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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Brighthouse Financial's Second Quarter 2022 Earnings Conference Call. My name is Shannon, and I will be your coordinator today.

(Operator Instructions)

As a reminder, the conference is being recorded for replay purposes. I will now put the presentation over to Dana Amante, Head of Investor Relations. Ms. Amante, you may proceed.

Dana Amante - *Brighthouse Financial, Inc. - Head of IR*

Thank you, and good morning. Welcome to Brighthouse Financial's Second Quarter 2022 Earnings Call. Materials for today's call were released last night and can be found on the Investor Relations section of our website.

We encourage you to review all of these materials. Today, you will hear from Eric Steigerwalt, our President and Chief Executive Officer; and Ed Spehar, our Chief Financial Officer. Following our prepared remarks, we will open the call up for a question-and-answer period. Also here with us today to participate in the discussions are other members of senior management.

Before we begin, I would like to note that our discussion during this call may include forward-looking statements within the meaning of the federal securities laws. Brighthouse Financial's actual results may differ materially from the results anticipated in the forward-looking statements as a result of risks and uncertainties described from time to time in Brighthouse Financial's filings with the U.S. Securities and Exchange Commission. Information discussed on today's call speaks only as of today, August 5, 2022.

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The company undertakes no obligation to update any information discussed on today's call. During this call, we will be discussing certain financial measures that are not based on generally accepted accounting principles, also known as non-GAAP measures.

Reconciliation of these non-GAAP measures on a historical basis to the most directly comparable GAAP measures and related definitions may be found on the Investor Relations portion of our website, in our earnings release, slide presentation and financial supplement.

And finally, references to statutory results, including certain statutory-based measures used by management are preliminary due to the timing of the filing of the statutory statements. And now I'll turn the call over to our CEO, Eric Steigerwalt.

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Thank you, Dana. Good morning, everyone, and thank you for joining our second quarter 2022 earnings call. Before discussing our results in the quarter, I want to take a moment to acknowledge that this month marks Brighthouse Financial's fifth anniversary as an independent public company.

It is an understatement to say that I am incredibly proud of our strategic and operational accomplishments as well as the franchise that we have built over the past 5 years. Although we were by no means new when we launched Brighthouse as our company has a rich heritage with roots tracing back to 1863, we did have to build the Brighthouse Financial brand with focused marketing initiatives as well as through our strategic and diverse distribution relationships.

Today, we are an established U.S. retail franchise trusted by over 2 million customers and one of the largest providers of annuities and life insurance in the United States. From the beginning, as we deliver on our mission to help people achieve financial security, we have had a simple strategy built on 3 focus areas as well as a commitment to consistently returning capital to shareholders over time.

Our focused strategy, which has guided our approach to our financial management strategy and managing our business consists of offering a target set of annuity and life insurance solutions that are simpler, more transparent and provide value to our distribution partners and the clients they serve, selling our products through a diverse, well-established network of distribution partners, continuing to build strategic distribution relationships and entering new channels as we expand our distribution footprint in the United States.

And finally, effectively managing our expenses by adopting and maintaining an operating model designed to drive our statutory expense ratio down over time. The accomplishments that we have made over the past 5 years are directly aligned with these elements of our strategy. To highlight just some of our key accomplishments.

Early in 2017, we rolled out a focused set of advertising campaigns designed to introduce the Brighthouse brand and showcase our flagship Shield Level Suite of Annuities. These campaigns, which helped generate brand awareness in the market and increased adviser awareness, enabled us to hit the ground running as a new public company and were instrumental to expanding our sales footprint.

The results of our work are reflected in our sales growth. Our annuity sales have more than doubled since the end of 2017, with 2021 full year total annuity sales exceeding $9 billion, led by variable and Shield Level Annuities.

In addition, we reestablished a competitive presence in the life insurance market. In 2019, we launched our first Brighthouse Financial Life Insurance product, which we called SmartCare. This was followed by the launch of our term product, Simply Select in 2020 in collaboration with Policygenius. Additionally, in 2020, we expanded our relationship with BlackRock as we were selected to join the efforts to deliver BlackRock's LifePath Paycheck investment solution.

And in 2021, we entered the institutional spread margin business. And as of June 30 of this year, we had balances of over $8 billion. We expect this business to enhance and diversify our earnings profile over time. As a result of these growth initiatives, we have made significant strides towards shifting our business mix as we seek to continue to increase the level and predictability of earnings and cash flows going forward.

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As we execute our strategy, we also remain focused on managing our risk profile and optimizing statutory capital to further strengthen the balance sheet. In 2019, we revised our variable annuity hedging strategy, which fundamentally lowered our company's risk profile and allowed for the release of $1 billion of capital.

This revision, along with continued efforts to optimize our statutory capital, enabled Brighthouse Financial to buy back a significant amount of its common stock since becoming an independent public company and to have a substantial amount of liquid assets at the holding company of $1.2 billion as of June 30.

We began returning capital to shareholders approximately 2 years ahead of our initial time line, achieved our target of returning $1.5 billion of capital to shareholders by year-end 2021, and we continue to execute on the $1 billion authorization that we announced in August of last year.

Through our common stock repurchase program, we have repurchased a total of approximately $1.8 billion of common stock as of August 3, 2022. And we have reduced the number of our shares of common stock outstanding by approximately 40% over the past 5 years. We remain committed to consistently returning capital to shareholders over time.

We have accomplished all of this while effectively managing our expenses and making great strides in the transition to our future state operations and technology platform. As we reflect on all that we have achieved over the past 5 years, I want to give a heartfelt thank you to all of our employees for their tremendous hard work and dedication, and to all of our distributors whom we very much appreciate.

Now turning to our second quarter results. While global equity markets have declined, interest rates rose significantly in the quarter with the 10-year U.S. Treasury increasing almost 70 basis points. Amid this turbulent market environment, Brighthouse delivered another quarter of solid results.

Our capitalization was strong in the quarter with an estimated combined risk-based capital or RBC ratio between 470% and 490%. As a reminder, we continue to target an RBC ratio between 400% and 450% in normal markets.

Additionally, we ended the quarter with liquid assets at the holding company of approximately $1.2 billion. Turning to sales. Our sales results were strong in the quarter. Total annuity sales were up 20% sequentially and 8% quarter-over-quarter, driven by fixed deferred annuities and Shield Level Annuities.

Through the second quarter of this year, our annuity sales results were up 3% compared with the first half of 2021, which we believe demonstrates the strength and diversity of our annuity product portfolio as we continue to effectively navigate the current market environment.

In addition, we continue to focus on enhancing our product portfolio. To that end, I am pleased to announce that this month, we plan to launch our next generation of Shield, which is Shield Level Pay Plus. This new product is designed to help strengthen clients' retirement portfolios by providing a stream of guaranteed lifetime income while offering them opportunities to participate in market growth combined with a level of protection against market volatility.

Additionally, in the second quarter, we generated approximately $19 million of life insurance sales, down 5% sequentially and down 27% compared with the second quarter of 2021. While we have experienced some headwinds from the economic backdrop in the past 2 quarters, we remain focused on and confident in our life insurance strategy and intend to continue to broaden our product offerings and expand our distribution footprint.

Finally, let me discuss share repurchases in the quarter. We continue to repurchase our common stock with $132 million repurchased in the second quarter, and additional $58 million repurchased through August 3.

We plan to continue to execute on each element of our simple and focused strategy, enhancing our product suite for both annuities and life insurance, which will continue to shift our business mix and increase the level and predictability of earnings and cash flows over time. And with that, I'll turn the call over to Ed to discuss our financial results in more detail. Ed?

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Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Thank you, Eric, and good morning, everyone. As you heard from Eric, the second quarter was a good one for Brighthouse Financial. Despite an equity-bear market and an elevated level of uncertainty for markets in the economy, we grew annuity sales, controlled expenses, and delivered an increase in our statutory risk-based capital or RBC ratio.

Our estimated combined RBC ratio was between 470% and 490%, which is an increase from the estimated range of 450% to 470% at the end of the first quarter. The increased RBC ratio was primarily driven by strong variable annuity or VA results as we were positioned to benefit from rising interest rates, and we had a protected position on equities, relative to our maximum targeted first loss position of $500 million.

Non-VA results were also good in the quarter, including mortality returning to a normal level. Additionally, the second quarter RBC ratio benefited from targeted derisking actions in our investment portfolio. The positive impact from these items was partially offset by capital used to fund growth, a decrease in the admitted deferred tax assets, or DTA, and the settlement of a reinsurance matter. Estimated statutory combined total adjusted capital, or TAC, was $8.2 billion at June 30 compared with $8.5 billion at March 31.

The reduction in TAC was driven by 2 non-trendable items, the decrease in the admitted DTA and the reinsurance settlement. As I discussed during our first quarter earnings call, statutory accounting for a deferred tax asset is conservative. The admitted DTA on our statutory balance sheet is only a fraction of our total tax attributes, which we still anticipate using over the long term.

Year-to-date normalized statutory earnings were approximately $400 million, with approximately $600 million of normalized statutory earnings in the second quarter. As I mentioned, we were well positioned for rising interest rates, and we were conservatively positioned on equities relative to our maximum first loss target.

In addition, non-VA results were favorable in the quarter. We continue to have a substantial amount of cash at the holding company as holding company liquid assets were $1.2 billion at June 30. There were no dividends from the operating companies in the first half of 2022.

However, we still anticipate taking approximately $300 million of ordinary subsidiary dividends to the holding company this year. Moving to adjusted earnings. Adjusted earnings, excluding the impact from notable items, were $247 million, which compares with adjusted earnings on the same basis of $315 million in the first quarter of 2022 and $458 million in the second quarter of 2021.

Notable items in the quarter totaled $223 million after tax, and included a settlement of a reinsurance matter for $111 million impacting the Run-off segment; $89 million associated with new reinsurance agreements to opportunistically manage exposure to large face amount legacy life insurance policies, primarily in the Run-off segment; $14 million from model refinements for our Shield Level annuities; and establishment costs of $9 million.

Excluding these items, adjusted earnings results were below expectations, driven by market performance in the second quarter, partially offset by expenses and the underwriting margin, which were both favorable relative to our expected quarterly run rate. I would like to discuss each of these drivers in more detail, beginning with market performance.

VA's separate account returns were negative 12.6% in the quarter, which drove a reduction in average separate account balances. As a reminder, approximately 2/3 of our separate account portfolio is invested in equities and 1/3 is invested in fixed income. The market performance in the quarter reduced second quarter adjusted earnings by $142 million on an after-tax basis.

This was primarily driven by higher deferred acquisition cost, or DAC, amortization and a change in VA reserves as well as lower fees on lower separate account balances. We also expect a reduction in fees in the third quarter based on the lower separate account balances at the end of the second quarter.

Turning to expenses. Total expenses in the second quarter were $61 million below expectations after tax. This was driven by lower corporate expenses along with a favorable variance in DAC amortization unrelated to the market. Lastly, the underwriting margin was higher sequentially and was higher than our quarterly run rate expectation by $8 million on an after-tax basis.

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Claim volume was down significantly relative to the first quarter and average severity of claims was also lower. Total direct claims were near the midpoint of the $400 million to $500 million quarterly range that we typically expect.

The impact from COVID-related claims was insignificant in the quarter. Moving to adjusted earnings at the segment level. Adjusted earnings excluding notable items in the Annuities segment were $218 million in the second quarter. Sequentially, annuity results reflect higher reserves, lower fees and higher DAC amortization as well as lower net investment income, partially offset by lower expenses.

The Life segment reported adjusted earnings, excluding notable items, of $25 million in the quarter. On a sequential basis, results were driven by lower net investment income partially offset by a higher underwriting margin and lower expenses. Adjusted earnings in the Run-off segment, excluding notable items, were $34 million.

Sequentially, results reflect a higher underwriting margin and lower expenses, partially offset by lower net investment income. Corporate & Other had an adjusted loss, excluding notable items, of $30 million.

On a sequential basis, results were driven by a higher tax benefit and higher net investment income partially offset by higher expenses. In closing, Brighthouse reported strong underlying results in the second quarter of 2022.

Our balance sheet and liquidity position remain robust, and we continued to repurchase a significant amount of common stock. We remain focused on managing the company under a multiyear, multi-scenario framework to protect and support our distribution franchise. With that, we would like to turn the call over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

My first question relates to your SGUL block. If you could comment on your last assumptions there? And any color that you could provide as we head into your annual review this coming quarter?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Elyse, it's Ed. So we have about $25 billion of stat ULSG reserves, about $16 billion of GAAP. And first, I'd start by saying this was a block that received a lot of attention from us at separation. And as a result of detailed analysis years ago, we took about $3 billion worth of GAAP charges and no charges for stat.

And when we talk about stat, stat is very conservative for us under AXXX. For example, lapses are essentially 0. And it's historically been recognized as just generally redundant reserves. And I can tell you that for us, we've had consistently positive cash flow testing margins for that block of business. On a GAAP basis, our ultimate lapse rates are less than 1%.

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Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

Okay. That's helpful. And then my second question, Ed, you mentioned that you guys expect to take $300 million of ordinary dividends this year. Do you have the expected timing for that in the second half of the year? And I know you guys don't typically guide on quarterly level of buyback. But how do you feel about, I guess, buyback levels going forward just given the volatile markets that we're in?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes, I would just stick with the second half of the year for dividends rather than being specific in which quarter. You probably noticed from the buyback numbers this past quarter and in the third quarter to date. It's up a little bit from where it was in the previous quarter.

And the reason for that or -- we've taken advantage of certain days when the stock price has been particularly weak to buy more. So I would just say, if you look at our track record, very consistent. When the stock is what we consider to be an exceptional value, we have been pretty aggressive in stepping up the pace.

And so I'm not going to give you any guide, but I think the historical behavior as well as the recent history should be helpful.

Operator

Our next question comes from Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Let's touch upon your reinsurance settlement. We tend to see these reinsurance settlements every now and then. I'm just wondering how much of your gross net amount of risk is still in the pipeline for these types of reinsurance controversies?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes. So we had this settlement, a disputed reinsurance matter, and it had an impact on GAAP and statutory results. It was contemplated in our contingency disclosures, in our SEC filings. So I think you'll see that, that range used to be 0 to $250 million, and now it's 0 to $125 million.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Could you also elaborate on your derisking actions in your investment portfolio that helps your RBC?

John Lloyd Rosenthal - *Brighthouse Financial, Inc. - Executive VP & CIO*

Tracy, it's John. So over the last number of months, the macroeconomic outlook, as both Eric and Ed have suggested, has become more uncertain. So in Q4 last year, we started to position the portfolio more defensively by selling down the riskiest portions of our emerging markets and corporate high-yield portfolios.

As economic uncertainty increased, we continued to de-risk throughout the first half of this year through sales, up in quality trades and more conservatively investing new cash flow. And in the second quarter, for example, we reduced our below-investment-grade holdings by about $500 million, primarily focused on the single B category. So we feel pretty good about where we're positioned right now.

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Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Maybe just a quick follow-up there. Was that all contemplated in your distributable earnings scenario?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Tracy. So let me give a little bit on that. So I know when we released these DE tables -- I mean, the short answer is no. But just going back to the DE tables. When we released these back in March of this year, we've seen some questions from you and others about why didn't they improve even more given what had happened in the markets?

And part of the answer to that was that we entered this year in a very protected position on the equity side. And in those scenarios, that was a cost to us. And the benefit of that is what you see in our mid-year RBC ratio and our normalized statutory earnings.

Operator

Our next question comes from Erik Bass with Autonomous.

Erik James Bass - *Autonomous Research LLP - Partner of US Life Insurance*

First, Ed, can you touch a little bit on the drivers of the decline in statutory required capital this quarter?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Sure. So -- as I said, we increased the range of our RBC ratio by 20 points. So we're at 470% to 490%. And if you look at our TAC of $8.2 billion, you would conclude that there was a pretty material decline in required capital, and that would be correct. There were 2 drivers.

The biggest driver was convergence. So you've all heard me talk about convergence in the past, which is what happens when markets are bad, you tend to see CTE70 reserves go up more than CTE98 total asset requirement. And the capital charge under VA reform is determined by the difference between the total asset requirement at 98 and the total asset requirement at 70. And so that was the biggest driver of the decline in required capital. Another driver was the derisking of the investment portfolio, which John had commented on previously.

Erik James Bass - *Autonomous Research LLP - Partner of US Life Insurance*

Got it. And I guess, how should we think about the level where this convergence benefit kind of comes into play? And when that happens, is there a material change in required capital? So I guess is it a material benefit when it happens? Or is there kind of a headwind if it reverses?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Well, I mean, I don't -- I think we should probably hope for it to reverse because that means you're having very good markets most likely. I guess I would look at this and say -- think about it this way, CTE98 contemplates some bad things happening. CTE70 is not really a very challenging environment because it's the average of the 30% worse scenarios for markets. So when you have a bad thing happen, it gets reflected in CTE70. And so it goes up more than 98 because 98 was already contemplating bad things happening.

And so that's what -- that's why convergence is just generally something you should expect to see when you have a challenging market environment. The opposite will occur if markets happen to be particularly strong. You will have your CTE70 number come down because it doesn't contemplate a lot of bad stuff. And you'll have your 98 come down less because, again, you're talking about the average of the 2% worse scenarios at 98. So it's always looking at a pretty conservative asset requirement.

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Erik James Bass - *Autonomous Research LLP - Partner of US Life Insurance*

Got it. That's helpful. And then if I could just ask quickly for some more color on the new Shield product you mentioned. It sounds like this has an income guarantee. So it's just -- curious how that changes the risk profile of the product or the capital intensity of it?

David Rosenbaum - *Brighthouse Financial, Inc. - Head of Product Strategy and Pricing*

Eric, this is David. I'll start with that. So we are excited about the next iteration of Shield that's launching next week and really the evolution of guaranteed income of Brighthouse. So this is going to build on the existing Shield chassis and the success that we've had there. And really designed for those clients looking to supplement retirement income, utilizing existing Shield crediting strategies.

And as you said, we're adding a built-in living benefit feature. And so from a risk profile perspective, we'll really be hedged with the rest of our VA and Shield products.

Erik James Bass - *Autonomous Research LLP - Partner of US Life Insurance*

Got it. And presumably, there's a separate additional charge for the -- if you opt in for the guarantee?

David Rosenbaum - *Brighthouse Financial, Inc. - Head of Product Strategy and Pricing*

That's right. The product will have a writer fee attached with it, but no other fees.

Operator

Our next question comes from John Barnidge with Piper Sandler.

John Bakewell Barnidge - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Are we at the point of the TSA roll-off where expenses could actually end up below expectations maybe on a go-forward basis? Since I think you had previously mentioned the last TSAs to roll off are generally the most expensive.

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

John, it's Eric. Just repeat the part below expectations. So expenses, what are you saying? Worse?

John Bakewell Barnidge - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

No, better. I'm talking better.

Eric Thomas Steigerwalt - *Brighthouse Financial, Inc. - President, CEO & Director*

Expense is better. Okay. So look, we've already -- we're near the end. We'll be basically at the end of all of our go-forward platforms this year after 7 years of this. And so you're already seeing the benefit of some of the expensive TSAs coming down. What's going to be left next year are the closed block pieces, old chunks of business. Those actually aren't quite as expensive.

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It's really the ones that we're finishing up now. And we've already gotten a fair amount of that. You can see how our expenses have been in the last 2 quarters. And even though you're probably going to see them go up some in the third and fourth. But we're down pretty materially here. So we're at the end of the go-forward sort of future state platform and all that after some closed blocks.

John Bakewell Barnidge - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

My follow-up, and I'm sure at times the 7 years seems like yesterday and others, it seems like a lifetime ago. But when you think about the next iteration of Shield Level Pay Plus, I believe, you talked about it, can you maybe talk about, are you gearing up for any distribution expansion plans within annuities ahead of that? And then maybe your outlook for distribution expansion for Life as well?

Myles Joseph Lambert - *Brighthouse Financial, Inc. - Executive VP and Chief Distribution & Marketing Officer*

Yes, sure. It's Myles. I'll start with Shield Level Pay Plus. As you know, we have a very strong franchise right now as it relates to a number of major national distributors that we sell our Shield suite of products through. So we feel really good about our distribution footprint. We also sell Shield through the IMO channel as well.

And lastly, look, we're always looking for new distributors to sell our products through especially Shield, but the current footprint is really solid. As it relates to life insurance expansion in the second quarter, we brought on a major national distributor to sell our SmartCare product, and we did something again, very similar early in the third quarter.

So we have access to approximately 8000 new advisers that we can sell SmartCare through, and that's going to be a continued focus of ours as it relates to growing expansion -- growing and expanding distribution for that product.

Operator

Our next question comes from Ryan Krueger with KBW.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

Could you give us any perspective on any changes you've made to the hedging -- VA hedging as the year gone on and rates have risen and the equities have fallen?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

So we commented last quarter. First, starting out with the fact that I said that our interest rate hedging has been a combination of strategic and tactical. And the strategic component of that, meaning that we had a lot of out-of-the-money protection -- we have a lot of out-of-money protection for rates dropping to very low levels, and that's strategic.

The tactical element I said was that rates have been very low, and we have been positioned to benefit from rates going up. So we mentioned on last quarter's call that we had taken some actions associated with the hedge portfolio because rates were higher. And I'll tell you that we took some additional actions since then.

I'd just remind you that we manage this risk on a continuum, and we will, therefore, continue to look at opportunities with rates up to perhaps do some other things as well.

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Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

I guess, as the equity market has fallen, have you also chosen to take off any protection there? Or is it largely the same?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes. I don't really want to get into sort of the where we are today looking forward. I think I'd rather talk about our results as they emerge over time.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

Got it. And then just one more. Is the actuarial systems conversion, will that occur in the third quarter or the fourth quarter? And I guess, anything you can -- any perspective you can give us at this point?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes. I'm just sticking with it will be completed this year. As a reminder, we've been in the midst of actuarial transformation, moving all of our models to one environment. It's been a herculean effort. It's already paying dividends in that.

We have simplified, more standardized models. We're looking at one environment versus multiple environments. In 2020, we completed the Life model migration. In 2021, we did Shield and all of the other annuity lines, except VA, and all we have left is VA this year. And so we're on track, and I feel very good about getting this done this year.

Operator

(Operator Instructions)

Our next question comes from Alex Scott with Goldman Sachs.

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

First one I had for you was on annuity sales. I was just interested if the -- some of the changes in Secure Act and some of the partnerships that you guys made to maybe distribute more product through group distribution channels over time, is any of that taking shape? Over what time do you expect that to start benefiting your growth?

Myles Joseph Lambert - *Brighthouse Financial, Inc. - Executive VP and Chief Distribution & Marketing Officer*

So, this is Myles. I'll take that question. So look, Secure Act is terrific for retirement. But it hasn't had a huge effect as it relates to the sale of retail annuity products. And as it relates to our group annuity business, that's a legacy business that we do see new flows into but we're not actively signing up new plans. And our strategy for institutional retirement opportunities will be LifePath Paycheck moving forward.

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Got it. Second one I had is on just some of the disclosures your former parent made on LDTI. I realize you guys aren't prepared to probably give that at this point. But are there any differences between your block of annuities and their block of annuities that we should be thinking about?

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Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Alex, it's Ed. So I believe they gave the opening balance sheet disclosure. Is that correct?

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

That's correct. Yes.

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Okay. So that was as of the beginning of '21, right? And year-end '20, 10-year treasury was 92 or 93 basis points, I think. So the first thing I would start out with is we are obviously in a very different rate environment and as you know as well as anyone else, the market risk benefit calculation is very sensitive to rate movements.

So that's the first thing that I would point out. And the second thing is when it comes to LDTI, we're not talking about numbers today, and it really relates to my answer to the previous question. We are in the final stages of the VA model conversion. Obviously, we're doing all the LDTI calculations within that environment. And so it's premature for us to talk about estimates. I would expect that we would be in a position to talk about it on the third quarter call.

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Got it. And then maybe one quick follow-up for me. What credit metrics are you focused on, on the other side of this? I mean, I get that there's a lot of noneconomic pieces, statutory, your RBC result, which was, I thought, fantastic in this kind of environment, et cetera, it is very important. But I guess as we think about Holdco and debt load, like what are you going to be managing to? And what are the rating agencies going to be looking hardest at? Like, where are those goalposts going? How can we think about all that?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Sure. Well, I think the first thing is -- we'll have to see. I mean, you probably should talk to the rating agencies, but I would say if I look at their comments to date, they've been pretty consistent in saying that they look through accounting changes. And as you know, nothing changes with our statutory balance sheet, our cash generation, anything -- January 1 of '23 versus year-end '22.

So that's the first point. And the second point is the -- we will have a completely different model now under GAAP than what we have today. And so the idea that we would continue to have the same targets and metrics under a completely different model doesn't seem to me to be likely.

Alexander Scott - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Yes. That's kind of the intent of my question is like I agree. So what are the new metrics that we should think about?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes, I'm not sure that you would think about new metrics. I mean you can look at our balance sheet, you see the debt we have, you see the preferred we have. You see our statutory capital, you see our holding company cash. I mean, I don't know. Those are the things I'd focus on.

Operator

Our next question comes from Thomas Gallagher with Evercore ISI.

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Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Speaking of holding company cash, I haven't heard you talk about your target in a while. I think it used to be $400 million. Is that still the case? Or have you changed your thinking of that?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes. I don't think I've ever given that number. But I guess I would say this, right, and I have said this, I don't know that there is a target for holding company cash, right, because it's going to be dependent on a number of factors. It's not just fixed charges. It's also like what do your maturities look like.

And I would say we're in a great position from that standpoint, right? Like, we issued $750 million of 30-year debt and fixed for Life Preferred in the fall of last year at the absolute nature for funding costs. And we extended the maturity profile by using most of those proceeds to take out debt that was coming due in 2027.

So I think our 2027 debt now is less than $800 million to maturity. So we have no maturities between now and then. We have overall extended the capital structure in the last few years and added more Preferred. So I feel very good about kind of the funding side.

And I've also made comments about how having the amount of cash that we have at the holding company gives us a lot of flexibility in terms of buyback because of the fact that we -- you see what our remaining authorization is and you see that cash level. And you see that I'd say we're taking $300 million out in the second half of the year, we really don't have to rely on dividends from our primary operating company to continue buying back stock.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Got you. Yes. Ed, it might have been your predecessor that said $400 million. That was a while back now. But the...

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes. I think it really -- I mean, like I said, you know what, you wouldn't want to have $400 million if you had $1 billion of debt coming due next year, for example.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Yes, I hear that. My follow-up is just on -- I just want to understand and I know you don't want to talk about prospective hedging or at least the way you're positioned. But the concern I'm hearing right now is, hey, this was a great result, looks like you were closer to first dollar hedged on your overall hedging program into the teeth-of-the-bear market in 2Q. But if you're closer to first dollar hedge, I'm not asking you for how close you are, but closer than the $500 million, we'll call it, first dollar position, and now you're going to get CTE70 and CTE98 divergence occurring in 3Q, will you have a near-term RBC hit as we think, if we just marked everything to market and I'm not asking for a specific number, but if it's meaningful to the point where we might see an unintended consequence in Q3 for RBC?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Okay. Sure. Let me try to help on this. So I don't think you should look at convergence or divergence as meaning good or bad for RBC. It's convergence and divergence that actually lend stability to RBC, right, because the RBC is, for a VA company -- a pure VA company, CTE98 would be a 400% RBC

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ratio, right? And so it's the movement between 98 and 70 that's going to determine the composition of that ratio, meaning the numerator and the denominator, right, not the ultimate outcome.

And in terms of the first dollar, I would just say this. I mean, I think Eric made a comment on last quarter's call that we have an up to $500 million first loss. And it doesn't mean wherever that we're necessarily at that level, right? Now it's all modeling. We know it's our models, and we're forecasting based on different market environments.

But what I would say is what you saw in the year-to-date, right, is norm stat earnings of $400 million, norm stat earnings for VA means generation of assets above 98, right? So we said last quarter that we didn't use any of our first loss position despite the noise that we had in RBC. And if you look at the second quarter, given the strong statutory results, you can see it's the opposite of any first loss.

Thomas George Gallagher - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Got you. And can I just sneak in one more quick one? Did you guys participate in that study, Pru was referencing and I heard what you said on lapse rates, which sounds like you're fine on the lapse rate assumption. They also changed our ultimate mortality assumption, it sounds like? And is that something that we should be considering or something you're contemplating?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Yes. I just would reiterate what I said before. Statutory is very conservative for us under AXXX. You have prescribed assumptions that are very conservative. It's the reason when we talk about how we think about capitalization at BRCD, is looking at cash flow testing margins. And I've said repeatedly that those margins have been good. And I mean, that's all there is to say, I think, on the topic.

Operator

Our next question comes from Suneet Kamath with Jefferies.

Suneet Laxman L. Kamath - *Jefferies LLC, Research Division - Equity Analyst*

I think that's me. Ed, can you -- you talked about the $142 million impact in annuities. I think you talked about that being split between DAC, VA reserves and lower fee. Any way to kind of give us the split on that?

Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Suneet, I'm going to just keep it at the $142 million, but what I can help you out with is all the numbers we put in the slide and I think talked about last night were related to the impacts in the second quarter. If you were to look at separate account balances as of the end of the second quarter, you would probably talk about another $40 million to $50 million after-tax impact -- negative impact to go-forward earnings from the markets.

So you've got the number there, and then you would add on to that, let's say -- you're not -- you're going to have an additional $40 million to $50 million. So when you're thinking about your add back, if you wanted to add something back, right, it's not going to be the full $142 million.

Suneet Laxman L. Kamath - *Jefferies LLC, Research Division - Equity Analyst*

Got it. Okay. That makes sense. And then just my second question is, I think yesterday, Lincoln talked about principles-based reserving in their Life Insurance business due to the weaker markets and that had an impact on their RBC. Just wondering if that affected you at all in the quarter? And if not, because maybe your block is smaller or that resides in the captive, just sense of any impact there?

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Edward Allen Spehar - *Brighthouse Financial, Inc. - Executive VP & CFO*

Sure. So when it comes to the topic du jour of ULSG, none of our ULSG is PBR because it's all runoff. And I think PBR was what started in a couple of years ago.

Suneet Laxman L. Kamath - *Jefferies LLC, Research Division - Equity Analyst*

Got it. I thought that they were referring to more of the equity market, but maybe I got that wrong. It seemed to be what they're referring to.

Operator

Ladies and gentlemen, I will now turn the call over to Dana Amante for closing remarks.

Dana Amante - *Brighthouse Financial, Inc. - Head of IR*

Thank you, Shannon. And thank you all for joining us today and for your interest in Brighthouse Financial. Have a great day.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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