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BHF.OQ - Q4 2024 Brighthouse Financial Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning ladies and gentlemen, and welcome to Brighthouse Financial's fourth-quarter and full-year 2024 earnings conference call. My name is Michelle, and I will be your coordinator today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to Dana Amante, Head of Investor Relations. Ms. Amante, you may proceed.

Dana Amante - Brighthouse Financial Inc - Head of Investor Relations

Thank you, and good morning. Welcome to Brighthouse Financial's fourth-quarter and full-year 2024 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, February 12, 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. Reconciliations 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 thanks for joining the call today. 2024 was a year of successes and also some challenges for Brighthouse Financial. While we made significant strides in our growth strategy last year, our statutory results, as we have discussed over the past few quarters have been disappointing.

However, as we have said before, we have been actively engaged in and continue to make progress on several strategic initiatives designed to improve capital efficiency, unlock capital, and remain within our target combined risk-based capital or RBC ratio range in normal market conditions. And I am very pleased with the progress that we have made on those initiatives, and I'll touch on that in a minute.

First, I'd like to take a moment to highlight some of our accomplishments in 2024, including the significant strides we made in our growth strategy. This is demonstrated by our consistent growth in sales of our flagship Shield product suite and fixed indexed annuity product. Our entrance into the worksite channel with the launch of BlackRock's LifePath Paycheck, our continued steady growth in our life insurance product sales, and our launch of the newest generation of our Shield product as well as enhancements to our SmartCare product suite.

Regarding annuity sales, we reported \$10 billion of total annuity sales in 2024. In addition, we delivered record sales of our flagship Shield Level annuities product suite of \$7.7 billion, which is an increase of 12% compared with 2023.

As a reminder, our Shield products are what are known as registered index-linked annuities or RILAs, and we remain proud to be a leader in the RILA marketplace. In 2024, we also announced updates to our Shield product suite designed to help our Shield suite remain competitive, adapt to changes in the industry, and reflect our ongoing focus on meeting clients' evolving needs.

I'm also pleased with the accomplishments we achieved last year in our life insurance business. We delivered steady growth of \$120 million of life insurance sales for the full year, which is an 18% increase over 2023. We also launched new enhancements to our flagship life insurance product, SmartCare.

Also last year, we joined BlackRock in announcing the availability of BlackRock's LifePath Paycheck, or LPP, solution in defined contribution plans, and we received our first deposits from LPP, all of which is extremely exciting.

Last month, BlackRock announced that LPP is now live in six employer retirement plans totaling \$16 billion in assets under management, which we're also very excited about. We remain thrilled to work with BlackRock on this innovative retirement solution and expect our involvement with LPP to enable us to reach new customers through the worksite channel.

As we have said in the past, expense discipline is extremely important. Therefore, I'm pleased that our full-year corporate expenses were down over 7% compared with last year. Our accomplishments in 2024 reflect an ongoing commitment to and execution of our focused strategy, which I've spoken about before.

As you've heard us discuss in 2024, the tremendous success we have had in growing our Shield annuity block of business over the past several years with our Shield block now making up approximately 30% of our total annuity account value has created increased complexity associated with managing our variable annuity or VA and Shield business on a combined basis.

This resulted in a strain in our statutory results last year in 2024. However, as you have heard us talk about in recent months, we continue to execute our capital-focused strategic initiatives, and we've made significant progress against those initiatives.

For instance, as we said in our third quarter earnings conference call, we have made substantial progress on simplifying our VA and Shield hedging strategy. As of the end of the year, we have fully transitioned to hedging all Shield annuity new business on a stand-alone basis, and we continue to work on revising our hedging strategy for our in-force VA and Shield book, which is now managed as -- I think of it as a closed block of business.

As a reminder, despite the refinements to our hedging program, the overall focus of our financial and risk management strategy remains the same, which is to protect our statutory balance sheet under adverse market scenarios.

Our strategic initiatives also include reinsurance opportunities. As we announced on our third quarter earnings call, effective as of September 30, 2024, we completed a reinsurance transaction with a third party to reinsure a legacy block of our fixed and payout annuities. That transaction helped to create capital efficiencies and reduced our required capital. It helped to bring our estimated combined RBC ratio back to within our target range of 400% to 450% in normal market conditions as of September 30.

I'm also pleased to announce that in the fourth quarter, we entered into another reinsurance agreement with a third party to reinsure a legacy block of universal life and variable universal life products residing within our life insurance segment. This reinsurance agreement resulted in additional capital benefit in the fourth quarter.

As I mentioned a moment ago, the focus of our financial and risk management strategy remains the same, which is to protect our statutory balance sheet under adverse market scenarios. This is especially important to support our distribution franchise, including our distribution partners and the customers that they serve.

As of December 31, 2024, our estimated combined RBC ratio was approximately 400% at the low end of our target range of 400% to 450% in normal markets. This reflects a \$100 million capital contribution made to Brighthouse Life Insurance Company, or BLIC, from the holding company. Ed will provide more detail on our statutory results in a moment.

Liquid assets at the holding company were \$1.1 billion as of December 31, '24. Pro forma for the contribution to BLIC liquid assets at the holding company continue to be a robust \$1 billion. Additionally, in 2024, we returned capital to our shareholders through the repurchase of \$250 million of common stock, which included \$60 million of common stock repurchased in the fourth quarter.

As of year-end 2024, we have reduced the number of shares outstanding by over 50% since we began our common stock repurchase program in August of 2018. And year-to-date through February 7, we repurchased an additional \$25 million of our common stock.

As we look towards 2025, we remain committed to further executing on our business strategy, and we continue to focus on delivering on our capital focused strategic initiatives to improve capital efficiency, unlock capital, and remain within our combined RBC ratio target range.

To wrap up, I am proud of all that we accomplished in 2024 despite certain challenges that we faced. We maintained our robust liquidity position and our corporate expenses were down 7% versus 2023, as we also maintained our focus on expense discipline. We delivered record sales of our Shield Level annuities product suite, and we received our first deposits with the launch of BlackRock's LifePath Paycheck product.

We ended the year with an estimated combined RBC ratio of approximately 400% and continue to make progress against our capital focused strategic initiatives. With that, I'll turn the call over to Ed to discuss the financial results.

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

Thank you, Eric, and good morning, everyone. As Eric mentioned, we contributed \$100 million to BLIC effective for year-end statutory financial statements to bring our estimated combined RBC ratio to approximately 400% or the low end of our target range in normal market conditions. Given that it is year end, which is the only time our subsidiary's officially report an RBC figure, we felt it was appropriate to be in our range.

Our combined total adjusted capital or TAC was approximately \$5.4 billion at December 31, which also reflects the capital contribution. Without the contribution, we estimate that our combined RBC ratio would have been in the mid-390%.

I would like to make a few comments on the decision to contribute capital to BLIC. First, we have repeatedly stated that we believe our franchise value is driven by distribution and we are committed to our distribution partners and the customers that they serve. Given the importance of both distribution and the financial strength of our operating companies, we determined it was prudent to make a relatively modest contribution from the holding company to our largest operating subsidiary.

Second, we have consistently highlighted the importance of maintaining a conservative position at the holding company, both in terms of cash and capital structure. It is critical to have flexibility to deal with the uncertainty that is inherent in the financial services industry, and our results last year illustrate this fact. After the contribution, we still have approximately \$1 billion of cash and liquid assets at the holding company.

Finally, while we do not typically provide a forward look on RBC, we're making an exception in this instance, given this is the first time we've contributed cash from the holding company to an operating subsidiary since our early days as a public company. Our financial plan currently anticipates that our combined RBC ratio will be relatively stable over the next few years without additional support from the holding company.

As Eric discussed, we made significant progress in 2024 on our capital focused strategic initiatives, designed to improve capital efficiency, unlock capital, and return our combined RBC ratio to our target range and normal market conditions.

Keep in mind that while our statutory results benefited from the reinsurance agreement entered in the fourth quarter, as well as us hedging Shield new business on a stand-alone basis, our VA and Shield business is not immune to large quarterly market moves. Specifically, in the fourth quarter, interest rates were up approximately 80 basis points as measured by the 10-year US Treasury and there was a significant steepening in the yield curve.

The combined impact of the significant changes in interest rates and the yield curve shape resulted in a negative impact on our annuity statutory results, which contributed to the \$300 million decline in TAC in the quarter. As I have discussed in the past, there is an element of timing from market impacts. In this case, there was a current period cost from the movement in rates.

However, we would expect to see the benefit from higher interest rates over time. Additionally, there was a net \$200 million increase in asset adequacy testing reserves, which contributed to the decline in TAC driven by legacy fixed annuity blocks.

At December 31, holding company liquid assets were approximately \$1.1 billion. Pro forma for the capital contribution, holding company liquid assets are approximately \$1 billion.

Now turning to adjusted earnings results in the fourth quarter. Adjusted earnings for the quarter of \$304 million reflect a \$48 million unfavorable notable item or \$0.80 per share related to actuarial model updates. Adjusted earnings, excluding the impact from the notable item were \$352 million, which compares with adjusted earnings on the same basis of \$243 million in the third quarter of 2024 and \$189 million in the fourth quarter of 2023.

Excluding the impact of the notable item, the adjusted earnings results in the fourth quarter were approximately \$70 million or \$1.17 per share, above our average quarterly run rate expectation. Our underwriting margin was approximately \$40 million, higher than our average quarterly expectation driven by lower claim volume, net of reinsurance in both our life and runoff segments. There was also a benefit of approximately \$30 million versus our average quarterly run rate expectation from non-trendable items, equally split among investments, tax, and corporate expenses.

Alternative investment income was at the upper end of our long-term expectation of a 9% to 11% annual return, yielding approximately 2.6% in the fourth quarter. This contributed to higher net investment income compared with the third quarter.

Shifting to results by segment. The annuity segment reported adjusted earnings less notable items of \$327 million. Sequentially, annuity results were driven by higher net investment income, partially offset by a lower underwriting margin.

The life segment reported adjusted earnings of \$52 million and were higher sequentially, which was driven by higher net investment income and a higher underwriting margin. This was partially offset by higher expenses.

The run-off segment had an adjusted loss of \$27 million. Sequentially, results reflected higher net investment income and a higher underwriting margin. The corporate and other segment reported zero adjusted earnings, which reflected a lower tax benefit in the quarter, partially offset by lower expenses sequentially.

In closing, we are pleased with our progress on strategic initiatives and believe we have illustrated our commitment to maintaining a strong statutory balance sheet. Finally, we continue to have substantial cash at the holding company. We will now turn the call over to the operator to begin the question-and-answer session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Wes Carmichael, Autonomous Research.

Wes Carmichael - Autonomous Research - Analyst

Hey, thank you. Good morning. Ed, I was hoping you could touch a little bit on the drivers, RBC in the quarter. I think it declined if you exclude the capital contribution in reinsurance, but maybe you could just touch on -- I know you quantified the capital contribution, but reinsurance transaction as well, that would be great. Thank you.

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

Yeah. Good morning, Wes. This is going to be a long answer, but hopefully, it will help you with understanding the quarter. There was a lot going on this quarter. We had the benefit from our strategic initiatives including the reinsurance that you mentioned, the stand-alone hedging for Shield new business as well as some of the market factors and then finally, the year-end asset adequacy testing.

So let me start with the strategic initiatives. If you look at our supplement, you'll see we show some normalizing adjustments for norm stat. And there are -- it's a positive number in the fourth quarter. And that's despite the fact that includes this AAT impact. So if you're looking at roughly at around -- when you do the math, it shows the \$300 million. The actual impact from these positive items is north of \$400 million, okay?

And so -- the benefits that we realized from the strategic initiatives would really be captured in that bucket. And there's really two things. First of all, you heard us talk about hedging Shield new business on a stand-alone basis beginning in July. The real benefit that you get from that is when you build it into your statutory modeling.

And so in the fourth quarter, we implemented the statutory modeling adjustments associated with hedging Shield new business on a stand-alone basis as well as our Shield Level Pay Plus product, which is both the new version as well as the old version.

The reason this is important is because when you build it into your financial statements, you are required to take into account the future hedges that will be associated with the stand-alone hedging approach into your liability cash flows. And so we saw a significant benefit from that impact in the fourth quarter.

The second strategic initiative that was positive was the reinsurance deal. So we did a legacy block of UL, VUL, life reinsurance deal. And that benefited us overall to RBC about 10 to 15 points. So that's in that number as well. So that's the real positive here from the strategic initiatives, which, as I said, was significant and north of \$400 million.

Turning to norm stat, we had a \$200 million norm stat loss in the quarter, approximately. In the quarter, I mentioned the interest rate impact in my prepared remarks. In norm stat, there was about roughly a \$350 million negative from rates.

And so let me explain. Obviously, fundamentally, higher interest rates are positive for a VA block. They're positive because you have a lower present value of future claims. You have lower future claims, and that's partially offset by lower bond fund values. So that's the fundamental impact of higher interest rates for VA.

Now let's talk about the statutory impact, both near and long term. In the near term, immediately, with long rates up and the yield curve steepening, you lose on your derivatives that hedge the rate risk. And you don't get the full benefit you would expect to see from the rate move because the yield curve did not move in a parallel fashion. And the way the statutory framework works is it's very dependent on the 1 year and the 20 years.

And so the fact that the long rates went up had more of an impact on your hedge assets. And the fact that the yield curve did not move in parallel fashion did not have as much of a positive impact on your liabilities, as you would expect to see.

Now over time, the benefit you will realize is clearly the most obvious benefit is in the mean reversion point adjustment in the statutory framework for the 20-year treasury. And just to illustrate, at the end of September in our three-year financial plan, we thought we would have two MRP increases over the three-year period. Now based on year-end actuals, we would expect to see three increases in the MRP. So there is a timing issue associated with rates.

The final piece I want to talk about is the asset adequacy testing reserve, and that was approximately a \$200 million increase. This is related to a legacy block of fixed annuities, it's approximately \$8 billion of reserves. This is an old block of business without material surrender charge protection. And so what we saw this year in our testing was in high-rate scenarios, you would see a material increase in lapses on this block, which could cause a -- to sell bonds at a loss to fund the outflows.

So you know you're looking at a variety of conservative scenarios. When you look at cash flow testing, this year, we saw that the uprate scenario was going to cause some shortfall, and that's why we set up the \$200 million. So I know that's a lot, but hopefully, you can put those pieces together, and I think you can get a pretty good understanding of what drove the results in the quarter.

Wes Carmichael - *Autonomous Research - Analyst*

No, appreciate it. And I guess my follow-up is just on hedging. I know Shield is fully transitioned. Can you just comment on where you are with the legacy VA portfolio? And maybe just any update on the timing of long-term free cash flow projections would be helpful.

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

Sure. So we continue to focus on what our strategy will be for this legacy block of VA and Shield, the old Shield. That is -- there's a lot of work that's still underway. This is a very important initiative for us. I want to remind everyone, though, that our underlying approach to managing this risk has not changed, which is we have a maximum loss tolerance of up to \$500 million, and we are on a statutory basis. And we are focused relative to CTE98, and we are focused on managing that risk so that there is no issue for market movements and interest rate movements.

So there's no change in managing the risk itself. But we are looking at what is the appropriate strategy going forward for that back book now that we are hedging all our new business on a stand-alone basis.

The long-term statutory free cash flow projections, I think I had a question -- well, I know I had a question last quarter about timing and related to our work on the hedging change. We need to complete the work on what we do with this back book before we would complete those free cash flow projections.

So we said last quarter that we were targeting mid-year. I said that that is going to be dependent on the progress we make on this key strategic initiative. And so I think I would just say we're going to have to wait and see what the timing is.

If I had to guess, I would say it's probably going to slip from what I said last quarter, but it's much more important for us to get this back book hedging strategy factored into those projections than it is to rush getting those projections out.

Operator

Suneet Kamath, Jefferies.

Suneet Kamath - *Jefferies - Analyst*

Thanks. Good morning. First question, just on the stable RBC. Should we think stable meaning at 400% or somewhere in that range that you target? And then does that outlook contemplate any subsidiary dividends out of BLIC?

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

Good morning, Suneet. So I think we're going to -- we're not going to get any more specific than stable. I mean you could interpret stable in a variety of ways, but I would say that if it's approximately 400% at year end and we are targeting to be in our range in normal markets.

If you assume normal markets, that should give you some indication of what stable means. And in terms of dividends, our financial plan does contemplate taking money from operating companies after this year.

Suneet Kamath - *Jefferies - Analyst*

Got it. And then I guess the second question is a higher-level question for Eric. And I get the strategy and all that. But just thinking about the setup here, I mean, does it make sense for this company to be public on a stand-alone basis?

And the reason I ask is, Ed just spent 10 minutes talking about the quarterly change in RBC with all of the moving pieces, and it's a level of complexity and confusion, I think, that we just are not seeing from other companies, I think because they are more diversified and have other businesses other than just primarily annuity. So I just -- how do you think about the complexity of what you have versus perhaps not being public on a go-forward basis? Thanks.

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

You got it, Suneet. You broke up a touch there, but I think I got it all. Look, we've been dealing with complexity for 7.5 years now. There have been a number of periods where that complexity has been far less.

Recently, as we've discussed and whether it's part of Ed's answer here or answers we've given in the past, when we ended up with as much Shield on the books as we were hoping for to sort of balance the old VA book, that created an interesting situation for us. And I would agree that, that situation not only sounds complex but is complex.

And so what we've done is broken it apart into essentially two pieces. I'm overly simplifying here. One, for all Shield new business to be hedged on a stand-alone basis. And then two, as Ed's previous answer, sort of illuminated, figuring out how we're going to hedge what I called previously kind of a closed block of VA and older Shield.

So when we think about what we've got to do to manage this complexity, some years, it's been far more simple. This last year 2024, I agree it was complicated. And so whether it's running the company as efficiently as we can on sort of a BAU basis, right, everything that we do on a normal basis to run this company. And then adding in these strategic initiatives, whether it's things like reinsurance, other initiatives that we're thinking about -- we're always trying to think of new initiatives, or the fairly large initiative associated with the hedging program, we are a public company. And we're running this company every day to, over time, create long-term shareholder value.

Even as you think about it at years -- we're roughly a year 7.5, we've repurchased \$2.5 billion of stock, and that adds up to more than 50% of the original shares outstanding. So all I can tell you is we're going to continue to run the company as we have. And when you do hit periods of complexity, you just power through it, which is exactly what you've seen us do over the last couple of quarters, including the fourth quarter. And that won't stop as we go through 2025.

Suneet Kamath - *Jefferies - Analyst*

Okay. Thanks for the answer.

Operator

Wilma Burdis, Raymond James.

Wilma Burdis - *Raymond James Financial - Analyst*

Hey, good morning. Could you just -- I know you talked about 4Q, but can you just give us a broad sense of what's been leading to normalized debt losses in, I guess, several of the most recent quarters? Is it RILA under higher equity markets? Is it hedging on traditional VAs? Maybe just give us a broad sense.

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

Sure. Good morning. One of the things we've talked about, along with just the normal volatility that you can have associated with market moves, which we've had a variety of things that we've talked about in prior quarters, which I'm sure we could follow up with you to just remind you of what we have said in each of those quarters on the market moves.

But the other thing we've talked about is the strain from new business and the fact that we -- and what drove our decision to change our approach for hedging new business is once we achieve this balance in our risk profile between VA and Shield that we were no longer seeing the same benefit that we used to see from the way we managed, and so that we needed to change. So there was some additional strain impact that you saw in 2024 beyond what we would anticipate going forward.

And really anticipate going forward for a couple of reasons. Number one, because of the approach we're taking to managing the business from a hedging standpoint; and number two, you've heard us talk about exploring sort of flow reinsurance deal for Shield new business, which would also help alleviate capital strain.

And we continue on that path. We have multiple interested parties in a deal of that nature. And so that's something in terms of another initiative that we have in the works for this year, I'd make sure and remind everyone of that one because it continues to be an important one.

Wilma Burdis - *Raymond James Financial - Analyst*

Okay, thank you. And then is there other opportunities to, for instance, increase the portfolios? And if so, can you talk about how much capital that would require? And along the same lines, -- you guys have done a good job on the expense management this year. Is there more that can be cut to, I guess, just help improve organic cash flow generation? Thanks.

John Rosenthal - *Brighthouse Financial Inc - Executive Vice President, Chief Investment Officer*

Hi, Wilma. It's John. Yeah, there probably are some opportunities to increase yield. I think at a high level, our portfolio allocation has remained roughly stable during the year. We still have more of a risk-on -- risk-off approach. We don't -- we invest across the board in all fixed income asset classes.

Spreads are tight. So we don't see any compelling reason to pile into any one sector, but we are positioned to take advantage of widening spreads, and dislocations should they present themselves. Eric, do you want to follow up on this?

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

Yeah, I'll take the second half, Wilma. Yes, we had a good year with respect to expenses in 2024, expense is down 7% year-over-year. As I've said over the years, actually, my real focus is on the expense ratio, right? So keeping that expense ratio down, has been a focus, frankly, since day one. And that was a long time ago.

We're not afraid though, to invest in growth. So I would just sort of say, Wilma, as you think about 2025, certainly, there are inflationary effects out there, and they will affect all companies, including ours. But my real focus is to grow revenues sort of faster than our expense margins. And I expect that to continue in 2025. So the expense discipline is alive and well.

Operator

Jimmy Bhullar, JPMorgan.

Jimmy Bhullar - *JPMorgan - Analyst*

Hey, good morning. So Ed, just to the question and -- or maybe, Eric, on -- just your intention on where you'd like to run the company in terms of RBC ratio. And where is it that you -- as long as you're above 400%, should we assume that you'd be taking sort of additional actions like reinsurance or anything else to get it even higher and give you a little bit of cushion or are you comfortable running it at 400%?

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

Good morning, Jimmy. So the first thing I'd say is we're running at 400%. In normal market conditions, we say a range of 400% to 450%. And I think over time, as your mix shifts, you can argue for the range coming down. I'm not saying near term, but over time, that would make sense given the changing risk profile of the company.

The second thing is we're always looking for opportunities to unlock capital. So that is not -- that's nothing different than what we've tried to do over the years in a variety of different ways. And so that's just been a consistent effort on our part, and it will continue to be.

And these different strategic initiatives that we have in place, the approach we're going to take with the back book of VA and Shield, any additional reinsurance that we might put in place. We think that that is going to improved capital efficiency, potentially unlock capital. And that's why we continue to be focused on those initiatives.

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

Jimmy, it's Eric. I'll just add a little bit because I think it's a good question. So remember, you know this very well. You've got the interplay between what's your capital level at your insurance subsidiaries, especially BLIC. And then what you got the holding company.

And of course, we still got \$1 billion up at the holding company. And Ed and I have talked about that for years. We always felt that was prudent and we still think it's prudent, obviously.

But yeah, we can run at 400%. You've got the liquidity of the holding company. And we've never pushed money down, but we just thought, as you heard Ed say, I don't know, maybe 20 minutes ago, that it just made a lot of sense to get the RBC ratio at the end of the year within the range. It's really helpful for distributors, and I like helping our distributors.

So even after we did that, we still got \$1 billion up at the holding company. And as you heard Ed say, we do in our three-year plan, expect to have dividends up to the holding company. So yes, we are comfortable.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay. And just on the dividend point, are you expecting dividends every year or was that more of a cumulative comment?

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

That is more of a cumulative comment. I think as we've done in the past, we prefer to talk about any forward-looking metrics on a multiyear basis rather than any single period.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay. And then on fixed annuity sales, they were down this quarter, a decent amount. So is that because of competition or something from distribution or just a desire to sort of preserve capital. Can you talk about what drove the decline there?

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

Hey, good morning, Jimmy. It's Myles speaking. So FIA sales were down for the year as expected. As a reminder, mid-year, we had a transition into a new reinsurance partner. Our FIA sales were up for the year, driven by our successful launch of our SecureKey product. On a combined basis, we exceeded our expectations for fixed sales. But we continue to balance growth, pricing discipline and managing capital, and we're happy with our overall results.

Operator

John Barnidge, Piper Sandler.

John Barnidge - *Piper Sandler - Analyst*

Good morning. Thanks for the opportunity. My question is on the investment management of the portfolio. How much expense is there associated with the outsourcing of that?

John Rosenthal - *Brighthouse Financial Inc - Executive Vice President, Chief Investment Officer*

John, it's John. We don't really provide that. We provide an overall investment expense number. You can see in our financials, and you can assume that IMA type fees are the majority of that.

John Barnidge - *Piper Sandler - Analyst*

Thank you for that. My follow-up question. How much outsourcing is concentrated in the most hands as a percent basis, I'm not looking for who?

John Rosenthal - *Brighthouse Financial Inc - Executive Vice President, Chief Investment Officer*

In which hand?

John Barnidge - *Piper Sandler - Analyst*

You outsource it to third parties. Is there any -- is there any one party that has a demonstrable amount? And how much is that amount?

John Rosenthal - *Brighthouse Financial Inc - Executive Vice President, Chief Investment Officer*

We have a dozen or so outside managers who we believe in -- believe in world-class and the capabilities we use them for across various sectors. I don't think we want to get into who manages how much money.

John Barnidge - *Piper Sandler - Analyst*

Thank you.

Operator

Ryan Krueger, KBW.

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

Thanks. Good morning. I guess a question on reinsurance. So you've done a couple of in-force deals. I guess when you look forward, are you still looking to do more things like that? And I guess, would you broaden the scope to also perhaps include some of the liabilities, the SUL liabilities in BRCD as well?

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

Good morning, Ryan. So in my response to Jimmy's question, I said we're always looking for ways to do what's right from a capital standpoint. And if it makes sense for us to do additional transactions, we will do that. And we will look at everything to consider whether or not it makes sense to do that.

So to this point, we've done some legacy blocks. We did the annuity block that we talked about in the third quarter. We did the life deal that we talked about this quarter, which was UL and VUL. So we will look -- I think we've gone in the direction so far of things that were more straightforward. And I would say -- I wouldn't say easy to do because there was a ton of work that went into doing all this, but relatively easy.

I think as you start to talk about some of these other businesses or legacy businesses that you mentioned, there would be more complexity. It would take more work, but it is something that we have been thinking about.

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

Thanks. And then going back to the stable RBC comment over the next few years, I think there's some different moving parts over the next two years when you, I guess, on your own, company-specific side, the change to the hedging of the closed block of variable annuities and Shield. And then you have some changes going into effect, I think, our pace scheduled for next year on variable annuity capital and reserving requirements. I guess, have you tried to contemplate all of these moving parts into that forward outlook already or can you give any thoughts there?

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

Sure. So you highlight two areas that will create some level of uncertainty about what the framework will look like, I would say, in particular, you're referring to the upcoming change in the economic scenario generator, which is scheduled at this point for the 2026 financial statements, correct? That's what you're asking about?

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

That was a piece of it. And then I think also just also your own changes to the legacy hedging as well.

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

Yeah. So those are not factored in my comments because first of all, there's no way to assess what the framework will look like, the final framework for the ESG, for example. And I would make the case that, for example, if you institute a very conservative economic scenario generator that you would not have to have as high an RBC ratio.

That's one possible thing way to look at it because if you're going to reflect a lot of the risk in your balance sheet today, the excess -- the capital cushion that you need for adverse deviation should be less. So that is not factored into my comments.

Just another thing just to underscore, I think it's clear to everyone on this call. But our expectations about the RBC ratio are going to be driven by normal markets. So when we look at our financial plan, I would say we have a moderate type of scenario going forward.

It's not -- I would say, somewhat less than normal market returns, somewhat higher than normal credit losses. Nothing that I would identify is that significant outside of normal markets. And so that what we talk about stable. If you had something different than that in terms of market environment, you'd have a different outcome for your RBC ratio, either positive or negative.

And then on the hedging piece, one of our overarching goals of everything we're doing here is to try to simplify. This is never going to be simple as you probably got from my very long answer to the first question. But our goal is to make it simpler. And so there -- we might decide if it made sense for a more straightforward and clear picture of managing the risk, you might choose to take some sort of a capital impact from doing that if you thought it made sense.

So I'm not saying that, that is going to happen or I expect that to happen. I'm just saying that, that would be a trade-off that we might make, which is not contemplated in anything that I have talked about today in terms of stable RBC ratio.

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

Understood. Thank you.

Operator

Nick Annitto, Wells Fargo.

Nick Annitto - Wells Fargo - Vice President, Equity Research

Hey, good morning. Maybe just more of a high-level question, maybe for Miles or David, but can you just comment on the kind of competitive environment or dynamics in the RILA business? It just seems like a lot of companies are already in it and starting to launch newer refreshed products would be good to get your kind of near-term or intermediate-term outlook on it? Thanks.

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

Yeah, good morning. It's Myles. I'll take it, and David can certainly chime in. But look, there's a lot of demand for these products in the marketplace. Customers are looking to stay invested with protection. They're focused on retirement planning.

So the market has expanded quite a bit. It's expanded as it relates to new distributors selling these products. There's a lot of new features on these products, including income riders. But we feel really great about our competitive positioning.

Last year was our best year yet as it relates to Shield sales. And we continue to do a number of different things to enhance our offering, whether it's Shield Level Play Plus, which is Shield with an income rider or a Step Rate Edge, which is a new crediting strategy. David, anything you want to add on that?

David Rosenbaum - Brighthouse Life Inc - Chairman of the Board, President, Chief Executive Officer

No, I think you covered it.

Operator

Tom Gallagher, Evercore ISI.

Thomas Gallagher - Evercore ISI - Analyst

Morning, few questions. So the stable RBC, is that -- should we assume that means you'll have positive stat earnings, but increasing required capital? So that's my first question. And just relatedly, would you expect to still execute share repurchase here which presumably, at least for the near term, is going to rely on drawdown of HoldCo excess?

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

Tom, so I don't want to go too far down the path of this forward-looking plan topic. But the answer to your question is yes, it does it does assume that the results over the plan period would be positive earnings.

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

Yes, he's pointing at me, Tom. Look, generally, as Ed just said and as you know, we don't talk about share repurchases going forward. We just haven't done that. All I can do to help you out is point to history, which is pretty consistent. And as I mentioned, I'm not sure on whose question, maybe Jimmy's, over our history as a public company, has added up to repurchases of north of \$2.5 billion.

Thomas Gallagher - *Evercore ISI - Analyst*

Got you. And then -- for my follow-up, can you give a little more color, these risk transfer deals you did, the annuity deal, what were the deposit size on those fixed annuities and pay on annuities? And then how big were the life deals, I don't know, reserve or insurance in force? How big were those?

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

Tom, so on the -- I don't know how far I want to go down the path on the reserves for the life deal because we continue to look at other opportunities. And I gave a comment on earlier in response to Wes' question about -- it's probably -- you could assume 10 to 15 RBC points. And it was all driven by the numerator of the calculation. So you can do some math to come up with a range, but I'm not going to get more specific on that. And then can you repeat the question again on the annuity side.

Thomas Gallagher - *Evercore ISI - Analyst*

Yes. Just the size of the 3Q annuity deal, how big were the assets or deposits on those?

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

Yeah, it was approximately \$8 billion.

Thomas Gallagher - *Evercore ISI - Analyst*

Got you. And can I just sneak in one more, just from a standpoint of BRCD.

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

I wouldn't expect anything else, Tom.

Thomas Gallagher - *Evercore ISI - Analyst*

I'm at the end of the chain here. So I'm doing my best. But anyway, the BRCD, is there any way you can frame that because I think investors are trying to figure out, is that still a source of value? It certainly has been in the past. Because when I look at the \$5.4 billion of TAC in BLIC and NELICO, I think you -- there's also some additional value from BRCD. Do you have a surplus number that's back in the \$24 billion of SUL reserves or do you really just fund the reserves?

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

Yeah, it's more of the latter. I mean, you know that the -- well, first, to your point about BRCD, we've taken \$1.2 billion of dividends out of BRCD, and 600 twice. And in each instance, you needed to get regulatory approval because all dividends from BRCD are extraordinary. So obviously, we were able to illustrate that it was appropriate to be able to take money out.

I've also said a number of times that I would not view BRCD as an ongoing source of capital to Brighthouse. I think it's appropriately -- obviously, appropriately capitalized, but it's a runoff block of old business. And I don't see it as a source of additional cash to BLIC or the holding company.

Operator

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

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

Thank you, Michelle. Thank you, everyone, for joining today's call, and have a good day.

Operator

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

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