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BHF.OQ - Q3 2022 Brighthouse Financial Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brighthouse Financial's Third Quarter 2022 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, you may begin.

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

Thank you, and good morning. Welcome to Brighthouse Financial's Third Quarter 2022 Earnings Call. Material 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 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 U.S. Securities and Exchange Commission.

Information discussed on today's call speaks only as of today, November 8, 2022. 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 statements.

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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. In the third quarter, despite an uncertain market environment, we remain disciplined in our financial and risk management and steadfast in our commitment to our partners, customers and shareholders. While equity markets have been volatile, interest rates increased significantly in the quarter, up over 80 basis points as measured by the 10-year U.S. Treasury as of September 30.

Our balance sheet and liquidity remained robust in the quarter, and we continue to prudently manage our statutory capitalization. Our estimated combined risk-based capital or RBC ratio was above our target of 400% to 450% in normal markets. At the end of the quarter, we estimate that our combined RBC ratio was between 450% and 470% as our capitalization remained very strong.

Additionally, we continue to have a substantial amount of cash at the holding company with $1.1 billion of holding company liquid assets at the end of the quarter.

Turning to sales. We are very pleased with our strong annuity sales results in the quarter, which reflect the strength of the Brighthouse Financial franchise and our ability to meet the evolving needs of our distributors and their clients. The company reported record annuity sales in the quarter of $3.7 billion, an increase of 50% sequentially. Third quarter annuity sales results were largely driven by sales of our fixed deferred annuities and our flagship Shield Level annuities and demonstrate the strength and diversity of our annuity product portfolio in different market environments.

The strong fixed deferred annuity sales were the primary driver of the positive total annuity net flows of $970 million in the quarter. As we have previously discussed, we continue to expect our business mix to evolve with the addition of higher cash flow generating and less capital-intensive business, coupled with the runoff of older, less profitable business.

Additionally, we generated $19 million of life insurance sales, which is flat sequentially. As I have said in the past, while the economic backdrop in 2022 has created some headwinds to life insurance sales, we remain confident in our life insurance strategy and intend to continue to broaden our product offerings and expand our distribution footprint.

We continue to execute on our strategy. And with that, I would like to turn to capital return. In the third quarter of 2022, we returned additional capital to shareholders through the repurchase of $136 million of our common stock, and we purchased an additional $52 million of our common stock through November 3.

Year-to-date through November 3, we have repurchased $447 million of our common stock representing a reduction of 11% of shares outstanding relative to year-end 2021. Before I turn the call over to Ed, I would like to touch on the actions we have taken throughout 2022 to move toward a more strategic position on interest rate risk.

With interest rates at historically low levels in recent years, we did not believe it made sense to fully hedge interest rate risk. We supported this strategy by holding substantial amounts of cash and capital. With interest rates gradually returning to what we perceive to be more normal levels, we have taken the opportunity to add a substantial amount of low interest rate protection and shifted from a more tactical positioning on rates to a more strategic positioning.

We will continue to focus on protecting our balance sheet, optimizing our distributable earnings, and supporting the growth of our franchise through a broad range of market scenarios. To summarize, I'm very happy with our results in the quarter. Our balance sheet and liquidity remained robust. Annuity sales were very strong, and we continue to return capital to shareholders.

I will now pass the call over to Ed, and he'll go through more of the financial results in detail.

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

Thank you, Eric, and good morning, everyone. Despite substantial negative returns across asset classes in 2022, our capital and liquidity position remained strong at September 30. Additionally, third quarter year-to-date normalized statutory earnings were approximately $500 million as we have benefited from a substantial increase in interest rates and a conservative position in the hedge portfolio for equities.

Our estimated combined risk-based capital or RBC ratio was between $450 and 470% above our target of 400% to 450% in normal markets and down from an estimated range of 470% to 490% at June 30. The largest driver of the sequential decline was capital used to fund new business growth. We believe that normal capital usage for growth is approximately 5 RBC points per quarter, and it was more than double this amount in the third quarter.

We are excited to have the opportunity to deploy capital in new business. The franchise value for this company is largely dependent on continuing the shift in our business mix toward lower risk, higher return products and away from legacy variable annuities. The new business trends in the third quarter have continued into the fourth. So we currently anticipate another quarter with above normal capital usage to fund growth. Therefore, we will assess capital development during the fourth quarter and decide whether it still is appropriate to take a $250 million dividend from Brighthouse Life Insurance Company before year-end.

Combined total adjusted capital, or TAC, was $8 billion at September 30 compared with $8.2 billion at June 30. The largest driver of the change in TAC was taxes with the biggest portion being a reduction in admitted deferred tax assets, or DTAs. At the holding company, we ended the quarter with cash and liquid assets at $1.1 billion. We feel very good about the position of our holding company as nondividend flows cover most of our fixed charges and we do not have any debt maturities until 2027.

Before moving to adjusted earnings results, I would like to provide some perspective on the annual actuarial review and long-duration targeted improvements or LDTI. As part of the annual actuarial review completed in the third quarter of 2022, we examined our long-term assumptions, models and emerging experience. On a GAAP basis, the impact to net income from the review was a net favorable $5 million. This included a $337 million positive impact from a 50 basis point increase in the assumed long-term mean reversion rate for the 10-year U.S. Treasury from 3% to 3.5%.

We continue to assume that mean reversion occurs over 10 years. Approximately 3/4 of the interest rate-related benefit impacted universal life with secondary guarantees or ULSG, with the remainder in annuities. There were 2 categories of items that offset the interest rate benefit. First, as a result of moving to a single model environment, we now have the ability to more accurately model certain reinsurance agreements and the negative impact from this refinement was $124 million after tax.

Second, we had some policyholder behavior assumption updates, primarily in annuities. Updates related to policyholder behavior and mortality assumptions for our ULSG block of business were insignificant. Typically, the third quarter actuarial review encompasses both GAAP and statutory assumptions. We did not update statutory assumptions for variable annuities in the third quarter. We are in the final stages of our annuity actuarial model conversion, which is our last model conversion. And we plan to complete this along with the VA statutory assumption updates in the fourth quarter of this year.

Turning to LDTI. I want to begin with a reminder that the implementation of LDTI has no impact on statutory accounting, distributable earnings or the underlying economics of our business. As you know, a key element of our disciplined financial and risk management strategy is to manage the company on a statutory and cash basis to optimize distributable earnings. Our focus will remain on managing our statutory balance sheet post implementation of LDTI. However, the market risk-benefit framework within LDTI can be a complementary tool that provides an alternate view of our VA liabilities. While LDTI accounting better aligns GAAP liability movements with our risk management approach, there are fundamental differences between the calculation of GAAP and statutory liabilities for VA and Shield.

As a result of these differences, and our commitment to managing our statutory balance sheet, our GAAP financials will continue to exhibit volatility moving forward. We expect the new accounting standard to have a negative impact to total equity as of December 31, 2021, in the range of $6 billion to $8 billion.

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As you can see on Slide 9 of the earnings presentation, the impact is split approximately half to retained earnings and half to accumulated other comprehensive income or AOCI. Importantly, with the significant rise in interest rates year-to-date through the third quarter, we anticipate the total LDTI impact of stockholders' equity to be significantly improved with additional improvement in the expected impact based on current markets.

Now turning to adjusted earnings results in the third quarter. Adjusted earnings, excluding the impact from notable items, were close to breakeven at a loss of $3 million, which compares with adjusted earnings on the same basis of $247 million in the second quarter of 2022 and $514 million in the third quarter of 2021. The notable items in the quarter, which on a combined basis, benefited earnings by $100 million after tax included a $117 million net favorable impact related to actuarial items in the quarter, including the annual actuarial assumption review and establishment costs of $17 million.

Excluding the impact of these notable items, the results in the third quarter were primarily driven by adverse market factors, including negative alternative investment performance as a result of second quarter market performance and the impact of the lower equity market in the third quarter, which drove actuarial adjustments and amortization of deferred acquisition costs, or DAC, and reserves.

Net investment income was $182 million or $2.53 per share below our quarterly run rate expectation primarily driven by an alternative investment yield of negative 3.2% in the third quarter. As a reminder, we expect 9% to 11% annual yield over the long term on our alternative investment portfolio.

Asset growth, mainly driven by continued strong annuity sales was a benefit to net investment income. The decline in the equity market in the third quarter resulted in VA separate account returns of negative 5.4%. This corresponded to actuarial adjustments, which drove an unfavorable impact to earnings of $83 million post tax or $1.15 per share below our quarterly expectation and is reflected through higher DAC amortization and higher reserves in the annuity segment.

Keep in mind, the quarter-to-quarter fluctuation we typically see in DAC amortization related to changes in the market will not continue post implementation of LDTI.

Turning to adjusted earnings by segment. The annuities segment reported adjusted earnings, excluding notable items, of $170 million in the third quarter. On a sequential basis, annuity results were primarily driven by the impact of lower VA separate account returns, which resulted in lower fees and higher reserves, partially offset by lower DAC amortization.

The Life segment reported an adjusted loss, excluding notable items of $2 million. Sequentially, results were driven by lower net investment income and higher expenses, partially offset by lower DAC amortization. The adjusted loss in the Run-off segment, excluding notable items, was $149 million. Sequentially, results reflect lower net investment income, a lower underwriting margin and higher expenses.

Corporate and Other had an adjusted loss, excluding notable items of $22 million. On a sequential basis, results were driven by higher net investment income and lower expenses, partially offset by a lower tax benefit. In closing, I want to emphasize that our top financial priority remains balance sheet strength. We continue to manage the company under a multiyear, multi-scenario framework to protect and support our distribution franchise. Distribution is critical because, ultimately, it is growth that will drive the overall franchise value of this organization.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Erik Bass with Autonomous.

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Erik James Bass - *Bernstein Autonomous LLP - Partner of US Life Insurance*

I was hoping you could provide some more color on the implications of moving to a more strategic interest rate hedging program. Should we think of this materially raising the floor for distributable earnings and narrowing the range of expected outcomes going forward?

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

Erik, it's Ed. So I mean, that's the goal. I would -- to give you some sense of size, if you look at year-end '21, when the 10-year treasury was 151, if we had the protection in place and the developments in the year-to-date related to rates, and you look at where we would have been with the 10-year at 151 basis points, you would have had about 80 or 90 additional RBC points.

So that gives you some sense of the type of benefit that we would see if rates were back down to levels that we saw at year-end '21. I'd also add that if rates went lower, I mean, I think, obviously, we had rates in the 50 to 100 basis point range for the 10-year. The gains associated with what we've done would be substantially more.

Erik James Bass - *Bernstein Autonomous LLP - Partner of US Life Insurance*

Got it. And is there a cost in terms of giving up any of the upside so that it kind of narrows the top end of the range or your upside scenario as well or...

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

Yes, I think it's fair to say that as we get to a level of rates that we consider to be more normal, right? I've said in the past that there's no reason to have a view directionally on interest rates once you get to a point that you consider it's more normal. So unlike equities, where you have a business model that's predicated on stocks going up over time, which is borne out by both fundamentals and history.

Rates, I think you get to a certain level, and it's just whether it's going to go up or go down, you don't have a strong point of view. So if you want to be in a more strategic position, as Eric said in his prepared remarks, I think, by definition, that means that you're not going to be benefiting one way or the other from rate movements to the extent that you want to protect yourself.

Erik James Bass - *Bernstein Autonomous LLP - Partner of US Life Insurance*

Got it. That makes sense. And then my other question is just you mentioned doing the VA stat review in the fourth quarter, and you had some policyholder behavior changes on a GAAP basis at least in 3Q. Should we think of those being a read-through at all in terms of what you may do on the statutory side? And if so, just help us think of the impact there or the assumption base is different.

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

Yes. So as I said, the reason we are doing it in the fourth quarter is because we have the last model conversion occurring in the fourth quarter, which is VA. And so it's premature for us to give any indication of what the impact of those 2 developments will be.

And then the one last thing I want to just go back to your first question. When we're talking about protection here and rate impacts. It's obviously complicated, right? And so when I'm talking about impacts, right? We think about, as you've heard me say repeatedly, managing the company over a multiyear, multi-scenario framework.

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And so as you know, the interest rate impact will come in over time on the statutory framework. And so you have to balance the sort of how do you want to be positioned from a hedging standpoint in relation to how you will have those impacts flow into your statutory results over time.

Operator

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*

First question was just following up on the variable annuity policyholder behavior update. Can you give a little bit more detail on what you changed in the GAAP review and maybe where you brought your ultimate lapse rate too?

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

Yes. Ryan. So the first thing I would say, as you heard in my prepared remarks, the big items we identified the impact from changing the mean reversion point and then the model refinement that we had as a result of being in our new profit environment, which allows us to [view] (corrected by company after the call) model treaties on a more granular basis, right?

You're left with like in the neighborhood of $200 million, if you just think about those 2 items and then the balance of what the all other adjustments would be. You're talking about an $80 billion block of variable annuities. So it's a big block. And most of that $200 million is going to relate to that. I would say that in terms of assumption updates, we had a slight benefit from mortality assumptions for VA, and we had a slight negative impact from lapse rates.

Again, I don't look at that number as being particularly significant relative to an $80 billion block. Also, we haven't had much in the way of any real policyholder behavior adjustments in VA in recent years. This is not a big deal in my opinion. I think if you look at this question about what's your ultimate lapse rate, that's an impossible question to answer where I could give you a meaningful number.

Lapse rates, as you know, are going to vary by product type, guarantee levels vintage in the moneyness, out of the moneyness. And so a single lapse rate assumption is really not meaningful.

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

Got it. Then on the potential BLIC dividend in the fourth quarter. Is growth the primary reason that you're considering if you want to still do that or not? Or is it also related to other factors as well?

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

Growth is the primary reason.

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

Okay. And then just one quick one. What -- how much of the fix -- of your fixed annuity business you reinsure to at the and under that treaty? Can you give us any perspective on that?

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Unidentified Company Representative

Yes. Ryan, this is David. I'll take that one. So as you mentioned, we do reinsure a portion of sales to Athene. We're not going to get into the details of the structure. But as we've said in the past, it is a reinsurance agreement that does provide value to us and we've said that in the past a few times on earnings calls. But this quarter, like Ed mentioned, we had the opportunity to deploy a meaningful amount of capital at an attractive return. And so we were pleased to have the opportunity to do that.

Operator

And our next question comes from the line of Elyse Greenspan with Wells Fargo.

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

Maybe going back to the RBC question a little bit. What level of growth, I guess, are you guys assuming for the fourth quarter? Obviously, the impact on RBC was greater than you normally expected in Q3. So what are your expectations for the Q4? And within what band of growth would you still consider a dividend, the $215 million dividend in the quarter?

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

Elyse, it's Ed. So as I think you -- I said, we are seeing continuation of the trends we saw in the third quarter, in the fourth quarter. And that's as far as we're going to go in terms of any indication of what sales might be. And so we're going to monitor it throughout the quarter to make a decision about whether we want to take the BLIC dividend.

But this is good news for us. If we think about the key driver of this story long term, it's really continuing to shift this business mix away from our legacy block of VA toward these lower risk, higher profitability, better cash generative products that we sell today.

And so we'd love to return capital to shareholders. I mean, we've done a lot of it. I mean 42% of shares outstanding since separation at an average price of less than $1 a share. I mean, I think that's been a pretty value-creating move at this point. But I would say that the primary thing we want to do is invest in this business to grow because ultimately, to get the valuation we think we deserve, we need to continue to affect this mix shift.

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

And then my second question is on the Life sales, I mean, those were flat sequentially. I know you highlighted some headwinds in your opening comments on. So how are you thinking about just Life sales trending from here, not just in the fourth quarter, but really '23 and beyond?

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

It's Myles. I'll take this question. So I think I mentioned this on a prior call, I don't know how favorable the environment is right now for long-term care sales, meaning that I just don't know how focused consumers are on this type of protection. And I think as we look at what's happening in other sectors of the industry, if they're looking to purchase long-term care insurance, it's probably a fixed product.

And as I spoke about on prior calls, SmartCare is a product where future benefits are tied into industry performance. Here's what I would say. We're focused on executing on our strategy. The SmartCare launch has been a great success for us, and we're going to continue to expand distribution, and we're going to introduce a new product next year so that we're focused on continuing to grow sales.

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Operator

Our next question comes from the line of John Barnidge with Piper Sandler.

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

Can you talk maybe about the lower underwriting margin in Life and Run-off sided outlook for durability of that? And is it coming from a certain age cohort and now there were some severity side?

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

John, it's Ed. So you've heard me say in the past about normal direct claims being in the range of $400 million to $500 million in a quarter. We were above the normal range this quarter. We had some higher severity. The reinsurance offset was a little bit better than I think is normal.

But I would say in the context -- certainly in the context of the market factors this quarter. Underwriting is not really a meaningful story here. It is worse sequentially, it is worse year-over-year. You will see fluctuations obviously, overall and on a segment level basis. I mean, there really isn't a story to tell here on Run-off underwriting this quarter.

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

That's helpful. And then if I look at the NII of $182 million below plan and actuarial adjustments of $83 million below expectations and add that back, does that the $3.75 suggest normal core earnings power in normal markets, I think, with higher rates?

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

John, I think you're a little high on those -- on that number with just those 2 adjustments. I don't know if you're making some other adjustment. I mean I would say that if you look at some of the numbers that we have talked about in terms of over the past few quarters of trying to kind of help with run rate. I think they've generally been in the neighborhood of $3.50, I would say you're probably plus that amount now. And certainly, if you make just those 2 adjustments, you'll come up with something that's a little bit above $3.60, I believe.

Operator

Our next question comes from the line of Suneet Kamath with Jefferies.

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

I just wanted to start on LDTI. I appreciate the balance sheet disclosure, but we're starting to hear from some companies around the operating earnings impact. And as I think about what we're hearing from some VA-focused companies, it's actually quite different with one company guiding to pretty sizable decline in earnings and another company guiding to very little impact, if any. So just curious if from a directional perspective, is there anything that you can provide at this point?

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

Sure. Suneet, I think it's fair to say that adjusted earnings will probably be somewhat less under LDTI than under current GAAP accounting. And I think it's for some of the reasons you may have heard from some others. I mean, a portion of it is going to be -- we'll have more attributed fees to VA below the line.

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And the second piece would be there's -- there will no longer be any bifurcation of DAC amortization. Obviously, as you know, DAC amortization is simplified to say the least, relative to the current model, and it's all going to be above the line now.

So I think those 2 factors would suggest that adjusted earnings would be lower under LDTI than current GAAP. But we're not going to provide any specific detail on the income statement at this point.

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

Okay. Got it. That's helpful. And then I guess -- as we think about growth, I hear what you're saying about the BLIC dividend, but if we're really seeing sizable new opportunities, whether it's in annuities or in your institutional spread base, is there a thought to potentially putting more capital in? Or are you just going to leave the capital that's in there and not infuse anything incremental from where we sit today?

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

Yes. I mean we feel very good about our statutory position. I mean we're sitting here knee deep in a bear market with a 450% to 470% RBC ratio relative to our 400% to 450% normal markets target. So -- and $1 billion plus cash at the holding company with no debt coming due until 2027 and nondividend flows that cover most of our holding company obligations. So we feel like we're in a very good position. I don't envision the need to put capital into the operating company to fund growth.

Operator

And our next question comes from the line of Tracy Benguigui with Barclays.

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

You mentioned stat review in the fourth quarter for VA risk. But what about your stat review on ULSG at BRCD, at least for GAAP, you mentioned that 3 quarters of the positive impact of raising your reversion to the mean assumption is benefiting ULSG?

So when you look at your stat reserves, I believe the interest rate assumptions are prescribed, but could you see any benefit on BRCD as a result?

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

Tracy. So we said last quarter about the conservative nature of stat for ULSG. Just to add to that, we had no updates. I think I said in my prepared remarks, no real updates -- impacts from ULSG and our third quarter assumption update on GAAP. If you look at the numbers on stat, most of our block of business today has a 0% assumed lapse rate on stat.

And all of it will be at 0 by 2027. And if you were to take the point in time average lapse rate today, which includes surrenders, it's less than 50 basis points. So on a stat basis, obviously, there's a lot of conservatism, which is not surprising considering the fact that statutory reserves for us for ULSG are around $25 billion versus a GAAP number that's more like, let's say, $16 billion plus or minus.

From a cash flow testing standpoint, you heard me talk a lot about the significant low rate protection we had at BRCD, and why we felt good about where we were positioned when rates were low. I mean, obviously, that goes in the other direction. Rates go up. We alleviate some pressure on the investment side for that block of business. And then we also have the related hedge losses associated with that.

So I think we're in a good position. I mean I think the question, obviously, ULSG is getting a lot of attention right now. This is a block of business that got a lot of attention from us prior to separation. I mean we took like $3 billion of GAAP charges for this thing. So it was scrubbed before separation.

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We've obviously talked a lot about BRCD. We've taken capital out of BRCD. And if we look at where we're positioned today, we feel good. I mean cash flow testing results will be done based on the end of September balance sheet. So we're in the process of doing that now for BRCD. So there's nothing to report. But hopefully, some of that background provides some context for you.

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

I completely recall your comments last quarter. I just heard from one of your competitors that when you're entering their exercise this year, they were thinking there might be some padding with respect to interest rates, given that we're at a better spot this year versus last. So on that comment on doing that cash flow testing, was more on the opposite perspective, if there could be any benefit given what you said that you were able to take out capital from BRCD in the past?

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

Yes. So I've talked about BRCD. It's a Run-off block of business, right? We're happy that we've been able to take some capital out. But I would not be looking at BRCD as a source of capital coming to this company going forward, at least in the immediate future.

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

Yes. Okay. And then on the FA sales, I can see why growing there is compelling given higher interest rates. But usually, credit rates also rise. So where is that heading? Just to give us a sense of the attractiveness of the spreads?

Unidentified Analyst

Tracy, this is David. I'll start with that. So as part of our partnership with Athene on reinsurance, we have been able to provide attractive rates. And you could see that these sales really started increasing for us late in the second quarter, and we were able to maintain consistent competitive rates across all of our fixed rate products, and that really continued into 3Q.

So we continue to monitor the environment and make adjustments as necessary. But as we talked about in the prepared remarks, really comfortable with where we are at from a return and pricing perspective.

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

I remember we were lower for longer. I think it was something like 1%. I don't know if you could give us a sense of what the new minimum amount would be?

Unidentified Company Representative

The minimum guarantee?

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

Yes.

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Unidentified Company Representative

It is north of 1%. I don't have the number offhand, but we did just adjust that upwards back in September time frame.

Operator

Our next question 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 on the variable annuity statutory review in 4Q. I think you mentioned that usually that's finished in 3Q, but there's some completion of the system conversion is still ongoing. When I think about the actuarial changes you made this quarter, I don't think the ultimate mean reversion for rates translates, but the pieces of it that had a bit of a negative impact may, I'm not sure. So I just wanted to ask you about like how much of the changes you made on GAAP actually translate to statutory?

And what are you thinking for the system conversion? I mean, should I think about that? Isn't that neutral? I mean, I think when we've seen these things in the past with other companies, more often than not has a negative impact. So I was just interested in any commentary you could give there.

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

Alex, so look, we're not going to sort of talk about pieces of the fourth quarter actuarial assumption update and the related model conversions. I mean there's a lot of stuff. And I think picking out any one piece and focusing on it is premature.

I would say, when you look at model conversions that we have had, we have had pluses and we have had minuses. So I don't think there's been any specific trend in terms of model conversion leads to x. We haven't seen that. We'll have to wait and see what the fourth quarter conversion brings for us in VA. But it's just -- again, it's premature to talk about any impact for the fourth quarter on a stat basis.

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

Got it. No, I appreciate all that. So second question I had is on how to think about just the total capital ratio of the company heading into next year? I mean, I do tend to like to give some credit for the amount of growth capital you're putting to work and it sounds like that's a little bit bigger piece of the picture here.

So I just was hoping to understand the changes in hedging the gross capital. How does that all factor into distributable earnings as a baseline heading into next year? And maybe if you can tell us about how you think about a budget for growth capital and how we can think about those 2 things together?

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

Yes, Alex, there's a lot of good stuff wrapped up in that question. I would say that when we're going through the 3-year planning process right now, we will be providing you some update on our view of this multiyear, multi-scenario framework for distributable earnings next year.

It's just early right now to give you any specifics. I think though this an earlier question from Erik, I think about trying to narrow the ranges of outcomes under different market scenarios. We feel really good about the rate protection we put into place and to have the opportunity to do that.

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And we feel really good about continuing to shift the business mix, which will, by its nature, lead to less volatile cash flows. So things are pointing in the right direction for what we're trying to achieve. And next year, we'll try to give you some color around what that means in terms of numbers.

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

Alex, it's Eric. Maybe I'll jump in for a second, too. Look, we've been waiting a long time for higher rates. You -- a bunch of you have asked questions here about the protection we put on, and I'll just repeat what I said earlier, which is -- we've gone from sort of a tactical situation for a number of years here to a strategic situation in rates.

Now when you think about growth, we're in a position now where we're not only selling our flagship product, Shield, but we've got an opportunity to sell a fair amount of fixed annuities. And to [Myles'] question that he got, we absolutely will put out yet another life insurance product next year.

So we've been super pleased with our ability to buy back shares. But now I sort of feel like the growth element is picking up. And were that to continue into next year? I mean that's exactly our strategy unfolding the way we hoped it possibly could. So maybe that helped a little.

Operator

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

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

First question is it makes sense to me that you're waiting on a decision on the dividend, just deciding whether to take a dividend at a BLIC until I guess there's the growth capital, and then there's this review and seeing how that impacts the RBC.

But assuming there is some kind of adverse impact and you don't take a dividend out, how should we think about holding company cash? How low would you be willing to take that level of buybacks? I think -- in the past, I think you had talked about a $400 million holding company target, which would give you a considerable room. I just -- I haven't heard you comment on that in a while. Curious how should we should think about that?

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

Tom, so I never said $400 million. What I have said is that the holding company target...

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

Sorry, Ed, your predecessor, I think might have said that.

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

Well, you might, okay. So what I have said about holding company cash is philosophically, number one, when you're a financial company -- when you're an insurance company, having a lot of holding company cash, a good position at the holding company is a good thing.

Number two, you never want to assume that you can roll your debt, in my opinion. And so the amount of cash that you want to have is going to flex based on what your debt towers look like. So I mean, obviously, we've done a lot to get to our target capital structure, including substantial lengthening of our capital structure late last year.

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So we've got a lot of long-term funding at what we consider to be attractive pricing late last year, and we don't have any debt coming due until 2027. So we're in a good position there.

The question about how much of your holding company cash do you want to use? I mean, I just think you want to be conservative, and we feel very good about where we sit today with holding company cash. And I think the combination of where we are at the statutory entity at the holding company is a good position to be in.

And when we think about dividends, right? We think about it a little differently perhaps than some other companies from the standpoint of we don't have -- there's not a lot of optionality to have cash the holding company for us from a subsidiary standpoint because if we need capital somewhere, we know exactly where we would need it, right? Unlike other companies that have a bunch of different subsidiaries, getting everything to the holding company and then figuring out where you might want to put it when something bad happens, you've got optionality.

It's less of an issue for us here considering the nature of our business and the fact that all the risks that we have that we know would be that's volatile is in BLIC. So it's a long-winded way to say that having a cushion at the holding company is a good thing. It gives us flexibility and some of that flexibility relates to the decision-making about the BLIC dividend here in the fourth quarter.

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

Okay. And I guess -- so $1 billion is not some magic line in the sand. I assume you would continue with the strong pace of buybacks even if you dip below that. Is that a fair conclusion at this point?

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

$1 billion is just not a line in the sand. And what we have consistently said on buyback is we'll tell you what we do after we do it. We have obviously returned a lot of capital to shareholders, and we've done it at very attractive prices. And we understand the importance of capital return to shareholders and financial services companies.

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

Okay. And then my follow-up is -- I heard everything you've said on the change in rate hedging, which I think makes a lot of sense. How would you describe your position at this moment? And where do you want to get to? Are you fully hedged economically on interest rates? Are you 80%? Just give any perspective on where you are on an economic basis as it relates to your interest rate exposure? And then would the plan be to still keep some level of under hedging? Or do you -- any perspective on that would be appreciated.

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

Yes. So we measure ourselves and manage the company based on statutory and cash. And so all the decisions that we are making on our hedging portfolio is based on how do we think about those 2 factors. And so I wouldn't say we're done, but we've done a lot.

And I think that the comment I made earlier about once you get to a level of rates that you consider to be more normal that you're not going to place a big directional bet on rates one way or the other, within the statutory framework that we're talking about and managing that risk within that framework.

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

Okay. And can I just slip one more in. And just -- I have to ask this one on the fixed annuity sales. Whenever I see a spike in a commodity product like fixed annuities, you got a question whether it's a blue light special going on here and whether you need to reprice. So curious -- I'm sure that

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caught your attention when you all saw a spike. And if your degree of confidence and comfort competitively, that you haven't mispriced something in that you're very happy with the returns there.

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

I would say -- let me start. I think some others want to chime in here. You and I were side by side for many years asking those very same questions. I can tell you that we feel very good about the profitability of the business we've written this year.

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

Tom, it's Eric. I just have to comment on the -- was it the blue light special?

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

Blue [light] special.

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

Okay. There's no blue light special. No issues with your question, obviously. But -- this company is run by a lot of financial professionals, and we don't do blue light specials. But David, do you want to add anything?

Unidentified Analyst

No, I think you covered it.

Operator

We do have a follow-up question from Tracy Benguigui with Barclays.

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

Just going back to your VA lapse rate assumptions. So your assumption update, how does it look versus the ['21] requirements? Are they in line or more conservative?

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

Tracy, it's Ed. I would say -- let me -- let us follow up with you on that. I would say I'm thinking in line, but let's just follow up and make sure that -- and I guess I would also say that we're talking about -- you're asking me a sort of a statutory question before we've done the statutory review, right? So I would caveat that to say that this is kind of a backward-looking answer that I just gave you, and we'll verify and follow up.

Operator

And I'm showing no further questions at this time. And I'd like to hand the conference back over to Dana Amante for any further remarks.

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

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

Operator

This concludes today's program. You may all disconnect. Everyone, have a great day.

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