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EDITED TRANSCRIPT

BHF.OQ - Q1 2022 Brighthouse Financial Inc Earnings Call

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OVERVIEW:

BHF reported 1Q22 adjusted earnings, excluding impact from notable items, of $315m.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brighthouse Financial First Quarter 2022 Earnings Conference Call. My name is Kevin, and I'll be your coordinator today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes. (Operator Instructions) I would now like to turn the call over to Dana Amante, Head of Investor Relations. Ms. Amante, you may proceed.

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

Thank you. Good morning, and thank you for joining Brighthouse Financial's First Quarter 2022 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 comments, we will open the call up for a question-and-answer period. Also here with us today to participate in the discussions are other members of senior management.

Before we begin, I would like to note that our discussion during this call may include forward-looking statements within the meaning of the federal securities laws. Brighthouse Financial's actual results may differ materially from the results anticipated in the forward-looking statements as a result of risks and uncertainties described from time to time in Brighthouse Financial's filings within the U.S. Securities and Exchange Commission. Information discussed on today's call speaks only as of today, May 10, 2022. The company undertakes no obligation to update any information discussed on today's call.

During this call, we will be discussing certain financial measures that are not based on generally accepted accounting principles, also known as non-GAAP measures. Reconciliations of these non-GAAP measures on a historical basis to the most directly comparable GAAP measures and related definitions may be found on the Investor Relations portion of our website, in our earnings presentation, 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.

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

Thank you, Dana. Good morning, everyone, and thank you for joining the call today. We all know that much has happened in the world since we last spoke with you in February, and that our operating environment continues to rapidly evolve. We have seen the emergence of geopolitical and market headwinds that had an impact on our sales performance in the quarter. That said, we are pleased that interest rates have increased meaningfully and remind you that Brighthouse Financial entered 2022 from a position of strength.

Our balance sheet and liquidity are strong, our investment portfolio remains high quality and well diversified, and we continue to believe that we are well positioned to weather challenging environments. Brighthouse Financial delivered solid results in the first quarter of 2022. Key highlights for the quarter are summarized on Slide 3 of our earnings presentation. First, our balance sheet and liquidity position remained robust in the first quarter, and our hedging program performed well. Importantly, we estimate that our combined risk-based capital or RBC ratio was between 450% and 470% above our target of 400% to 450% in normal markets. Additionally, we continue to have significant holding company liquid assets, which totaled $1.4 billion at the end of the first quarter. As we have said before, one of our top priorities is to further drive the evolution of our business mix by adding high-quality new business.

In the first quarter of 2022, annuity sales were approximately $2.1 billion, down 3% compared with the first quarter of 2021, driven by total variable annuity or VA and Shield sales. While VA and Shield sales were lower for Brighthouse in the quarter, which is consistent with the preliminary industry sales results for VA and registered index-linked annuities, we believe the value proposition our annuity products provide in volatile markets remain strong, and we still currently expect to see overall annuity sales growth this year.

As reflected in the distributable earnings update that we issued on March 29 of this year, we have seen a substantial shift in our annuity in-force book since the launch of the Brighthouse brand in 2016. We expect our business mix to continue to evolve as we add more higher cash flow generating and less capital-intensive business, coupled with the runoff of older, less profitable business. Additionally, in the first quarter, we generated approximately $20 million of life insurance sales, down 13% compared with the first quarter of 2021. While the current climate may create some challenges to near-term growth in life insurance sales for Brighthouse and for the industry, we remain very pleased with our progress as we continue to execute our focused life insurance strategy and remain confident in our strategy to broaden our product offerings and expand our distribution footprint.

Now turning to expenses. Corporate expenses, which do not include establishment costs, were $208 million before tax in the first quarter. Establishment costs were approximately $15 million before tax in the quarter. We continue to prudently manage our exit from the remaining transition service agreements as we implement our future state operations and technology platform. As I have said before, we expect our remaining establishment costs to be incurred this year.

Lastly, we continue to deliver on our ongoing commitment to return capital to our shareholders. In the first quarter of 2022, we repurchased approximately $127 million of our common stock. And since the end of the quarter through May 5, we repurchased an additional $53 million of our common stock. Since the announcement of our first stock repurchase authorization in August of 2018, through May 5 of this year, our repurchases have reduced the number of outstanding shares of our common stock relative to when we became an independent public company by more than 37%.

To wrap up, we delivered solid results in the first quarter of 2022. Our balance sheet and liquidity positions remain strong. We continue to make additional progress towards shifting our business mix profile and we feel good about the value our products provide in volatile markets. We remain well positioned to continue to execute our strategy. And with that, I'll turn the call over to Ed to discuss the financial results. Ed?

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

Thank you, Eric, and good morning, everyone. After the market closed yesterday, Brighthouse Financial reported results for the first quarter of 2022. Before getting into those results, I would like to take a moment to discuss the projected distributable earnings scenarios we issued on March 29 that Eric mentioned earlier. There are a few key messages to take away from those projections. First, we continue to expect a significant level of

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projected total company distributable earnings even in a market scenario assuming a low separate account return and a low interest rate environment, and we expect less volatile cash flows as we look out over the long term.

As Eric mentioned earlier, we have seen a substantial shift in our annuity in-force book since 2016, and we expect our business mix to continue to evolve with the outflow of older capital-intensive business and the addition of higher cash flow generating and less capital-intensive business. We expect this continued mix shift to benefit distributable earnings over time as distributable earnings are projected to become less market-sensitive and more predictable. Second, the variable annuity and Shield distributable earnings in the 3- and 5-year views are better in most scenarios than what we published a year ago. This illustrates the positive go-forward impact of the strong market returns and higher interest rates in 2021. Importantly, in the equity and rate shock scenario, based on current projections, we would expect to be in a stronger capital position relative to what was reflected in the projections published last year. Lastly, the positive equity market performance and higher interest rates in 2021 resulted in materially better distributable earnings over the same 5-year period than projected in the scenarios we published in March of 2021.

Now moving to the first quarter results. Brighthouse Financial reported solid results for the first quarter of 2022 despite the decline in the equity markets. Starting with preliminary statutory results. Statutory combined total adjusted capital or TAC was approximately $8.5 billion at March 31 compared with $9.4 billion at December 31. There are a few nontrendable items that drove approximately 60% of the sequential decline in TAC. First, the prescribed 20-year treasury yield mean reversion point for statutory calculations was reduced from 3.25% to 3% resulting in a $250 million to $300 million unfavorable impact in the quarter. The impact in the first quarter reflects the full year effect of this change. Second, the first quarter included a reduction in admitted deferred tax assets, or DTAs. It is important to note that the admissibility of DTAs under statutory accounting is very conservative and reflects only the amount of DTAs projected to be used in the next 3 years. The admitted DTAs on our statutory balance sheet are only a fraction of our total tax attributes, which we still anticipate using over the long term. Third, we had adverse mortality in the first quarter, which was only partially offset by favorable alternative investment returns.

The other driver of the sequential decline in TAC was an increase in variable annuity or VA reserves as a result of the decline in equity markets, which was only partially offset by the beneficial impact from higher interest rates, hedge gains and lower reserves for our Shield annuities. As I have discussed in the past, when adverse market events occur, like the equity market decline in the first quarter, more of the total asset requirement necessary to support VA risk shifts to reserves, which reduces TAC. However, there is a substantial offset in required capital, which mutes the impact from market movements on the risk-based capital or RBC ratio.

At March 31, our estimated combined RBC ratio was 450% to 470%. This compares with a combined RBC ratio of 500% at year-end 2021. The change in the RBC ratio was driven by the decline in the statutory mean reversion point, the reduction in the admitted DTA and adverse mortality as discussed a moment ago. Additionally, the first quarter RBC ratio reflects capital requirements associated with growth in the business, which was more than offset by strong core VA results. We had a normalized statutory loss of approximately $200 million in the quarter. Strong core VA results were more than offset by the $250 million to $300 million negative impact from the statutory interest rate change and adverse mortality. Lastly, holding company cash remained robust in the quarter, with liquid assets of $1.4 billion as of March 31.

Turning to adjusted earnings results. First quarter adjusted earnings, excluding the impact from notable items, were $315 million, which compares with adjusted earnings on the same basis of $416 million in the fourth quarter of 2021 and $428 million in the first quarter of 2021. There were 2 unfavorable notable items, which totaled $21 million. The notable items on an after-tax basis were establishment costs of $12 million included in Corporate & Other and a $9 million unfavorable notable item in the Life segment related to a system migration associated with the company's transition to its future state platform. Adjusted earnings results were ahead of expectations, primarily driven by strong net investment income, offset by a lower underwriting margin.

Starting with net investment income. While net investment income was lower sequentially, the first quarter was approximately $115 million above quarterly run rate expectations, primarily due to a 5.4% alternative investment yield. As a reminder, we report alternative investment income on a 1-quarter lag. Asset growth also contributed to the favorable net investment income performance in the quarter.

Turning to underwriting. The underwriting margin was lower sequentially and was lower than our quarterly run rate expectation by $100 million to $120 million on an after-tax basis, which included $58 million of pretax net claims related to COVID-19. As we have said before, we anticipate potential volatility in underwriting on a quarterly basis, driven by fluctuations in a number of factors, including frequency of claims, severity of

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claims and the offset from reinsurance. Severity was the driver in the first quarter, which resulted in direct claims experience above the average quarterly expectation of $400 million to $500 million.

When thinking about run rate earnings, there are 2 other adjustments that should be considered. First, variable annuity separate account returns were negative 6.4% in the first quarter, which drove a reduction in VA separate account balances. We anticipate lower separate account balances will reduce quarterly adjusted earnings going forward. Second, expenses were favorable relative to expectations in the first quarter. We believe the go-forward market impact along with expenses returning to our quarterly run rate expectation will lower adjusted earnings by approximately $40 million compared with adjusted earnings less notable items in the first quarter.

Moving to adjusted earnings at the segment level. Annuity adjusted earnings, excluding notable items, were $311 million in the quarter. Sequentially, annuity results reflect higher deferred acquisition cost or DAC amortization and reserves and lower net investment income, partially offset by lower expenses. Adjusted earnings, excluding notable items, in the Life segment were $35 million in the quarter. On a sequential basis, results were driven by a lower underwriting margin and higher DAC amortization, partially offset by lower expenses. Adjusted earnings in the Run-off segment, excluding notable items, were $16 million in the quarter. Sequentially, results reflect a tax true-up in the prior quarter that was offset in Corporate & Other, a higher underwriting margin and lower expenses, partially offset by lower net investment income. Corporate & Other had an adjusted loss, excluding notable items of $47 million. On a sequential basis, results were driven by the previously mentioned prior quarter tax true-up and a lower tax benefit, partially offset by lower expenses.

Overall, we had another quarter of solid performance. We continue to prudently manage our balance sheet using a multi-scenario multiyear framework, while returning a substantial amount of capital to shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ryan Krueger with KBW.

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

I guess, first, can you help us think about the impact of lower equity markets in isolation on the RBC ratio? I think it's based on the details you gave that (inaudible) of itself did not cause the RBC to go down in the first quarter. Just trying to think about the second quarter given the continued weakness.

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

Ryan, it's Ed. So you're correct. If we parse through all the impacts, the underlying performance of the VA risk management, which obviously is including the hedging was a positive for the RBC ratio in the first quarter. That's excluding the mean reversion point interest rate change.

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

Got it. I guess, separately, given the increase in interest rates, can you discuss if you're considering changing your interest rate hedging and putting on, I guess, more interest rate hedging at this point to lock in higher rates or at what point you may consider doing that?

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

Ryan, it's Eric. So we've said all along, and you can see in the DE tables that we take capital markets risk. You've heard me say, you've heard Ed say it many times. And we support this strategy by holding reasonably substantial amounts of cash and capital. We have long-duration liabilities, so an increase in interest rates has a material positive impact on the value of Brighthouse. Let me just state that sort of categorically. So from both vantage points, we are, I would go as far as to say extremely pleased with where the 10-year treasury is. I just looked before, it's about 301 right now. And it's more than doubled since year-end '21. So we view managing interest rate risk on sort of a continuum. Obviously, we've been doing that for the last 5 years. And while we have always had substantial out-of-the-money protection for low rates or what you might think of as very low rates, we have taken some incremental actions recently to increase protection. I mean we've taken advantage of the fact that the 10-year is up a lot. So we have made some trades and probably we'll make some more as we go into the second quarter. Ed, do you want to add anything?

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

Sure. So just to build a little bit on what Eric was saying, as you know, in recent years, we've been positioned to benefit from higher interest rates and rising equities. And I would say that our equity positioning has been strategic, both history and fundamentals support that stock prices go up over time, growth in profits, equals growth in stock prices. I would say our interest rate positioning has been a combination of strategic and somewhat tactical. The strategic portion has been that we've always had substantial out-of-the-money protection for low rates, but we're still positioned to benefit from an increase in rates. So as Eric said, we're managing this risk on a continuum. We have taken some actions already, and we could take additional actions.

Operator

Our next question comes from Elyse Greenspan with Wells Fargo.

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

My first question, the underwriting that you guys called out in the quarter, away from COVID, can you just give us a sense of how that compares to a normal Q1 because I think Q1 underwriting is typically below normal. And then can you give us a sense of how that impacted both the Life and Run-off segments in the quarter?

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

Sure, Elyse. So first of all, you're right, Q1 underwriting tends to be worse. I would say our normalizing a run rate adjustment discussion that we had in our slide overnight was more to a sort of normal quarter. And I hesitate even to use the word normal because as I've said in the past, underwriting can bounce around a fair amount from quarter-to-quarter and this quarter was one of those quarters. So I guess I'll keep it sort of broader ranges here.

You've heard me talk about the direct claims number for us being in a range of $400 million to $500 million a quarter. And we've talked about some quarters where, obviously, with COVID, you could be outside that range. I would say if you look at this quarter, if you excluded COVID and you just looked at direct claims, we were in the neighborhood of $600 million to $700 million in the quarter. So that should give you some sense of the deviation. Now remember, that's before reinsurance, before taxes, so you'd need to walk that down from that differential, which is what we did for you in our run rate analysis. And so that was all really due to severity. So if you look at the number of claims over $5 million, that was a big number for us this quarter.

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

And that was mostly split between Life and Run-off?

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

Yes. I think if you look at both -- I know if you look at both life and runoff, the underwriting margin was worse than what we would have assumed it would be.

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

Okay. And then my second question, you guys used to give like a run rate core earnings figure. And I know a little -- it's kind of in the range of 3 or a little bit above. Given now that we're dealing with higher interest rates but weaker equity markets, when you think of the pushes and the pulls, I guess where do you see kind of run rate earnings EPS expectations?

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

Yes. Well, we gave you all the pieces, right, to calculate a number. And if you do the math, you're going to come up with something in the neighborhood of 350, right? That only takes into account the weakness in the equity market through the end of the first quarter. Obviously, the second quarter is not off to a good start from a stock market standpoint. But on the other hand, we have also -- we're not talking about the fact that our share buyback probably adds $0.10 a share per quarter based on what we've been doing. It's not a projection of what we're going to do, but just -- if you look back, you're probably getting a $0.10 a share every quarter just from share repurchase. So those are a couple of things to think about beyond what we showed you in the slide we put out last night.

Operator

Our next question comes from Erik Bass with Autonomous Research.

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

I wanted to come back to your VA hedging results in the first quarter. I think in the past, you've talked about taking up to roughly $500 million of first dollar risk, but it doesn't sound like this was used during the quarter. So is this still kind of the right level of volatility to think about, I guess, as we contemplate what's happened in the second quarter?

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

It's Eric. Look, we've said for a while now, our position has been we would take up to $500 million, which I think is kind of what you said. But yes, in any given quarter, it may be a lot lower than that. And I would also just reiterate and maybe Ed wants to jump in here, too. But I would reiterate, we were positioned pretty well for higher rates as you've watched the treasury move up here. So it's still -- nothing has changed with respect to that $500 million, but that doesn't mean we're at that in any given quarter. Ed, do you want to add anything?

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

No, I think that covers it.

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

Got it. So I mean in the quarter, then it sounds like gains on the interest rate hedges offset pressure on the equities. Is that correct?

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

Yes, I wouldn't -- I'm not going to really get into the specifics of one versus the other, but I mean, you see that interest rates went up a lot and the equity market went down. So you probably can draw some reasonable conclusions on that.

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

Got it. And then just to confirm, do you still -- I think on the last call, talked about planning to pay roughly $300 million of dividends to the holding company in 2022. At this point, is that still your base case scenario?

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

Yes, that is still our base case scenario.

Operator

Our next question comes from Tracy Benguigui with Barclays.

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

It feels like statutory rules are going to take forever to make in higher interest rates for their prescribed statutory floor even under the NAIC's ESG proposal because there's a pretty long look back period in the formula. I'm just wondering if interest rates will rise further, is there anything you could do strategically like use captives as it feels like GAAP accounting, especially under LDTI will take a more current view of interest rates.

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

Tracy, I would just say we're always considering what makes the most sense for us. I would say there's no plan at this point to be doing anything with captives. But obviously, things could change, you never know.

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

Got it. And then when you set up your DE scenarios, I think you were using the 1.52% 10-year treasury rate as of year-end 2021. So can you quantify the incremental increase in earnings based on where interest rates are today, maybe under your lower separate account return scenario?

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

Well, I'm not going to give an update to the DE tables. Obviously, there's a lot of work that goes into putting those together. It's a complicated analysis. And I think, as you know, we're not going to just provide updates along the way. I would tell you that when you looked at our -- starting from 151 in the 10-year, under the reverting to the 3% mean, we were coming up with the mean reversion point for the 20-year treasury in the statutory ESG going to 3%, which is where we are over the 3- and 5-year period. And for low separate count return, low-rate scenario, we had it dropping another 25 basis points over that 3- to 5-year period to 2.75%. If you look at where the 20-year treasury is today, instead of the mean reversion point being flat to down over the next 3 to 5 years, if you were to just build in where the 10-year treasury is today, it's up at least 50 basis points over that period.

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

Okay. And if I could just sneak in, in your $40 million reduction of quarterly earnings guide, you called out a lower separate account balances and return to expense run rates. But is there any offset for higher interest rates in that guide?

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

Well, we factored in -- remember, this is the GAAP adjusted earnings. That's what you're talking about here, right?

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

Yes, yes, yes.

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

Yes. Yes. Everything is factored in based on what we saw at the end of the first quarter in terms of separate accounts.

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

Okay. So equity market move and interest rates...

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

Correct.

Operator

(Operator Instructions) Our next question comes from Alex Scott with Goldman Sachs.

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

First one I had is back on the distributable earnings projections and like I guess you guys provided a good amount of transparency here, and I appreciate it a lot. I guess, the issue is we have a scenario here that looks nothing like any of the projections you gave, right? It's up rates and pretty significantly down equity markets. And as a result, you have people looking at like this lower separate account return versus the lower rate (inaudible) trying to extrapolate and then try to extrapolate between the base and upside to gauge equities. And frankly, like I'm pretty uncomfortable with doing that. It feels like there's a lot more consideration that should be given to the correlation between rates and equities.

So in an effort to not have a flat analysis when looking at this stuff, I mean, could you help us even if it's just thinking directionally, like which is the bigger impact 20% down equities if we're considering that or up rates 100 basis points. I mean, how do I even begin to gauge, how those 2 things sort of work together? And I mean, if at some point, you guys can provide that kind of scenario, it would be massively helpful, I think, and just are working through what it may mean.

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

Alex, it's Ed. So it sounded like a different way to ask the question when we update the distributable earnings scenarios. I'm going to have the same answer, unfortunately. I'll try to help you a little bit, though. You've seen over the last few years that both equities and interest rates are important

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for us. And I would go back to the distributable earnings disclosure that we provided in early '21, where the 10-year treasury had dropped by 100 basis points over that period. So we had -- the 10-year had gone from 190-ish basis points to 90-ish basis points.

So that was in early '21 when we disclosed this. If you looked at the distributable earnings picture, when you adjusted for the $1 billion of capital that we had freed up in early 2020 associated with derisking the hedging program, right? The distributable earnings picture was pretty much unchanged from what it was the prior year, so when we published in early 2020. And so I get -- that gives you some sense, right? We had a strong stock market and yet interest rates down 100 basis points, and you kind of ended up in the same place. So the other thing I would say is if you use the scenarios that we've provided, you can derive some sensitivities around rates and separate account returns based on comparing some of the scenarios and driving some related sensitivities.

The qualitative comment I would make is that, as you know, we have very long-duration liabilities, and you know the nature of the guarantees associated with those liabilities. With the 10-year treasury yield almost double, I would say that, that more than offsets fundamentally, when we think about the value of this company, the cyclical ups and downs of the equity market.

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

Got it. That's all helpful. And second one I had is just if you have any updated thoughts on this economic scenario generator that's being worked on. I know there's been some updates with I think the field testing some different things. Just do you have any commentary there. And I mean, is that going to impact distributable earnings projections at some point in the future? Is that a risk I should think about? And just in the context of I think this year, switching from CTE95 to CTE98 had a negative impact on your DE projections. So I mean, is that something I need to worry about impacting those at some point over the next 2 or 3 years?

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

So on the economic scenario generator, there's obviously still a lot of work to do. It's going to take time. And as I'm sure you can appreciate; we are actively involved in the process. We continue to think that the regulators and industry are ultimately going to agree on an appropriate framework. But this is complicated stuff. And so just like we saw a long-involved process for things like VA reform, the recent change in the C1 risk factors for RBC, the regulators take a thoughtful approach we see, and that requires a lot of time and effort. So in terms of should you worry about it? Like I can't tell you what you should or shouldn't worry about, but we feel like we're going to be able to manage through this and we'll ultimately get something that works for us and for the regulators.

Operator

Our next question comes from Tom Gallagher with Evercore.

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

Just, I guess, Eric, a higher-level question for you. Based on everything I'm hearing you guys talk about, just want to make sure we don't miss the forest for the trees. You still have over $1 billion of excess capital, markets are weaker to start 2Q. I'm not hearing any sort of hedging your bets on your view that you're going to continue to return capital and continue to buy back stock even in the current market climate. So by that, I take that to mean. And if I look at your performance in Q1, on the macro sensitivities, it was a net positive, if I exclude those other adjustments. So I take that to mean you wouldn't expect a meaningful negative adjustment in Q2 based on what you know today, and I'm not asking you to get to the nearest decimal place of describing what you expect your impacts to be from hedging in 2Q, but is it fair to say that you don't expect a meaningful negative adjustment or negative -- meaningful negative impact on excess capital, and you would expect to continue to return capital? Let me just start with that question.

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

Sorry about that, Tom. We had a huge truck outside here. I heard everything you just said. Look, I'll say a couple of things. I think you could glean that from my previous answer and a couple of Ed's answers. Look, we're feeling really good. Having said that, look, sales were off a little bit. Nobody asked Myles a question about that, but I'll just say, I feel pretty good about April. But market volatility tends to make -- give you some headwinds. Interest rates, where they are, are very positive for this company. And you can see our hedging program has worked really well over the last 5 years. So I'm feeling very positive, cautiously optimistic as we're into the second quarter now. But of course, as Ed said, I mean, equity markets are down. I do not expect big changes to excess capital. And I can tell you, I do not expect to not be buying back stock. So I think I covered everything. If there's something you want to point out again, Tom, please go ahead.

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

No, that was exactly what I was looking for. I appreciate it. So my follow-up is, Ed, can you quantify how big of an impact to change to the non-admitted DTA was? How big of a delta was that for the quarter? And what are the scenarios? I assume the scenarios where you could potentially readmit that would be greater stat earnings since it would have been negative stat earnings that resulted in the nonadmission of it? Is that -- any color on that?

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

Sure. So the write-down was somewhat above $200 million in the quarter, and the remaining balance is around $300 million. It's important to point out that the reduction in the DTA is entirely due to the conservative nature of statutory accounting. So this value is determined by earnings over a 3-year time frame. We have a substantial amount of tax attributes, and we continue to expect to use them over the long term. So for example, we have about a $5 billion loss carryforward, which is -- translates to approximately $1 billion tax benefit. And we have assumed and continue to assume that, that will get used. So I don't view this DTA write-down as an economic adjustment. And in fact, we had anticipated that we were going to have something like this in 2022.

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

Okay. Okay. If I could just sneak one more in. Eric, you had mentioned you've made some changes to interest rate hedging. I just want to make sure I understand directionally how to interpret that because my understanding was you were in a lower-for-longer scenario, there was some level of continued negative adjustment like you have this year-end, right, on the mean reversion change, the $250 million to $300 million negative adjustment. Based on the changes you've made, if rates were to go back down, not that that's in the cards for the foreseeable future, but if they were to fall back down, I'm assuming that means you wouldn't continue to have a negative true-up like you had for mean reversion interest rates. Is that the right interpretation of -- since you've made those interest rate hedging changes?

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

Yes. Sorry, Tom. Look, I think one of the things that you can glean off of our comments over a number of quarters is the difference between economics and the accounting. And I don't think anybody knows that better than you, Tom. So we always got to think about what's the true economics behind what happened? And then what does the accounting do in any given quarter that might not necessarily be a reflection of the true economics, right? So with respect to the hedging program, I said it before on your other question or maybe it was the first question, I can't remember. Look, we're always going to be protected for down rates. The company is always going to be hedged for down rates. But remember, at the margin, that doesn't mean that we're not positioned for higher rates, if you heard my comment before. Now with respect to the accounting, I mean, I'll let Ed jump in here on what may happen in the first quarter. And like you said, it's not necessarily expected, but whatever, the accounting is what it is, given where we end in any given quarter.

I feel really good about the economics, the fundamental economics of where we're at and how we're positioned, both from a macro point of view on the hedging program and then at the margin. But look at some of the things that happened in the first quarter with respect to the accounting.

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Ed just told you like we don't really think about this as being the ultimate economics with respect to the DTA, but the accounting says you can only take 3 years. So Ed, do you want to jump in?

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

Yes. I mean there are 2 things. I would go back to what I had said earlier, I think, in response to either Tracy or Alex's question on the rate impact. We had assumed that the mean reversion point would be where it is now or come down when we put those DE tables out. And now we're in a position where the 20-year treasury, I think, is 333 this morning or something. You're in a position where you're -- it looks like you got at least a 50-basis point increase in the mean reversion point from where we are now, if rates were to stay where they are today, right? So when you think about what's economic and what's noneconomic, we talked about the DTA and how I would consider that $200-plus million write-down to be noneconomic in nature. Given the current interest rate environment, you could argue that the $250 million to $300 million MRP adjustment is noneconomic in nature because where we sit today, it's actually going back up again if rates are where they are today. So you've got 2 pieces of the impact on TAC that are in the neighborhood of $0.5 billion this quarter, which given the environment we have, we're in today, I would say, are noneconomic.

Operator

Our next question comes from Suneet Kamath with Jefferies.

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

Just first, I wanted to start with just a quick definitional issue or question. Your target of 400% to 450% RBC in normal markets. Obviously, it doesn't feel so normal today. So sitting in this environment, would you still expect to be in that range, higher or lower?

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

Suneet, I would say I agree with you about what it feels like today, and I think we got this question on the fourth quarter call also about like is this a normal market. And we said, well, it doesn't really feel like it. And I guess, I would say, again, it doesn't feel like this is a normal market now either. So I feel really good about the fact that our RBC ratio is above the top end of what we consider to be the normal markets range of 400% to 450%. So I think we are well positioned for let's say, less than normal markets given the RBC ratio and let's not forget the $1.4 billion of holding company cash. We're not going to give any sort of forecast of what would happen to RBC. But I would say we're starting from a position where we're able to handle some challenges if the market continues to be rough.

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

Got it. And then maybe I'll just to please, Eric, throw out a sales question. We've seen buffered annuity sales results kind of all over the map this quarter, some companies reporting record results for some months, some companies reporting down results. So maybe just a sense of how you think about the competitive environment for that product, and have you had to make changes in pricing for that product over the past little while here?

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

Well, I'm just going to start and say thank you, Suneet. And now I'll turn it over to Myles.

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

Well, thank you, Suneet, as well. So look, obviously, the environment in the RILA category has gotten more competitive. There's about 17 carriers that are either in market with a product right now or a file to have a product and market. Ultimately, we think that's a good thing for advisers and consumers as it represents more choice. Look, we like the competitiveness of our product. We launched several enhancements to their product last year, and you'll see the next evolution of the product this year. Sales remained strong for us. We picked up some momentum as the year has gone on, and we're excited about some of these future enhancements we'll be making.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back to Dana for any remarks.

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

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

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.

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