

## Six major life insurers report second quarter financials

By Editorial Staff      Thu, Aug 12, 2021

*Here are second quarter results from six publicly held life/annuity companies: AIG, American Equity Investment Life, Brighthouse Financial, Equitable Holdings, Lincoln Financial and MetLife.*

A half-dozen life/annuity insurance companies—AIG, American Equity, Brighthouse Financial, Equitable, Lincoln Financial, MetLife released their second quarter 2021 earnings reports this week.

The reports reflect a variety of ongoing trends: Year-over-year increases in individual annuity sales, continuing stock repurchase plans, a shift toward higher-yielding investments in private or alternative assets, alliances with asset managers that source those investments, and new capital management strategies.

### AIG

- On July 14, 2021 AIG entered into a strategic partnership whereby **Blackstone agreed to purchase a 9.9% equity stake in AIG's Life and Retirement Business for \$2.2 billion in cash**, manage specified Life and Retirement assets in the future, and separately purchase affordable housing assets for \$5.1 billion in cash
- **Life and Retirement adjusted pre-tax income (APTI) was \$1.1 billion reflecting strong net investment income and improved market conditions**; Life and Retirement return on adjusted segment common equity for the second quarter was 16.4%, on an annualized basis.
- Net income attributable to AIG common shareholders was \$91 million, or \$0.11 per diluted common share, compared to **a net loss of \$7.9 billion, or \$9.15 per common share, in the prior year quarter, which included the loss on sale of Fortitude Group Holdings LLC (Fortitude)**. The primary difference between GAAP and adjusted after-tax income is the accounting treatment of Fortitude net investment income and certain realized gains/losses.
- AIG Board of Directors increased the **share repurchase authorization to \$6.0 billion**, including approximately \$0.9 billion that remained under the prior authorization
- General Insurance net premiums written grew 24% with Commercial Lines and Personal Insurance growth of 16% and 45%, respectively, from the prior year quarter
- Net income per diluted share of \$0.11 compared to a loss of \$9.15 in the prior year quarter and adjusted after-tax income attributable to AIG common shareholders\* (AATI) per diluted share of \$1.52 increased from \$0.64 in the prior year quarter

## **Lincoln Financial**

Lincoln Financial Group (NYSE: LNC) reported net income for the second quarter of 2021 of \$642 million, or \$3.34 per diluted share available to common stockholders, compared to a net loss in the second quarter of 2020 of \$(94) million, or \$(0.49) per diluted share available to common stockholders.

Operating revenues increased in all four business segments. Second quarter adjusted income from operations was \$608 million, or \$3.17 per diluted share available to common stockholders, compared to adjusted income from operations of \$187 million, or \$0.97 per diluted share available to common stockholders, in the second quarter of 2020.

### **Annuities sales of \$3.2 billion, up 28%**

Annuities reported income from operations of \$323 million, up 36% compared to the prior-year quarter. The increase was driven by higher account values from **strong equity market performance and favorable returns within the company's alternative investment portfolio.**

Total annuity deposits of \$3.2 billion were up 28% from the prior-year quarter. Total variable annuity sales of \$3.0 billion were up 37% versus the prior-year quarter as strong growth in variable annuity sales without guaranteed living benefits more than offset declines in variable annuity sales with living benefits and fixed annuities.

Net outflows were \$297 million in the quarter. Average account values for the quarter of \$166 billion were up 24% over the prior-year quarter, with 48% of total annuities account values without guaranteed living benefits, up 2 percentage points over the prior-year period.

### **Retirement plan services**

Retirement Plan Services reported income from operations of \$62 million, up 107% compared to the prior-year quarter. Total deposits for the quarter of \$2.8 billion were up 21% compared to the prior-year quarter driven by double-digit growth in both first-year sales and recurring deposits.

Net flows totaled \$517 million for the quarter and \$1.6 billion over the trailing twelve months. Average account values for the quarter of \$94 billion were up 28% over the prior-year quarter.

Retirement Plan Services deposits of \$2.8 billion, up 21% including double-digit growth in both first-year sales and recurring deposits

## **American Equity**

American Equity Investment Life Holding Company (NYSE: AEL), a specialist in fixed index annuities (FIAs) today reported second quarter 2021 non-GAAP operating income<sup>1</sup> available to common stockholders of \$93.8 million, or \$0.98 per diluted common share, compared to non-GAAP operating income<sup>1</sup> available to common stockholders of \$93.1 million, or \$1.01 per diluted common share, for second quarter 2020.

The year-over-year increase in quarterly non-GAAP operating income<sup>1</sup> available to common stockholders primarily reflected **a decrease in the change in the liability for future policy benefits to be paid for lifetime income benefit riders (LIBR)** offset by a decrease in investment spread and an increase in other operating costs and expenses.

Year-over-year, the change in liability for future policy benefits to be paid for LIBR decreased by \$61 million. The positive difference between actual versus modeled expectations in the second quarter of 2021, primarily reflecting the level of equity index credits, reduced the increase in the liability for future policy benefits to be paid for LIBR by \$29 million. By comparison, in the second quarter of 2020, actual versus modeled expectations increased the change in liability for future policy benefits to be paid for LIBR by \$43 million.

Compared to the second quarter of 2020, amortization of deferred policy acquisition and sales inducement costs decreased \$1 million. Actual versus modeled expectations in the second quarter of 2021, primarily reflecting the level of equity index credits, reduced amortization by \$31 million. Amortization of deferred sales inducements and policy acquisition costs benefited by \$28 million in the second quarter of 2020 from actual versus modeled expectations.

**American Equity's investment spread was 1.95% for the second quarter of 2021** compared to 2.00% for the first quarter of 2021 and 2.39% for the second quarter of 2020. On a sequential basis, the average yield on invested assets decreased by 7 basis points while the cost of money fell by 2 basis points. Adjusted investment spread excluding non-trendable items declined to 1.81% in the second quarter of 2021 from 1.87% in the first quarter of 2021.

Average yield on invested assets was 3.51% in the second quarter of 2021 compared to

3.58% in the first quarter of 2021. The decrease in investment yield was primarily driven by an increase in the average level of liquidity in the investment portfolios of the life insurance companies. The average adjusted yield on invested assets excluding non-trendable items was 3.41% in the second quarter of 2021 compared to 3.47% in the first quarter of 2021.

The aggregate cost of money for annuity liabilities of 1.56% in the second quarter of 2021 was down two basis points from 1.58% in the first quarter of 2021. The cost of money in the second quarter of 2021 was positively affected by 4 basis points of over-hedging of index-linked credits compared to 2 basis point of hedge gain in the first quarter of 2021.

Compared to the first quarter of 2021, gross sales of fixed index annuities at American Equity Life increased 36% while Eagle Life sales rose 24%.

Commenting on sales, Anant Bhalla, CEO of American Equity, said in a release: “Our strategy of growing fixed index annuity sales is working in both the American Equity and Eagle Life channels. As previously shared in our first quarter earnings call, our plan to **pivot from multi-year fixed rate annuities for the remainder of the year to our refreshed line-up of fixed index annuities** is bearing results. Based on preliminary industry estimates, this is the third quarter in a row that our fixed index annuity market share has increased, reflecting the upgrades we have made to our Go-to-Market franchise over the past year.”

In July, American Equity completed the repurchase of 9.1 million shares that began in November of last year to fully offset the impact of dilution from shares issued to Brookfield Asset Management Inc. The total buyback included repurchase of 3 million shares in the second quarter for a total of \$95.1 million. Remaining share repurchase authorization is \$236 million.

## **Brighthouse Financial**

Brighthouse Financial, Inc. (Nasdaq: BHF) announced today its financial results for the second quarter ended June 30, 2021.

The company reported net income available to shareholders of \$10 million in the second quarter of 2021, or \$0.11 per diluted share, compared with a net loss available to shareholders of \$1,998 million in the second quarter of 2020.

During the quarter, as a result of market performance, the value of our hedges decreased,

as expected. Due to being accounted for as insurance liabilities as required under US GAAP, certain corresponding liabilities are less sensitive to market movements and, therefore, did not fully offset the decrease in the value of our hedges.

The company ended the second quarter of 2021 with common stockholders' equity ("book value") of \$14.8 billion, or \$175.19 per common share, and book value, excluding accumulated other comprehensive income ("AOCI") of \$10.2 billion, or \$120.62 per common share.

For the second quarter of 2021, the company reported adjusted earnings of \$435 million, or \$5.05 per diluted share, compared with adjusted earnings of \$11 million, or \$0.11 per diluted share, in the second quarter of 2020.

Annuity sales increased 25% quarter-over-quarter and 8% sequentially, driven by record sales of Shield Level annuities and variable annuities with FlexChoice Access. Life sales increased 117% quarter-over-quarter and 13% sequentially, driven by sales of SmartCare.

During the second quarter of 2021, the company repurchased \$125 million of its common stock, with an additional \$53 million of its common stock repurchased, on a trade date basis, through August 4, 2021. Since the announcement of its first stock repurchase authorization in August 2018, the company has repurchased \$1,266 million of its common stock, on a trade date basis, through August 4, 2021.

The company also announced today a new repurchase authorization of up to \$1 billion of its common stock. This stock repurchase authorization is in addition to the \$200 million stock repurchase authorization the company announced in February 2021, under which \$34 million remains as of August 4, 2021.

"Brighthouse Financial delivered another quarter of strong results," said Eric Steigerwalt, president and CEO, Brighthouse Financial. "Our new stock repurchase program... positions us to achieve our goal of returning \$1.5 billion to our shareholders by the end of this year and supports our ongoing commitment to return capital to our shareholders."

Adjusted earnings for the quarter reflected a \$23 million after tax unfavorable notable item, or \$0.27 per diluted share, for establishment costs related to planned technology and other expenses associated with the company's separation from its former parent company. Corporate expenses in the second quarter of 2021 were \$218 million, up from \$203 million in the first quarter of 2021, both on a pre-tax basis.

Commenting on investment activities, Anant Bhalla, Chief Executive Officer, said: “For the first time in our company’s history, in the second quarter, we started leveraging our asset management partnerships to invest in single-family rental homes and middle market loans consistent with ramping towards the AEL 2.0 asset allocation strategy.

**“Year-to-date, we have purchased over \$800 million of privately-sourced alpha-generating assets — solid initial steps towards our plan of adding between \$1 billion to \$2 billion in private assets this year growing to a pace of 5% or greater of the portfolio in each subsequent year to evolve into our new asset allocation of 30% or greater in private assets.** In the second quarter, we purchased \$1.7 billion of new assets at an expected return of approximately 4.15%, net of third-party investment expenses. This included \$569 million in private assets added in the quarter.”

## Equitable

Equitable Holdings, Inc., (NYSE: EQH) today announced financial results for the second quarter ended June 30, 2021. The company reported non-GAAP operating earnings of \$1.71 per share, a 74% increase year-over-year and 27% over the first quarter, AUM of \$869 billion, up 22% year-over-year and 6% over the first quarter of 2021.

**“We achieved the successful closing of our landmark VA reinsurance transaction with Venerable during the quarter, which significantly de-risks our balance sheet and unlocks \$1 billion of economic value.** We are targeting an additional \$180 million in incremental investment income from our General Account by leveraging synergies with our subsidiary, AllianceBernstein. We are also announcing a new expense savings target of \$80 million by 2023.” said Mark Pearson, President and Chief Executive Officer.

The net income attributable to Holdings for the second quarter of 2021 was \$123 million compared to net loss of \$4,019 million in the second quarter of 2020 driven primarily by non-economic market impacts from hedging and non-performance risk under US GAAP accounting.

Non-GAAP operating earnings in the second quarter of 2021 improved to \$758 million from \$451 million in the second quarter of 2020. Excluding notable items of \$100 million, second quarter 2021 non-GAAP operating earnings were \$658 million or \$1.48 per share.

As of June 30, 2021, book value per common share, including accumulated other comprehensive income (“AOCI”), was \$24.20. Book value per common share, excluding AOCI, was \$19.48.

Business segment highlights:

**Structured Capital Strategies (“SCS”) buffered annuity product saw record sales of \$1.9 billion in the second quarter.** Group Retirement generated second quarter net flows of \$68 million, up \$119 million sequentially, with gross premiums returning to pre-pandemic levels in the second quarter. Investment Management and Research (AllianceBernstein or “AB”)<sup>3</sup> reported net inflows of \$6.2 billion in the quarter, with positive net flows across all distribution channels. Protection Solutions reported gross written premiums up 8% year-over-year, with continued momentum in its Employee Benefits business.

Capital management program:

As part of the Company’s 2021 capital management program, it returned \$355 million to shareholders in the second quarter, including \$76 million of quarterly cash dividends and \$279 million of share repurchases.

The Company reaffirms its commitment to delivering on its 50-60% payout ratio target, with an incremental \$500 million of share repurchases in progress following the close of its legacy variable annuity reinsurance transaction with Venerable.

As part of its efforts to leverage synergies, the Company is committing \$10 billion of General Account assets to help build out AllianceBernstein’s higher multiple businesses.

The Company also announced an expense savings target of \$80 million by 2023, with \$17 million achieved year-to-date, driven by disciplined expense management, shifting towards an agile working model and leveraging technology-enabled capabilities.

As of June 30, 2021, the combined RBC ratio was approximately 450%, above our minimum combined RBC target of 375-400%. The Company reported cash and liquid assets of \$2.5 billion at Holdings, which remains above the \$500 million minimum liquidity target.

The Company announced a GA rebalance target of \$180 million of incremental income by 2023, **working with AB to capture illiquidity premium** and optimize risk-adjusted returns for the investment portfolio. Of the target, \$58 million has been realized to date.

## **MetLife**

MetLife reported net income of \$3.4 billion, or \$3.83 per share, compared to net income of \$68 million, or \$0.07 per share, in the second quarter of 2020. Adjusted earnings of \$2.1

billion, or \$2.37 per share, compared to adjusted earnings of \$758 million, or \$0.83 per share, in the second quarter of 2020. In other highlights:

- Book value of \$75.86 per share, down 4 percent from \$78.65 per share at June 30, 2020.
- Book value, excluding accumulated other comprehensive income (AOCI) other than foreign currency translation adjustments (FCTA), of \$56.38 per share, up 8 percent from \$52.27 per share at June 30, 2020.
- Return on equity (ROE) of 21.2 percent.
- Adjusted ROE, excluding AOCI other than FCTA, of 17.5%.
- Holding company cash and liquid assets of \$6.5 billion at June 30, 2021, which is well above the target cash buffer of \$3.0 to \$4.0 billion.

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