business, which represents approximately 95% of total VA and Shield sales.

And the second is our in-force block of legacy VA and legacy Shield contracts, which, as Eric mentioned, can essentially be thought of as a closed block. By hedging Shield new business on a stand-alone basis, we are increasingly reflecting all future hedges on the balance sheet today.

For the legacy block, we are developing a separate hedging strategy and expect this work to continue into 2025. As a result, we can only reflect our current hedges for our legacy block on our balance sheet today. It is important to highlight again that while we are revising the hedging strategy, our focus on protecting the statutory balance sheet under adverse scenarios remains unchanged. For example, we would expect to see substantial gains from our hedging program relative to the VA Shield total asset requirement under an extreme bear market scenario.

The changes to our hedging program in the third quarter resulted in a positive impact to reserves benefiting TAC with an offsetting increase in required capital, and therefore, a muted impact to the combined risk-based capital or RBC ratio. This benefit to TAC was partially offset by a normalized statutory loss of approximately $300 million in the quarter. Normalized statutory results reflect the continuation of a negative impact from new business strain, which we anticipate will be less in future quarters as a result of hedging all of our Shield new business on a stand-alone basis. In addition, flow reinsurance is another initiative that could further reduce new business strain in 2025.

We also had a modest loss associated with the significant change in the interest rate environment in the quarter. The normalized statutory loss led to the change in our combined RBC ratio, which we estimate to be between 365% and 385% at the end of the third quarter. As Eric mentioned, pro forma for the pending reinsurance transaction that is expected to close before year-end, our estimated combined RBC ratio would have been at the lower end of our target range of 400% to 450% in normal markets at September 30.

Our cash position remains robust with holding company liquid assets of $1.3 billion at September 30. We have consistently stated that it is appropriate for a life insurer to have a conservative cash and liquidity position at the holding company. And our recent experience illustrates why this is a prudent strategy.

Now turning to adjusted earnings results in the third quarter. Adjusted earnings, excluding the impact from notable items, were $243 million which compares with adjusted earnings on the same basis of $346 million in the second quarter of 2024 and $275 million in the third quarter of 2023. The notable items in the quarter were related to the annual actuarial assumption review and related model refinements, which had a net favorable impact on adjusted earnings of $524 million after tax.

As part of this assumption review, we increased our assumed GAAP long-term mean reversion rate for the 10-year US treasury from 3.75% to 4%. We continue to assume that mean reversion occurs over 10 years. The increase in our long-term interest rate assumption as well as an actuarial model refinement related to expenses, drove a substantial benefit to adjusted earnings in our runoff segment. The total impact in the runoff segment from the actuarial assumption review and related model refinements was $570 million after tax.

Our annual assumption review also included consideration of emerging experience and industry experience studies, which resulted in modest changes to our life and annuity segments. Excluding the impact of notable items, the adjusted earnings results in the third quarter were approximately $30 million below our quarterly average run rate expectation driven by lower alternative investment returns. The alternative investment yield was 1.6% in the quarter.

As a reminder, we expect returns between 9% to 11% annually over the long term for our alternative investment portfolio. The underwriting margin was in line with our quarterly average run rate expectation. However, it was lower sequentially driven by normal fluctuations in the volume and severity of claims, net of reinsurance. In the third quarter, the runoff segment experienced higher net claims, which was partially offset by favorable net claims experienced within the life segment.

Turning to segment results. In the third quarter, the annuities segment reported adjusted earnings of $307 million, excluding notable items. On a sequential basis, annuity results reflect lower fees driven by seasonality. Adjusted earnings, less notable items, were $41 million in the life segment. Sequentially, lower net investment income driven by lower alternative investment returns was mostly offset by a higher underwriting margin.

The run-off segment reported an adjusted loss of $107 million, excluding notable items. The sequential results reflect lower net investment income and a lower underwriting margin. Corporate and other was flat sequentially with $2 million of adjusted earnings.

In conclusion, we are simplifying our hedging strategy while pursuing multiple initiatives to improve capital efficiency and unlock capital. And we anticipate that these actions will have a positive impact on our combined RBC ratio. We are confident in our financial position, which is a combination of our statutory balance sheet and cash at the holding company, and we continue to have substantial protection for adverse market environments.

With that, we would like to turn the call over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Suneet Kamath, Jefferies.

Suneet Kamath - *Jefferies LLC - Analyst*

Just want to start with Eric. Eric, have you and the Board talked about bringing in more risk management experience? And the reason I ask is, this is now I think four quarters in a row where the RBC has been under some pressure. The peer multiples that we've seen in the market are materially higher than yours. It's one of the best environments we've seen for your business model, and we keep getting these RBC surprises.

So I just wanted to get your thoughts on, do you need to bring in some more help just to get this thing back on track?

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Yeah. Thanks, Suneet. It's a good question. We have brought in more help. We brought in a number of external resources. And frankly, we've hired up in the last six months in the hedging area, finance area.

So yeah, as we've reached sort of that delta neutral situation between new Shield business and the gross amount of Shield business that we put on the books, that we have, generally from a hedging perspective, hedged against the old VA block, which we've talked about for years now. Now we're in a situation where we feel it is appropriate to refine that hedging strategy, and we have brought in a number of resources to help us do that. We're making a lot of progress there. We still got progress to make.

Ed, do you want to comment at all in addition?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yeah. Thanks, Eric. So I guess -- what I would say is echo everything that Eric said, when you look forward as a result of the things that we are implementing today, the key change we anticipate in the fourth quarter and beyond is less strain from new business. And just to step back for a second. We have benefited from managing VA and Shield together historically.

It has been a benefit to our capital. Now that we have this balanced risk profile, it does necessitate a change. And the biggest financial benefit that we see is less strain. And I would also add the other significant benefit that is difficult to quantify, but I think is important over time is simplification of our hedging strategy.

So if we talk about the benefit from strain management, it will be more pronounced in the fourth quarter and beyond for a couple of reasons. First of all, we talked about how we started hedging our new Shield product suite, which was introduced in July on a stand-alone basis. If you look at the new product suite, it was about 30% of our sales in the third quarter, our Shield and VA sales combined. So it was still a small percentage. If you look at our expectation for the fourth quarter, as I said in my prepared remarks, the expansion of the hedging of new business on a stand-alone basis, would equate to about 95% of our total Shield and VA sales. So we expect a significant benefit from that.

In addition, if you look in 2025 and beyond, we do see an opportunity to potentially enter into a flow reinsurance deal, which would provide further support on the strain side. And just to put some numbers on this, strain has been the most significant factor in the year to date related to our RBC ratio. So if you look at our RBC ratio, it's declined by between 45 and 65 points in the year-to-date. We estimate that shield strain is approximately 35 points of that decline. And that shield strain is defined as not just what comes through normalized statutory earnings, but also what goes directly to required capital related to asset charges.

So it's fair to say that strain has been more than we had assumed. It's related to the complexity of managing these two businesses together and the fact that we have achieved this balanced risk profile. So this is the reason that we need to shift toward hedging new business stand-alone and then formulating a strategy just for this legacy block.

Suneet Kamath - *Jefferies LLC - Analyst*

Got it. I guess the follow-up then is absent the reinsurance deal, are you confident that you will be able -- based on what you just said, I think the answer is, yes, but let me just ask, are you confident that your RBC ratio has sort of troughed out here, again, assuming normal markets, and we're not going to have another sort of step back. And if that's the case, Eric, have you thought about leaning in a little bit more in terms of the buyback, just given kind of where the valuation is?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

So let me start on that. We don't give projections of what the RBC is going to be. And I know you understand better than most, that it is a complicated and conservative calculation. And there are always elements that are difficult to predict.

So I think I would go back to, number one, with this pending reinsurance deal, we would see our pro forma third quarter and RBC ratio at the low end of our 400% to 450% range. Secondly, we would anticipate that our strain from new business will be substantially improved from the experience that we've seen in the year-to-date. And you can see in the year-to-date, it has been a significant negative for the risk-based capital ratio.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

I'll jump in for a second. Maybe I'll just go back to your first question and then answer that second one, Suneet. So Ed said a lot in his part of the answer to Suneet's first question. And I just want to maybe recap a little bit. Look, first of all, we are always open to help, always, okay?

So that shouldn't be a surprise to anyone. I would suggest to you that if you've listened to Ed, my answers too, but some of Ed's answers over the last couple of quarters, this is about strain and it's about the complexity of managing the VA business hedging and the Shield business hedging together. So this is not -- as all of you know, I think, if we look into the past, we took actions to derisk the company in a couple of cases, equity derisking and finally, a strategic position with respect to our interest rate hedging. So this is really focused on where we find ourselves today is the convergence of the focus on managing the hedging of Shield and VA together and the strain that we're seeing from Shield and business.

And I won't repeat that unless somebody asks again, what we're doing there and what we expect both in the fourth quarter and then in the first quarter. With respect to your second question, Suneet, we've been opportunistic in the past. All I can tell you is that for now, we've got a robust capital position at the holding company, and we are still buying back stock.

Operator

Ryan Krueger, KBW.

Ryan Krueger - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Appreciate the commentary on the new business strain. I was hoping to focus more, I guess, on the in-force. Ed, based on the numbers you gave, the in-force still had a negative impact on RBC this year. I'm trying to, I guess, better understand why that's happening just given the growth in Shield that you've had over time and the runoff of legacy why the in-force would be still producing negative impact of RBC? And I guess to what extent do you think that can change as you simplify the hedging strategy?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yeah. Thanks, Ryan. So I would start off by saying that if you look at our norm stat earnings, excluding these strain-related factors that we've talked about in the year to date, it has trailed our expectations. And there have been a few different things that we've talked about over the course of the year. I would say that we talked about basis risk in one quarter.

If you actually look at basis risk through the first nine months, it's pretty insignificant. So that's not really a driver. We had talked earlier in the year about some actual to expected in-force impact. I believe that was in the first -- I think it was in the first quarter. So this has not been -- I would say, it has not been a great year for norm stat, excluding strain.

But again, we don't predict norm stat earnings on an annual basis because it is volatile. And when we give you our expectations about statutory results, we always do it in a multiyear framework because that's the only way that I think it makes sense when you're talking about a number the way that we calculate it. It's important to point out that this norm stat earnings calculation, and you can look at the definition, is a conservative calculation relative to when we all think about things like adjusted earnings. So that's another point I think I'd add.

Ryan Krueger - *Keefe, Bruyette, & Woods, Inc. - Analyst*

Got it. And then on reinsurance, can you give any more color? It sounds like you're still looking at other in-force opportunities beyond the ones that you expect to complete before the year-end. Can you give any more color on what sort of things you're looking at beyond that?

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Well, we've got a number of possibilities, Ryan. I don't want to really go too far into this. In that, we've got a lot of negotiations going on, et cetera, et cetera. But yes, in-force opportunities. And then as Ed has already said, flow reinsurance opportunities as well.

So we're looking at a number of opportunities. And I highlighted in my comments, and Ed probably did as well in his comments with respect to a particular reinsurance agreement that we think will close in the fourth quarter.

Operator

John Barnidge, Piper Sandler.

John Barnidge - *Piper Sandler & Co. - Analyst*

Is there an opportunity to optimize the investment portfolio at all? I know you're looking at the liabilities, but is an IMA possible?

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

It's certainly possible. And when I think about my comments in the second quarter, John, we're looking at any number of possibilities. So we would never exclude the investment portfolio from that list. So it's a good question.

John Barnidge - *Piper Sandler & Co. - Analyst*

Okay. And within that framework of not excluding anything, are you -- now that you talked about kind of the in-force block being considered a closed block, how do you think of the opportunity to do enhanced annuitizations or buyouts as well?

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Sure, John. Generally, we have stayed away from buyouts, and there's two reasons for that. Many distributors do not love it, right? These are products that they sold to their clients for financial needs. And we have stood by those for decades, frankly.

And secondly -- John, is that your microphone or is your microphone still open? Okay. There it is. Somebody maybe had theirs on. And secondly, the take rate is really -- it doesn't really make a difference in the end.

So it's an awful lot of work. It's very disruptive, and those are the two reasons why we haven't done them in the past. I'll say to you that, look, we're looking at any number of opportunities. But because of the reasons that I laid out there, that's probably not something that we would actually do.

John Barnidge - *Piper Sandler & Co. - Analyst*

Okay. And if I could get one more in. How do you view the TAM or total addressable market for the liabilities? Is it the entire closed block essentially at this point?

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

I mean, I think I got that. Like what are you looking at as possible for any kind of deal? Is that what you mean, John?

John Barnidge - *Piper Sandler & Co. - Analyst*

Yes, that's correct.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Yes, that's what I thought. Okay. Again, we're looking at everything. I don't think there's any reason to exclude anything from the 100,000-foot point of view. But then when you get into the details, we've got to figure out the art of the possible.

We've got to prioritize because we can't have 30 things going on here. And so I think what I just said probably gives you your answer, right? We're looking at everything. We're seeing the degree of difficulty in certain transactions or potential transactions and then we're prioritizing from there. It's a great question, John.

Operator

Alex Scott, Barclays.

Alex Scott - *Barclays - Analyst*

I wanted to see if you could provide some color on just norm stat earnings over a longer period of time. I get that you can't estimate it near term. And I think there is still potentially a hockey stick down the line and it gets better. So I'm just trying to understand like you guys, I think, for years were kind of pointing to a handful of years out in the future that, that would happen. I mean is there still an inflection to consider here?

I mean, can you help us think at all around what that could look like and how much it could change from a reinsurance deal?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Alex, it's Ed. So we do plan to provide the long-term statutory free cash flow disclosures next year. So I don't -- as I've said in the past, there's a lot of work that goes into it. And so I don't want to say too much, but I will say that what we have seen historically, I would expect that we would still see. But it's been pushed out from where it was because we haven't seen the cash flows this year that we would have thought five years ago.

So I would expect to see a ramp-up because the old block of business, the legacy VA block does run off eventually. And so you will see capital benefits as you see the release of the CTEs associated with that legacy VA block. I think I articulated the basis for our strategy on some of these initiatives on a previous call. But I would say that if you look at the things we're doing today to benefit capital, there can be some give-up of free cash flow in those outer years. And we think that, that makes sense because the cash flows in the outer years look very strong.

And so we sort of have taken a similar approach here on the time line of cash flows, like we have on the actions we've taken to narrow the range of outcomes under market scenarios. Where we're trying to flatten the line a little bit on the cash flows. So give up some of the capital generation in those out years to benefit capital generation in the near term.

Alex Scott - *Barclays - Analyst*

Got it. Okay. That's helpful. The other thing I wanted to check on was just the product structure of Shield and whether it's being changed at all? I mean I listen to what you're saying and when I hear Shield legacy block or a shield closed block, it makes me a little nervous that maybe there wasn't something quite right about that product beyond just combining the hedging program.

I mean can you just help demystify is it simply like what you're talking about is just around the hedging or are there actually things about the product that needed to change?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yes, Alex, it's Ed. It's the former. It's around the hedging. It's not around any statement on the profitability or the desirability of the old block of Shield.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Although I'll just jump -- it's Eric, Alex. I'll just jump in and say, look, that doesn't mean that we're not going to update the product with new features or new ideas, new ways that the products can be used. But obviously, I agree with everything Ed just said.

Operator

(Operator Instructions) Nick Annitto, Wells Fargo.

Nicholas Annitto - *Wells Fargo - Analyst*

A lot of my questions have been answered here, but I was just wondering if you could maybe give a little information on like if this reinsurance deal in the fourth quarter is going to be onshore or offshore, just to get an idea from like a timing perspective because I think we've seen a lot of these things kind of get pushed out and not really hit deadlines. So any color there would be helpful.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Nick, it's Eric. Look, I don't want to get into any of that stuff. I'll just tell you that we're confident that it will close in the fourth quarter. I get why you're asking the question. So hopefully, that answer works for you.

Nicholas Annitto - *Wells Fargo - Analyst*

Yes. That makes sense. Then I guess going forward, like I appreciate the color on the new hedging program for the stand-alone Shield. But should we expect Shield sales to just continue at this strong pace? Or should we see a step down in the near term at all?

Or how are you guys thinking about that?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

So just -- I want to just say something when you say new hedging program, just for clarification for everyone on the call. The one basic thing that we have had in place from the beginning, and it continues, is that we have substantial protection on this balance sheet to protect ourselves against adverse market scenarios. So while we are making changes, and we are looking at new business separate from this legacy block, I just want to make it clear that there is still a lot of protection, and we are still targeting a statutory max first-loss framework and that's just a key point to make so that we don't misinterpret what new hedging means. Let me pass it to Eric.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Nick, so maybe I'll answer this in a couple of ways. Number one, if you think about everything we've talked about here, obviously, we want to make sure that we have appropriate capital in the operating company. As I said in my comments, we have, since the beginning, run with a large buffer up at the holding company, and we intend to continue to do that. And so there's 2 things that I think about. Number one, making sure that our capital levels are appropriate, and number two, making sure that we can write new business.

So I think, buried in your question there a little bit is, do you intend to slow down sales? No, we do not. We're having a -- we had a very good October. And given our 2 goals of having appropriate capital levels and being able to write new business, all these initiatives are designed to make sure we can do both of those things. So I think that probably answered your overall question, Nick.

Operator

Wes Carmichael, Autonomous Research.

Wes Carmichael - *Autonomous Research US LP - Analyst*

I just wanted to follow up around separating the hedging strategy for new business and in-force, and can you maybe just talk about the changes for the legacy block that you're contemplating? It sounded like it still maybe somewhat in flux, but I'm just wondering from a big picture conceptual standpoint, what you think makes sense there.

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Wes, it's early for us to provide you any details. As I said in my prepared remarks, we are developing a separate hedging strategy, and we do expect this work to continue into '25. And I know this came up yesterday on some of the calls. If you look at the footnote on norm stat earnings when we show that the TAC was up by $600 million approximately and CTE98 was up by $1 billion. The related impact from that is just that as we are in this period of time developing this strategy, we can only reflect the hedges on our balance sheet for that block.

And that was the reason for the statutory change. Now the net impact to RBC was insignificant. I would anticipate that given that this block is like a closed block and so is running off over time that there will be some stability in the profile of the hedges that you have related to that runoff expected over time. But other than that, I don't know that there is much we could say at this point.

Wes Carmichael - *Autonomous Research US LP - Analyst*

Got it. And I guess just since it's still in flux, I know you said 2025 for the free cash flow projections, but do you expect that to kind of push the timing out a little bit?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

I would say that we would want to have our strategy buttoned up before we would want to provide the statutory free cash flow projections.

Wes Carmichael - *Autonomous Research US LP - Analyst*

Yes, makes sense. And then I guess if I can ask one more, just on the runoff segment, I think if we look at the core ex notables number, that was maybe a little bit below your run rate. Is there anything going on in that segment this quarter that we should think about in terms of run rate earnings power?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yes, I don't think so. I think if you look at our underwriting margin in the quarter, it was consistent with what we would assume to be a normal margin, but we did have worse than our normal assumption for runoff and that was offset by better than normal in life. I think if you look at mortality in the year-to-date, it's generally been good. And this was another quarter that's consistent with what we would expect. It's just by segment, there was some volatility.

Operator

We have a follow-up question from the line of Alex Scott with Barclays.

Alex Scott - *Barclays - Analyst*

I think it was mentioned during the remarks that there was a June reinsurer switch that occurred, I think it was like fixed annuities that improved sales. I just wanted to see if you could unpack that a bit for us.

David Rosenbaum - *Brighthouse Financial Inc - Executive Vice President and Head of Product and Underwriting*

Yes. Thanks, Alex. This is David. So we did make a -- we did change reinsurers earlier this year, that new reinsurance agreement was effective in June and I think what you saw is FRA sales rebound a bit in the third quarter as a result of that, combined with a strong overall market demand.

Alex Scott - *Barclays - Analyst*

Okay. And then final question for me. I just wanted to ask around the hedging program. I think at times, you all have kind of had some tactical posturing like one way or the other on rates or I think more on the rate side than equities with your hedging. Just recognizing that rates have kind of spiked up here, particularly after the election, could you help us think through like whether you had any kind of tactical posturing on this quarter?

And -- just so that we have a good idea of how to think through marking for rates and how that could impact you?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Alex, it's Ed. So I wouldn't say we have any tactical positioning on rates. We had -- we definitely had tactical positioning on rates prior to 2022, and then we obviously did a lot of long-dated hedging to protect ourselves against low rates when the 10-year was between 3.5% and 4%. What you saw, when we mentioned rates and the impact in the third quarter, we were really referring to the fact that while long rates, I think, dropped by, I don't know, 50, 60 basis points, don't hold me to that, short rates were down more like 100. And it was that steepening of the yield curve that created some modest loss for us in the quarter.

Operator

And I would now like to hand the conference back to Dana Amante for closing remarks.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

If everybody could stay on just a second, I'm sure hanging up now. Believe it or not, it looks like we just were informed that all the necessary approvals were received on this reinsurance transaction that we talked about. So we do expect to execute as of 9/30. And you saw the -- or you heard all the comments that Ed and I made during this conference call.

So with that, I will turn it over to Dana.

Dana Amante - *Brighthouse Financial Inc - Head of Investor Relations*

All right. Well, thank you. Thank you all for joining today, and have a great day.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.
