Principal Financial shrinks its exposure to retail annuities

By Editorial Staff *Thu, Jul 1, 2021*

The company said it 'will fully exit US retail fixed annuities— discontinuing new sales of its deferred annuities, payout annuities, indexed annuities—and will pursue strategic alternatives, including divestiture, of the related in-force blocks.'

Under pressure from a large shareholder to change its “business mix and capital management options” to become more profitable, Principal Financial Group this week announced that it would stop selling individual annuities, except for variable annuities, and focus on its institutional retirement plan business.

The news shocked many long-time annuity industry watchers, because Principal is an admired, highly rated life/annuity company that was mutually owned by its policyholders until October 2001. But it appears to have yielded to the same forces that compelled The Hartford, MetLife, Voya to leave the retail annuity business or sell the older contracts on their books. [This week, Ameriprise announced reinsurance deals.]

Low interest rates on investment-grade assets since 2008 have made it difficult for life/annuity companies to support older annuity contracts (“in-force blocks of business”) with relatively high rate guarantees or longevity-linked guarantees or to earn sufficient profits selling new contracts. Some have left the retail annuity business while others sold in-force blocks to reinsurers.

Principal will do both. The company said it “will fully exit US retail fixed annuities—discontinuing new sales of its deferred annuities, payout annuities, indexed annuities—and will pursue strategic alternatives, including divestiture, of the related in-force blocks, which have policy reserves of approximately $18 billion. Principal will continue selling its variable annuity offering, which plays an important role within its complete suite of retirement solutions.

“In US individual life insurance, Principal will fully exit the retail consumer market — discontinuing new sales of term life and universal life products to retail consumers. Building on its prior announcement to cease sales of universal life insurance with secondary guarantees (“ULSG”), Principal will pursue strategic alternatives, including divestiture, for the in-force ULSG block (approximately $7 billion of policy reserves)1 as well as other related in-force blocks.”

The proceeds of those sales typically help improve the companies’ capital positions and provide money to buy back shares or invest in new lines of business. In Principal's case, "We've also announced a new $1.2 billion share repurchase authorization, which underscores our commitment to return excess capital to shareholders," said Dan Houston, chairman, president, and CEO of Principal, in a release.

The Principal Board of Directors approved the changes "following a comprehensive review of the company's business mix and capital management options that was undertaken as a part of a cooperation agreement with one of Principal's largest investors, Elliott Investment Management, L.P." The review began in February 2021.

This week's release also said:

Principal will prioritize fee-based businesses and focus on three key areas: retirement in the US and select emerging markets, global asset management, and US specialty benefits and protection in the small-to-medium-sized business market. These businesses are poised for continued growth, are more capital-efficient, and leverage Principal's leading position and other competitive advantages, including integrated and differentiated solutions, presence in high-growth markets and preferred customer access.

Principal is committed to actively returning excess capital to shareholders. Consistent with a targeted capital level of $800 million at the holding company, a risk-based capital ratio of 400%, a debt-to-capital ratio of 20% to 25%, and an annual common stock dividend with a targeted payout ratio of 40%, Principal's Board of Directors has approved a new authorization for the repurchase of up to $1.2 billion of the company's outstanding common stock. This new authorization is in addition to the approximately $675 million that remains under the company's prior authorization as of March 31, 2021. Principal expects to repurchase between $1.3-$1.7 billion of common shares from March 31, 2021 through the end of 2022 by utilizing capital generated from operations and reducing excess capital to target levels while retiring $300 million of debt maturing in 2022. This repurchase amount does not include additional excess capital that might be generated from any transactions resulting from the strategic review announced today.

As these initiatives are implemented, Principal will become increasingly well positioned as a capital-efficient company, producing higher expected shareholder returns, and poised to lead in higher-growth markets. Further details will be discussed at the company's June 29 investor day. To register, visit principal.com/investorday.

The Principal Board of Directors and Finance Committee were assisted in the strategic review by several independent and objective consultants with significant expertise. These advisors included Goldman Sachs & Co., LLC serving as financial advisor, a leading global consultancy serving as strategic advisor, Milliman serving as actuarial consultant, and Skadden, Arps, Slate, Meagher & Flom LLP serving as legal counsel.

The share repurchases mentioned above will be made in the open market or through privately negotiated transactions, from time to time and depending on market conditions. The stock repurchase program may be modified, extended, or terminated at any time by the Board of Directors.