REFINITIV STREETEVENTS

EDITED TRANSCRIPT

BHF.OQ - Q2 2025 Brighthouse Financial Inc Earnings Call

EVENT DATE/TIME: AUGUST 08, 2025 / 12:00PM GMT

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*

Myles Lambert *Brighthouse Financial Inc - Executive Vice President, Chief Marketing and Distribution Officer*

CONFERENCE CALL PARTICIPANTS

Thomas Gallagher *Evercore Inc - Analyst*

Jimmy Bhullar *JPMorgan Chase & Co - Analyst*

Suneet Kamath *Jefferies LLC - Equity Analyst*

Wilma Burdis *Raymond James & Associates, Inc. - Analyst*

Nicholas Annitto *Wells Fargo Securities LLC - Analyst*

Alex Scott *Barclays Services Corp - Equity Analyst*

Peter Troisi *Barclays Services Corp - Analyst*

Ryan Krueger *Keefe Bruyette & Woods Inc - Analyst*

Wes Carmichael *Autonomous Research - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Brighthouse Financial's second quarter 2025 earnings conference call. My name is Michelle, 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 Investor Relations*

Good morning. Welcome to Brighthouse Financial's second quarter 2025 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 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'd like to note that our discussion during this call may include forward-looking statements within the meaning of the federal securities laws. Brighthouse Financial's actual results may differ materially from the results anticipated in the forward-looking statements as a result of 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, August 8, 2025. 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 statements.

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

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

Thank you, Dana. Good morning, everyone, and thank you for joining the call today. Through the second quarter of 2025, Brighthouse Financial continued to make progress against its capital-focused strategic initiatives. As a reminder, those initiatives are designed to improve capital efficiency, unlock capital, and remain within our target combined risk-based capital or RBC ratio range in normal market conditions.

During the quarter, we also continued to execute on our focused strategy, delivering strong sales results, receiving additional deposits through BlackRock's LifePath Paycheck, prudently managing our expenses, and maintaining a strong capital and liquidity position.

A cornerstone of our financial and risk management strategy is maintaining a strong capital position at our insurance subsidiaries, as defined by a target combined RBC ratio between 400% and 450% in normal market conditions.

In the second quarter, our estimated combined RBC ratio was between 405% and 425%, within our target range in normal market conditions. Our liquidity position also remains strong with liquid assets at the holding company in excess of $900 million as of June 30.

As we have discussed in recent quarters, we have been executing on several capital-focused strategic initiatives. Through the second quarter, we made further progress on these initiatives, including the ongoing work to simplify and revise our hedging strategy for both our in-force variable annuity and first-generation Shield books of business. As we have said previously, it is important to note that our focus on protecting our statutory balance sheet under adverse market conditions remains unchanged.

I am pleased with the continued success of our distribution franchise as well as the strong sales results that Brighthouse Financial continues to deliver. In the second quarter, we recorded strong sales in both annuities and life insurance. Total annuity sales were $2.6 billion, a 16% increase sequentially and an 8% increase compared with the second quarter of 2024.

Shield sales, as always, were a significant contributor to total annuity sales. Shield sales totaled $1.9 billion in the quarter, bringing year-to-date Shield sales to $3.9 billion, consistent with the same period last year. The second largest contributor to total annuity sales in the quarter was sales of our fixed annuities, which totaled $500 million. Our total annuity sales results in the second quarter further demonstrate the complementary and diversified nature of our suite of annuity products.

Life insurance sales in the second quarter were $33 million, which contributed to record year-to-date Life Insurance sales of $69 million, an increase of approximately 21% compared with the same period in 2024.

Furthermore, we received $176 million of deposits through BlackRock's LifePath Paycheck, or LPP product, in the second quarter. As I have said previously, we expect our involvement with this product to enable Brighthouse to reach new customers through the worksite channel, and we remain extremely excited about its success to date.

Moving on to corporate expenses. As we have said in the past, expense discipline is extremely important for us, and we remain committed to well-controlled expense management. Second quarter corporate expenses were $202 million on a pretax basis, down from $239 million in the first quarter, and up slightly from $200 million in the second quarter of 2024.

Before turning the call to Ed to discuss our financial results, I'd like to discuss shareholder return. In the second quarter, we returned capital to shareholders through $43 million of common stock repurchases, bringing year-to-date common stock repurchases through June 30 to $102 million. Since we began our common stock repurchase program in August of 2018, we have repurchased over $2.6 billion of our common stock, which represents 52% of our outstanding shares.

As we have disclosed in our public filings, we have historically repurchased our common stock pursuant to Rule 10b5-1 plans, and our most recent plan expired at the end of May 2025. As such, there have been no additional share repurchases since that date. We have $441 million of capacity remaining under our Board-approved share repurchase program.

In closing, the second quarter was another quarter of continued focus and execution on our strategic priorities, including our capital-focused initiatives. We delivered strong sales results, received additional deposits through BlackRock's LifePath Paycheck product, and maintained our focus on expense discipline.

Let me turn the call over to Ed now to discuss our second quarter financial results in some more detail.

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

Thank you, Eric, and good morning, everyone. Yesterday evening, Brighthouse Financial reported second quarter financial results including preliminary statutory metrics. I will begin with commentary on the preliminary statutory metrics and close with a review of our adjusted earnings.

As of June 30, the estimated combined risk-based capital or RBC ratio was between 405% and 425%, within our target range of 400% to 450% in normal market conditions. The statutory combined total adjusted capital, or TAC, was approximately $5.6 billion at June 30 compared with approximately $5.5 billion at March 31. The increase in TAC was driven by a decline in our VA and Shield reserves in excess of cash surrender value, which more than offset a negative impact on TAC from our non-VA business.

The combined RBC ratio decreased during the period, primarily as a result of seasonality and capital charges for fixed business and adverse non-VA results, partially driven by mortality. A normalized statutory loss associated with the VA and Shield business had a muted impact on the RBC ratio because of the previously mentioned benefit to TAC from VA and Shield.

As I have discussed in the past, during periods of strong market performance, there is divergence between VA and Shield reserves on the balance sheet, which impacts TAC and the total asset requirement for the business.

Holding company liquid assets were over $900 million at June 30. We consider capital strength to be a combination of the operating company's RBC ratio, holding company liquid assets and a conservative capital structure.

Before moving to adjusted earnings results, I would like to reiterate the continued progress we have made on our capital-focused strategic initiatives. As a reminder, as of year-end 2024, we fully transitioned to hedging new Shield sales as well as our entire block of Shield business with a living benefit feature on a stand-alone basis. And we continue to make considerable progress on the development of a separate hedging strategy for our in-force variable annuity and first-generation Shield annuity block of business.

We made some modifications to our hedges at the beginning of the third quarter, and we plan to complete the transition to our revised strategy, managing the VA and Shield businesses separately by the end of September. Importantly, the foundation of our financial and risk management strategy is unwavering as we remain focused on protecting our statutory balance sheet under adverse market scenarios.

I will now turn to second quarter adjusted earnings results, and first note that there were no notable items in the quarter. Adjusted earnings for the quarter were $198 million or $3.43 per share, which compares with adjusted earnings less notables of $245 million in the first quarter of 2025 and adjusted earnings of $346 million in the second quarter of 2024. The second quarter adjusted earnings of $198 million were approximately $60 million below our quarterly average run rate expectations, driven by lower alternative investment income and a lower underwriting margin.

The alternative investment portfolio yield in the quarter was 1.5%, which resulted in lower alternative investment income of $32 million or approximately $0.55 below our quarterly average run rate expectation. As a reminder, over the long term, we expect a yield on this portfolio of 9% to 11% annually.

In addition, this quarter, we saw a lower underwriting margin relative to our run rate expectation, driven by higher average severity of claims. As we have said previously, mortality fluctuates quarter-to-quarter and can vary based on volume and severity of claims, along with the reinsurance offset.

Turning to results at the segment level. Adjusted earnings in the Annuities segment were $332 million, which reflected lower expenses, partially offset by lower fees as a result of lower average separate account balances sequentially. The Life segment reported an adjusted loss of $26 million.

Sequentially, results reflected a lower underwriting margin and lower net investment income, partially offset by lower expenses. The Run-off segment had an adjusted loss of $83 million. Sequentially, results reflected a lower underwriting margin, partially offset by higher net investment income and lower expenses. There was an adjusted loss in the Corporate and Other segment of $25 million, which was flat sequentially.

To wrap up, we maintained a strong balance sheet and robust liquidity as of the end of the second quarter. The estimated combined RBC ratio remained within our target range in normal markets. Additionally, we continue to make progress on our capital-focused strategic initiatives while we remain committed to protecting our statutory balance sheet under adverse market scenarios.

We will now turn the call over to the operator to begin the question-and-answer session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tom Gallagher, Evercore ISI.

Thomas Gallagher - *Evercore Inc - Analyst*

First question is around your actuarial review for 3Q, 4Q. I assume it's still 3Q GAAP, 4Q stat. Is there a risk here on the stat side, in particular, that there could be a charge given the continued losses? Or do you see that more about volatility and less about asset adequacy?

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

Tom, as you know, the actuarial review is a significant undertaking and it's the reason it's done on an annual basis. So there's nothing to report on that yet. I mean, we're in the process of doing the work. So I really don't have any update to give.

Thomas Gallagher - *Evercore Inc - Analyst*

And Ed, is it still third quarter GAAP, fourth quarter stat?

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

We have had different time lines at different points in time for stat versus GAAP. If you recall, I think it was the fourth quarter of 2022, we did the annuity business on a stat basis and everything else in the third quarter on a GAAP basis because we were in the final stages of actuarial transformation. And so we needed to push the review for annuities on a stat basis.

So we're in the process of the VA, Shield separation work here, which is going to have an impact on our ending third quarter balance sheet relative to the ending second quarter balance sheet. And so we will have the -- we will complete the stat review again this time on an annuity basis in the fourth quarter and the GAAP review in the third quarter. But that's all I can tell you at this point on our actuarial assumption update.

Thomas Gallagher - *Evercore Inc - Analyst*

Got you. And then just from a follow-up, Ed, can you elaborate a bit on what will be completed by the end of September? And do you feel like you are then in the right place from a go-forward standpoint, where you think you can start generating positive capital again after implementation at the end of September strategy?

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

Sure. So there are a couple of questions in there. I think, first of all, your question on the revisions to our hedging strategy, so we are separating and managing individually the Shield book and the VA book. And we think that's appropriate at this point given our balanced risk profile between Shield and VA.

So we've talked in the past about how we were getting a capital benefit when we were doing Shield and VA together when Shield was a smaller portion of the total. And once we got to this balanced risk profile, we started to see more of the complexity of managing them together become an issue. And so that's why we're going to the separated approach.

With the implementation in the third quarter, it's really, I would say, in a couple of stages. We've done revisions to the hedges. We're in the process of doing some more. And then by the end of the quarter, we will have implemented the modeling and valuation changes necessary to have it reflected on the liability side. So this will all take place in the third quarter.

In terms of the go-forward impact of this, it's too early to talk about -- to quantify what the impact of separation will be. But I'll tell you that it will introduce simplification, more transparency and allow for more effective management of the block of business. I also think, overall, we're going to see less volatility in our results over time.

The final -- wait, can you hear me?

Thomas Gallagher - *Evercore Inc - Analyst*

I can. It's a little bit of an echo.

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

Yeah. I just started to hear an echo as well. Well, why don't we just pause for a second and see if we can clear this up?

Technical difficulties, I think, so. We're working on it. Tom, how about now? No?

Thomas Gallagher - *Evercore Inc - Analyst*

Yes, still an echo.

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

Tom?

Thomas Gallagher - *Evercore Inc - Analyst*

That's better now.

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

All right. Sorry about the delay.

Thomas Gallagher - *Evercore Inc - Analyst*

No problem.

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

So what I was going to finish off on in the impact of this separation, I talked about the simplification, the transparency and I think, therefore, more effective management. I think we will see less volatility in our results over time as a result of this change. And the second thing that I would add is that this change positions us better for what we think the new ESG is going to look like.

And obviously, we've got much more clarification around that now than we had in the past. And just to finish up, though, you talk about the forward-looking impact on cash flows. We have talked about how after reaching this balanced risk profile, we started to see the capital strain come through and impact our results from writing new business. Now, obviously, writing new business is the franchise value of this company. And so we want to continue to grow and we're pleased with the profitability of the business that we write.

And so what we have been looking at in terms of the strategic initiatives is what can we do that can generate more capital today without harming the franchise? So we've talked about reinsurance. We continue to look at various reinsurance opportunities. I would think about this a bit like what we did when we added a lot of interest rate protection after rates went up. We saw a profile of the company where there was a back-end loading of cash flows. And so we decided to put on a lot more protection for rates to narrow the range of outcomes for market movements.

And the cost of that was some give-up in longer-term cash flows. And we thought that was a good trade-off because the longer-term cash flows that we see tend to be pretty significant. I would think about what we're doing with these strategic initiatives in a similar fashion. And I think I've said this on a prior call.

We're looking at ways where we could enter into initiatives that will be beneficial to near-term capital generation with some give-up of cash flows in the future. And everything we're doing, as I said, is going to make sure that we're protecting the franchise, which is our ability to grow new business.

Operator

Jimmy Bhullar, JPMorgan.

Jimmy Bhullar - *JPMorgan Chase & Co - Analyst*

So first, just had a question on buybacks. And you've been fairly active in the past on buying back stock, and as you mentioned, you paused in May. Are buybacks are part of your normal plan going forward? And should we assume that you'd continue into 3Q? Or is there any reason to stop to preserve capital or anything else?

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

Jimmy, it's Eric. Listen, we have historically repurchased, as I think I said in my opening remarks, pursuant to 10b5-1 plans. The Board is very comfortable with that. We're all very comfortable using 10b5-1 plans. So it ran out at the end of May, and we'll see. I would just say, historically, you know we have been a returner of capital. But that's my answer.

Jimmy Bhullar - *JPMorgan Chase & Co - Analyst*

Okay. We'll find out in three months anyway. And I'm not sure what you want to say on the whole discussion of M&A, but maybe just to comment on your confidence in the company's ability to sort of survive and thrive on a stand-alone basis. Like do you feel you have the capital flexibility, the product breadth. And just other -- sort of how do you feel about the company's ability and your desire to be able to stay independent and strive as a stand-alone entity in case there is no transaction? But you could add whatever else, yes.

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

Yeah. No, I got it, Jimmy. Look, maybe I can just try to frame up where I think we're at here, and Ed covered some of this. With respect to our legacy liabilities and I'll say specifically our VA block, as you know, it's been pretty complicated to manage, especially since we hit sort of that inflection point where we got to delta neutral there for VA and Shield 1 blocks, Shield 1 block, I'm being specific here. Given this inflection point and because of where interest rates are, where equities are, as Ed has said, we are in the process now of transitioning our hedging strategy, and we're going to end up managing these blocks of businesses separately.

Obviously, a lot of work has gone into that. It's one of our most important strategic initiatives, I would say, in the last year. An enormous amount of work has gone into that. And so now we've already started that transition. And as Ed said, we'll be done with that transition at the end of September, okay? So since I've been talking about strategic initiatives, we've completed a number of reinsurance transactions. We've talked about all the work that has to go into preparing for this change with respect to the hedging strategy. And now we're actually in the third quarter executing on that.

With respect to our distribution franchise and what I'll call our operational and technological capabilities, I think our journey has brought us to the place where it is obvious we are a premier carrier in this industry. So our strategy with respect to new business and our distribution partners has not changed. It's not going to change. We're going to continue to innovate with respect to products. Our technology is state-of-the-art at this point. And we're going to have the very best operational capabilities that we can going forward. Trying to think of what else you asked.

Look, with respect to any market rumors, I don't have any comments on that. But sort of overall, if you think about what I just said, you've got the back book, which we have had to manage now for, geez, I guess, one day longer than eight years. I think our 8th anniversary was yesterday. But I'm super pleased with our situation with respect to product development, technology and operations and, of course, our distribution partners. And that includes more progress that we made in the second quarter with respect to bringing in deposits on LifePath Paycheck. So there's sort of an overall answer for you, Jimmy.

Jimmy Bhullar - *JPMorgan Chase & Co - Analyst*

Okay. And just on the Shield, like that's been obviously your fastest growth product in the last several years. I think sales this quarter were down for the first time in the last couple of years. You haven't had a negative quarterly -- quarter. And everybody in the industry had been growing fairly fast the last few years, but it seems like for some of the company, sales growth has slowed down recently. So I'm not sure if you -- in your case, it has to do anything with any company-specific initiatives. Or are you just seeing more competition? Or what is it that you've seen that's resulted in the slowdown?

Myles Lambert - *Brighthouse Financial Inc - Executive Vice President, Chief Marketing and Distribution Officer*

Yeah. So this is Myles. I'll go ahead and take that, Eric, if you don't mind. So look, there's a lot of competition out there in the marketplace. But generally speaking, I believe it's been very reasonable. I do think those carriers that do have carrier distribution do have a competitive advantage.

But look, we remain really pleased with where we're at. We continue to hit our targets.

As Eric said, we did almost $4 billion of Shield sales for the first half of the year. That's coming off of a record year last year. March of this year was our best month ever for Shield sales. April was just slightly behind March.

And you got to keep in mind, we're growing off a big base, right? We're a market leader in this category. And we're always focused on continuing to grow sales but, at the same time, maintaining our pricing discipline.

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

Yeah, Jimmy, I'll just jump in and add to the last sentence that he just said. It is nice when you got a small base in a product line and you're growing. That's a great feeling. I think we all know that feeling. We're pretty big, as are some others. We are going to display pricing discipline. We have for eight years and we're going to continue to do that. I think it's a great product still for manufacturers and certainly for clients. So despite the fact that it's a little tougher to grow, I'm still pretty pleased with the second quarter.

Operator

Suneet Kamath, Jefferies.

Suneet Kamath - *Jefferies LLC - Equity Analyst*

I guess happy anniversary. So if I look at your unassigned surplus in BLIC at the end of the first quarter, I think it was negative $2 billion. It looks like there was a pretty big stat net loss this quarter. So just wondering where we are with that here in the second quarter. And Ed, do you still expect to take cash out over the planning period as you discussed on the last call?

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

Yeah, hi, Suneet. So the reason that we talk about normalized statutory earnings, one of the reasons we do over time is because it includes unrealized gains and losses on our hedging program. And so you talk about the statutory loss, and what that doesn't take into account is $1.2 billion of unrealized gains associated -- on an after-tax basis associated with our hedging program.

So I think it is not a complete -- I know it's not a complete picture to look at the stat income statement that you're referencing. And you can also see it's not an accurate picture of what's going on with our capital because you saw that TAC was up in the quarter. So there's another example of how the total picture of not just operating and realized but also unrealized is important to take into account for us.

The second point about the unassigned funds, it's negative in the -- around the same number, around the minus $2 billion range. We consider that a technical consideration, not a fundamental one. And the reason for that is, as I've talked about in the past, you have a framework for VA on a statutory basis. That's a total asset requirement framework. And you will see movement in both liabilities and capital within that total asset requirement framework.

So unlike the traditional life insurance annuity type of product line where you have reserves established on a conservative basis that don't change much, and obviously that will be becoming less of an issue over time because of principles-based reserving, but generally still they don't change much.

And then you have capital as a buffer, right? This is a different framework because you have reserves and capital moving and, therefore, there are implications for unassigned funds that I don't think were contemplated when you were thinking about really what unassigned funds means in the traditional framework, not the VA framework.

Suneet Kamath - *Jefferies LLC - Equity Analyst*

But does that still become a gating factor in terms of taking cash out? Or does it not apply anymore?

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

Yeah. I think it would be -- it requires a conversation with regulators because of the fact that you would not be ordinary dividend, it might be extraordinary. But I think we have very good relationships with our regulators. We are transparent and have open lines of communication. I can't predict what will happen in the future, but I can tell you that in the past, specifically when we were taking excess capital out of BRCD, both of the dividends that were taken out of BRCD were extraordinary in nature.

So if we think we have the level of capital that would support taking money out, we will convey that to our regulators and then we'll see what happens. In terms of your other question, I believe on the last -- maybe it was the fourth quarter call, I made some comments about dividends. And I said that our three-year financial plan assumes we will take dividends. And that is still the case.

Suneet Kamath - *Jefferies LLC - Equity Analyst*

Yeah, that's what I was referring to. I guess the second question for Ed -- sorry, for Eric, if we just take a step back and think about most of these annuity companies that are focused on spread-based products, it seems like a common denominator is they have Bermuda captives and they have alternative asset management partners. And I don't believe you have either at this point. So I'm just wondering your thoughts there. Does that put you at a competitive advantage? Are those things that you're considering? If you could just shed some light on that, that would be helpful.

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

Yes, sure. Look, historically, obviously, we've used reinsurance. So you get a lot of the benefits of what might be a Bermuda captive, and you don't end up in some of the situations that in my career we've ended up in, in the past. So I think you can generally operate on a level playing field if you have good reinsurance partners, which we do.

With respect to alternative asset management, let's just say, in my mind, when I talk about things like strategic initiatives, we think about where we might be lacking, where we need to upgrade. And so it wouldn't surprise you, I'm sure, if we're thinking about that every single day. So I think those were your two questions. And Ed wants to add.

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

Yeah. I'd just add, first of all, as I'm sure you are aware, we're always looking for ways to effectively utilize our capital base, be as efficient as possible. And while we don't have, you said, a Bermuda captive, we obviously have a significant captive that gives us capital efficiency, which is BRCD, our reinsurance subsidiary which is used to reinsure our legacy term and ULSG block. I think as Eric alluded to, we also partner with third-party reinsurers. And that has given us, I think, the ability to lever some of the things that you're referencing without owning these other captive structures. We're still availing ourselves of that benefit in the market today.

Operator

Wilma Burdis, Raymond James.

Wilma Burdis - *Raymond James & Associates, Inc. - Analyst*

TAC increased modestly in 2Q '25, which seemed to be a pretty good result given the S&P 500 was up more than 10% point-to-point in the quarter. Is there any way to clarify how much, if any, that benefited from the additional hedging actions you have taken earlier in 2025?

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

Yeah. Wilma, it's Ed. So it didn't have anything to do with the hedging actions. What it has to do with is sort of what I was talking about with Suneet in terms of the framework for VA, so -- and the reason that there was, I think, a disconnect this quarter between our normalized statutory earnings and what you actually saw with our capital base and our RBC ratio.

So I would just start by saying the RBC ratio was down sequentially, and the drivers of that were really, in equal parts -- roughly equal parts, the seasonality of capital charges for new business, so nothing to do with the fundamental operating performance; and the second would be adverse results in non-VA, which was driven by some of the -- which included sort of the mortality experience that we've talked about.

So even though VA had a normalized statutory loss and was the biggest piece of the normalized statutory loss, it actually didn't have the type of impact on our RBC ratio that you would have thought. And the reason for that was with the strong market that you referenced, we had what I've talked about in the past and I mentioned it in my prepared remarks, divergence. And what that means is that our reserves went down more than our total asset requirement.

And the reason that you have that dynamic, divergence in a very strong market environment and convergence in a negative market environment, is that your capital, your total adjusted capital is affected by your reserves. And your reserves are calculated on a CTE70 or average of the 30% worse scenarios, okay?

And the point here is that the average of 30% worst scenario isn't so bad, okay? Your tail, on the other hand, is calculated the average of the 2% worst scenarios. And so when the market goes up a lot, you see your reserves drop because your reserves are really reflecting more the state of where you are today.

You see your capital requirement not change as much as you would think because your total asset requirement doesn't come down as much because you continue to contemplate bad stuff happening in the future, right? And so that's the reason that you saw a benefit to TAC, which actually translated to a muted impact from the VA business on our RBC ratio even though we had an approximately $400 million norm stat loss in the second quarter. So I know that's a lot, but I think it's very important for us to understand this quarter, there was a disconnect between capital generation, our RBC ratio and the norm stat result.

Wilma Burdis - *Raymond James & Associates, Inc. - Analyst*

Should I interpret that, that the $400 million of normalized statutory losses just -- it's not very meaningful in this particular quarter?

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

I think that, that would be a good interpretation.

Wilma Burdis - *Raymond James & Associates, Inc. - Analyst*

And then could you talk a little bit about the appetite to continue to lean into sales with quarterly pretty strong on the sales front?

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

Wilma, did you hear her question? Could you repeat the question?

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

Yes, Wilma you did cut off there.

Wilma Burdis - *Raymond James & Associates, Inc. - Analyst*

Yeah. Just could you talk a little bit more about your appetite to continue to lean into sales after a pretty strong quarter in 2Q?

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

Okay. Yeah. We don't have any changes right now with respect to how we're operating from a new business perspective, and that's across the board in all of our product lines we're actually having the beginning of a very nice third quarter. So no change, Wilma.

Operator

Nick Annitto, Wells Fargo.

Nicholas Annitto - *Wells Fargo Securities LLC - Analyst*

Just wanted to follow up kind of on the assumption viewpoint and, I guess from a higher level, like if you guys decide to go on as an independent entity, like in your opinion, are the auditors going to require Brighthouse to consider any of the findings from all the independent actuarial reviews that have been done as a part of the rumoured sales process? I think it's kind of in the same thing with companies in the past.

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

We have said repeatedly we don't comment on rumors and speculation.

Nicholas Annitto - *Wells Fargo Securities LLC - Analyst*

Got it. Okay. And then in terms of the C4 charges, I think kind of the glide path as you get the benefit in Q1 and that kind of ramps down during the year because of the strain, right? So all else being equal, if you have just 0 kind of stat results, we should expect the RBC to decline from here given the C4 targets?

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

Yeah. I think the impact from the C4 charge, you're correct, there's a seasonal benefit in the first quarter and then it will build over the year based on our assumption that we continue to write fixed business that generates the C4 charge. But that is the effect of the C4 charge. I would not extrapolate that to an overall projection of the RBC ratio, which is something that we do not provide.

Operator

Alex Scott, Barclays.

Alex Scott - *Barclays Services Corp - Equity Analyst*

So I wanted to ask about the capital in the Delaware Reinsurance Company. And look, the reason I think it's important is from an external standpoint, if we're trying to value your business, it's pretty hard to place the value on your closed block because there's some amount of capital down there. We don't know how much. And so everybody is going to have their views on universal life and do what they're going to do relative to reserves, but we don't know how much equity is down there. So it makes it very difficult to value your company. So I was just hoping that maybe you could provide some disclosures on that entity and help us in any way on thinking through the capital position through your lens.

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

Yeah. Alex, so we do disclose information in the K on BRCD related to surplus, and you can also figure out what the approximate level of the credit-linked notes are. So you can get to some basic numbers. I would tell you that the numbers that you see there are not the most relevant numbers to consider when you're looking at the capitalization of this entity. We look at cash flow testing scenarios, as you can imagine, the stress scenarios that you would think, the New York 7, plus others. And we consider what are our margins under those different scenarios.

And it was that analysis that led us to the actions that we took several years ago in terms of bringing down the excess -- what we consider to be excess capital at BRCD. As I have said over time now, I mean, the last -- at least the last couple of years, maybe more, that we don't see that as a source of excess capital. We see cash flow testing margins that are favorable to suggest that we are appropriately capitalized. But that is not something that if you're thinking about sort of a valuation boost from some excess number or something, I would just tell you, I don't see an excess capital number in that entity.

Alex Scott - *Barclays Services Corp - Equity Analyst*

Got it. That's helpful. I thought I'd try one more time on just the actuarial review, and so less about like having to do with third-party audits and that kind of thing. I guess I look at the cash flow that you've actually had relative to some of the projections you've given us over time. And equities are obviously up a lot and have performed incredibly well. Interest rates are up. I mean, it's almost hard to believe that we would be this high equity levels with higher interest rates. You sort of got like the magical scenario here.

But yet the cash flows have continued to fall significantly short of some of the original projections. And so that sort of suggests that there's something that's problematic about the way you're projecting and accounting for your liabilities. And I just want to better understand that. I mean, is that right? Could you help shed some light on like what has been the crux of the issue there? And is that something you have to deal with in 3Q?

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

Alex, I was trying to find the question in there, and I think I got one at the end, and it's the same answer. We do our actual assumption update annually and we will be talking to you about that in the second half of the year and early next year.

Operator

Peter Troisi, Barclays.

Peter Troisi - *Barclays Services Corp - Analyst*

Just another question on capital. Your cost of preferred equity has been volatile lately in the secondary market. And so in that context, can you discuss a little bit about how the Board thinks about the dividend on your preferred stock? How committed is the company to continuing to pay dividends on your preferred stock? And then would that approach to the preferred dividend change if the company was part of an M&A process?

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

Let me start with the last one. We're not commenting on rumors and speculation. I'll start off by telling you that we're very pleased with the long-term capital structure that we have. We've spent several years getting our capital structure to a place that we thought made sense. And we have issued preferred stock in that process at very favorable yields, and they're fixed for life. So we like the preferred plays in our capital structure, and we also received favorable rating agency treatment from that.

So I guess I would just say that for any of the other things that you're trying to discern here, I would refer you to the prospectuses that were filed with all these securities when we issued them. But we are -- there is no intent to not pay preferred dividends. I'm not sure why that would be a question. But if I need to say that on this call, I'll say there's all intents to pay preferred dividends. But please read the prospectus for the appropriate terms and conditions and risks associated with any security that we've issued.

Operator

Ryan Krueger, KBW.

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

This is not about the assumption review. It's about the change in hedging. It's a pretty major change you're making. Are there -- and I definitely understand the reason you're doing it, but are there implications for the balance sheet that day one when you make these hedging changes? Like should we anticipate material impacts to your capital and capital ratios because this is such a big change to the way you're hedging the business?

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

Yeah. Ryan, so I'm going to have to just modify a few things that you're assuming because I don't -- the words meaningful, material and big, I might like just take some issue with. And the reason for that is, I think in response to a question that I got a couple of quarters ago, maybe from Tom, this is not like start with a blank sheet of paper type of hedging changes. We have continued to run the company with the view of protecting the statutory balance sheet under adverse market scenarios. That has never changed and it hasn't changed going forward either.

So -- and when you think about the actual changes to the hedges that we're making. I would say one of the revisions on our rate hedges because, first of all, if you look at the amount of rate hedges that we put on in 2022, we are protected for that bad scenario of rates drop on COVID-level type rates, and I think we're protected on pretty much like a risk-neutral type of basis for those very large moves and rates. If you look at the revisions we're making today on rates, I think it's more along the curve than it is the overall DDL1. So that's something to think about on the rate side.

And if you look on the equity side, that's -- we're working through it a little bit still. I'd say we've probably done more -- well, I don't want to talk about what we've done actually. We're too big to talk about what we've done or we're doing. But I will say that on the equity side, our delta position is not going to change that much. So I don't see a lot of change in the equity overall risk position, and I'd say a lot of what has happened on the rate side is along the curve.

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

Okay. Maybe just one follow-up because it seems like the way you've been describing this is like it is -- I guess, just in a sense that you've been studying it for quite a long time. It seemed like it was a fairly meaningful change. But I guess, the way you're describing it sounds a lot more minor. So is that the right interpretation? It actually is just changes around the hedges. It's not like some -- it's just not as big of a change maybe as I thought?

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

Yeah. I guess I would say that the ability to execute this separation and have -- and do it in a way that makes sense for us financially, it is driven by where we are with the current rate environment. So the ability to do this and have it make sense for us financially is linked to the fact that interest rates are where they are.

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

Yeah, Ryan, it's Eric. So I'm going to jump in. I'm absolutely cutting you a break here. I mean, we've been talking about this for a long time. Externally, it can sound very big. Internally, there's been a ton of work. Having said all that, we found ourselves in a position where, I think it was you who mentioned this, I'm sure somebody previously did as well, rates are pretty high. Equities are pretty high. So in the end, it will probably turn out to not be as big externally. But internally, this has been a lot of work. I'm pretty sure that probably makes sense to you.

Operator

Wes Carmichael, Autonomous Research.

Wes Carmichael - *Autonomous Research - Analyst*

And a follow-up maybe on the last one in terms of the transition for hedging. But do you think, Ed, are you guys going to be in a position to provide your long-term free cash flow projections this year? Or do you think that's likely going to be a 2026 event?

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

Yeah. Wes, so as you've heard from Eric and from me, we continue to work on several initiatives, and all of these initiatives are going to have some impact on our long-term free cash flows. So I would just say we need to complete these initiatives before we're in a position to provide an outlook for future results. And I would say that, that outlook for future results is not likely to be in 2025.

Wes Carmichael - *Autonomous Research - Analyst*

Yeah. No, I totally understand. And I guess maybe my follow-up. I think you saw a little bit of claims severity heightened in both Life and Run-off. Just wondering if you could unpack a little bit of the experience in the quarter.

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

Sure. So severity was, I think, 18% higher perhaps than our normal level, something in that range, about 18%. And if you're looking at the impacts by segment relative to what we would think is run rate, you're talking about probably two-third, one-third Life, Run-off. Obviously, mortality will fluctuate from quarter-to-quarter. And we've talked repeatedly in the past about frequency, severity and also the reinsurance offset. So this quarter, we had some severity in excess of normal.

Operator

Thank you. And this concludes today's question-and-answer session. And I would like to hand the conference back over to Dana Amante for any closing remarks.

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

Thank you, Michelle. Thank you, everyone, for joining the call today. Have a good day.

Operator

This concludes today's conference call. Thank you for participating. Everybody, you may disconnect.
