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OVERVIEW:

Co. reported 4Q20 adjusted earnings, excluding impact from notable items, of $272m.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Brighthouse Financial's Fourth Quarter 2020 Earnings Conference Call. My name is Josh, and I will be your coordinator today. (Operator Instructions)

As a reminder, the conference is being recorded for replay purposes. (Operator Instructions)

I would now like to turn the presentation over to David Rosenbaum, Head of Investor Relations. Mr. Rosenbaum, you may proceed.

David Rosenbaum - *Brighthouse Financial, Inc. - Head of IR*

Good morning, and thank you for joining Brighthouse Financial's Fourth quarter and Full Year 2020 Earnings Call. Our earnings release, slide presentation and financial supplement were released last night and can be accessed on the Investor Relations section of our website at brighthousefinancial.com. 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 Myles Lambert, Chief Distribution and Marketing Officer; Conor Murphy, Chief Operating Officer; and John Rosenthal, Chief Investment Officer.

Our discussion during this call will include forward-looking statements within the meaning of the federal securities laws. Brighthouse Financial's actual results may differ materially from the results anticipated in the forward-looking statements as a result of risks and uncertainties described from time to time in Brighthouse Financial's filings with the U.S. Securities and Exchange Commission. Information discussed on today's call speaks only as of today, February 11, 2021. The company undertakes no obligation to update any information discussed on today's call.

During this call, we will be discussing certain financial measures used by management 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 release, slide presentation or 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, David, and good morning, everyone. Once again, I hope that everyone listening today and your loved ones are remaining safe and well. While 2020 was a year like no other, the COVID-19 pandemic upended our communities and the world. Capital markets were volatile. Over the course of 2020, we saw the S&P 500 reach a record level, followed quickly by a bear market and recovery, resulting in an 18.4% total return for the year.

Long-term interest rates as measured by the 10-year U.S. treasury saw similar volatility. Throughout all of this, we continued to execute on our strategy thanks to the tremendous dedication of our employees. As the COVID-19 pandemic continues to evolve, Brighthouse Financial's mission to help people achieve financial security has never been more critical. The financial situations of millions of Americans, including those working and those already in retirement, have been affected by the pandemic and the resulting economic slowdown. At Brighthouse, we remain focused on our mission and strategy and continue to believe that we are well positioned to help people achieve financial security and address retirement concerns over the long term.

We are also focused on our communities. Throughout 2020, Brighthouse Financial provided financial assistance to help meet some of the most pressing needs of our communities during these trying times. The Brighthouse Financial foundation made contributions to more than 40 nonprofits with a focus on COVID-19 response and racial equity.

Before turning to our results this quarter, I would like to touch on some of our strategic accomplishments for the year. First, we repurchased approximately $473 million of our common stock in 2020, a reduction of approximately 17% of the shares outstanding relative to year-end 2019. Second, we completed the revision of our hedging strategy, significantly reducing the risk profile of the company. Third, we paid ordinary dividends of approximately $1.3 billion to the holding company, primarily consisting of $1.25 billion from Brighthouse Life Insurance Company, or BLIC. The first dividends paid by BLIC since we became an independent public company. Fourth, we had strong sales results in both annuities and life insurance, launched 2 new products and expanded our distribution network.

Next, we achieved run rate expense reductions of $166 million relative to the first year post separation, exceeding our target of $150 million. And finally, we made significant progress in our multiyear effort to implement our future state operations and technology platform.

So now let me turn to our fourth quarter financial results. First, we continue to prudently manage our statutory capitalization. Our hedging program performed as expected in the fourth quarter of 2020. Importantly, we estimate that our combined risk-based capital, or RBC ratio, was approximately 485%. Additionally, we ended the year with liquid assets at the holding company of approximately $1.7 billion. Ed will provide more details on statutory results in a minute. Second, we had a strong sales quarter despite the challenging environment. Annuity sales were approximately $3 billion, up 58% compared with the fourth quarter of 2019 and up 26% sequentially. Additionally, we generated approximately $15 million of life insurance sales in the fourth quarter of 2020. I am very pleased with the progress that we have made as we continue to execute on our life insurance strategy. Third, let me turn to total annuity net inflows, which were $72 million in the quarter, driven by continued strong sales as outflows returned to near-normal level. As we've said previously, we expect to see a continued shift in our business mix profile over time as we add more cash flow generating and less capital-intensive new business, coupled with the runoff of less profitable business.

Fourth, corporate expenses, which do not include establishment costs, were $236 million in the fourth quarter. And finally, we continue to make necessary investments in our technology infrastructure and in our business. We refer to these investments as establishment costs. In the fourth quarter, establishment costs were approximately $40 million pretax. As I've said before, we entered the current climate from a position of strength and our results in 2020 demonstrate that our balance sheet and liquidity remain strong.

Before turning the call over to Ed to discuss our financial results, I would like to touch on our areas of focus for 2021. First, we intend to continue to execute on our focused strategy. Second, we plan to continue to prudently manage our statutory capitalization. As we have said previously, we target a combined RBC ratio of between 400% and 450% in normal markets. Third, we want to further drive the evolution of our business mix by adding high-quality new business. Our sales results in 2020 were very strong driven by fixed rate annuities. For 2021, we currently expect growth in Shield and variable annuities, while fixed rate annuity sales are expected to be lower. In 2021, we are committed to enhancing our products with a focus on Shield as well as rolling out SmartCare to more firms and adding more wholesalers as we continue to execute on our life insurance strategy. And we remain very excited about our selection to help deliver BlackRock's LifePath Paycheck, an investment solution that is designed to provide millions of American workers with simplified access to lifetime income throughout their retirement.

Next, we intend to continue to prudently manage our expenses. We previously committed to a cumulative $175 million reduction in corporate expenses relative to our first year as a public company. That's $150 million in 2020, an additional $25 million in 2021. We exceeded the target in 2020 and would like to achieve the remainder of the expense reduction commitment in 2021. With that said, we will continue to invest in our infrastructure with the goal of providing better support to our distributors and their financial professionals as well as our policyholders and contract holders.

As I have said before, we are being prudent in how we are managing our way through our expected final couple of years of TSA exits. These TSA exits and associated systems transitions put us closer to our future state operating platform. We currently anticipate about $150 million of establishment costs over the next 2 years as we continue the transition to our future state operations and technology platform. The majority of the expense is expected to occur in 2021.

And lastly, let me discuss share repurchases. Since the announcement of our first stock repurchase authorization in August of 2018, we have repurchased a total of more than $1 billion of our common stock through February 9 of this year. This represents a reduction of approximately 28% of shares outstanding from the time we became an independent public company. Last night, we announced an authorization to repurchase up to an additional $200 million of our common stock. Assuming full utilization of this new authorization and the $53 million remaining under our $500 million stock repurchase authorization announced in February of 2020, we will have repurchased $1.3 billion of our common stock, more than 85% of the way toward our target of returning $1.5 billion to our shareholders by the end of 2021.

As I have said before, we have a capital return target that we would like to achieve. With that said, we will continue to emphasize prudence and flexibility regarding future share repurchase authorizations. To wrap up, our balance sheet and liquidity positions are strong, and we continue to believe that we have the right strategy in place, to deliver long-term shareholder value and that we are well positioned to continue the execution of this strategy. With that, I'll turn the call over to Ed to discuss our financial results. Ed?

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

Thank you, Eric, and good morning, everyone. Last night, we reported fourth quarter and full year 2020 financial results, including preliminary statutory figures. As evidenced by these results, our capital and liquidity position remains strong. Driven by the favorable market environment in the fourth quarter, our combined statutory total adjusted capital, or TAC, increased to $8.6 billion at December 31, up from $8.4 billion at September 30. TAC increased despite ordinary dividends paid from our insurance subsidiaries of more than $500 million during the fourth quarter, which included the planned $450 million ordinary dividend from Brighthouse Life Insurance Company, or BLIC. Total subsidiary ordinary dividends for full year 2020 were $1.3 billion, which was in line with the plan we communicated on our business update call in early March last year.

Our combined risk-based capital, or RBC ratio, is estimated to be 485% at December 31, 2020, which is above our RBC ratio target of 400% to 450% in normal markets. Additionally, total subsidiary ordinary dividend capacity is roughly $800 million in 2021.

In the fourth quarter, we had normalized statutory earnings close to breakeven. For the full year, we had a normalized statutory loss of approximately $400 million, which was entirely due to weak results in the first quarter of 2020. As a reminder, the first quarter loss was $800 million, driven primarily by a tax adjustment associated with VA reform. Our hedging program now contemplates the tax volatility that accompanies VA reform. Looking at 2021, even though interest rates have increased recently, we anticipate that the low rate environment will continue to exert pressure on normalized statutory earnings.

Moving to the holding company. We ended the fourth quarter with liquid assets of approximately $1.7 billion, up from $1.3 billion at September 30. We continue to believe it is appropriate to have a conservative position at the holding company in the current environment. We also took advantage of the attractive market environment in the fourth quarter by adding permanent equity to our capital structure. We issued $575 million of preferred stock and used the proceeds to tender for $550 million of our senior notes. This was our largest preferred issuance ever and at 5.375%, our lowest dividend rate.

We will continue to emphasize prudence and flexibility when evaluating dividend plans from our operating subsidiaries as capital strength continues to be a top priority. To that end, we currently expect to pay ordinary dividends to the holding company of slightly above $300 million in 2021 or less than half of dividend capacity for this year. The dividend plan contemplates $250 million from BLIC, which is consistent with what I identified on our March '20 update call as a more normal dividend for this entity.

Moving to adjusted earnings. Last night, we reported fourth quarter adjusted earnings, excluding the impact from notable items of $272 million, which compares with adjusted earnings on the same basis of $388 million in the third quarter of 2020 and $265 million in the fourth quarter of 2019. There were 3 notable items in the quarter, which lowered adjusted earnings by approximately $83 million. The notable items on an after-tax basis were: a $34 million debt repayment expense in corporate and other associated with the repurchase of the company's senior notes; establishment costs of $32 million, also included in Corporate & Other; and a $17 million unfavorable impact related to the modeling of reserves for unreported claims associated with the transition to our future state operating platform.

There were 4 major themes that impacted fourth quarter adjusted earnings, less notable items. First, the underwriting margin was lower than expected. Our quarterly average for direct claims is between $400 million and $500 million, with average net claims of approximately $250 million. As is typical, there is variability in the underwriting margin throughout the year. And in the fourth quarter, along with $42 million of net claims from COVID-19, we experienced higher claims overall versus our quarterly average. Offsetting the lower underwriting margin were very strong alternative investment returns, as the alternative investment yield was 8.5% in the fourth quarter. The full year 2020 alternative investment yield was 10.8%, at the upper end of our long-term expectation of 9% to 11% per year.

Additionally, our separate account returns were 11.5% in the quarter. This was significantly above our assumed return and contributed $0.47 per share above a normal quarter's results. Lastly, expenses were elevated as is typical in the fourth quarter. Corporate expenses were $236 million, which was higher than the third quarter and higher than our quarterly run rate.

Turning to adjusted earnings at the segment level. Annuities adjusted earnings, excluding notable items, were $293 million in the quarter. Sequentially, results reflect higher fees and higher net investment income, partially offset by higher expenses. Life adjusted earnings, excluding notable items, were $30 million in the quarter. Sequentially, results were impacted by a lower underwriting margin, partially offset by higher net investment income.

The Run-off segment reported adjusted earnings, excluding notable items, of $25 million in the quarter. Sequentially, results were driven by a lower underwriting margin, partially offset by higher net investment income.

Corporate & Other had an adjusted loss, excluding notable items, of $76 million. Sequentially, results were driven by a lower tax benefit and higher expenses.

Before I conclude, I would like to mention that we plan to provide an update for our VA distributable earnings sensitivities in March. Our top priority continues to be balance sheet strength and substantial liquid assets at the holding company in order to protect our distribution franchise. We believe this franchise will continue to drive the business mix shift away from our legacy VA book, which should increase the level and predictability of distributable earnings over time. Our continued strong capital and liquidity position at the end of 2020 highlights our emphasis on prudence and flexibility, and we will continue to manage the company to ensure a full cycle business model.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Humphrey Lee with Dowling & Partners.

Humphrey Lee - *Dowling & Partners Securities, LLC - Research Analyst*

I guess my first question is regarding to the $300 million of dividend upstream plan for 2021. Is any -- like I guess, any kind of thinking into that any kind of market conditions that may change how you think about that plan to move it higher or lower?

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

Humphrey, it's Ed. So when we think about our dividend plans, it's based on a scenario analysis that's considering potential outcomes for the market and credit. So it isn't based on dividend capacity. So as you see, we think that the right number to take this year would be approximately $300 million and that is -- that's well below the actual capacity for $800 million in total and about -- I believe, it's $700 million for BLIC.

And I think that, that number, as I said, is more consistent with a normal year, as I had indicated back on the March 2020 outlook call.

Humphrey Lee - *Dowling & Partners Securities, LLC - Research Analyst*

Okay. And then, I guess, more of a philosophical question for Eric. I think looking back for the past couple of years, definitely have been executing well. But I think at the same time, it's evident that for public markets and not ascribing a proper valuation to VA businesses. And this is seen via some of the transactions that we have been seeing in the marketplace by some of your peers or some -- or even them talking about it.

I think right now, Brighthouse is sitting on excess capital that is north of 50% of your market cap. And I don't think a risk transfer is necessarily the right answer since you don't really need the extra capital based on what you have right now. I guess at what point does the company look to do something more transformational to unlock the value?

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

Thanks, Humphrey. Look, as we've said all along, we are executing on a strategy, right? We've had a strategy to unlock capital, repurchase stock, rationalize expenses and sell new business. And as we're doing all of that, you can see old business flowing off the books. Conor has discussed many times the net outflows and how, frankly, a fair amount of that is a good thing for our balance sheet.

So I understand your question about valuation, but we think that this strategy is working. I mean we've been able to repurchase almost 28% of our common stock in the last couple of years. So I'm not going to take anything off the table, and I've repeated this many times, and I'm really not taking anything off the table. If we saw some transaction that might work, we would consider it. But this strategy -- sort of the culmination of this strategy, I think, is 2 things. Number one, over the past 3.5 years, we've created quite a franchise, and we're very proud of that. You can see our sales, you can see our sales in the fourth quarter, and we've been able to repurchase almost 28% of the company, which we think is a value-creating positive exercise and will pay off over time.

So that's the strategy. Conor, maybe you might want to mention where we've come with respect to the liability changes that have happened on our balance sheet over a couple of years?

Conor Ernan Murphy - *Brighthouse Financial, Inc. - Executive VP & COO*

Sure. So in terms of the mix, the composition of the in-force, clearly, Shield has become a significant component. And as a reminder, when we became a separate entity, Shield only represented about 2% of our in-force, and that's grown by 12 points through to 2020. So now it's gone from 2% to 14% and the decrease is in the VA business, about 6 points in what we refer to as the capital-intensive and another 6% in the noncapital intensive.

And as we look out over the next pretty near-term horizon, kind of between now and maybe the end of 2023, we expect that change to continue to shift such that we'll end up by 2023, with Shield approximately 25%. And the capital-intensive block coming down to actually the same amount by 25%.

Now that would leave us with about 35% of the noncapital intensive, and then the remaining 15% is the fixed book. So right in line with the progress that we've talked about and a significant shift that's happening really every day.

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

Humphrey, it's Ed. I'd just add a couple of things. First of all, our financial strategy is the prudent acceptance of capital markets risk, supported by a strong cash and capital position. And that strategy does affect how we view the attractiveness of a block deal. The second thing I would say is, I think you know, we are focused on releasing capital from our VA business. And we have released substantial capital without a block deal. For example, with the derisked hedge strategy early last year, we were able to free up $1 billion of capital, which allowed for the substantial dividend we took from BLIC last year.

And in addition, as related to the pie charts that Conor is referring to, we're derisking every quarter with the natural attrition of our VA in-force block.

Humphrey Lee - *Dowling & Partners Securities, LLC - Research Analyst*

Appreciate the color. And don't get me wrong. I do think you've been executing very well since its separation. But anyway, I really appreciate the feedback.

Operator

Our next question comes from Ryan Krueger with KBW.

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

I had a question on buyback, not surprisingly. I guess I'm trying to understand the size of the authorization. It's lower than the last couple of authorizations and wouldn't get you to the $1.5 billion target. Are you taking a different approach where you are looking to do smaller authorizations, but potentially execute them and then re-up? Or is this a signal that you may not hit the $1.5 billion buyback target this year?

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

Thanks, Ryan. It's not a signal. It seems like in some of the reports, it's become a signal, but it is not a single. So let me say a couple of -- signal, let me say a couple of things about it.

First of all, we don't want to be in a race with ourselves, right? Like we did $200 million, then $400 million, then $500 million. And so naturally, just the next one have to be $600 million or something like that. When we did the $500 million last February, that was in conjunction with a pretty big change in the hedging strategy that freed up about $1 billion of capital. So you can sort of see there's a nice nexus there. And in this case, it's like, well, you could have done it any number of ways. But we thought, okay, we got a little bit to go on the current one. Let's do another $200 million. And then I'll just say right here, I would like to finish it off.

We have a goal. I've said all along, I want to hit that goal. And I certainly still want to hit it now. So no, it's not any signal other than -- I hope it makes sense, my comments about not kind of being in a race with ourselves.

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

Thanks that does. I appreciate it. And then, Ed, on your comment on normalized statutory earnings being pressured in the current low interest rate environment. Can you give any more detail on that? I guess is roughly breakeven your expectation? Or would you anticipate some positive statutory earnings in this environment?

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

Ryan. So first of all, the fourth quarter results were slightly positive for norm stat earnings. And it's -- I think it's important to understand the composition because we did have good VA earnings in the fourth quarter as a result of the market environment. This was offset by weak non-VA results, primarily driven by mortality. I think you and others have noticed that we did have elevated mortality in the fourth quarter. So I would just say that you don't see the underlying strength of the VA results in the fourth quarter because of the challenging mortality quarter.

Looking forward, we're not going to give a forecast or an outlook for norm stat earnings for. But I would say that when you get the distributable earnings tables, which we're not going to do a business update call in March. We are planning to release the distributable earnings tables in an 8-K. I think based on the scenarios we show, you'll be able to drive some sensitivities around rates. But while rates have come up, I mean, they're still at a low level. So we would expect some pressure on '21 norm stat earnings.

Operator

Our next question comes from Tom Gallagher with Evercore.

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

Just a follow-up on Ryan's question, Ed. So the $250 million dividend you're expecting to take from BLIC in 2021. Would you say that -- does that contemplate keeping RBC flattish. Meaning would you expect all things equal to earn or build that amount of capital throughout the year? Is that sort of the way you're thinking about it? Or would you expect, since you're above your RBC target to be potentially drawing down your RBC? I just want to understand, is the intention here to get to around the 450% RBC, thus, we should expect a draw down? Or do you -- would you like to maintain an RBC buffer for the time being?

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

Tom, I mean, I guess I would say that over time, in a normal market environment, we would want to get -- we would want to be in the range of the 400% to 450%. So I don't want to give a specific number for RBC for year-end. I mean, we have not done that. And I don't know that we want to start doing that now. But I think it's fair to say that over time we would plan to work to that target range of 400% to 450%, which we believe gives us a significant cushion to absorb the bad things that can happen from time to time.

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

Got you. And I guess, Eric, the thinking about the level of holdco cash now. I think your holdco target is $400 million. You're $1.3 billion above that. I guess the first commitment here on buybacks is simply to use what you're dividending up from BLIC for the year. That will still leave you with this significant cushion over and above your target.

I mean how are you thinking about that? That's -- it's a sizable amount. Would the intention here to be just keep doing more buybacks given the current valuation? Or are you considering other uses for that cash? It's just so sizable relative to market cap, it seems like the elephant in the room at this point.

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

Yes, I got it, Tom. Look, we are thinking how many times we've said the words prudent and flexibility this morning. Maybe we're overdoing it a little bit. But look, we're still in a global pandemic. You see where rates are. We're very proud of this franchise, and we want to protect it. We're thrilled with the situation we find ourselves in with distributors, and we want to make sure that they're comfortable, et cetera. But your point is well taken. Over time, I would answer this question kind of the same way that Ed just answered your RBC question.

Over time, we would expect that number to come down. Now I really like the flexibility that $1.7 billion allows you. But over time, I'd like that -- to return that to shareholders. And when you think about what we've done so far with respect to buybacks, that obviously is a little bit of a road map with respect to what we do in the future.

I'm certainly not going to announce any new targets or anything today. But over time, I would expect that number to come down.

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

Okay. And then -- sorry, Eric, just 1 follow-up. Based on where the stock is today, is it a no-brainer that you would be thinking just share repurchase? Or is there -- are you thinking anything aside from share repurchase?

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

Obviously, 1 of the things you may be referring to is a dividend. Look, obviously, we have these discussions, and we've had these discussions with the Board. I have nothing to announce today, but I would say, in keeping with our phrase, prudence and flexibility. I mean we'll consider whatever we think could help create shareholder value. That's how we think about this. And that's how we'll continue to think about this. Ed, do you want to add anything?

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

Yes. Tom, just 1 thing I just would point out here is we've obviously shown a willingness to return substantial capital to shareholders. As Eric pointed out, a 28% decline in shares outstanding since separation is obviously a sizable number. And importantly, we believe that the actions we've taken to date on share buyback will prove to create substantial value over time, given that our average repurchase price since the inception of the program is less than $32 a share.

But at the same time, we have to consider that we think the greatest value we can create is supporting our distribution franchise so we can continue to grow sales and shift our business mix. And so while we're probably all getting tired of saying prudence and flexibility, we're going to continue to manage the balance sheet with those 2 words. And it's because it's the right thing to do for the business.

Operator

Our next question comes from Yaron Kinar, Goldman Sachs.

Yaron Joseph Kinar - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I'll probably take a little bit of a break from the capital questions. I was just curious, looking at the annuity sales this quarter. Deferred annuities, fixed deferred annuities are up quite a bit, again, year-over-year, second quarter in a row. Can you maybe talk about what drove that? And in light of that, why do you expect those sales to be down or lower in 2021?

Conor Ernan Murphy - *Brighthouse Financial, Inc. - Executive VP & COO*

Yes. It's Conor. Yes. So I would say, maybe similar to the third quarter, the fourth quarter remained a favorable quarter for fixed annuities in the industry. I think LIMRA are citing a 41% increase compared with the fourth quarter of the prior year. Obviously, we offer a competitive product. We have a beneficial reinsurance agreement, a lower expense base. But we had some rate decreases as well. We had a rate decrease in the third quarter and in the fourth. We obviously had -- we had a good quarter focused on a few select firms, and we had customers looking for the product. However, we don't expect to sell as many fixed annuities in 2021 as we did in 2020.

Yaron Joseph Kinar - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

And why would that be?

Conor Ernan Murphy - *Brighthouse Financial, Inc. - Executive VP & COO*

Well, we don't expect the market will be as hot necessarily. The rate increases will impact that as well. So we think in terms of where the -- where our growth opportunities are, they're going to lie more in the other products. And perhaps I can turn it over to Myles, and he can talk about maybe where it might come from instead.

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

Yes. Thank you, Conor, and I reiterate all those comments. I think that our focus next year will be growing our core business as it relates to our annuity franchise with a real focus on Shield sales. We are looking to introduce some new product features with our Shield products sometime midyear next year and continuing the momentum that we've had throughout 2020 with the sale of our Flex Access product.

Conor Ernan Murphy - *Brighthouse Financial, Inc. - Executive VP & COO*

You got -- Yaron, sorry, I just want to correct. My rate changes, we had decreases in rates in the quarter, I realized I may have said increases. We had a rate decrease in the third quarter and another rate decrease in the fourth quarter. So that's part of why we expect to have lower sales in 2021.

Yaron Joseph Kinar - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it, and thanks for that clarification. And then my second question, we saw some elevated mortality, I guess, in the quarter, that one be on COVID. I don't think it was unique to Brighthouse. Do you think -- is there some correlation there between the pandemic and the nonpandemic elevated claims, namely, should we expect that to maybe continue into the first quarter?

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

Ron, it's Ed. So our direct claims are in the range of $400 million to $500 million a quarter. And then we have reinsurance that may bring us down, let's say, in the neighborhood of $250 million in a more normal quarter. But if you focus on the direct claims of $400 million to $500 million in a typical quarter, we had closer to $600 million this quarter.

So a portion of that is COVID as we discussed. And then a portion of it is just volatility that we see from time to time in our frequency and severity. And there is nothing that we see that's systemic. This was not a good quarter for mortality. And it's going to bounce around. And we're talking about a number that's that large. Obviously movement in that number can have a meaningful impact on quarterly earnings.

Yaron Joseph Kinar - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Right. I guess what I'm trying to get at is, do you think some of that volatility, ex COVID, is still related to the pandemic? I don't know, people not getting their checkups or whatever it may be. And therefore, would you expect that to maybe carry into 1Q of this year? Or do you really see it as uncorrelated volatility that could swing any which way any given quarter?

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

Yes, we don't see any indication that there's a COVID-related impact here.

Operator

Your next question comes from Elyse Greenspan with Wells Fargo.

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

My first 1 on -- Ed, on the dividend that you guys expect to take, so especially the $250 million from BLIC this year. Just interested in the timing there. And then if given the timing, should we expect share repurchase maybe given the flexibility, the conservatism you pointed to taking it with the holdco capital, should we expect buybacks to be more weighted to the timing of when that dividend takes place?

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

Elyse, we are not going to commit to any specific timing on the dividend. And I guess I would say that I don't really think that the timing of the BLIC dividend would, in any way, influence the timing of -- or pace of our share buyback, considering the amount of cash we have at the holding company.

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

Okay. That's helpful. And then my second question, some of the operating expenses seems elevated in the quarter. I know you just said there's typical kind of quarterly seasonality and costs run a little bit heavier in the fourth quarter. Was it just that? Or is there anything else that was kind of maybe one off within your operating expenses in the fourth quarter?

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

Yes. Okay. So what I think probably maybe it makes sense to spend a minute here on trying to help pull all this together because I know we've gotten a question on mortality, now we're on expenses. And I know that there's interest in run rate.

And so maybe I can make a bit more of a global answer to this question. It kind of addresses a number of things, including expenses, if that's okay?

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

Yes, that would be great.

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

Okay. So last quarter, I said that I thought our quarterly run rate EPS was in the neighborhood of $3 a share. And I would continue to think that it's still in the neighborhood of $3 a share. If we look at the fourth quarter, we had very strong alternative investment returns, as we've already discussed, and that really drove our favorable net investment income relative to what we would consider to be a normal quarter.

And that was probably around $1.15 a share, let's say. If you look at the mortality, as I discussed around the direct claims being closer to $600 million versus the $400 million to $500 million normal level, that was the primary driver of the overall unfavorable underwriting we had in the quarter, which in total, roughly offset the benefit that we had from the alts. So those 2 cancel each other out.

When we're looking at the rest of the items, the favorable market impact that we identified is $0.47 a share. There is a good portion of that, maybe somewhat less than half of that, that would be related to the expenses being at an elevated level relative to run rate in the fourth quarter. And I think as I pointed out, it's not atypical for the expenses to be higher in the fourth quarter.

And then the final adjustment you'd want to make is we did have a true-up in the fourth quarter for the full year tax rate. So I think you saw that the corporate and other line was a bigger loss. It was driven by this tax adjustment. And that true-up, the out-of-period adjustment that impacted fourth quarter earnings would roughly be the balance of this favorable market impact.

So if you put these expenses and the tax true-up together, they roughly offset the favorable market impact, if you look at underwriting, it roughly offsets the alts. So you're back to $3 per share as a, I would say, kind of a normal quarter.

Operator

Our next question comes from Tracy Benguigui with Barclays.

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

How should we be thinking about your distribution relationship with MassMutual in light of their upcoming acquisition of AFG's life Insurance business, whose product suite kind of looks like yours? And if you could also remind us the level of dependence you have on them more broadly for marketing purposes?

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

Yes. Sure. It's Myles speaking. So certainly, we wish our friends well at MassMutual with this new transaction. I mean we remain very pleased with our partnership with MassMutual. And our focus there will continue to be our ability to best support their advisers. They're a meaningful relationship of ours. But as we continue to grow distribution at other firms and other channels, they do represent a smaller portion of our overall sales.

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

Okay. And maybe I'll stick on the topic of sales and some of the comments you made earlier, Myles, when you were talking about fixed annuities and shields. I'm just wondering if the fixed annuity sales were driven by MIGA, if that seemed to be the case in third quarter, and we just didn't have appetite for that product? And on the Shield side, maybe you could just provide a little bit more color on your comment about adding some product features as that market is becoming more crowded. I'm wondering if you'd be offering like [GLB] or other types of, I guess, riders to that?

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

So I'll start with the fixed business. Roughly 84% of our business on the fixed deferred product came from our MVA product, about 56% was our 3-year product and about 43% was our 5-year product.

As it relates to Shield, obviously, there's a lot of competition in that space right now. As it relates to our market share, we feel really good about it. The fourth quarter of last year was our best quarter as Brighthouse with Shield sales. So we believe our product is still very competitive. And we're working through what kind of features that we're going to want to include on the product, which we believe will launch sometime midyear.

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

Okay. But would it change the risk characterization since you are trying to move away from capital intensive business?

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

Conor, I'll let you take that one?

Conor Ernan Murphy - *Brighthouse Financial, Inc. - Executive VP & COO*

Yes. I would say, look, we are pleased with the returns on all of our products, but I would say that Shield is our core product and it will continue -- we expect it will continue to be a core product. And while we will continue to -- may tweak the product a little bit and add enhancements and so on, we will do it by maintaining our expectations in terms of the economics as well.

Operator

Our next question comes from Andrew Kligerman with Crédit Suisse.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

Maybe just 1 for Ed. Ed, I know you mentioned earlier in the call that you didn't want to project normalized stat earnings. But it's $0 or a little -- slightly positive in the quarter, negative $400 million for the year. So -- and it's a Brighthouse metric. So I'm kind of curious, like, could you give us a sense of what normalized stat earnings are, just maybe a number there. And then with that, maybe reconciling it to the fact that your total adjusted capital was up $200 million despite a $500 million subsidiary dividend?

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

Okay, Andrew. Let me start with the second question, I'll come back to your first one. Because the second question maybe is a more satisfying answer than the 1 you'll get for the first one, but we'll try to help you out. So you've heard me talk in the past about convergence and divergence as an explanation for why you will see more volatility in total adjusted capital than you will see in the RBC ratio under VA reform.

So think about the fourth quarter as being a very good quarter, right, for markets. And so you saw an increase in tax sequentially of $200 million, even though we took a $511 million dividend, right? And the reason for that is that when good things happen, they tend to get reflected in your CTE70 reserves, which impacts your TAC. The opposite occurs when you have bad things happen. The RBC ratio, however, and is based on the total adjusted -- the total asset requirement at CTE98, which is more of a tail-type set of scenarios. And it doesn't move as much.

So you have more stability in that figure, whereas the TAC will move more based on movement in CTE70. The same concept applies to norm stat earnings. As -- remember, 1 of the key adjustments to get to norm stat earnings is we replace the change in reserves at CTE70 level with the change in total asset requirement at CTE95.

So it's not surprising that you don't see the link between the change in TAC and the norm stat earnings number, considering the fact that we have this divergence at play in norm stat earnings as well. The -- going back to your first question, what I would say is, it is easier to talk about a figure like norm stat earnings by thinking about distributable earnings and thinking about it over a multiyear period. So -- and under different scenarios. So if you look -- just maybe you could just be a little bit patient because we will get something out to you within a relatively short period of time when we release our distributable earnings tables. But you'll see distributable earnings under different market scenarios over a multiyear period.

And you can think about those distributable earnings figures being tied to a norm stat concept because the norm stat is capital generation above the CTE9s, right? It's above CTE95. And obviously, CTE98 is what matters for RBC. But we're not giving an annual expectation for norm stat earnings. It is volatile. We would expect, over time, as we continue to shift our business mix, that there will be more stability to norm stat earnings and distributable earnings, but it will take time.

And for now, I think what I would suggest is by looking at the different scenarios that we're going to give you in March, and the distributable earnings over a multiyear period that, that should give you some sense of how to think about norm stat earnings.

Andrew Scott Kligerman - *Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst*

Great. That was helpful, and I'll look for those sensitivities. And then just a quick follow-up on Conor's early comments about fixed annuities and lowering the rates. Conor, where did the -- where was the rate in the fourth quarter? And where did you bring it? And I know maybe there are different products, but in general, where were the fixed annuity rates?

Conor Ernan Murphy - *Brighthouse Financial, Inc. - Executive VP & COO*

I'll give you a general sense. We were coming into the quarter, and we have various products and various lengths, but we were in the -- above the 1.5% range and we're closer to a 1% range, broadly speaking, after the rate change or -- yes.

Operator

Our next question comes from Erik Bass with Autonomous Research.

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

I want to go back to the annuity sales outlook, and Myles, I don't think you mentioned the BlackRock product in your discussions. So just wondering, is that something that you expect to start to see material sales in 2021? Or is that more of a longer term opportunity?

Conor Ernan Murphy - *Brighthouse Financial, Inc. - Executive VP & COO*

It's Conor. Actually, I'll take that one. Yes. So BlackRock, obviously, we're very, very excited about the opportunity with BlackRock. We're working closely with them, obviously, taking their lead as well, but remain very bullish on the product and how it's going to help Americans. But it's a new category for us and for them, it's going to take a little bit of time. So we don't -- we haven't actually talked about what the sort of the financial expectations are, and we likely won't do that for a little bit longer here as well. So stay tuned on that one.

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

Got it. And maybe 1 other 1 for you, Conor. I think you mentioned that lapse trends in the older VA block have started to normalize. So maybe if you could touch on that a little bit more?

Conor Ernan Murphy - *Brighthouse Financial, Inc. - Executive VP & COO*

Yes. Sure. Yes, honestly, I would describe Q4 as being very consistent with our expectations. It looks very much like Q1, actually. So around that $3 billion number in terms of the outflows, the composition, it's very consistent. So about half of it being full withdrawals, about 1/3 of it being partial withdrawals, 15% deaths and a couple of percent annuities. So really -- pretty normal, and I am not -- I would say that's our expectation heading into 2021 as well. So we'll see.

Operator

Our next question comes from John Barnidge with Piper Sandler.

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

Going back to the MassMutual distribution question. You talked about it wanting to distribute more than just through them. Can you talk about what percent of sales went through MassMutual in 4Q '20 versus maybe at the time of spend and as compared to a year ago? So we can get a better sense of how you've been building greater distribution partners.

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

Yes. I mean we've done a lot -- it's Myles again. We've done a lot as far as expanding distribution, both within certain product categories, bringing on new firms, and we successfully launched a new FIA product into the traditional IMO channel this year, SecureAdvantage 6-year. And we were really pleased with our results of about $325 million of sales given the macro environment with pandemic. So our distribution network is growing outside of MassMutual. And as I said a few moments ago, MassMutual represents a smaller portion of our sales, and that's been consistent over the last few years, but they remain a very important relationship of ours.

We provide dedicated wholesaling to them. And our focus is still to provide them the same level of support and continue to grow sales there in the future.

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

Is it a majority of sales today?

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

Majority of our overall sales today? No.

Operator

Our next question comes from Tom Gallagher with Evercore.

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

Ed, just a quick follow-up, the gross life claims this quarter of $600 million. What was the net number?

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

Tom, it was between $350 million and $400 million. It was like $360 million. I believe, 360, something.

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

Okay. Because that's that's a meaningful delta, right, relative -- like normally, it's 50%. And is there anything -- was that -- is that just because you're retaining more? Or was that just unfavorable reinsurance participation relative to normal?

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

Yes, it's nothing other than we believe normal mortality. I mean the -- we have this big direct claims number every quarter, and we have reinsurance percentage that will move around based on where reinsurance coverage is and where it's not. So it's those 2 elements combined that creates the volatility that we see.

Operator

Our next question comes from Suneet Kamath with Citi.

Suneet Laxman L. Kamath - *Citigroup Inc., Research Division - MD*

Eric, I think in your opening comments, you talked about 1 of your goals around capital is to protect the distribution franchise, if I heard it right. Is that sort of a message that around your ratings? And then if your ratings were higher, perhaps you'd be able to generate a higher level of sales. Just wondering if that's what you were getting at there.

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

Suneet, no, not really. It was just an overall sort -- look, we're -- we work really hard for our distributors. And they're just -- they're fantastic partners across the board. So it helps them when they see a strong balance sheet and us working on new products, et cetera, but no, there was no other message in that.

Suneet Laxman L. Kamath - *Citigroup Inc., Research Division - MD*

Got it. And then I guess, if we think about sales strain kind of going forward, your life sales have sort of been in the mid-teens here for the past couple of quarters. I'm assuming you want to get that higher? I think you talked about annuities flipping from outflows into inflows. So can you give us a sense on where you see kind of the sales strain going in 2021?

I don't know if you want to benchmark it relative to like earnings or or something along those lines. But just wondering if that's going to be a use of your sort of excess capital?

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

Yes. Suneet, it's Ed. Yes, we will -- if you recall last year, when we gave the the DE figures, we gave some indication of strain and the related impact. I expect that, that would be a topic we would be willing to discuss around the time of the DE tables. But I would say, generally, I wouldn't think it's a meaningfully different story than what we had talked about last year.

Suneet Laxman L. Kamath - *Citigroup Inc., Research Division - MD*

Got it. And did you say you're having a call when you put out the DE tables?

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

No, we're not having a call. We're going to put it out in an 8-K, and then we will set aside time to, obviously, to answer as many of your questions as we can.

Operator

Thank you. Ladies and gentlemen, I will now turn the call back over to Mr. Rosenbaum for any closing remarks.

David Rosenbaum - *Brighthouse Financial, Inc. - Head of IR*

All right. Thank you, Josh. And thank you all for joining us today for your questions and for your interest in Brighthouse Financial, and I hope you have a great day.

Operator

Thank you. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.