
The Bermuda Triangle's 1980s Roots

By Kerry Pechter Wed, Jun 26, 2024

There are clear similarities between the business scheme that brought down Executive Life Insurance Co. in 1991 and the 'Bermuda Triangle' strategy that many US life/annuity companies use.



The resemblances between today's Bermuda Triangle strategy and the business model that Executive Life used in the years leading up to its record-breaking bankruptcy in 1991 are too many and too striking to be chalked up to coincidence, confirmation bias, or hindsight.

When I've asked, What could go wrong with the Bermuda Triangle strategy?, annuity industry veterans referred me to Executive Life (ELIC), its parent, First Executive Corp., and its fellow insurer, ELIC-NY. While researching the rise and fall of those companies, I found a prototype of today's Bermuda Triangle.

The many books, news articles, and academic papers about ELIC and its helmsmen show a clear through-line from the treasure map drawn by ELIC CEO Fred Carr and "junk bond king" Michael Milken in the 1980s to the three-part strategy—nicknamed the Bermuda Triangle by *RIJ*—that Athene/Apollo, Global Atlantic/KKR, F&G/Blackstone, and others practice today.

The fixed deferred annuities that Carr sold, the junk bonds that Milken fabricated at Drexel Burnham Lambert, and the "surplus relief" that actuary Al Jacob arranged for ELIC, map closely to the annuities that Bermuda Triangle insurers sell, the private debt that their alternative asset manager-owners issue, and the "financial reinsurance" that helps them shrink their capital requirements.

Privacy and opacity, relative to public markets, was essential to both sets of financiers. And, remarkably, some of the personnel from the 1980s are still very much with us. Three prime movers of the Bermuda Triangle strategy—Apollo co-founders Leon Black, Marc Rowan, and Josh Harris—were protégés of Milken at Drexel Burnham Lambert.

The annuity point of the triangle

The zig-zagging interest rates of the 1970s and 1980s had many consequences—good and bad, immediate and delayed, intended and otherwise—one of which was the opportunity for newer and nimbler life insurers to attract lots of money by selling high-yield but guaranteed single-premium deferred annuities (SPDAs).

ELIC's SPDAs offered some of the highest yields, which made them easy for commissioned, insurance-licensed stockbrokers at the big brokerages to sell. "[SPDAs] are pure spread products, and in the 1980s, Executive Life had the spreads!" wrote former ELIC executive Gary Schulte in his book on Carr and ELIC, *The Fall of First Executive* (Harper Business, 1991). "The single pay segment of the company grew from nothing to about \$13 billion companywide" [Schulte, p. 102].

To trick-out his contracts, Carr relied on the artistry of a versatile consulting actuary named Al Jacob. "A charming guy with an unusually creative spark," as a fellow actuary described him to *RIJ*, Jacob designed catchy contracts like the "Ten-Strike" annuity, whose guaranteed rate increased by 10 basis points a year for 10 years. (Jacob is now deceased, but his family's DataLife.com website survives.)

Today's Bermuda Triangle life/annuity companies also sell SPDAs (now known as fixed-rate annuities or multi-year guaranteed rate annuities), albeit at much more modest guaranteed rates than in the 1980s. But their bread-and-butter product (until Fed "tightening" in 2022 turned simple fixed-rate annuities into hotcakes) has been the fixed indexed annuity, or FIA.

Built for the same mature, cautious savers, and with a similar no-loss guarantee, FIAs are actually quite different from SPDAs. FIAs offer a kind of floating rate that's correlated with the performance of options on equity indexes. Their returns correlate mainly to stocks, which reduces their sensitivity to interest rate risk.

FIAs cost more to manufacture than SPDAs because there are more cooks in the soup. In their most recent iterations, FIAs use proprietary, custom-made indexes and volatility controls that help their issuers iron out the chance of suffering big, unanticipated claims. Providers of those indexes and controls have to be paid.

Distribution costs of FIAs (i.e., sales commissions) are higher than SPDAs', but FIA contracts are "stickier"—that is, their contract terms (up to 10 years) are longer and their penalties for premature withdrawal are higher than SPDAs'. As long-dated liabilities, they match up well with the illiquid private loans originated by Bermuda Triangle investment

companies with annuity-issuing subsidiaries: Apollo, Ares, Blackstone, Brookfield, Eldridge, Golden Gate, KKR, and others.

High-yield debt, a *sine qua non* of the Triangle

To get people to buy his SPDAs, Carr had to promise competition-crushing rates of return, and to do that he needed a steady, reliable source of IOUs that promised ELIC consistently high returns. Carr found that source when he took a meeting with fellow Los Angeleno Michael Milken.

Milken started out as a bottom-feeding bond trader, feasting on the bargains that rising rates indiscriminately created out of the debt of both weak and strong companies starting in the 1970s. Then he began creating his own high-yield paper—the famous below-investment-grade “junk bonds”— to finance leveraged loans, acquisitions, and buyouts.

Milken and Carr gave each other what they needed, and plenty of it. “The new breed of high-yield corporate bonds gave the kinds of spreads that would allow Carr to give the policyholder an interest rate unlike anything ever to come out of a life insurance company... Junk bonds gave Carr all he needed to dominate the single premium deferred annuity market with stockbrokers,” Schulte wrote [p. 35]. In *A License to Steal*, his 1992 book on Milken, Ben Stein wrote that ELIC was not the only life insurer shipping policyholder money to Milken. But it did so reliably, by the billions, and with little documented due diligence. “Carr just bought what Mike said to buy,” a junk bond buyer at another life insurer told Stein [p. 93].

Debt securitization, a financial magic trick that Lewis Ranieri of Salomon Brothers conjured up in the 1980s, helped Carr and Milken obscure ELIC’s concentration in low-grade bonds. According to Vic Modugno, an ELIC actuary in the 1980s and author of *Broken Promises*, a 1992 book about ELIC, they bundled Milken’s bonds into collateralized bond obligations, or CBOs, whose senior “tranches” were deemed sufficiently creditworthy for life insurers to buy.

Today, in the Bermuda Triangle, private credit, leveraged loans, and collateralized loan obligations are clearly descendants of Milken’s junk bonds and CBOs. *The Economist’s* Buttonwood columnist recently [noted](#) that junk bonds, private equity, and private credit each represent a different stage in “the history of leveraged finance.”

Financial reinsurance, aka “surplus relief”

On the strength of its SPDA sales, ELIC soared dangerously close to the blazing sun of insolvency. For new life/annuity companies, rapid growth is a mixed blessing. If a client buys a million-dollar deferred annuity, for example, the insurer might have to contribute perhaps \$50,000 to \$100,000 of its own money in support of its guarantees. The more extravagant the guarantees of the contract, as in ELIC's case, the larger the requirement for capital in the form of “deficiency reserves.”

ELIC “guaranteed high interest for a significant period of time. Normally, that would create a lot of deficiency reserves. If you were guaranteeing 8%, 9%, 10%, 11% returns, that creates a tremendous deficiency. No one could live under such a situation. So they went to overseas insurers who didn't require deficiency reserves,” a former actuarial colleague and friend of Al Jacob told *RIJ*.

For surplus relief—an expression that describes the elimination of demands for fresh capital—an insurance company can use reinsurance. Faced with growing pains, ELIC periodically obtained so-called financial reinsurance, which papered over its capital shortfalls rather than filling the holes with real money.

To obtain this form of reinsurance, Jacob “was forever going down to the Cayman Islands,” his former colleague told *RIJ*. “He had set up some insurance companies there. It was not uncommon to have deals where potentially they could get letters of credit from a Cayman reinsurer that were as good as cash, as opposed to having huge reserves. My suspicion is that if you did it in the US you'd have to have assets equal to the letters of credit backing you. But lax capital requirements in Grand Cayman in the 1980s may have made it feasible to use that as a jurisdiction.”

“Because of the capital intensity of life insurance products, particularly annuities, [Executive Life] experienced terrible surplus strain from our growth,” former ELIC executive and author Gary Schulte told *RIJ*. “To relieve it, Al Jacob created the Bermuda Triangle strategy. He got letters of credit and reinsurance deals.” As in the case of ELIC's investments, these deals were executed by individuals acting in concert, not true counterparties. One of the offshore reinsurers Jacob used, First Stratford, was co-owned by Carr and Milken.

“The main reason for doing that was surplus relief,” Modugno told *RIJ* in an interview. “In statutory accounting, you have to set up reserves that are higher than the premium you're

taking in. To get rid of that obligation, you do funds-withheld reinsurance. You're taking liabilities off the balance sheet, so it looks like they're not there."

Today's use of reinsurance by Bermuda Triangle companies is much more sophisticated than that arranged by Jacob. It can involve the efforts of teams of attorneys and actuaries in newly built office towers in Bermuda or the Cayman Islands. But it continues to provide profit-enhancing surplus relief, and its success continues to rely on the coordinated efforts of affiliated asset managers, insurers, and reinsurers.

That was then, this is now

Aside from the similarities in their annuity products, general account investments, and use of financial reinsurance, the business models of Carr's life insurers and the Bermuda Triangle conglomerates also shared a reliance on transactions in private, less-regulated parts of the financial system and on coordination of activities among closely related businesses and people.

Characteristically, the Bermuda Triangle involves asset managers, insurers, and reinsurers in the same holding company. Operating in areas that require less transparency, less reporting, and less regulation, they get into and out of deals with maximum speed and minimum friction.

As noted above, players from the 1980s appeared in the 2010s, and at least three key people participated in both the ELIC episode and the birth of the Bermuda Triangle. Leon Black, Josh Harris, and Marc Rowan worked for Milken at Drexel Burnham Lambert. Black, whose [financial and legal dealings](#) with now-deceased convicted sex trafficker Jeffrey Epstein cost him the CEO job at Apollo in 2021, was once Milken's "right-hand man," according to [Time](#) magazine.

Black, Harris, and Rowan started Apollo Global Management in 1990 with billions of dollars in assets that Black and Credit Lyonnais, the French bank, salvaged from the ELIC bankruptcy, contributing to the reduction of annuity benefits to policyholders. (See ["The Collapse of Executive Life Insurance Co. and Its Impact on Policyholders," U.S. G.P.O., 2003.](#))

After 2009, Apollo invested in the crisis-weakened life/annuity business. It started Athene Holding, converted Aviva USA to Athene Annuity and Life, became a leading issuer of FIAs, and became brought vast amounts of annuity liabilities under its own management. With the creation of Bermuda-based Athene Life Re, the Bermuda Triangle strategy was born, soon to

be emulated by a horde of large and small “alternative” asset managers and their pop-up life/annuity companies and reinsurers.

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