LDTI Earnings and Investor Story

SEAC/ACSW Annual Meeting

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Today’s speakers

Introductions

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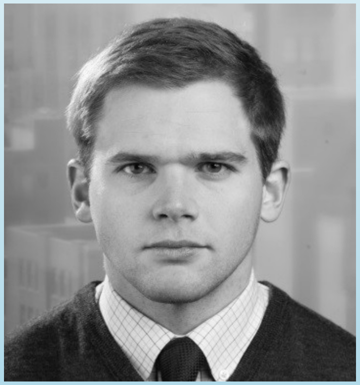

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Agenda

- **Understanding LDTI earnings**
- **LDTI earnings for life products**
  - Term life
  - Universal life
- **LDTI earnings for annuity products**
  - Variable annuities
  - Fixed-index annuities
- **LDTI investor story**
  - Financial statement impacts
  - Impacts to non-GAAP measures
  - Economic/operational, sensitivities, disclosures and impacts on a go-forward basis
- **Closing remarks and Q&A**

Understanding LDTI earnings

Public companies have begun to disclose preliminary LDTI impacts to transition balance sheets and future earnings patterns. Changes to the GAAP measurement model for long-duration products require insurance companies to move beyond traditional approaches to explain financial results and provide business insights. The following are some key changes being observed in the industry related to LDTI earnings:

Volatility

The standard introduces ***more volatility*** to the liabilities:

- *Assumptions:* Updating cash flow assumptions (actuals experience offsets some impact).
- *Discount rates:* Changes in discount rate and OCS go through equity (offset by MTM assets).
- *Other market conditions:* MRBs measured under fair value.

Analysis

To explain movements in financial results, companies have leveraged ***source of earnings (SOE)*** analysis. SOE reports commonly arrive at the same net income/loss as the income statement, but with results broken out in a way that is more insightful and actionable.

Disclosures

Increased focus on both quantitative and qualitative disclosures. LDTI **significantly expands the disclosure requirements**, including disaggregated balance rollforwards and actual-to-expected comparisons.

Metrics

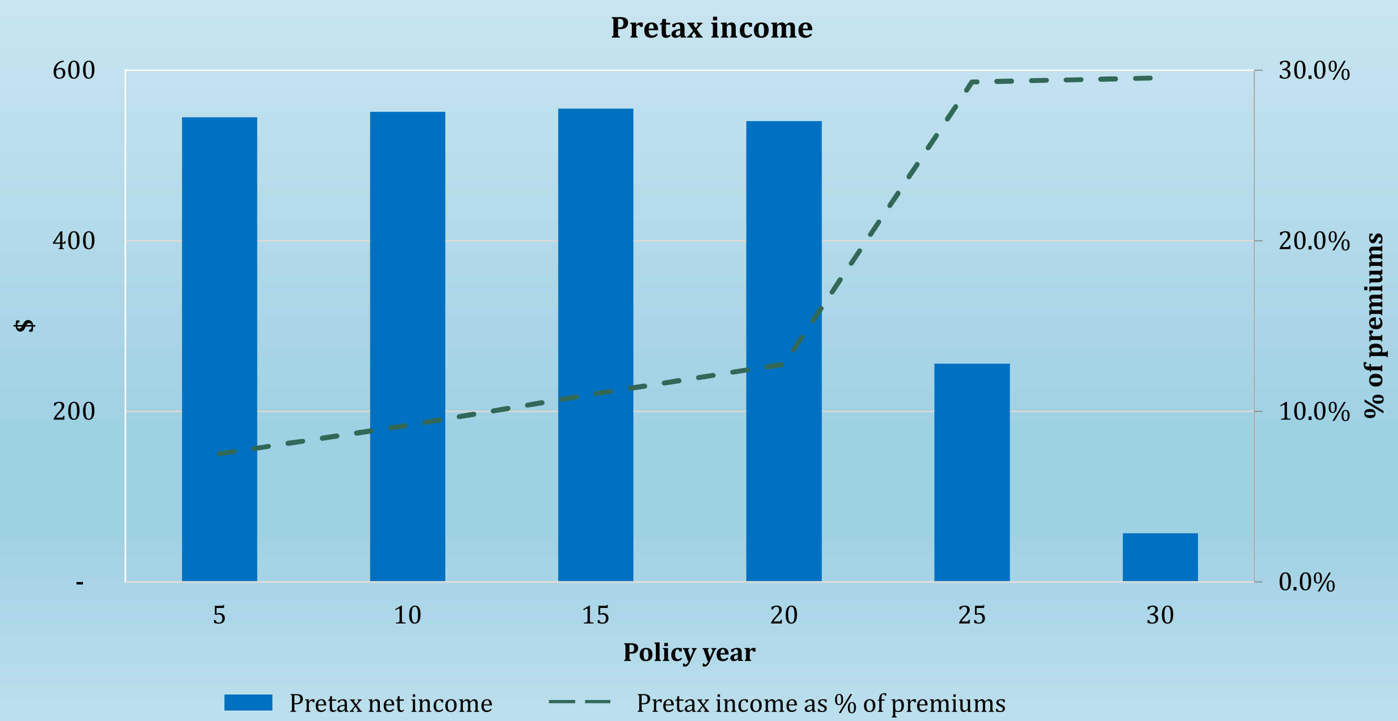
Impact to the financial results requires **evaluation of key financial metrics**. Refinements to non-GAAP measurements and introduction of new business metrics (e.g., attributed fees on MRBs.) are occurring.

LDTI earnings for life products

LDTI earnings – term life
Baseline scenario

Baseline scenario

- Illustrative 20-year level premium term life product with annual premiums of $10,000.
- Invested assets equal to the net GAAP liability. Net investment yield is 3.25%; the "Single A" rate is 3.0%.
- DAC amortization is on a grouped basis using insurance in force.
- Maintenance expenses inflate at 1% and double after the level-term period.



Considerations

- Fairly flat pretax income until level-term period ends due to expected shock lapse.
- DAC is no longer calculated with interest under LDTI, resulting in a modest upward tilt in pretax income as percentage of premiums in level-term period.
- DAC amortization is using insurance in force for LDTI instead of premiums; therefore, little DAC after level term period as most of the in-force lapses.
- Premium rates increase dramatically in the post-level-term period and pre-expense margin remains unchanged; there is still meaningful income in this period.

LDTI earnings – term life
Sensitivity scenario – 10% higher mortality in year 5

Income statement components			
	Baseline	**Revised**	**Change**
Revenues			
Premiums	7,249	7,249	-
Net investment income	(78)	(78)	-
Total revenue	7,171	7,171	-
Benefits and expenses			
Policyholder benefits	2,657	2,922	265
Increase in reserve	2,016	1,769	(247)
Liability remeasurement	0	82	82
Amortization of DAC	1,040	1,040	-
General expenses	913	913	-
Total benefits and expenses	6,626	6,726	100
Pretax income	545	445	(100)
Selected B/S items (end of year 5)			
	Baseline	Revised	Change
LFPB	12,586	12,421	(165)
DAC	11,933	11,933	0

Higher claims are offset by the reduction in reserves due to the true-up of the net premium ratio.

LDTI earnings – term life
Sensitivity scenario – mortality unlocking in year 5 (+5% in years 6+)

Income statement components			
	Baseline	**Revised**	**Change**
Revenues			
Premiums	7,249	7,249	-
Net investment income	(78)	(78)	-
Total revenue	7,171	7,171	-
Benefits and expenses			
Policyholder benefits	2,657	2,657	-
Increase in reserve	2,016	2,201	185
Liability remeasurement	0	811	811
Amortization of DAC	1,040	1,041	1
General expenses	913	913	-
Total benefits and expenses	6,626	7,623	997
Pretax income	545	(452)	(997)
Selected B/S items (end of year 5)			
	Baseline	Revised	Change
LFPB	12,586	13,582	996
DAC	11,933	11,932	(1)

Assumption unlocking has the potential to significantly impact current income.

After the initial remeasurement, the reserve increases at a faster pace over the year due to higher net premiums and higher interest accretion.

LDTI earnings – term life

Transition balance sheet for modified retrospective transition

At transition …

- The LFPB (at book value) is reset using current assumptions without provisions for adverse deviations (PADs).
- The LFPB is then updated to reflect current "Single A" rates, with the change reflected in accumulated other comprehensive income (AOCI).

Summarized balance sheet (at transition)		
	Current GAAP	**LDTI**
Assets		
Bonds	939,124	939,124
Book value	853,749	853,749
AOCI	85,375	85,375
Total assets	939,124	939,124
Liabilities	826,213	776,213
LFPB	853,749	931,370
Book value	853,749	853,749
AOCI	0	77,621
Total liabilities	853,749	931,370
Equity	85,375	7,754
Total liabilities and equity	939,124	939,124

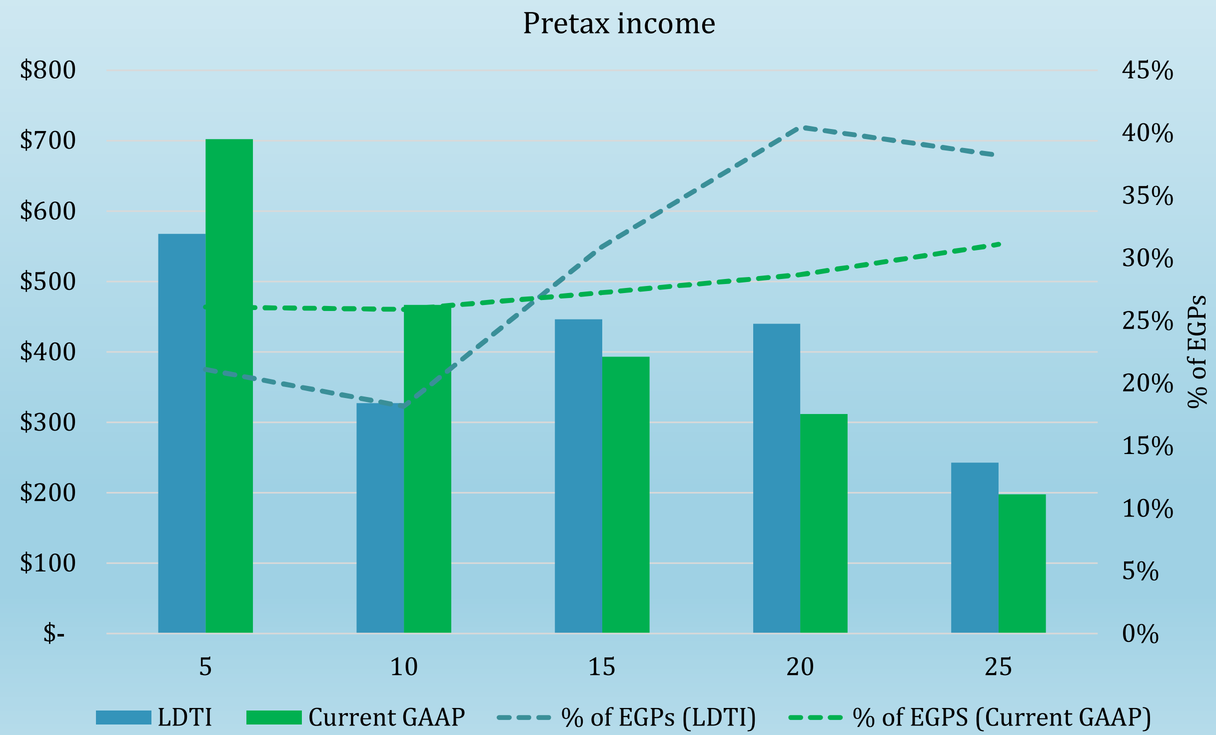
Under current GAAP, equity reflects a one-sided adjustment for interest rates (e.g., investments held at fair value).

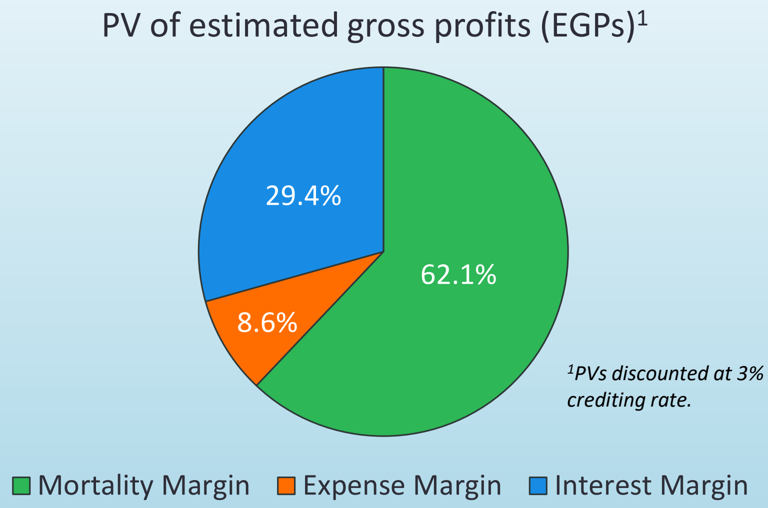
Under LDTI, equity reflects more parallel accounting (e.g., investments and the LFPB reflect current interest rates).

As a result, many companies will experience a reduction to equity at transition on traditional products, but less equity volatility going forward.

LDTI earnings – universal life business
Baseline scenario

- Universal life (UL) product without any secondary guarantees, and therefore no SOP 03-1 reserve (LDTI does not change the accounting for SOP 03-1 reserves).
- Earned rate = 4%, crediting rate = 3%, interest spread = 1%.
- No front-end loads, and therefore no unearned revenue liability (URL).
- In this example, LDTI only changes the valuation of deferred acquisition costs.





[1]PVs discounted at 3% crediting rate.

Considerations

- The distribution of sources of gross profits will stay fairly consistent under LDTI as current GAAP.
- Under LDTI, amortization is no longer tied to EGPs, so you can get profits that don't track well with your EGPs.
- Under LDTI, with no SOP 03-1 reserve in this example, all charges, benefits and non-deferred expenses are recognized as incurred with no impact on DAC amortization.

LDTI earnings – universal life business
Income sensitivities in year 10

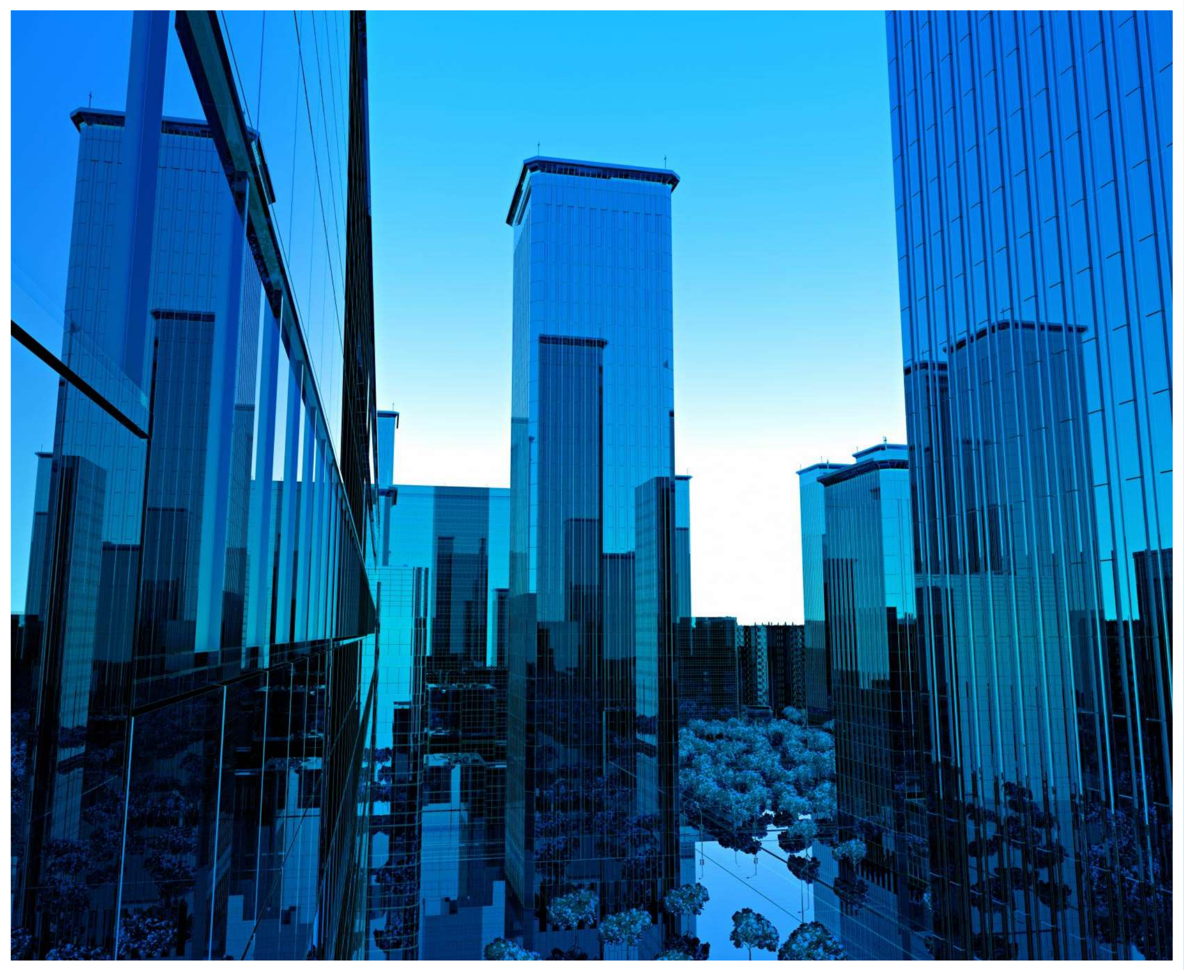
Pretax income in year 10:

	Current GAAP	Change vs. baseline	LDTI	Change vs. baseline
Baseline scenario	467		327	
5% higher mortality in year 10	270	-197 *(-42%)*	80	-248 *(-76%)*
2% higher mortality assumption in years 10+	-465	-932 *(-200%)*	326	-1 *(-0%)*

Higher claims are fully recognized as incurred under LDTI but dampened by 20% under current GAAP due to lower DAC amortization.

Minor exposure to assumption unlocking under LDTI compared to significant exposure under current GAAP.

LDTI earnings for annuity products



LDTI earnings – variable annuity business
Considerations and baseline scenario

- For annuity products and features, the most impactful change under LDTI is the introduction of MRB.
- This creates a new classification for these features that requires them to be measured at fair value with changes recognized in income (except for own-credit-spread effect).

LDTI considerations

- VA GLWB features have historically been fair valued, but GMDB/IB features will be moving from RW SOP 03-1 to RN MRB.
- Gain/loss on hedges compared with liabilities insightful as hedging scope may increase.
- Splitting out the attributed fees from total fees in SOE view, similar to pretax operating income (PTOI).
- Simplification of DAC amortization removes one complex component to ease analysis compared with current GAAP.
- New LDTI model functionality allows for opportunity to revamp reports and provide management with more of an SOE view.

Income statement components

Revenues	
Policy charges and fee income	20,976
Net investment income	301
Net realized gains/losses	(7,977)
Total revenues	13,300
Benefits and expenses	
Policyholders' benefits	174
Change in MRB	2,245
Amortization of DAC	1,275
General expenses	1,041
Total benefits and expenses	4,735
Pretax income	8,565

Selected B/S items	**Year 4**
Account value	1,064,793
MRB	7,780
DAC	34,895

Illustrative source of earnings

Net fee income	10,880
Total fees	20,976
Attributed fees	(10,096)
Net capital market gains (losses)	0
Gain/loss on liability	7,677
Net investment income	301
Gain/loss on hedges	(7,977)
Experience gains/(losses)	0
Unlocking impacts	0
Amortization of DAC (expected amount)	(1,275)
General expenses	(1,041)
Pretax income	8,565

LDTI earnings – variable annuity business

Income sensitivities in year 5

Sensitivity 1: beginning of year 5 has a 12% downward shock to separate accounts

Income statement components

	Baseline	Revised	Change
Revenues			
	13,300	80,677	67,377
Benefits and expenses			
	4,735	73,611	68,876
Pretax income			
	8,565	7,066	(1,499)

Selected B/S items (end of year 5)

	Baseline	Revised	Change
AV	1,040,189	871,696	(168,493)
MRB	10,025	78,244	68,219
DAC	33,621	33,621	0

Hedge payoff and NII earned on additional invested assets are offset by increase to MRB reserve and benefit payments due to drop in AV.

Impact to income equals the change in fee income.

Sensitivity 2: 100 bps increase in interest rates at beginning of year 5, with no impact on separate accounts

Income statement components

	Baseline	Revised	Change
Revenues			
	13,300	(10,309)	(23,609)
Benefits and expenses			
	4,735	(18,874)	(23,609)
Pretax income			
	8,565	8,565	0

Selected B/S items (end of year 5)

	Baseline	Revised	Change
AV	1,040,189	1,040,189	0
MRB	10,025	(13,584)	(23,609)
DAC	33,621	33,621	0

Hedge loss and change to NII offset by reserve release due to interest rate movement at beginning of year.

No change to income with a full hedge (assuming no hedge breakage).

LDTI earnings – fixed-index annuity business
Considerations and baseline scenario

LDTI considerations

- Insufficient or zero attributed fees common for FIA, since feature is often funded via implicit investment spreads.
- Common for FIA MRB features to not be hedged while index crediting is, making management of MRB volatility more challenging.
- Additional complexity of interaction with FAS 133 host, or stand-alone asset offset.
- Significant need expected for “what-if” analysis, to determine how some management levers can improve earnings:
  - Hedging
  - Index crediting mechanisms
  - Product design options with/without explicit fees

Income statement components

Revenues	
Net investment income[1]	23,413
Realized gains/losses	10,410
Total revenues	33,823
Benefits and expenses	
Index credits	10,410
Change in MRB	3,590
Change in ED	540
Change in host	3,190
Amortization of DAC	1,730
General expenses	500
Total benefits and expenses	19,960
Pretax income	13,863

Selected B/S items	**Year 4**
Account value	1,040,600
Host	752,000
Embedded derivative	142,840
MRB	145,720
DAC	36,620

Illustrative source of earnings

Net investment margin	20,223
Net investment income before hedge cost	39,021
Option budget[1]	(15,608)
Host interest accretion	(3,190)
Net capital market gains (losses)	(4,130)
Hedge asset payoff	10,410
Index credits to account value	(10,410)
Change in MRB	(3,590)
Change in ED	(540)
Experience gains/(losses)	0
Unlocking impacts	0
Amortization of DAC (expected amount)	(1,730)
General expenses	(500)
Pretax income	13,863

LDTI earnings – fixed-index annuity business
Income sensitivities in year 5

Sensitivity 1: 100 bps increase in rates at beginning of year 5

Income statement components

	Baseline	Revised	Change
Revenues	33,823	33,666	(157)
Benefits and expenses	19,960	(44,961)	(64,921)
Pretax income	13,863	78,627	64,764

Selected B/S items (end of year 5)

	Baseline	Revised	Change
AV	1,051,010	1,051,010	0
ED	143,380	152,939	9,559
MRB	149,310	78,420	(74,480)

Reserve release due to interest rate movement at beginning of year.

FIA MRB is highly sensitive to interest rates compared with current GAAP accounting under SOP 03-1.

Despite no change to current account value, we see a potentially significant exposure to markets as a result of MRBs that are often unhedged today.

Sensitivity 2: beginning of year 5 has 20% downward shock to equity index

Income statement components

	Baseline	Revised	Change
Revenues	33,823	23,471	(10,352)
Benefits and expenses	19,960	12,830	(7,130)
Pretax income	13,863	10,641	(3,222)

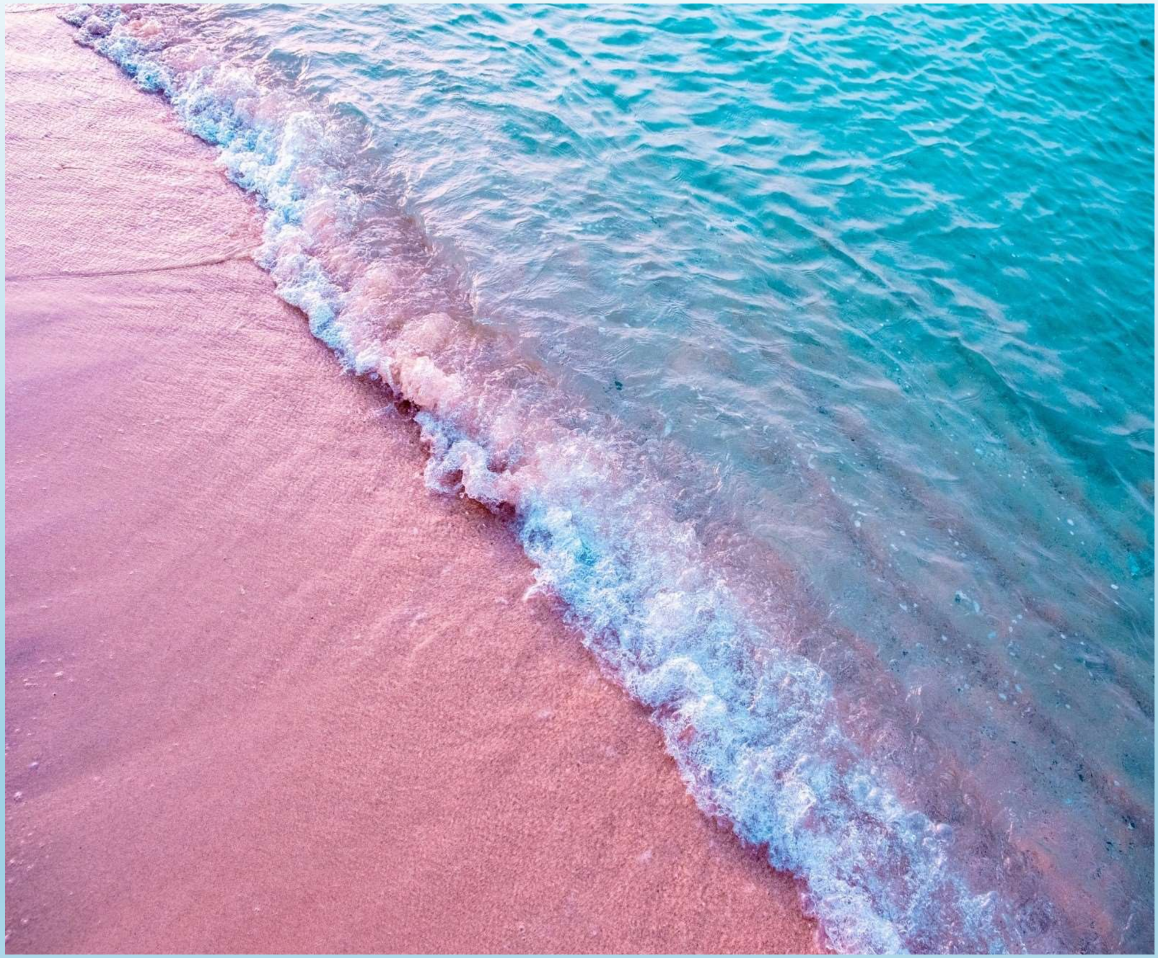
Selected B/S items (end of year 5)

	Baseline	Revised	Change
AV	1,051,010	1,040,600	(10,410)
ED	143,380	141,960	(1,420)
MRB	149,310	153,980	4,670

Hedge loss and change to NII offset by reserve release due to interest rate movement at beginning of year.

No change to income with a full hedge (assuming no hedge breakage).

LDTI investor story



LDTI investor story
Introduction

As preliminary results have become available, public companies have started socializing the differences with their investors. The changes to the GAAP measurement model for long-duration products are driving companies to provide separate sessions to educate their investors on the changes and opine on the impact of the differences. The communication strategy has been focused on the following areas:

Financial statement impacts

- There is some divergence in practice as some companies are electing to show side-by-side differences, while others are showing waterfall charts that attribute the impacts to specific changes in the accounting model.
- Companies with significant MRB blocks are focusing more on year-end 2021 impacts given the current interest rate environment.

Impacts to non-GAAP measures

- Some companies are electing to focus on the impact to non-GAAP measures as certain groups of investors are more interested in understanding the impacts from this perspective.

Economic/operational, sensitivities, disclosures, and impacts on a go-forward basis

- A popular opening statement for most companies has been “LDTI has no economic impact to our business.”
- However, to the extent that LDTI will drive changes to areas such as hedging strategy, a discussion is warranted to the extent that such actions will increase expected hedging costs; some companies have also elected to show balance-specific sensitivities to interest rates.
- There has been an aversion to sharing rollforward disclosures due to their technical nature.
- The industry is generally behind when it comes to the development of projections capabilities on an LDTI-basis.

The slides that follow demonstrate different ways to think about disclosing the impacts of LDTI.

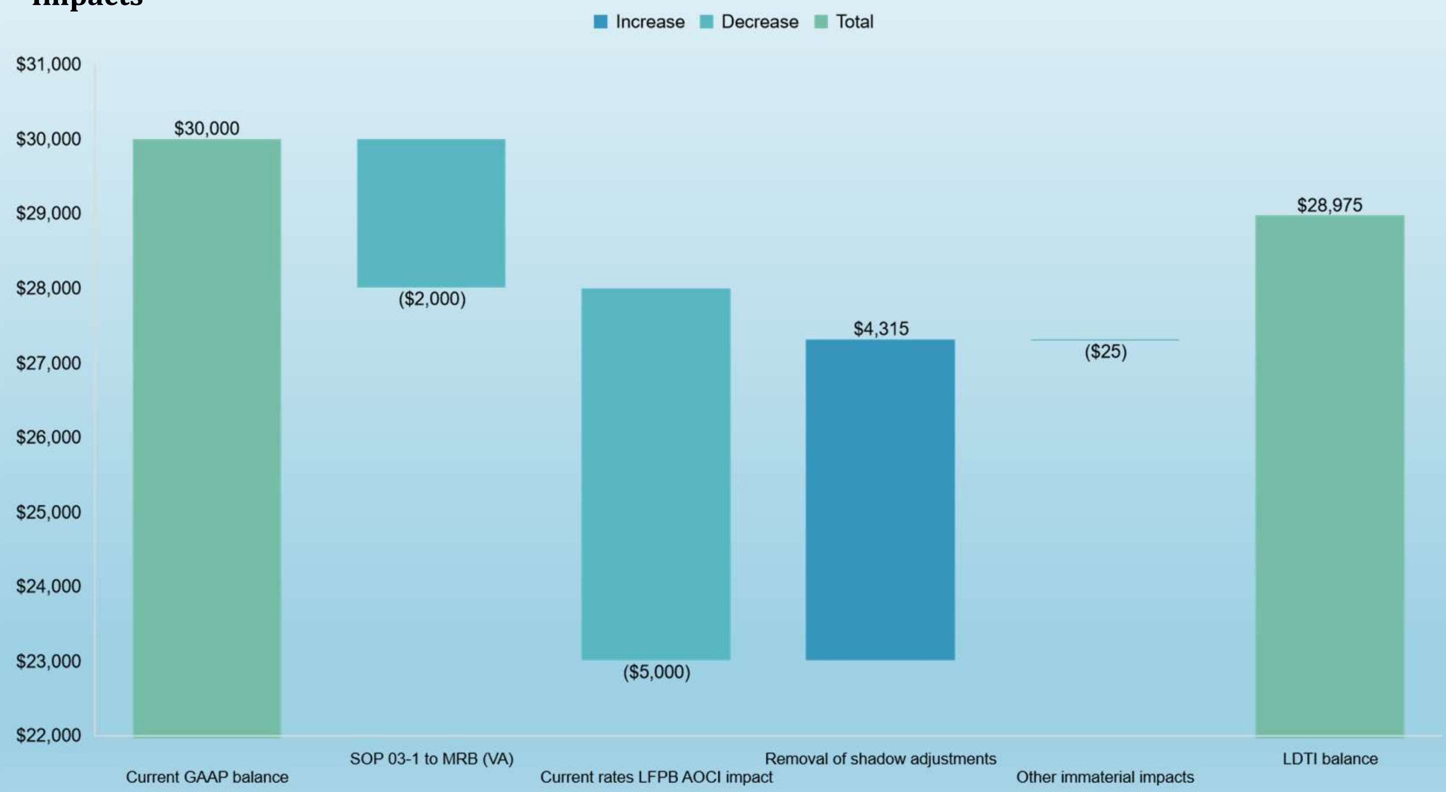
LDTI investor story
Illustrative financial statement impacts

	Liability for future policy benefits	Deferred acquisition costs	Market risk benefits
Current GAAP	$20b	$5b	N/A
LDTI	$30b	$8b	$4b

- Some companies are electing to disclose the impacts due to LDTI in a high-level tabular form.
- A view like this may be sufficient as it does explain some of the general themes of LDTI – for example, the current discount rate requirement on LFPBs will increase the amount carried on the balance sheet, to the extent that the current rates are lower than those locked in at issue.
- The downside is there is a lack of visibility to impacts that are offsetting in nature, like the reclassification of some VA liabilities to MRB, the removal of margins from the assumptions, and discounting the liability at the current rate.

LDTI investor story
Illustrative financial statement impacts

Impacts



Balances

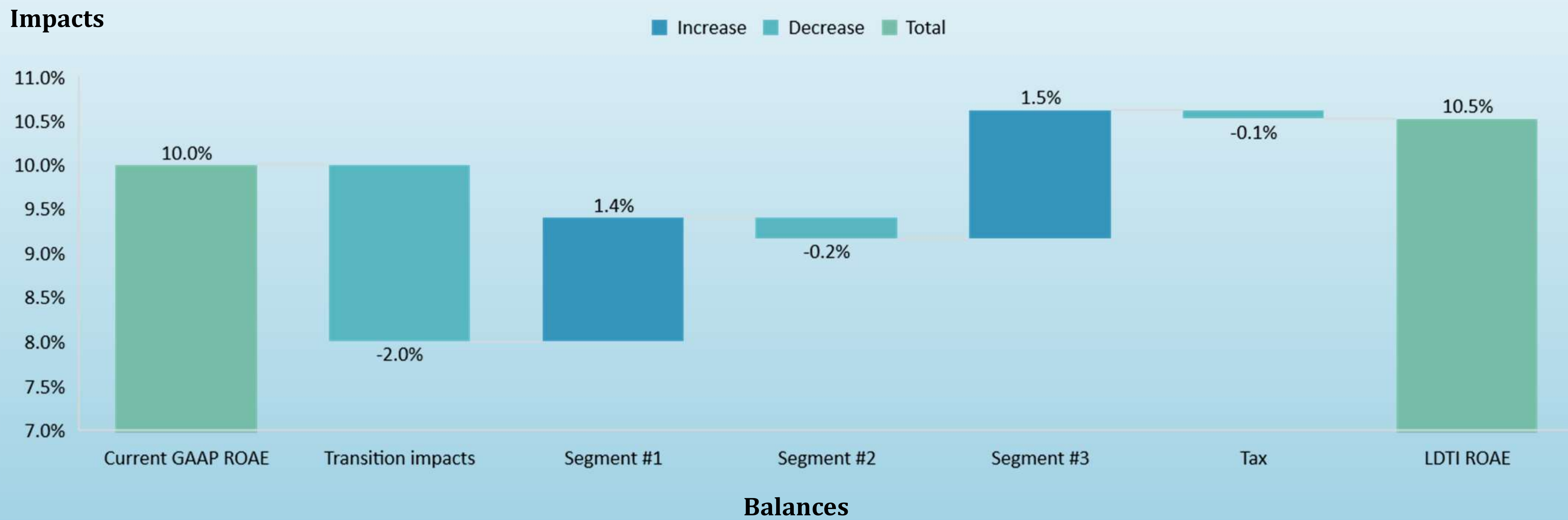
- A granular presentation provides more transparency in terms of the drivers of the impacts.
- A total equity impact view is a concise way of showing the impacts by significant adjustment.
- To the extent that management wants to facilitate a detailed discussion regarding the individual impacts, a view like this would help tee up that discussion.

LDTI investor story
Illustrative impacts to non-GAAP measures

	Current GAAP	LDTI
Adjusted return on average equity	10%	10.5%
Pretax adjusted earnings	$4b	$5b
Adjusted book value	$30b	$34b

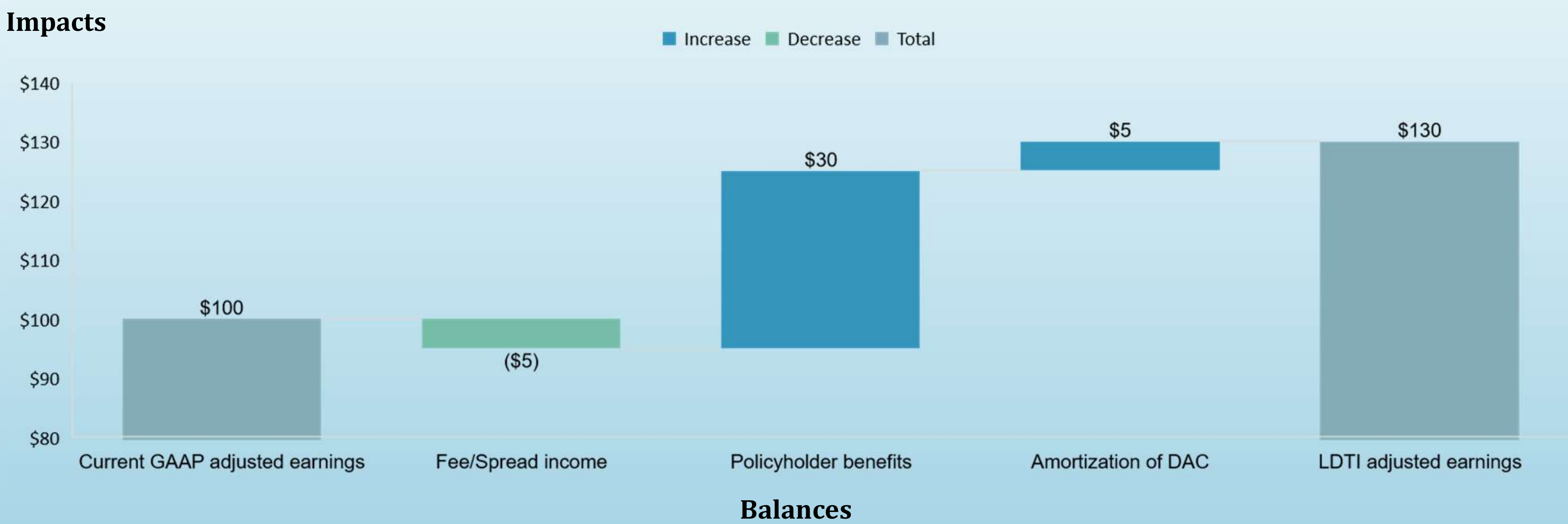
- Similar to the GAAP view, companies can also elect to take a high-level tabular approach when disclosing the LDTI impacts on their non-GAAP measures.
- Like the GAAP view, this may be sufficient as it does explain some of the general themes – such as the increase in adjusted book value due to the reclassification of accumulated own-credit-spread losses in retained earnings to AOCI.
- Other nuances – such as reductions in VA fees as more are being used to fund the MRB liability relative to the SOP 03-1 liability – would not necessarily be visible, as they could be overtaken by gains in adjusted earnings due to more VA liabilities being accounted for at fair value.
- Companies are having discussions around whether their current view of adjusted earnings should be updated as a result of LDTI, so updates to their definition could drive a need for a more granular presentation.

LDTI investor story
Illustrative impacts to non-GAAP measures



- Companies can also elect to take a more granular approach in disclosing figures such as return on adjusted equity (ROAE).
- Views like this can help facilitates drill down discussions into the individual line of business segments.
- This could be helpful to the extent that management wants to explain why LDTI is impacting some segments more than others or why LDTI could be favorable to some segments and unfavorable to other segments.

LDTI investor story
Illustrative impacts to non-GAAP measures



- A more granular walk from current GAAP to LDTI allows offsetting impacts to be bifurcated.
- These views can facilitate impact-by-impact discussions, which could be valued by certain investors.
- More granular views also make it easier for investors to develop expectations for how adjusted earnings may emerge over time and how dramatic the differences will be as a result of the valuation methodology changes under LDTI.
- A more detailed breakdown could also be useful if a company is trying to justify a change in its adjusted earnings definition under LDTI.

LDTI investor story
Illustrative economic, sensitivities, disclosures and impacts on a go-forward basis

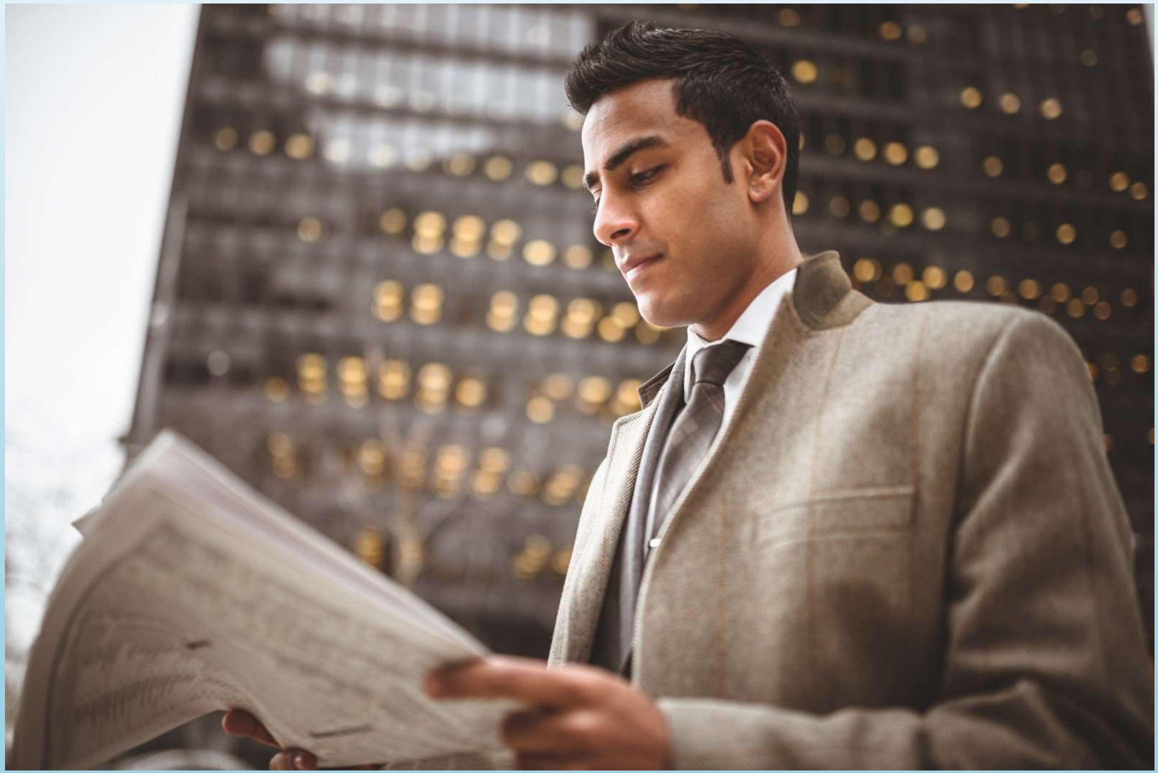
Current GAAP economic hedge target liability	$50b
LDTI economic hedge target liability	$60b
Market value of hedges	$55b

Estimated sensitivities of MRB impacts

Scenario 1	Scenario 2
+/- $4b	+/- $12b
+/- 10 basis points	***+/- 30 basis points***

- While LDTI does not have any direct economic effects, there could be indirect impacts if companies decide to update their hedging programs as a result of LDTI.
- To the extent that VA/FIA GMxB writers are hedging to GAAP earnings, more of the book would need to be hedged given that more liabilities are subject to fair value accounting under the MRB model.
- Companies with large MRBs may also elect to disclose metrics that illustrate how sensitive the liability is.
- Some companies seem to have an aversion to putting the rollforward disclosures in front of investor groups given how technical they are in nature.
- The industry is behind in developing its LDTI projections capabilities; however, the expectation is that companies will begin focusing on this after LDTI go-live.

Closing remarks and Q&A



Closing remarks

The changes to GAAP under LDTI will require insurance companies to move beyond their current approaches to explaining financial results, providing business insights, and reporting for both internal and external stakeholders. Our presentation today has outlined some of the considerations being observed in the industry related to LDTI earnings:

Term life

- Assumption unlocking has the potential to significantly impact current income.
- Companies may experience a reduction to equity at transition on traditional products but less equity volatility going forward.

Universal life

- With amortization no longer based on EGPs, companies will see profits emerge in a way that does not track well with EGPs. Understanding this concept and how to manage this disconnect will be important.
- The emergence of pretax earnings for UL will look different from under current GAAP.

Annuities

- Increased use of fair valuation, especially for features traditionally valued under real-world SOP 03-1 (FIA GLWB, VA GMDB) will experience a significant uptick in earnings volatility.
- Need for “what-if” analysis expected to increase, related to strategic approaches for hedging, index crediting mechanisms and product design.

Investor story

- Companies providing education sessions for investors on LDTI disclosures before go-live.
- Evaluation and refinements of non-GAAP measurements.
- “Day two” activities such as LDTI projections, strategic implications finally coming to forefront for public companies.