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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Brighthouse Financial's Third Quarter 2023 Earnings Conference Call. My name is Justin, and I will be your coordinator today. (Operator Instructions) As a reminder, the conference is being recorded for replay purposes. I would like to turn the presentation over to Dana Amante, Head of Investor Relations. Ms. Amante, you may proceed.

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

Thank you, and good morning. Welcome to Brighthouse Financial's Third Quarter 2023 Earnings Call. Materials for today's call were released last night and can be found on the Investor Relations section of our website. We encourage you to review all of these materials.

Today, you will hear from Eric Steigerwalt, our President and Chief Executive Officer; and Ed Spehar, our Chief Financial Officer. Following our prepared remarks, we will open the call up for a question-and-answer period. Also here with us today to participate in the discussions are Myles Lambert, our Chief Distribution and Marketing Officer; David Rosenbaum, Head of Product and Underwriting; and John Rosenthal, our Chief Investment Officer.

Before we begin, I'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, November 8, 2023. 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 Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Thank you, Dana, and good morning, everyone. Brighthouse Financial reported solid results for the third quarter of 2023 that reflect the steady execution of our focused strategy. We continue to manage through this volatile market environment, one in which we saw equity markets fall modestly while interest rates rose significantly, increasing by more than 70 basis points in the third quarter of 2023, as measured by the 10-year U.S. Treasury.

As I've said before, while we have a cautious view on both the current market and economic environment, we intend to maintain an active and opportunistic share repurchase program, and we remain committed to returning capital to our shareholders over time. Year-to-date through November 3, we repurchased approximately $216 million of our common stock, which included $64 million of common stock repurchased in the third quarter.

In addition to our share repurchase program, we remain focused on the steady execution of our business strategy, along with our multiyear, multi-scenario financial management framework and risk management strategy.

Turning to the results in the quarter. I am pleased with our sales results in the third quarter. Our Annuities sales totaled $2.6 billion, which is a 5% increase sequentially. Sales results in the quarter were largely driven by persistent strong sales of our flagship Shield Level annuities, which increased 15% sequentially as well as with sales of our fixed deferred annuities.

As one of the top annuity providers in the United States, we continue to leverage the depth and breadth of our expertise, along with our strong distribution relationships, to competitively position ourselves in markets we choose to compete in.

We remain focused on offering a diversified portfolio of complementary products to further drive the addition of high-quality new business to our in-force book, and we remain pleased with the progress that we continue to make towards shifting our business mix over time.

Additionally, we reported $25 million in sales of our life insurance products in the third quarter of 2023, consistent with Life sales results in the second quarter of 2023, which continue to be mainly driven by our SmartCare product. We remain focused on maintaining the competitiveness of our life insurance products as we execute our life insurance strategy.

Turning to financial results. Our combined risk-based capital, or RBC, ratio was estimated to be between 400% and 420%, and cash and liquid assets at the holding company remain robust at $900 million as of September 30. Additionally, we had solid GAAP results as our adjusted earnings, less notable items were generally in line with our expectations, and we continue to effectively manage our expenses.

In summary, we reported solid results in the third quarter of 2023. Our statutory balance sheet and liquidity metrics were strong. Our sales results remained at a high level, and we continue to deliver on our commitment to return capital to shareholders. We are confident in our strategy and are unwavering in our focus on business growth and prudent financial management.

With that, I'll turn the call over to Ed to discuss our third quarter financial results in more detail.

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

Thank you, Eric, and good morning, everyone. Last night, we reported third quarter earnings along with preliminary statutory results.

Beginning with the preliminary statutory metrics, our statutory combined total adjusted capital, or TAC, was $7.3 billion at September 30, which compares with $7.6 billion as of the end of the second quarter. Our estimated combined risk-based capital, or RBC, ratio was between 400% and 420% as of the end of the third quarter, which was down from a range of 430% to 450% as of the end of the second quarter. Changes in interest rates and our deferred tax asset were key drivers of the decline in TAC and the RBC ratio.

In addition, capital requirements associated with new business growth contributed to a reduction in the RBC ratio with an impact consistent with what we have discussed in the past.

Interest rates rose significantly in the quarter, which drove losses on interest rate hedges. As we discussed on our long-term statutory free cash flow projections call in September, a key element of our interest rate risk management strategy is balancing the immediate impact from gains and losses on hedging instruments relative to the multiyear impact from interest rates on our statutory balance sheet.

We believe this approach to risk management results in a balance sheet that is substantially protected from movements in interest rates.

To illustrate, given where interest rates are today, we anticipate that essentially all of the negative impact on variable annuity, or VA, risk management results in the third quarter associated with higher long-term interest rates will be recouped by an incremental benefit in the first quarter of 2024, associated with the prescribed valuation interest rate for our VA book of business.

This so-called mean reversion point, or MRP, is anticipated to increase by 50 basis points based on current interest rates, which compares with an expected 25 basis point increase based on rate levels at the end of June of this year.

The second driver of the change in our capital metrics was a reduction in admitted deferred tax assets, or DTAs. As I have said in the past, the statutory accounting for the deferred tax asset is conservative. The admitted DTA on our statutory balance sheet is now only approximately $100 million, or a small fraction of our total tax attributes, which we still anticipate using over the long term.

I would also like to note that the internal reinsurance transaction between Brighthouse Life Insurance Company and its New York affiliate was effective in October.

As I mentioned on our second quarter earnings call, we expect an approximately $200 million benefit to TAC in the fourth quarter as a result of the capital efficiencies created by this transaction. As Eric mentioned, our liquidity remains robust with holding company liquid assets of $900 million at September 30, consistent with June 30. Additionally, we still anticipate taking at least $300 million of ordinary subsidiary dividends to the holding company this year.

Now turning to adjusted earnings results in the third quarter. Adjusted earnings, excluding the impact from notable items, were $275 million, which compares with adjusted earnings on the same basis of $271 million in the second quarter of 2023 and $74 million in the third quarter of 2022. The notable items in the quarter were primarily related to the annual actuarial assumption review and had a net favorable impact on adjusted earnings of $51 million after tax.

This is our first annual assumption review under the new GAAP accounting framework. As part of this assumption review, we increased our assumed GAAP long-term mean reversion rate for the 10-year U.S. Treasury to 3.75% from 3.5%. We continue to assume that mean reversion occurs over 10 years.

The increase in our long-term interest rate assumption drove a benefit to adjusted earnings within our universal life with secondary guarantees, or ULSG, block of business. Along with a review of capital market assumptions, we also reviewed emerging experience and model assumptions. The interest rate-related benefit to total adjusted earnings was partially offset by policyholder behavior assumption updates in the Life and Annuities segments.

I will note that updates related to mortality and lapse assumptions for our ULSG block of business were insignificant.

Excluding the impact of notable items, the adjusted earnings results in the third quarter were roughly in line with our quarterly run rate expectation. Alternative investment income was approximately $30 million or $0.45 per share, below our quarterly run rate expectation as the alternative investment yield was 1.6% in the third quarter. This was offset by a higher underwriting margin and lower expenses.

The underwriting margin was higher than our quarterly run rate expectation, driven by overall lower claims experience. There is variability in the underwriting margin throughout the year, driven by fluctuations in volume and severity of claims, along with the offset from reinsurance.

In the third quarter, the Life segment experienced some larger claims. However, this was more than offset by favorable overall claims experience, including the reinsurance offset within the ULSG business. Additionally, corporate expenses were lower than our run rate expectation in the third quarter.

Turning to the segment results. The Annuities segment reported adjusted earnings, excluding notable items, of $291 million in the third quarter. On a sequential basis, Annuities results were primarily driven by higher net investment income and lower expenses, offset by lower fees.

The Life segment reported an adjusted loss, excluding notable items, of $2 million. Sequentially, results were driven by a lower underwriting margin. The Run-off segment reported adjusted earnings of $1 million, excluding notable items. Sequentially, results reflect the higher underwriting margin, partially offset by lower net investment income.

Corporate & Other had an adjusted loss, excluding notable items, of $15 million. On a sequential basis, results were driven by lower expenses.

Overall, we reported solid third quarter results, maintained our target capitalization, and our holding company liquidity remained robust. We continue to manage the company under a multiyear, multi-scenario framework to support and protect our distribution franchise.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Alex Scott from Goldman Sachs.

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

First question I had for you all was just on the GAAP assumption review and the impact on market risk benefits. I wanted to find out, are there any statutory implications of some of the things, the change in the market risk benefits? And also, if you could provide any clarity on what those changes were?

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

So first, I'd start off with, the assumption update was a modest impact. So when we look at GAAP, we had -- we talked about a notable item of $51 million for adjusted earnings and said that, that was mostly related to the actuarial assumption review. And that was driven by the change in our mean reversion assumption for the 10-year treasury. So 350 going to 375 was the driver of the overall impact from our assumption update.

The other thing I would say is, again, it is a very small number on a GAAP basis, if you think about that relative to a GAAP balance sheet of north of $220 billion. And the fact that we are reviewing all of our important assumptions underlying that $220 billion balance sheet. And then the final point, which gets to the question on stat, the assumption update had no real impact on our statutory risk-based capital ratio.

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

Got it. That's helpful. Second question I had is just on transactional opportunities. You mentioned the one that I think is bringing up $200 million. That was internal, if I recall. Are there any additional internal or external opportunities that you all could leverage?

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

Well, as you can imagine, we're always considering what makes sense for us to do. There's nothing else for us to talk about at this point other than the transaction that you referenced.

Operator

Our next question comes from Alex Scott from Goldman Sachs.

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

I just asked. So I'm good. Thank you.

Operator

Our next question comes from Tracy Benguigui from Barclays.

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

So you talked about RBC and TAC declining because of your interest rate hedging losses. I'm wondering if you could share a sensitivity analysis of RBC to a rise of interest rates, maybe by 50 basis points incrementals?

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

Tracy, it's Ed. So I would say we're not going to give that sensitivity other than to say you can look what happened in this quarter, you could look at what rates did. Now that's -- it's an oversimplification for you to look at any one rate. I mean it's also movement in the shape of the yield curve is going to have an impact.

So I think the key point here, though, and it's consistent with what I had discussed on our statutory free cash -- long-term statutory free cash flow call a couple of months ago.

We are now in a position where we have a substantially hedged-out position for interest rates. And the way that we define that is we consider what is the trade-off between the immediate impact on gains and losses associated with our hedging portfolio versus the multiyear impact that we will get on our statutory balance sheet, driven by the mean reversion point change.

This quarter, it was a very clean relationship, I would say, in that the amount of the impact that we had that was negative in the third quarter, is expected to fully reverse in the first quarter of next year.

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

Got it. You also talked about the statutory reversion to mean, next year, will increase by 50 basis points. How many points of the RBC do you see improvement from that?

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

We said in the past that a 25 basis point increase in the mean reversion point is $200 million to $250 million positive. And so I've also cautioned you about linear assumptions, but it's probably reasonable to be in that range if you think about each of those 25-point increments that we would see at the beginning of next year based on where rates ended the third quarter.

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

Okay. Last, I'm not really getting why you're seeing mixed mortality experience favorable and runoff or unfavorable in Life. What made each segment unique this quarter?

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

Yes, I would say that mortality experience, as we've said consistently, will bounce around from quarter-to-quarter. And so I think you can have adverse mortality in one area and favorable results in another. I mean we have a reinsurance offset that we've talked about in the past that may be more beneficial in one segment than it is in another, for example.

So I don't think you can simplify it down to say, if you have favorable mortality, you're going to have favorable mortality across all your segments. And clearly, that's not the case because that's not what we saw this quarter. So I think the most important point would be that mortality, overall, for us in the quarter was slightly favorable.

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

You mentioned reinsurance, was there anything with reinsurance recoverability that was different this quarter?

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

It was more favorable than, I would say, the typical quarter.

Operator

Our next question comes from Ryan Krueger from KBW.

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

I guess a question for Ed. In terms of the -- some timing disconnect between the immediate impact of rate hedges and then the economic scenario generator, I think another option is to use a clearly defined hedging strategy. That would be a little -- more using forward rates in statutory reserves for [variable] annuities. That's something that you would consider switching to, given the increased interest rate hedging protection that you now have?

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

Yes, I don't really understand that comment because I'm not sure how there's the linkage between a [CDHS] and somehow using a different framework for statutory reserve calculation than the generator and the mean reversion points.

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

Okay. Yes. I think my understanding is some companies use implicit [CDHS] that seems to somewhat override the economics scenario generator, but that could be a mistake. And then just on the -- in terms of the internal reinsurance transaction, so the RBC impact of that would be -- is that about 10 points benefit to RBC?

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

I mean, it's roughly that.

Operator

Our next question comes from Elyse Greenspan from Wells Fargo.

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

My first question was on, I guess, sales on -- Shield sales sound -- trended up in the quarter. And then within Annuities, fixed annuity sales did trend down after growing in the first part of this year. So just looking for some incremental color on what you're seeing in the sales side within Annuities.

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

It's Myles. I'm happy to take that one. So first, I'll start with Shield. What I would say is it's a much better environment for Shield sales than it was this time last year. Consumers are looking to get back into the market with some level of protection. So Shield, obviously, plays very well in that market. Look, we have a competitive product. We have a very strong distribution franchise, and we continue to evolve our product portfolio.

Last year, we introduced Shield Level Pay Plus. And this year, we introduced a new strategy on our Shield product called Step Rate Edge. And all those factors are helping us to drive sales.

As it relates to FRA sales, we're very pleased with our level of FRA calls right now. Again, we have a competitive product with a strong distribution franchise for that product category as well. And we gave guidance earlier this year, we expected FRA sales to be down after a record year last year. And frankly, what we're starting to see is some of those flows shifting back to our Shield product, and we're quite pleased with that.

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

And then, Ed, do you have a sense just on [VII], where Q4 could trend relative to normal levels?

John Lloyd Rosenthal - *Brighthouse Financial, Inc. - Executive VP & CIO*

Elyse, this is John. I don't think we want to get in the habit of predicting near-term alternative returns. It's generally a losing proposition. But having said that, if you think about the negative equity returns in Q3 and the lag nature of reporting, it would not be unreasonable to suggest that next quarter's return is going to be below the midpoint of our long-term expectations.

Operator

Our next question comes from Tom Gallagher from Evercore ISI.

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

Ed, just a question on the DTA that you mentioned that was a right down and there's only $100 million on the balance sheet that's an admitted asset now. How much is the off-balance sheet unadmitted DTA at this point? And can you help us think through the scenario under which you would be able to put that back on the balance sheet? I assume, very positive earnings over time would do it. But any color on that?

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

So the tax benefit is -- I believe it's around $1.5 billion right now. So it's a very large number relative to what gets reflected on our balance sheet. I think the important point is when you look at the cash flows that we put out, the 10-year view, we are assuming that we are using those tax attributes. So the fact that they're not on the balance sheet today does not mean that we don't expect that over this long-term period of time that we will use those attributes.

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

Got you. Yes, I was thinking more from an overall RBC perspective, how big of a negative adjustment that is right now? And how that could like replenish or build excess capital over time? But I hear you on the net -- so essentially, the net present value of it is a much higher number than $100 million. Is that fair, based on what you were just describing?

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

I would say, absolutely.

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

Okay. And then second question, just on -- I know you guys have had a bunch of reinsurance rate increases that were either pushed through or you did a recapture. Is that pretty much over? Or do you have any more in the pipeline?

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

I think it would be difficult to say that it's over. But we have had recaptures over time, you're right. And I would think that it's possible that could happen in the future, but I don't see anything to give you a preview of it at this point.

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

Okay. And then if I could slip in one final one, can you -- on the balance sheet review, I think we can all agree that a modest positive under the new accounting framework is a relief for anyone. The -- can you give some quantification for what the gross benefit was for the 25 basis point interest rate change? Was that a big number? Or is that also fairly modest, if you were to just isolate that part of it?

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

Sorry, Tom, can you repeat? Isolate the part associated with...

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

Sure. The 25 basis point increase in long-term interest rate assumptions, if you were to isolate -- because you mentioned there were some offsetting negatives for policyholder behavior on Life and Annuities. I just want to get a sense for the quantum of the 25 basis point favorable item, and how much that had no other adjustments been taken? Are you able to give some dimension -- how big of an impact...

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

That was -- that impact was in the Run-off segment, and it was more than the over -- the total benefit that you saw in Run-off. So the Run-off was -- I think it was $94 million after tax, so you can assume that the rate impact was more than that.

Now the other thing I would just point out because I think this has come up in the past, there was no change of any substance in our lapse assumptions for ULSG, which resides in the Run-off segment. And when I say no change, I'm considering like $20 million on a $9 billion block of business. So it was insignificant.

Operator

Our next question comes from Suneet Kamath from Jefferies.

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

So just to come back to RBC, just to make sure I have the numbers right, so we should be thinking about a $200 million sort of good guide attack in 4Q from reinsurance. And then I think you mentioned $300 million, assuming a reversal for 1Q from the mean reversion parameters. So I just want to make sure that's right.

And then relatedly, is that mean reversion parameter interest rate assumption sort of locked in at this point, like you guys know what that is? Or is it still being calculated?

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

So a few questions in there. So it is not locked in because we have to wait to see what the month-end rates are for November and December. But I can tell you that we would get it based on where rates are today, even after having come down from where they were at the end of the third quarter.

So there's a reasonable amount of cushion between rates where rates are today for the 20 year and where they would need to go to in the last 2 months for us to still get it. I would point out that if for some reason, rates dropped a lot and we did not get that incremental, we would also have

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some meaningful hedge gains in our portfolio. So what you saw happened in the third quarter, you'd see kind of the opposite occur in the fourth quarter. So that's a key point to make, I think.

Just generally about the ins and outs, first of all, I would say that I was saying for 50 basis points next year on the mean reversion point, I would be assuming something north of $400 million. I thought you might have just said $300 million, but it was something north of $400 million, maybe I just misheard you. The other thing I'd say -- sorry, go ahead.

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

No, go ahead. You're right. Keep going.

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

So the other thing I'd say about the RBC ratio, right, we talk about our RBC ratio target in normal markets. And obviously, what you had occur in the third quarter, I would suggest, is not a normal market with the 10-year treasury yield up 70 or 80 basis points. I mean, I think if you look at history, that would be considered somewhat of a very low probability event. And obviously, we had the impact on the hedge portfolio as a result.

Just generally, though, when we think about our RBC target, right, there are a few things that we would consider, right? We think about our position from a hedging standpoint. I would argue that we are in a much better position today from a hedging risk management standpoint than where we were at separation.

We -- as you know, we derisked the equity hedging position. Derisked the equity hedge risk back in late ['19], 2020. We made a significant change in the risk profile on interest rates in 2022. And so that makes us think about our capitalization a little differently.

The mix shift, obviously, is a big one. As we continue to move toward a lower-risk company, I think you could assume over time that there's an argument to be made for potentially having a lower RBC ratio.

Another consideration -- and I'm bringing these up because obviously, we're talking about now an RBC ratio where we gave you a range of 400 to 420. You see some of the ins and outs in the fourth quarter, north of a $300 million dividends, our expectation and $200 million positive from the reinsurance, right? And you see where we're starting from. So I'm just giving you some context here.

First of all, I'd say, we're managing this over a multiyear, multi-scenario framework. We think we have a derisked balance sheet from a hedging standpoint. We continue to see a mix shift that would suggest lower, not higher capital requirements over time.

Another factor to consider is depending on the scenarios that you are in or the environment that you're living, you might have more of your risk reflected in reserves than capital. And while there is a mechanism that helps to neutralize the RBC impact from that, it's not perfect for a company that's not a pure VA company.

So to the extent you had more of your risk reflected in reserves, you could argue that you would have to hold less capital and vice versa.

And then the final thing you have to consider, I mean we didn't get any questions on it today, but obviously, it's very important to talk about, is the holding company position and not just the fact that we've got $900 million of cash but that we also have a reasonable level of debt and that we have -- that debt termed out long term, given the actions we took when rates were low. So these are all things to think about when you're looking at our RBC ratio.

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

Got it. Okay. That's helpful. Maybe just switching gears, just curious if you guys have any initial thoughts on the DOL proposal that came out -- I guess, it was last week.

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

Suneet, it's Eric. As you've heard others say, it's over 500 pages, it's pretty complicated, we've been pretty thoughtful about this stuff if we think it can affect Brighthouse in the past, and I'll be thoughtful here.

We don't know where this is going to end up, but there could be consumer and business impacts if this proposal is finalized. I don't know if it's actually going to happen. The trade groups are all over this, as I'm sure you know.

I'm on the board of the ACLI. Myles is on the Board of IRI. They do a fantastic job in these situations and them. And numerous groups are already opposing this regulation similar to 2016. So we'll learn more. We'll understand the framework better here in the coming weeks and months. But that's sort of an initial reaction.

Operator

Our next question comes from John Barnidge from Piper Sandler.

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

Appreciate the opportunity. Thank you very much. A few quarters ago, you had talked about the outflows and what you kind of expected versus -- surrender activity led it to be slightly higher than that. Are you in a position to maybe update those comments today, based on the experience you've had so far in '23?

David Alan Rosenbaum - *Brighthouse Financial, Inc. - Head of Product Strategy and Pricing*

John, good morning. This is David. So I think you're right in your comments that in the first quarter, we talked about -- based on our expectation for this year, based on where interest rates were and are and the timing of business coming out of surrender that we expected flows to be higher or outflows to be higher than what we have seen historically.

And that is playing out and really in line with our pricing assumptions. So I think those comments still do hold. Myles talked a little bit about sales. So when you think about outflows in the quarter, surrenders were up on Shield. But if you think about the offset or the impact from higher sales, net flows, from a VA and a Shield perspective, were flat -- essentially flat, sequentially.

Myles talked also about fixed sales, which were down sequentially, and you saw an uptick in fixed flows. Now they've been elevated this year relative to where they were last year.

And just as an example of the business coming out of surrender, you may remember, in 2020, we sold a meaningful amount of fixed-rate annuity business. And that business, the 3-year portion of that business, is up for surrender, and we saw an impact of that in the third quarter and expect to see an impact of that also in the fourth quarter.

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

That's very helpful. And then my follow-up question, sticking with Annuities and maybe on distribution. If I look at like Shield as a percent of total VA or Shield as a percent of overall sales, it's 92% of VA sales, 70% of overall sales, roughly, looks like. Is that a high watermark? Or should we assume a reasonable [weighting] to sales compensation in the near term for that?

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

John, it's Myles. I'll take that. It's about in the range that we've seen in the past. It might be a little bit higher, but it's generally in the range on the higher end, as we've seen it in the past.

Operator

I'm showing no further questions. I would now like to turn the call back over to Dana Amante for closing remarks.

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

Thank you, Justin, and thank you, everyone, for joining the call today. Hope you have a great day.

Operator

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