Romancing the Fixed Annuity: KKR Buys Global Atlantic

By Kerry Pechter *Thu, Jul 9, 2020*

The deal, part of a trend in private-equity acquisitions of life/annuity properties that began a decade ago, makes KKR about one-third larger. The trend tailwind: low rates.

KKR & Co., the private equity firm, said this week that it would acquire Global Atlantic Financial Group Ltd., the fourth largest originator of fixed annuity contracts in the U.S. in 2019, in a deal that will raise KKR's assets under management by about a third, to $279 billion, according to press reports.

Under the terms of the agreement, KKR will pay Global Atlantic shareholders an amount equal to Global Atlantic's book value as of the date of closing, subject to an equity roll-over for certain existing shareholders.

As of March 31, Global Atlantic's book value was approximately $4.4 billion. Global Atlantic reported $602 million in operating earnings in 2019 on $90 billion in assets, up from $377 million in operating earnings on $50 billion in assets in 2016, according to KKR. [hartford kept… mark pulley.

KKR, formerly Kohlberg, Kravis, Roberts & Co., expects to fund the acquisition, net of equity roll-over participation, from a combination of cash on hand, proceeds from potential minority co-investors and the issuance of new debt and/or equity. The investment in Global Atlantic will be held on KKR's balance sheet and through a proprietary vehicle established for others to invest alongside KKR's balance sheet, not in any client funds.

After closing, Global Atlantic will continue to operate as a separate business with its existing brands and management team, led by Allan Levine, Global Atlantic's chairman and CEO.

The transaction, which is expected to close in early 2021, is subject to required regulatory approvals and certain other customary closing conditions.

The impact of low interest rates

The deal appears to be a continuation of the trend that began in the wake of the 2008 financial crisis, when private equity or investment companies like Apollo, Guggenheim

Partners, Goldman Sachs and others started buying annuity companies or re-insuring existing annuity blocks at bargain prices from companies that needed capital or just wanted out of the U.S. annuity business.

Starting in 2010, for instance, Guggenheim bought Security Benefit Life, Equitrust Life, and Sun Life (now Delaware Life). Global Atlantic, which grew out of Goldman Sachs' reinsurance group in 2004, eventually bought the U.S. life insurance business of Aviva plc (from Athene) and Forethought Financial Group, which owned The Hartford's former annuity businesses.

That trend is very much alive today. In recent weeks, Athene, which was first financed by Apollo, bought a $27 billion annuity block from Jackson National. Recently, Nassau Financial (which was funded in 2015 by Golden Gate Capital) concluded its purchase of the International Order of Foresters' annuity businesses.

The trend is tied to the Federal Reserve's interest rate policy. The benchmark overnight rate for Fed funds plunged to nearly zero in 2008 as part of the government's rescue of the financial system. Those rates edged back up to almost 3% by the end of 2018; that's when the tightening stopped. Rates dropped twice in the second half of 2019 and then went to near zero in March.

Cuts in rates help the stock market recover from swoons and support the prices of existing bonds. But they hurt the ability of life insurance companies to earn enough interest to support their existing liabilities when they have to reinvest the proceeds of maturing bonds into new bonds at lower rates.

Fixed-rate and fixed indexed annuity blocks can be highly desirable to nimble, asset-hungry firms. The blocks are sources of stable assets, while the liabilities (payouts) may not come due for five to 10 years. The private equity-led firms have—or claim to have—sharper asset management skills, access to niche opportunities and higher-yielding assets, and a self-professed ability to exploit the tax and capital advantages of captive Bermuda-based reinsurance partners.

These traits are said to make them better than larger, older life insurers at managing acquired as well as self-originated annuity blocks more profitably. Blocks of variable annuities, by contrast, are much less attractive to private equity firms. Most variable annuity assets are in separate accounts and not under the insurer's control. In addition, variable annuities' optional lifetime income guarantees make potential liabilities hard to predict.

About the partners

Goldman Sachs formed Global Atlantic in 2004 and converted it into an independent company in 2013. Headquartered in Bermuda, Global Atlantic acquired Allmerica Life in 2005 and Forethought Life Insurance Company (owner of The Hartford’s fixed annuity business) in 2013. Also in 2013, Global Atlantic acquired the U.S. annuity arm of Aviva PLC, converting it into Accordia Life and Annuity.

KKR was founded in 1976. In 1992, the firm helped buy American Re Corp. out from Aetna Inc. KKR made a big investment in Willis, which is now part of Willis Towers Watson, in 1998. In 2017, Aflac Inc. tapped KKR in an effort to use private equity investments to increase returns on its $120 billion investment portfolio.