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EDITED TRANSCRIPT

BHF.OQ - Q4 2019 Brighthouse Financial Inc Earnings Call

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OVERVIEW:

Co. reported 4Q19 adjusted earnings, less notable items, of $265m or $2.46 per share.

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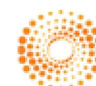

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Brighthouse Financial's Fourth Quarter 2019 Earnings Conference Call. My name is Shannon, 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 2019 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, and we will refer to the slide presentation in our prepared remarks.

Today, you will hear from Eric Steigerwalt, our President and Chief Executive Officer; followed by 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, including those 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, 2020. The company undertakes no obligation to update any information discussed on today's call.

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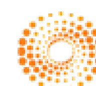

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During this call, we will be discussing certain financial measures used by management that are not based on generally accepted accounting principles, also known as non-GAAP measures. Reconciliations of these non-GAAP measures on a historical basis 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 base 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. 2019 was a very strong year for Brighthouse Financial as we made significant progress executing our strategy. I am very pleased with our outstanding results in 2019 as we exceeded our targets for sales, normalized statutory earnings and adjusted earnings per share, less notable items. Importantly, we significantly strengthened our capitalization, ending the year with approximately $9.7 billion of statutory total adjusted capital, up $2.3 billion compared with 2018, and with an estimated combined RBC ratio of approximately 550% for 2019.

We also achieved several strategic milestones. First, we successfully managed through early adoption of variable annuity capital reform, contributing to the significant growth of statutory total adjusted capital in 2019. Second, we introduced Brighthouse SmartCare, our first new life insurance product launch as a public company. And finally, we completed the full transition to our multi-manager investment platform.

In addition to the strategic milestones, we continue to prudently manage our transition service agreements with MetLife to ensure a stage and systematic implementation of our operating platform. And we generated additional statutory capital through a focused effort on balance sheet optimization, including receiving approval to take a $600 million dividend from Brighthouse Reinsurance Company of Delaware. Moving forward, we believe that we are well positioned to continue the execution of our strategy, which we expect will drive shareholder value in 2020 and beyond.

As we have previously discussed, one of our goals is to be a consistent returner of capital over time, and we continue to make progress toward achieving this goal. We repurchased approximately $128 million of our common stock in the fourth quarter, and we've continued repurchases in the first quarter of 2020 with approximately $23 million of our stock repurchased in January. Since the announcement of our first stock repurchase authorization in August of 2018, and we have repurchased a total of approximately $570 million of our common stock through January 2020, well ahead of our initial expectations.

Last night, we announced that the company authorized the repurchase of up to an additional $500 million of our common stock. We currently anticipate fully utilizing this new authorization within the next 12 months. Assuming full utilization of this new authorization, we will have repurchased $1.1 billion of our common stock, more than 70% of the way towards our target of returning $1.5 billion to our shareholders by the end of 2021.

Now let me turn to fourth quarter results. Our key highlights for the quarter are summarized on Slide 3 of our earnings presentation. First, we had another strong sales quarter. We had approximately $1.9 billion of annuity sales, up 10% compared with the fourth quarter of 2018. We continue to be very pleased with our sales as well as the quality of new business we are adding each quarter. Additionally, we are continuing to see excitement from our long-standing distribution partners and remain focused on making our distribution network as broad as possible as we help consumers in the United States achieve financial security.

To that end, just last week, we launched our SecureAdvantage 6-Year Fixed Index Annuity. The launch of SecureAdvantage 6-Year represents the collaboration of Brighthouse Financial and Market Synergy Group, which gives us access to an exclusive network of independent marketing organizations and reflects our continued commitment to provide a tailored set of products that respond directly to client needs in a changing retirement landscape.

Moving to life insurance. We continue to focus on our hybrid life insurance product, Brighthouse SmartCare. We generated approximately $19 million of deposits in 2019. I am very excited about the strong sales momentum as we enter the new year, and we expect significant growth from SmartCare in 2020. We have made good progress adding major distributors for our SmartCare product with access to a network of over 56,000 advisers. And we intend to rollout this product to additional distributors over time.

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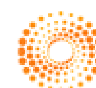

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Second, total annuity net outflows were approximately $1.2 billion in the quarter, down from the fourth quarter of 2018 and up sequentially due to normal seasonal variation. As we've said previously, we expect to see a continued shift in our business 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.

Third, corporate expenses, which do not include establishment costs, were $283 million in the fourth quarter, consistent with our expectations. We are still projecting $150 million of corporate expense reduction on a run rate basis by year-end 2020 and an additional $25 million of corporate expense reduction in 2021.

Fourth, we continue to make necessary investments in our technology infrastructure and in our businesses. We refer to these investments as establishment costs. In the fourth quarter, establishment costs were approximately $32 million before tax and $118 million before tax for full year 2019. We believe establishment costs will be around $150 million to $160 million in 2020 and $25 million to $35 million in 2021, both on a pretax basis. As I've said before, we're being prudent in how we are managing our way through our expected final couple of years of TSAs. These TSA exits and associated system transitions put us one step closer to our future state operating platform.

Next, let me touch on our earnings results. Normalized statutory earnings were very strong in the quarter at approximately $600 million, bringing the 2019 total to roughly $1.9 billion. Adjusted earnings, less notable items increased sequentially to $265 million for the fourth quarter of 2019 or $2.46 per share. Full year adjusted earnings less notable items were approximately $1.1 billion or $9.58 per share, a 15% growth in adjusted EPS less notable items compared with 2018.

And finally, we continue to prudently manage our statutory capitalization. As I mentioned, at year-end 2019, our estimated combined risk-based capital or RBC ratio was approximately 550%, with total adjusted capital of approximately $9.7 billion and approximately $1.7 billion of assets above CTE98. Going forward, we plan to discuss our capitalization using RBC rather than CTE because under variable annuity capital reform, the regulatory framework now aligns with how we manage the business.

Our hedging program continues to perform well across a wide range of economic conditions and in line with our expectations. In the fourth quarter, we made revisions to our variable annuity hedging strategy that fundamentally lowered the risk profile of the company and preserves distributable earnings across different capital market scenarios. Ed will discuss these revisions in a moment.

Before closing, and as we announced last night, we plan to hold a business update teleconference and webcast for analysts and investors on March 5, 2020, at 8 a.m. We will provide additional details closer to the call.

To wrap up, we delivered outstanding results during 2019 as we continued to execute on our strategy. Our sales remain strong. Our variable annuity hedging program continued to perform well, and we repurchased more of our common stock. Additionally, we have taken steps to optimize our statutory balance sheet, resulting in significant capital generation as we reduced risk in our variable annuity hedging program. Going forward, we remain confident in our strategy, which we continue to believe will enable us to generate long-term value for our shareholders, our distribution partners and the clients they serve.

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

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

Thank you, Eric, and good morning, everyone. I am very pleased with our results in the fourth quarter and for the full year of 2019. Our statutory metrics have continued to improve as evidenced by our strong capital position, our normalized statutory earnings and the performance of our variable annuity hedging program. And as a result of early adoption of variable annuity capital reform, we now have a statutory framework that aligns with how we manage the business. Given that we manage the business on a statutory and cash basis, I will start off by walking through our statutory results, and then I will discuss revisions to our variable annuity or VA hedging strategy, which have positive implications for cash and capital. I will finish up my prepared remarks with comments on adjusted earnings for the fourth quarter.

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To start off, statutory combined total adjusted capital was approximately $9.7 billion, up $1.3 billion sequentially. The increase this quarter was driven by 2 factors: strong statutory earnings and a $600 million dividend from Brighthouse Reinsurance Company of Delaware or BRCD. This is the first dividend from BRCD since the separation from our former parent company. Normalized statutory earnings were approximately $600 million in the fourth quarter as business fundamentals were driven by strong equity market performance and favorable underwriting. Year-to-date normalized statutory earnings were approximately $1.9 billion, primarily driven by strong equity markets and favorable hedge performance.

Turning to our VA risk management program, our hedges continue to perform well and in line with our expectations. Assets above CTE98 were approximately $1.7 billion at December 31, a $200 million increase compared to the third quarter. Over the past 2-plus years, our VA hedging program has performed in line with our expectations, and we have captured approximately $1 billion of market upside. We have benefited from a strong stock market at the same time that Brighthouse has become a much different company relative to when the initial hedging strategy was implemented. We have successfully established our brand, sales are significantly higher and growing, and our statutory capital level is substantially above where it was in 2017. Given these developments, we believe it is prudent to adopt a lower risk strategy going forward.

We have revised our VA hedging strategy to reduce risk, preserve distributable earnings across market scenarios and protect the capital generated from the market upside experienced to date. With this revised strategy, we plan to operate with a first loss position or deductible of no more than $500 million and are, therefore, comfortable operating with a smaller cushion relative to CTE98 in normal markets. As a reminder, our initial VA hedging strategy assumed we would have a $2 billion deductible in 2020. And throughout 2019, this deductible was in the $1 billion-plus range. Also, keep in mind that the first loss or deductible concept is related to the hedge target and normalized statutory earnings. The impact to statutory reserves and thus total adjusted capital could be greater than the maximum loss. But if it was, there would be a substantial offset in required capital.

I would also like to reiterate that with the adoption of VA capital reform, our regulatory framework now aligns with how we manage the business. Given this alignment and the fact that we have a large non-VA business, going forward, we will discuss our capitalization using projected and actual combined RBC ratios rather than CTEs. We estimate our 2019 combined RBC ratio at approximately 550%. This is well above our RBC ratio target of 400% to 450%. Additionally, our 2020 total subsidiary ordinary dividend capacity is roughly $2.1 billion. As a result of the substantial reduction in our deductible and strong capitalization, we currently plan to pay more than $1 billion of dividends from Brighthouse Life Insurance Company or BLIC in 2020. As Eric mentioned, we plan to have a business update call for analysts and investors on March 5, where we will provide an update on VA distributable earnings, which will incorporate the revision to our hedging strategy as well as the related sensitivities.

Before I move on to adjusted earnings, I would also like to mention, as of the end of the fourth quarter, our average financial leverage ratio was approximately 25% and our holding company liquid assets were approximately $800 million, which is flat sequentially and roughly 4x our annual fixed charges.

Moving to adjusted earnings. Last night, we reported fourth quarter adjusted earnings, excluding the impact from notable items, of $265 million, which compares with adjusted earnings on the same basis of $260 million in the third quarter of 2019 and $199 million in the fourth quarter of 2018. There were 2 notable items in the quarter, which, on a net basis, increased adjusted earnings by $17 million. The notable items on an after-tax basis were: a $42 million benefit from further refinements to certain actuarial assumptions and establishment costs of $25 million in Corporate & Other. Sequentially, adjusted earnings less notable items were driven by the positive equity market performance in the fourth quarter, along with better underwriting margins, partially offset by lower net investment income and an increase in corporate expenses.

With respect to the market performance impact, separate account returns were positive 6.1%, driven by the favorable equity performance in the quarter. As a result, DAC amortization and reserves decreased sequentially for a combined impact to adjusted earnings of $34 million or $0.32 per share. The sensitivity of DAC amortization and reserves to changes in separate account returns was slightly below the guidance we have given that every 1 percentage point change in separate account return equates to $0.07 to $0.11 per share.

Next, net investment income decreased sequentially. Alternative investment income was lower as the return was 2% in the fourth quarter compared with 3.6% in the prior quarter. Asset growth, driven by our continued strong sales momentum, was a partial offset.

Moving on to our life insurance businesses. Sequential results were favorably impacted by improved underwriting margins. Overall, underwriting was favorable relative to what we consider to be a normal quarter.

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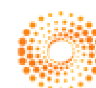

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Lastly, corporate expenses were $283 million, up approximately $35 million before tax compared to the third quarter and above the normal level, which brought full year 2019 corporate expenses slightly above the 2018 level. As Eric mentioned, we still expect a reduction of $150 million of corporate expenses on a run rate basis by year-end 2020 and an additional $25 million of corporate expense reduction in 2021.

Turning to adjusted earnings at the segment level starting with Annuities. Adjusted earnings excluding notable items were $223 million in the quarter. Expenses were higher, and fees were lower sequentially, which had an unfavorable impact on earnings. This was partially offset by the favorable market impact. Adjusted earnings excluding notable items in the Life segment were $75 million in the quarter. Sequentially, results were impacted by lower claims, partially offset by lower net investment income. The fourth quarter reflected a strong result for the life insurance segment. Results for full year 2019 were modestly better than 2018 and in line with our expectations. The Run-off segment reported adjusted earnings excluding notable items of $6 million in the quarter, which were comparable to the prior quarter. Corporate & Other had an adjusted loss, excluding notable items of $39 million. Sequentially, results were driven by higher taxes.

Overall, I'm very pleased with the results this quarter. We increased our already strong capital position, and we continue to prudently manage our statutory balance sheet as we shift our hedging strategy to reduce risk, preserve distributable earnings across market scenarios and protect the capital generated from strong equity market returns since separation. Finally, adjusted earnings per share less notable items were solid in the fourth quarter and grew 15% in full year 2019 and compared with 2018.

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 Andrew Kligerman with Crédit Suisse.

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

So I'd like to focus on the hedging. In the second and third quarters of 2019, Brighthouse had reported substantial benefits from, I think, kind of increasing the hedging for interest rates. I think you generated $600 million or $700 million of incremental benefit. And so the question is, has that strategy changed, given that we're looking into 2020 and we've already seen the 10-year down maybe 30 bps? So what might be the effect on 2020 capital as a result of hedging this year? But has that strategy changed from what we saw in 2Q and 3Q?

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

Andrew, it's Ed. So I think I'll start off by the comment on normalized statutory earnings of $1.9 billion was significantly benefited from the strong market and the favorable hedge performance, as I said in my prepared remarks. So our old strategy really allowed us to capture the benefit of significant up markets. So the significant statutory earnings we had last year really reflected that market capture strategy. So as we look forward, we're talking about a strategy that will have a more consistent distributable earnings profile and will not be looking to capture upside to the same extent but will obviously have a very significant benefit in terms of limiting downside. So the idea of preserving the significant statutory earnings we had last year is really a key driver. When you think about interest rates, we will continue to protect ourselves against low rates. So you -- as you pointed out, and I don't know that the number is as large as what you stated, but we did see a significant benefit last year from our rate hedges. We continue to have significant rate protection, and that will be an element of the revised strategy as well.

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

Good. Yes. No, I really like that shift in strategy. And just kind of rounding it out, so you talked about putting capital at risk of $500 million, definitely more prudent versus the potential for $2 billion. And I'm wondering how to think about the cost because I think just as recently as last quarter, the

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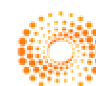

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amount at risk was about $1.2 billion or $1.3 billion. So could -- Ed, could you give us a little change? What's the delta in the hedging costs that we might see going forward into earnings?

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

Okay. Andrew, it's Ed again. So as you pointed out, the key element of this revision is we're moving from a high deductible strategy to a low deductible strategy. So the benefit here is we obviously have a meaningful reduction in our losses in stress scenarios. In addition, this does allow us to preserve distributable earnings across more market scenarios, which we think is a key element as well. In terms of the hedging program, we are moving to more -- or we have moved to more symmetrical hedges, which means more swaps and less options.

So when you think about hedge costs, right, I would just say the way we think about is you've got sort of the fixed cost element of it, let's say, the premiums you're paying on options and the related time decay and you also have the mark-to-market from gains or losses in the equity market. So as we have moved to the symmetrical strategy and away from options to swaps, we have a reduction in the time decay element of our hedge costs. But it does mean that our hedge gains and losses are going to be more sensitive to market movements.

So in the context of total hedge costs defined as I've just stated, I think the way to look at this would be, in down markets, we obviously have a significant benefit because of the much smaller first loss position. In flat markets, we have significantly reduced hedge costs with the revised strategy. In what I would call normal markets, the hedge costs are pretty consistent. And finally, in significant up markets, we would have more hedge costs associated with the revised strategy. But keep in mind that we continue to benefit when the equity market goes up, driven by the future fees associated with our VA account balances. But in down markets, we have substantially reduced the maximum loss we would expect to see.

Operator

Our next question comes from Tom Gallagher with Evercore ISI.

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

First question is the more than $1 billion dividend that you expect to take out of BLIC in 2020. What are your plans with that? Clearly, that's going to give you a lot more at the holding company than the $500 million buyback? Are you planning on reducing leverage? Or what are your thoughts on that?

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

Tom, it's Ed. So let me be a little bit more specific about the dividend plan. So we plan to take $1.25 billion from BLIC in 2020. And when you think about that number, approximately $1 billion of that dividend relates to the revised hedge strategy. And the other $250 million you could think about as more the normal dividend we would have anticipated taking even before we revise the strategy. So as you pointed out, we ended the year with $800 million of cash and liquid assets of the holding company. If you think about that dividend from BLIC and you compare it to the new share buyback authorization, I think you can see that the plan is we would continue to see an increase in cash and invested assets at the holding company.

We think it's prudent at this point to build some flexibility at the holding company. And I think that just overall prudence around cash at the holding company, invested assets to the holding company, prudently managing the risk-based capital ratio down to our 400% to 450% target over time, I think this is going to be the type of -- what you think you should see or expect to see from us consistent with what we've been saying all along. In terms of the buyback because I'm anticipating that as you go through this math, you see that the capital position, the cash position is very strong. We think that returning a double-digit percentage of our current equity market capitalization to shareholders in the form of a buyback is a pretty compelling value proposition.

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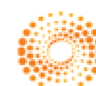

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Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

So Ed, the -- so the plan would be to run with a lot -- with that excess amount, you'd probably be what up to maybe almost $1.5 billion at the holding company, but the plan would be to just run with a lot more excess at the holding company for the time being?

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

Correct.

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

Okay. And then my follow-up is, Ed, I heard your comment about the distributable earnings under a range of scenarios. Can you provide a little more context about how we should think about quantifying that a bit in terms of whether it's in proportion or -- percentage terms of GAAP earnings or dollar amounts in terms of baseline expectations for ongoing cash flows and dividendable earnings that you would expect to be able to take out of BLIC and the other subs every year? Because I think the biggest question that has surrounded the Brighthouse stock has been the lack of a cash flow story that people can kind of wrap their head around on a consistent basis. So any way you can kind of frame that would be helpful.

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

Okay. So I guess the first thing I would say is this -- the plan to take the dividend from BLIC this year is the first dividend that we are taking out of BLIC since separation. And $1.25 billion is a pretty good number. Of that, the $250 million is more indicative of what we would consider to be a more normal dividend from that operating company. And you've heard us talk about the $60 million to $70 million normalized run rate we think we would see from NELICO.

You also heard us discuss on the call last quarter about the approximately $200 million of flows that we get to the holding company associated with other flows than dividends. So that gives you a sense of kind of what comes in, in a normal year. We're going to have to wait until our business update on March 5 to get into the specifics on the distributable earnings under scenarios.

As you can appreciate, we're still sort of finalizing all of that analysis based on year-end. So we'll have to hold off on that. But the one thing that I would sort of direct you to, to maybe help you out here is the comment I made about hedge costs. Under the base scenario, we wouldn't expect a material difference in our hedge costs with the revised strategy versus the old strategy. And I think I'm not going out on a limb here to say that in a bear scenario, this is clearly a lot better considering the significant reduction in the deductible from $2 billion to -- up to $500 million.

Operator

Our next question comes from Ryan Krueger with KBW.

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

On your comments on dividends from BLIC, I guess you didn't mention the $600 million that went into BLIC from Brighthouse Re. Is that something you also plan to dividend up to the holding company over time?

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

Ryan, it's Ed. Yes, thank you for bringing that up because I mentioned that the dividend we are taking from BLIC in 2020 has nothing to do with the dividend we received from BRCD. So that obviously benefits our risk-based capital ratio. 550% is above our 400% to 450% target. And as you

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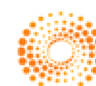

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alluded to, I think we would say the strategy is to manage toward that target over time. And the BRCD dividend clearly gives us more flexibility on a statutory basis.

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

Okay. And then can you -- you've made a lot of changes to the variable annuity hedge strategy. I guess in the context of all of this, can you just give us an update on your thought process on potential risk transfer solutions as well going forward?

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

Ryan, it's Eric. I've said since the beginning I don't think we've had a conference call where I haven't gotten this question. And my answer really hasn't changed. If there's a transaction that can add long-term shareholder value and is executable, then we would absolutely look at it. I would say and I hope it actually goes without saying a little bit here that anything we would consider doing in the future, we would consider doing from a position of strength.

Operator

Our next question comes from Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar - *JP Morgan Chase & Co, Research Division - Senior Analyst*

I just had a question on your -- just the overall competitive environment in the annuity market and your outlook for Shield. And specifically in the buffer annuity market because you've seen a lot of other companies come out with similar products to the Shield and you are growing fairly fast still, but at a slower pace than you were before. So just any comments on what you're seeing in terms of competitive trends in the market and your outlook for sales.

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

Sure, Jimmy. It's Eric. I'll start, and then I'll let Myles jump in here. Just the one thing I want to say is, we've had a number of years here of excellent sales growth. And while we're working really hard at Brighthouse, I got to thank our distribution partners and the advisers who work for them, they have done a terrific job for us. We continue to get inbound calls from new distributors. And we've got a new product that just came out. So let me turn it over to Myles, and he'll walk you through it a little bit.

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

Jimmy, thank you for the question. Yes. So we remain very pleased with our Shield results. Actually, the fourth quarter of last year marked our best quarter yet with Shield results. A big driver of that, as Eric just mentioned a moment ago, is that last year, for 3 firms was their first full year in selling our Shield product, and those 3 firms did about $800 million of incremental sales. So as we continue to add wholesalers and bring on new distributors as well as enter new channels with our Shield product, we remain very optimistic that we're going to be able to continue this type of growth.

Jamminder Singh Bhullar - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And do you think the competitive environment is still fairly rational in terms of other companies coming out with similar products and pricing terms that they're offering?

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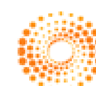

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Myles Joseph Lambert - *Brighthouse Financial, Inc. - Executive VP and Chief Distribution & Marketing Officer*

Yes. I mean, we like the competitive environment. We think it's a good thing for our advisers and consumers. It further validates the product category, and we like our competitive positioning within the product category. So we think it's a good thing.

Jamminder Singh Bhullar - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And just relatedly, how fast are you expecting your Life sales to ramp up? And are you expecting to rollout any additional products this year? Or is it mostly just through further distribution expansion of your -- the previously introduced product?

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

Yes, we're very pleased with the progress we're making with SmartCare. We're selling the product now through over a dozen firms. In the fourth quarter, we had $11 million of deposits for the second half of the year. We paid for about 250 cases. SmartCare will be our focus this year, but we are also looking to introduce new products in the foreseeable future.

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

Jimmy, it's Conor. And I'm just going to add as well. Maybe I can direct you back to what we talked about a couple of -- but a little over a year ago at the last outlook call, and which we'll talk about again at the next outlook call is we are looking towards substantial sales increase in the sales in Life over the coming years. And momentum has continued nicely here in the beginning of the first quarter.

Operator

Our next question comes from Alex Scott with Goldman Sachs.

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

First question I had was just on the statutory earnings you expect to generate? I guess, thinking through 2019, it's probably not great in terms of being representative of go-forward just because of the implementation of the VA reform and so forth. So I was wondering if you could help us out with that. I mean, is that expected to be roughly in line with the $250 million you mentioned? I mean, that sounds kind of light relative to what you've been calling normalized stat earnings. So I was just interested if there is some other use of the expected stat earnings?

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

Alex, it's Ed. So if you look at the comments I made on dividends, so $250 million expected from BLIC and, say, the $60 million to $70 million from NELICO, if you take that combination and then -- remember, we're growing. So as you just heard, there's a very good sales story here. Sometimes I don't know that it gets as much attention as it should. But there is some strain associated with that. And so if you're thinking about normal stat earnings, I'm not going to give you a number, but take those 2 dividends and assume it's something above that.

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

Got it. And could you frame how we should think about the amount of capital that's sort of being used for business growth?

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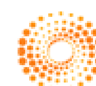

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Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

I think that is an excellent question to ask at our business update on March 5.

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

Okay. And then maybe one more housekeeping item quickly. Corporate expenses overall, I know you mentioned how much had come down. I think that was like the run rate for the 12 months after the IPO is relative to. But can you just frame how corporate expenses should come in, in 2020, and how that will trend down off the $283 million you had this quarter?

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

Yes. So first of all, this quarter was unusual. I think if you look at the $2.46 of adjusted earnings, the way to think about it is we have probably about $0.25 a share of unusual market favorability relative to our base assumption for separate account returns. And that was essentially offset fully by the operating expenses being above a normal run rate level. So the fourth quarter expense level is clearly not indicative of what we would expect in the first quarter of 2020 or throughout.

In terms of the target, the second half run rate of corporate expenses annual basis is $900 million, which is what we had given as our target for 2020, and that would be the $150 million reduction that you referenced versus the initial starting point of expenses.

Operator

Our next question comes from Erik Bass with Autonomous Research.

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

Maybe following up on that last question. I mean, you mentioned some noise specifically in annuities around the favorable market impacts in the fourth quarter as well as the higher expenses. So can you just help us think about the run rate earnings power of the Annuity business in 2020?

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

So what I think I'd rather do is maybe give you a little bit a help on the run rate earnings power of the company overall. So if you looked at this quarter, as I said, the big items would be the market and the expenses, and they essentially offset. There are obviously puts and takes every quarter. We talked a little bit about underwriting was a little favorable. But overall, the number is probably a pretty decent number to think about or maybe a little higher. And if you look out to 2020, I would be thinking about growth driven by the reduction in corporate expenses that we just -- that I just referenced and the full year impact of the buyback we had in '19 and whatever buyback you're going to see in 2020.

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

Got it. That's helpful. And then one for the hedging program. Just can you talk about the impact of shifting away from an options-based strategy on the required cash outlays for the program? And does that have free cash flow implications since, I guess, you don't have an upfront cost of purchasing options?

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

No. I think the cash implication is there can be more liquidity needed associated with a symmetrical hedging strategy, but that is not an issue for us at all. In terms of the distributable earnings, I would say, I go back to the comment I made that in a base type scenario, there is not a material

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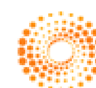

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difference in hedge costs between our new strategy and the old strategy overall. And again, hedge costs defined as premium that you're paying and the associated time decay with options and the mark-to-market gains and losses that you would expect to see with the symmetrical instruments like swaps.

Operator

Our next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst*

My first question, have you guys said approximately when during the year that dividend from BLIC should take place? And I guess, as we think about that and then share repurchase, should we just think about kind of consistent repurchases, I guess, throughout the 4 quarters? And just another capital-related question I'll throw it in there. It sounds with all the talk about repurchase that we should assume that that's the main capital return metric versus perhaps a dividend at some point to shareholders?

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

Elyse, it's Ed. So I think on the last question, yes, I think you should assume that buyback is the way we're returning capital to shareholders. I think in terms of the BLIC dividend, you probably should expect to see it spread out throughout 2020. And then remind me again your middle question.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst*

I was just asking about share repurchase. Should we think about that kind of being even throughout...

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

Run rate, right? So I think the run rate will be -- I think you'll see a little bit less in the first quarter because of the -- really the blackout dates associated with the update call. So it will be a slightly lower run rate, slightly lower than the run rate we've seen. I think it's like $80 million something like that, $80 million maybe is what we would expect. And then if you look at the subsequent 3 quarters, you probably should be looking at consistent with what you've seen in the prior quarters.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst*

Okay. Great. That's helpful. And then in terms of the $600 million dividend from BRCD, I just wanted to make sure I understood that correctly. That's not necessarily all coming up to the holdco in 2020. That's part of the RBC drawdown over time. Is that correct?

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

Correct, except I would modify just a little bit to say that there is no plan to take any of it to the holdco in 2020.

Operator

Our next question comes from Humphrey Lee with Dowling & Partners.

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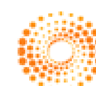

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Humphrey Lee - *Dowling & Partners Securities, LLC - Research Analyst*

Just to kind of circle back on the revision in the hedge program. So in the past, you used kind out of the money options as part of the strategy and now it's changing to swap. Is there still an element of that kind of out of the money kind of component in your hedge program? And if so has that changed compared to where it was in the past?

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

Humphrey, it's Ed. There is still an out of the money component associated with interest rates.

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

But not equity markets?

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

I mean, not to any substantial than -- some, but much, much, much different.

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

All right. Got it. And then in terms of -- I understand you talked about you intend to keep a little bit more at the holdco, at least in the near term, while the RBC, you're kind of saying you gradually you would draw it down to 400% to 450% from 550%. But is there any plan to hold on to kind of at least additional RBC buffer for the time being so that essentially you probably won't see a drawdown below that level until a later period?

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

Sorry, Humphrey. What was the last part of your question about the RBC cushion?

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

Yes. So right now, you have 550% versus target of 400% to 450%. Is there any plan to hold on to additional buffer for the time being, similar to you guys holding to more cash and liquidity at the holdco?

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

Well, I mean, keep in mind that as we take $1.250 billion out of BLIC, the 550% RBC, obviously, comes down by a lot, right? The denominator of the combined RBC ratio is about $1.8 billion. So obviously, that movement of RBC to the holding company is what you're seeing.

Operator

(Operator Instructions) Our next question comes from Ian Ryave with Bank of America.

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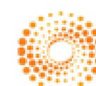

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Ian James Ryave - *BofA Merrill Lynch, Research Division - Research Analyst*

One of your competitors expects a decline in annuity earnings as they have some policies that are rolling off, they're past kind of surrender charge periods. Since many of them were sold, I think, in 2010 to 2012, legacy Met sold a lot of these policies in about 2011. When would these policies roll off? And could this dynamic happen to you as well?

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

This is Conor, and let me take that. I would say for us, you're seeing a pretty consistent level of outflows over the last 10 quarters. That was remarkably consistent in 2019, and we expect it to be consistent and maybe ticking down a little bit in 2020. But you're right, different -- we have different tranches, if you will. So yes, we have now some sort of 2011, 2012 Met policies that will be rolling off. But we've seen that phenomena over the last few years. We have a little bit. Shield's now is at the 6-year level where we started selling it, but we can actually sell that much of it in 2014. So there's nothing really significant there as well.

So we talk about this. We constantly see a pretty consistent level of outflows. Obviously, we're seeing a significant growth in the inflows, getting us to and improving that position all the time. That trajectory should largely continue into 2020. And again, just a reminder that much of what flows out for us is positive from our perspective in that much of it is from the sort of older, more capital-intensive like of business from 10-plus years ago.

Ian James Ryave - *BofA Merrill Lynch, Research Division - Research Analyst*

Got it. And just on the increased sensitivity of the hedge gains and losses, is this just a function of switching to more of swaps than using out of the money options?

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

Yes.

Operator

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

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

Thank you, operator. Well, I hope you get a sense here. Obviously, we had a great quarter and a great year. 2019 was a great year for Brighthouse. You can see that our discipline has paid off. And now I sort of think about it as we're adding an extra level of flexibility. And if you've watched us in the last 2.5 years, our goal is to turn that flexibility into shareholder value as we move forward. I just couldn't be more pleased with our progress.

We've been prudent and thoughtful in our approach to managing our business, and it's obviously paid off, and we're going to continue to do that. The revisions we made to the hedging strategy in the fourth quarter fundamentally lowered our risk profile going forward, and as Ed said, at least 3 or 4 times on this call preserves distributable earnings across various capital market scenarios, and we will talk about that more on our update call on March 5.

We are running this company for all of our stakeholders and believe we are well positioned to continue the execution of our strategy, and we expect that to drive shareholder value in 2020 and beyond. So we look forward to speaking with all of you on March 5, and thanks for being on the call.

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Operator

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

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