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BHF.OQ - Brighthouse Financial Inc Long-Term Statutory Free Cash Flow Projections

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

Erik James Bass *Autonomous Research US LP - Senior Analyst of US Life Insurance*

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

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

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

Wilma Carter Jackson Burdis *Raymond James & Associates, Inc., Research Division - Research Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Brighthouse Financial's Conference Call. My name is Shannon, and I will be your coordinator today. (Operator Instructions) As a reminder, the 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, you may proceed.

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

Thank you, and good morning. Welcome to Brighthouse Financial's conference call to discuss its long-term statutory free cash flow projections. Materials for today's call was released this morning and can be found on the Investor Relations section of our website. 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. 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, September 20, 2023. The company undertakes no obligation to update any information discussed on today's call.

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, and thank you to everyone for joining us. I would like to kick off the call today as I am extremely pleased with the statutory free cash flow projections we published this morning, which demonstrate the significant progress we have made toward our goal of generating more predictable free cash flows in a broad range of market scenarios. As you have heard us say many times, our financial management strategy is based on a multiyear, multi-scenario framework and the convergence that can be seen in these free cash flow projections across multiple scenarios, reflects the steady execution of our strategy since Brighthouse became an independent publicly traded company in 2017.

Reflecting our unwavering focus on our financial and risk management, we have continued to look for opportunities to optimize our balance sheet with the goal of creating more consistent and predictable cash flows across various market scenarios. For example, over the past several years, we have taken steps to optimize our statutory balance sheet and fundamentally lower the company's risk profile. At the end of 2019, we revised our VA hedging strategy and repositioned our equity hedge portfolio. More recently, in the rising interest rate environment of 2022, we took the opportunity to add a substantial amount of long-dated interest rate protection to materially reduce risk associated with low interest rates.

As our statutory free cash flow projections show, the additional low interest rate protection that we added last year has created more consistent statutory free cash flows across scenarios with a significant positive impact on our expected cash flow under the adverse scenario, which assumes an equity and interest rate shock along with a credit cycle. Ed will provide more details on that in a moment. Our focus on prudent financial management is one of the key priorities that make up the foundation of our strategy. We continue to manage the company under a multiyear, multi-scenario framework in order to protect and support our fantastic distribution franchise.

We remain very pleased with the strong franchise that we have built, including our expansive distribution footprint and our complementary and competitive product offerings. Since we launched as an independent company, we have significantly expanded our presence in the annuity space, more than doubling total annuity sales, largely driven by our flagship Shield Level annuities. We have also reestablished our presence in the life insurance space as we execute our focused life insurance strategy, and we have launched several new products as well as rolled out product enhancements, which have further strengthened our overall product portfolio.

In addition, in 2021, we entered the institutional spread margin business. And furthermore, we remain very excited about our expanded relationship with BlackRock to deliver BlackRock's LifePath Paycheck, providing us with a fantastic opportunity to deliver our products through the Worksite channel. As one of the top annuity providers in the United States, we continue to leverage the depth and breadth of our expertise, along with our distribution relationships to competitively position ourselves in the markets that we choose to compete in. We remain focused on offering a diversified portfolio of complementary products to further drive the addition of high-quality new business to our in-force book.

The combination of growth in sales of the less capital-intensive products we offer today and the outflows of higher capital-intensive business, which represent approximately 30% of total outflows on a regular basis has resulted in a significant ongoing shift in our business mix, as shown on slide 4 of our presentation. Shield and Fixed Annuities collectively have grown from 15% of our total annuity account value at year-end 2016 to approximately 40% at June 30, 2023. And by year-end 2027, we expect less capital-intensive annuities, including shield, fixed annuities and newer, less capital-intensive VA to represent approximately 82% of our total annuity account value with higher capital-intensive VAs representing only 18%.

In addition, we expect our focus on driving our statutory expense ratio down over time to further enhance our ability to offer competitively priced solutions, which in turn should enable us to continue to diversify our business mix in future years. To wrap up, we believe our long-term statutory free cash flow projections reflect our focused financial and risk management approach, which, along with our growth strategy are the cornerstones of generating more predictable cash flows, even through challenging markets and delivering on our commitment of returning capital to shareholders over time.

With that, I'll turn the call over to Ed to discuss our hedging strategy and our long-term statutory free cash flow projections.

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

Thank you, Eric, and good morning, everyone. I'm excited to speak to you today about the long-term statutory free cash flow projections that we published this morning. As you can see from the cumulative 5- and 10-year projections shown on slide 5, we expect meaningful long-term statutory free cash flows that are more predictable across various market scenarios. This is a significant improvement compared with the expectations that we provided in March of 2022 and demonstrates the continued execution of our strategy, which includes prudent management of balance sheet risk and the dilution of legacy liabilities with profitable new business.

As Eric mentioned earlier, we have taken actions over the past several years to materially reduce the company's risk profile, including adding a substantial amount of long-dated low interest rate protection when rates return to what we consider to be a more normal level in 2022. Prior to the increase in interest rates in 2022, we were positioned to benefit from higher rates as we were unwilling to fully hedge rate risk when interest rates were at abnormally low levels.

While we have always had meaningful out-of-the-money protection for low rates, we saw the opportunity last year to materially increase protection at an attractive cost. This management action contributed to lower projected statutory free cash flows in the normal scenario for which we project approximately $2 billion of free cash flow over a 5-year period and between $6 billion and $8 billion over 10 years. However, importantly, additional hedges provide a significant benefit to projected statutory free cash flow in the adverse scenario, driving an expectation of approximately $1 billion of free cash flow for the 5-year period and between $2 billion and $4 billion over the 10-year period.

Prior to the increase in our long-dated low interest rate protection, we projected no free cash flow under the adverse scenario, and we saw degradation in our capital position over the long term. The increase in interest rates since year-end 2021 is also a meaningful contributor to our long-term statutory free cash flow projection in the moderate scenario, which is approximately $1.5 billion over 5 years and between $5 billion to $7 billion over 10 years. I would note that the interest rate assumption reflected in the moderate scenario assumes rates follow the forward curve as of June 30, 2023, which had the 10-year treasury yield at 4.36% in 10 years.

In contrast, the normal scenario assumes the 10-year U.S. treasury yield mean reverts to 3.75% over 10 years, which is aligned with the long-term interest rate assumption update, we expect to use in our upcoming annual actuarial review. This is the first time since we have been a public company that the forward curve is anticipating a higher 10-year treasury yield over the next 10 years than our long-term assumption for rates. The other factor impacting the updated statutory free cash flow projections is the transition to our in-house modeling platform. As we discussed previously, we completed all our major systems conversions by year-end 2022, including the transition to our Brighthouse Financial Actuarial platform.

Our projections process now leverages this platform, which allows for more granular inputs and assumptions and the elimination of third-party modeling services. I am particularly pleased with the convergence of projected statutory free cash flow across the normal, moderate and adverse scenarios. The combination of additional rate hedges, the increase in interest rates and the continued shift in our business mix has contributed to a meaningful improvement in statutory free cash flow predictability when compared with the projections that we shared publicly in March 2022, which were based on year-end 2021.

As you can see on slide 6, our projections based on year-end 2021 had free cash flow under the moderate scenario at only approximately 10% of the free cash flow expectation under the normal scenario with zero expected under the adverse scenario. Today, our projections based on June 30, 2023, have our free cash flow under the moderate scenario at approximately 75% of the expectation under the normal scenario and our projections under the adverse scenario at approximately 50% of the expectation under the normal scenario. Also, and importantly, the RBC ratio at the end of the 5- and 10-year periods in all scenarios is expected to be within our target range.

In summary, we continue to optimize our balance sheet to support the growth of our franchise through a broad range of market scenarios. The evolution of our business mix, combined with financial management actions continues to significantly lower the risk profile of our company and is helping to drive more predictable projected statutory free cash flow, which we believe will support subsidiary dividends across a variety of scenarios. Finally, I would like to close with our expectation that we plan to take at least $300 million of dividends to the holding company in 2023.

I will now turn the call over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Tracy Benguigui with Barclays.

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

It's great seeing multiyear free cash flow scenarios. But in order to measure progress on a more real-time basis, is it fair to assume the closest proxy to distributable earnings did normalize that earnings since you previously mentioned debt interest expense could be serviced from non-regulated sources of cash? And if I'm thinking about this the right way, could you bridge for us why Brighthouse only recognized a modest $200 billion of normalized stat earnings since 2020?

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

Sorry, Tracy, could you repeat the last part, you said $200 million of normalized stat earnings in 2020.

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

No, since 2020, including the minus $100 million in the first half of this year.

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

Yeah. So I guess I would say that it's fair to assume that over time, you will see norm stat earnings be a proxy for statutory free cash flow. That's what we see in our long-term projections. That will not hold for any short period of time. But over the long term, you do see -- particularly, I think when you look at the normal and moderate scenarios, norm stat earnings being a pretty good proxy for free cash flow.

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

Okay, great. And I just want to make sure the thinking about this right way. The VA and Shield 5-year distributable earnings as a reasonable proxy for the total company distributable earnings in the first 5 years and then the less market-sensitive business can be recognized in later years. So if I compare that last year, what you have here the $2.6 billion, I think last year's slide was $2.7 billion to this year's $2 billion.

I'm thinking if I'm sticking that through, this is a better interest rate scenario than last year. Last year, you had a 1.52% interest rate assumption, given the 10-year treasury rate at year-end '21. I think now you're looking at 3.81% at June 30, and you also have a higher reversion to the (inaudible) assumption in 10 years. So could you unpack why the base case is comparably less comparable? I think you mentioned something about the interest rate hedging, but I'm just trying to balance that with some of the other more favorable assumptions.

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

Sure. So there's a couple of things I would say. First of all, if you think about markets in prior years, we have talked about the equity market being an effective offset to rates, meaning strong equities were offsetting a more challenging rate environment. If you look at the change this year, it's the opposite, where we have separate account returns that are about 15% or separate account balances that are about 15% lower than what we would have projected given the equity market performance primarily. And that is offset by the fact that rates are up substantially from where we were last year. And so as we said, we took advantage of those higher rates to buy a substantial amount of interest rate protection.

There is a cost for that protection when you look at our normal and moderate scenarios. And we think that, that is a very attractive cost today to produce an adverse scenario outcome that is materially better than what we've had in the past. So showing free cash flow in the billions for the adverse scenario, when in the past, we had nothing. And as I said in my prepared remarks, we actually saw a deterioration in RBC ratios if you went out over time, we consider it to be a very attractive trade-off to give up some upside in the normal and moderate scenarios from the hedging costs to protect the adverse scenario.

The other comment I would make is, given how much we're hedging now for rates, we would not see the benefit from interest rates going up that we saw in these projections relative to the last projections. The way that we manage rate risk now is we're thinking about gains and losses in our hedging position, in our hedging portfolio relative to the benefits that we would get over the next 5 years in the statutory framework, the mean reversion point changes. So we're looking at it holistically, what happens with our hedge portfolio and the offsetting impacts in those mean reversion point changes over 5 years. Because we were positioned to benefit from rising rates, you're seeing us capturing the benefit of those mean reversion point changes. And that's the reason you see such a favorable impact in the moderate scenario from interest rates.

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

Great. Just if I could sneak one more in. Are you still assuming VA peak funding in 2024? And if so, why wouldn't you see higher cash flows in the first 5 years compared to the subsequent 5 years?

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

Yeah. So when you look at our projections here, you see significant cash flows as you go out over time, which is driven by the aging of the VA block and the decline in the amount of capital that we have to hold relative to tail scenarios. So if you think about the framework for VA, the primary driver of how much capital you're going to hold is driven by the average of the 2% worse scenarios for markets. And when you look at our projections, that is coming down. That is the primary driver of the release of capital.

The idea of reserves peaking, the importance of that concept is really reserves peaking occurs when you have -- with aging essentially is occurring in line with your peaking up your total asset requirement for the tail scenarios. And then they're both coming down, but they're converging, right? There's a convergence of 70 and 98. CTE70, the average of the 30% worse scenarios for reserves, I know you like this technical stuff, so I'll throw some out at you. And CTE98, which is the average of the 2%. Reserves coming down is because you're paying claims, not because you're freeing up capital.

The importance of reserves is really when they converge with the tail scenarios of 98 you have less uncertainty about your outcomes. And less uncertainty about your outcomes may mean you'd be comfortable holding less of a buffer in terms of capital relative to your targets, so meaning your RBC ratio. I think what's important here is we don't assume any benefit in the out years from a lower RBC ratio. The only benefit you're getting in these cash flows in the out years is the peaking of the capital requirement for this aging block of business. We do not assume that we are going to run at a lower RBC ratio than the 400% to 450% that we've talked about.

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

And what year is that peak?

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

Yeah, it's not 2024, it's further out.

Operator

Our next question comes from the line of Erik Bass with Autonomous Research.

Erik James Bass - *Autonomous Research US LP - Senior Analyst of US Life Insurance*

Maybe just a follow-up on the last question or discussion just about how you see free cash flow building over time. Would you expect it to be roughly linear near term, starting from the, I guess, $300 million dividend base this year? And then is there a step function increase at some point in years 5 through 10 or is it just that the trajectory starts to steepen as kind of new business earns in and that tail risk drops off.

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

Hey Erik, I appreciate the question, but we're going to stick to giving you these cumulative free cash flows, which I think is the best way to go when you're talking about long-term projections. I mean this is obviously a significant amount of information to disclose in our opinion, on the fundamentals of this company. So we're going to stick with cumulative 5- and 10-year stuff and then we'll let you guys figure out how you want to model that.

Erik James Bass - *Autonomous Research US LP - Senior Analyst of US Life Insurance*

Got it. Fair. And I guess how does the reduction in volatility affect your view on capital return and the level of holding company liquidity you want to hold going forward? And related to that, does it change your view at all on a common dividend as your free cash flow now looks much more predictable, especially in adverse scenarios.

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

Hey Erik, it's Eric. Look, we -- every year, we talk about the potential of a common dividend with the Board. I'm sure that's not surprising to any of you. So far, we have stuck with returning capital through share buybacks. I would say at this point, it's still our preferred way of returning capital to shareholders. But we have a Board meeting coming up in November, and I can assure you that we will discuss not only share repurchases, but the potential of a common dividend. So at some point, it may make sense to pay a common dividend. So far, obviously, we have not done that. But we'll see what happens in the next couple of years. Ed, do you want to add anything?

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

No, I think that covers it.

Erik James Bass - *Autonomous Research US LP - Senior Analyst of US Life Insurance*

Got it. So -- and no change in philosophy on kind of HoldCo liquidity at this point.

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

Are you jumping in or?

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

Yeah. I don't think we have any reason to change HoldCo liquidity because, first of all, we haven't given you a specific number, right? We've said that we think that the amount of liquidity you want to have at the holding company is going to vary based on a number of factors. It's not just going to be fixed charge coverage, which, by the way, for us, as you know, is covered by -- primarily by non-dividend flows from the holding company. It will also be a function of upcoming debt maturities.

And again, I think we're still going to want to run this company with some level of conservatism because while we're very happy with the more predictable cash flows that you see, I would not say it's predictable yet. And I don't think this is a business that is predictable. It's a lot more predictable. And so we need to be mindful of the volatility that can happen from year-to-year. And that's why when we talk about targets, giving multiyear numbers here is the best way to go because you still have volatility from period-to-period.

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

I would just add, Erik, though, this does give us more confidence than we've ever had as a public company. And while we're not going to say we're going to lower that buffer, it certainly does give us flexibility around how we think about the buffers that are built into RBC ratios and holding company cash. So I agree with everything Ed said. But after 6 years, it's pretty confidence-inspiring to see the convergence finally in these cash flows.

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

Yeah. And just to build on that, just Erik, as I said before, we are not factoring in, in these outer years any change in the buffer from an RBC ratio standpoint. And I think you could argue, given the more predictable outcomes as you get in the outer years as reserves and capital requirements converge, you could argue to have a lower buffer. So that is one area where we have a buffer built in, in our target RBC ratio that is probably an element of conservatism. At the holding company, look, I think, as I said, we have not given you a target. So to say lower the buffer, I mean, we don't really give you a buffer target. But I would say that we always want to have a conservative position at the holding company.

Operator

Our next question comes from the line of Wilma Burdis with Raymond James.

Wilma Carter Jackson Burdis - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Traditionally, Brighthouse hasn't participated in variable annuity block sales. Do these types of deals become more attractive as the legacy block becomes a smaller portion of the book? And maybe you could also just touch on how you view the economics of these deals?

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

Sorry, you're a little bit garbled and could you just try to restate that?

Wilma Carter Jackson Burdis - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Yeah, sure. I said traditionally, Brighthouse hasn't participated in variable annuity block sales. And do these types of deals become more attractive as the legacy block becomes a smaller portion of the book? And if you could touch on how you view the economics of those deals?

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

Sure. Okay. So -- we are obviously monitoring market developments, and we have said in the past that if something made sense for us to do, we would do it. And as we look at the market today, we still conclude that we are the best managers of these liabilities that the economics that we see retaining these liabilities is more attractive than what we would be giving up to pass those liabilities to someone else.

Wilma Carter Jackson Burdis - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Got you. And just maybe talk about is now a good time to potentially add more interest rate hedging? And how do you view the current opportunities to add or change the hedging program?

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

So I think you're asking does it make sense to add more interest rate hedging?

Wilma Carter Jackson Burdis - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Yeah, add more interest rate hedging or change the hedging program in any way?

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

It's very difficult to hear you. I'm sorry. I don't know if you.

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

I think you said if we add more interest rate hedging or change the variable annuity hedge program?

Wilma Carter Jackson Burdis - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Sorry, my headphone must not be working very well.

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

No, I guess our CEO's ears are much better than mine. So we feel very good about where we are with our rate protection. We have not been in a position like this since we separated from MetLife. And the reason we haven't been is we did not feel it was prudent to hedge out interest rate risk when interest rates were at what we consider to be abnormally low levels. And so as rates went up in '22, we took the opportunity to put on a significant amount of long-dated protection.

So we're talking about multiyear low rate protection. And as I said, we would not show the same benefit that we're showing in these numbers if rates were to go up significantly from here because we would lose money on hedges and then we would make it up on the changes in the mean reversion point that would occur over the next 5 years. So we still have leverage to up rates, but it's nowhere near the leverage that we had previously.

So I don't think there's any desire here to really add more interest rate protection. And in terms of our overall approach on hedging risk, I think we feel very good about what we've done on the equity side. We obviously derisked that program substantially back in late '19 and early 2020. And we continue to make improvements in terms of our understanding of actual to expected results on that side of the house. And so I don't really feel that there's any need to make material changes in our risk management strategy for VA at this point.

Operator

Our next question comes from the line of Alex Scott with Goldman Sachs.

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

First question I had is just around the definition of free cash flow here. Can you just talk about -- it sounds like this is pre-interest expense. But I wanted to find out if that was the case. And then if you could also talk about if there's any other service agreement cash flows, etcetera, at the HoldCo? I'm just trying to get my head around once this free cash flow gets up to the HoldCo, do I need to net it against anything or does the interest expense roughly net out with service agreements, etcetera?

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

Good morning Alex. Yes, the latter comment you just made is correct. So the non-dividend flows to the holding company are essentially what covers the fixed charges. So when you look at these free cash flow projections, this is our view of what is free cash flow. So its dividends going to the holding company from the operating companies that could be used to do all the different things that you can do with free cash flow.

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

Understood. Okay, thanks for clarifying that. Second one I had for you is on some of the important assumptions. I mean I think two critical assumptions are does this (inaudible) anything around the economic scenario generator changes that are being contemplated? We've had one field test and my understanding is it could go into effect as early as year-end '24 -- more likely probably '25 fine, but that's still like squarely inside even the shorter period of time that you're giving us aggregate cash flows over. So I wanted to understand, is that being contemplated? And if not, what kind of impact could it have? And then the other critical assumption is -- is there anything being assumed around cash remittance out of the Delaware Captive, and you guys have had a lot over time over the last few years, I guess. But is there any more of that being considered in these cash flows?

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

Okay, sure. So first on the ESG. The focus on changing the statutory generator was really around does it appropriately capture low rate risk, right? And so obviously, there was a lot of discussion and concern about that when interest rates were at very low levels. I think the statutory generator, what's interesting today is we now have a forward -- remember a lot of discussion about we should be using the forward curve for rates for the statutory generator. I think it's interesting now we have a forward curve for rates that has a level of rates.

It's about 100 basis points above the interest rate assumption that's driving the statutory generated today. So there is the argument that a long-term approach to figuring out how to build in rates into the statutory framework makes some sense. However, as we have this effort, which is a very significant effort, as I think you have just laid out in terms of the amount of field testing and analysis and the understanding of the knock-on effects when you change one thing related to rates, what does that mean for equities, what does that mean for credit spreads. There's a lot of impacts that you have to work through.

This is going to take time. We're confident that the process will yield a reasonable result. We are obviously very engaged on this. It's very important to this company. I would say, though, that the direction on this has always been to have more rate impact factored into the ESG, more interest rate impact. And so given that we are hedged for rates in a way that we have never been hedged before, I would say concerns or anything around the ESG, the economic scenario generator are substantially less today than what they would have been in the past. And interest rates are up a lot. So that's another factor, right?

I mean, obviously, right now, this statutory framework is more conservative than the forward curve, which I find interesting. Yeah, sorry, I forgot your question about BRCD. So I've said repeatedly that we do not think that you should look at the reinsurance captive as an ongoing source of free cash flow. We took the opportunity to release some excess capital in two increments. They were $600 million dividends each. We had to get approval for that from the Delaware regulator. They were obviously comfortable with our position to allow us to do that. But that is a runoff block of business where we feel we are appropriately capitalized today and really don't see that as something in terms of capital release going forward.

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

Got it. I can interpret that as the (inaudible) capital down in that reinsurance entity is not being -- you're assuming that no further cash flows come up to [block] for the purposes of this free cash flow analysis?

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

Oh, yeah, absolutely. There's nothing assumed in this free cash flow analysis, but I was going beyond that to say that I don't believe you should be assuming anything from that on top of this.

Operator

(Operator Instructions) Our next question comes from the line of Ryan Krueger with KBW.

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

Can you just give us a sense of the credit impacts that were assumed in the 10-year adverse scenario?

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

Good morning Ryan. So I would say that the credit impact we have this time is a little bit worse than what we had previously, but not materially so. I would say the composition is a little different. We have a higher loss assumption from commercial real estate. And that is offset largely by a lower loss assumption for fixed income credit, where we have -- I think you've heard us discuss some derisking actions we've taken in the last couple of years. So really, overall, not a material change. And just as a reminder, on even commercial real estate, we've talked about the derisking that's happened in that portfolio where we had approximately 40% of that portfolio in office back in 2019, and it's less than 25% today.

So even on the real estate side, there's been some derisking, but we are assuming higher losses. We're not giving the credit loss impact, but I think you could probably deduce what that would be if you look at what you've seen in the past for this industry. Typically, you don't have losses for, I don't know, 7 to 10 years. And then in a 3-year period, you might have some pretty big losses. So we have used something that's not that dissimilar than what you would -- should expect when you think about the type of credit losses you see over a 3-year period.

I'll tell you that the way we come up with it is we have corporate credit losses and migration that looks like the 2001, 2003 and 2008 to 2010 experience, structured finance. We calibrated off of the 2008, 2010 period, but we do reflect the improved underwriting standards today versus what you saw pre-crisis. And then we do obviously have stress scenarios that we run on the commercial mortgage portfolio.

Operator

Thank you. Ladies and gentlemen, I will now turn the call over to Dana Amante for closing remarks.

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

Thank you, Shannon, and thank you all for joining us today. Have a great day.

Operator

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