

# American United Life Insurance Company

Credit Summary Report | February 2020

**State of Domicile:** Indiana  
**Holding Company:** American United Mutual Insurance Holding Company  
**Type:** Mutual

**Ratings as of:** February 2020  
**AM Best:** A+/Stable  
**S & P:** AA-/Stable

## Business Description

OneAmerica Financial Partners, Inc. is 100% owned by American United Mutual Insurance Holding Co. OneAmerica has three primary operating insurance subsidiaries: American United Life Insurance Co., State Life Insurance Co., and Pioneer Mutual Life Insurance Co. In 2015 OneAmerica acquired BMO Retirement Services, Bank of Montreal's U.S. retirement services business and in 2014 OneAmerica acquired City National Bank Retirement Services.

## Operating Segments

OneAmerica operates in three core business segments: Individual Life and Financial Services (ILFS) contributing 80% of GAAP pre-tax operating earnings, Retirement Services (RS) contributing 13% of earnings, Employee Benefits contributing 4% of earnings; while non-core Corporate & Reinsurance contributing 3% in 2018. OneAmerica reported \$2.2 bn in GAAP revenues in 2018 with 52% contributed by Individual Life and Financial Services, 36% by Retirement Services and 12% by Employee Benefits segments.

ILFS comprises of life insurance, annuities and asset-based long-term care products. Life-based long term care products contributed 43% of in-force reserves as of YE2018, while traditional life contributed 26% of reserves, annuity-based long term care was 16% of reserves and 15% of reserves was in other annuities, mostly fixed and indexed products. OneAmerica has the second-largest market share in life-based and annuity-based long term care market.

Retirement Services segment includes defined contribution, defined benefit and employee stock ownership plan businesses. OneAmerica is a premier provider of defined contribution plans in a small to midsize market. Pension risk transfer business is a new strategic focus for the company with the focus on smaller pension plans of \$5-50 mn. OneAmerica entered stable value wrap business in 4Q2017 with a plan to issue \$1.6 bn in assets under administration.

Employee Benefits segment includes group life and disability insurance. Group products are offered at the workplace which provides distribution platform for individual products. Employee Benefits segments targets underserved middle-America market. The business had 1 mn+ in-force covered lives as of YE2018.

OneAmerica has a growing career agency force and diversified distribution network. The company's sales force is productive and the company has high customer retention rates. OneAmerica's product risk profile is well diversified with lower risk products, such as traditional life insurance and defined contribution products complemented by moderate risk products such as Asset-Care (whole life and long term care combo) and Annuity Care (annuity and long term care combo). In 2017 Care Solutions closed two reinsurance deals with Hannover Re and London Life, which provides capital relief for future growth, as well as additional risk protection for the product.

## Financial Performance

During 2018 OneAmerica reported core operating income of \$136 mn, down 1% compared to 2017. During the year the company experienced strong growth in Employee Benefits/Life and Disability products and in Care Solutions product suite. During 2018 OneAmerica reported GAAP revenue of \$2.2 bn, enterprise sales of \$3.7 bn and GAAP pre-tax operating income of \$136 mn. Sales growth was solid across segments with ILFS sales of \$1.03 bn, up 9% from 2017, Employee Benefits sales of \$77.2 mn, up 53% from 2017 and Retirement Services sales of \$2.6 bn (including pension risk transfer), level with 2017.

In 2018 ILFS segment reported revenues of \$1.1 bn, up 10% y/y and pre-tax earnings of \$107.6 mn, up 6% y/y. ILFS revenue growth in 2018 was supported by 16% y/y increase in overall sales driven by 10% increase in traditional life sales and Care Solutions sales increase of 25%. ILFS segment continues to be a growth and profitability driver for the company as it contributes 52% of revenues and 80% of pre-tax earnings.

Retirement Services reported 2018 GAAP revenues of \$742 mn, down 40% y/y and pre-tax earnings of \$17.5 mn, down 45% y/y. In 2018 RS achieved \$235 mn in Pension Risk Transfer (PRT) sales, significantly lower than in 2017 due to pricing discipline amid competition. GAAP reserves supporting PRT business were \$1.8 bn as of YE2018, up from \$1.6 bn at YE2017. Retirement Services segment's recordkeeping assets were down 12% y/y to \$50 bn at YE18, including \$33 bn in trust assets and \$17 bn in group annuity.

Employee Benefits is the smallest business segment contributing 12% of GAAP revenues and 4% of pre-tax earnings. In 2018 Employee Benefits reported GAAP revenues of \$239 mn, up 14% y/y and GAAP pre-tax earnings of \$5.8 mn, up 36% y/y as new business pricing improved and loss ratio stabilized.

### Capital and Liquidity

As of September 30, 2019 OneAmerica had total statutory assets of \$39.9 bn and statutory capital of \$1.65 bn. Capitalization benefited from retained earnings. As of YE2018 Enterprise Risk-Based Capital ratio was 437% and the company estimated that it had \$245 mn of excess capital at AA capital requirement level. American United Life Insurance had Risk-Based Capital Ratio of 432% as of YE2018. Excess capital has been deployed on new business growth, including BMO purchase in 2015, as well as expanding Care Solutions and Pension Risk Transfer businesses.

OneAmerica maintains strong liquidity with majority of liabilities with a low liquidity risk profile. The company has a solid framework defining governance and reporting for Asset Liability Management. American United Life and State Life are members of Federal Home Loan Bank of Indianapolis with funds used for operational cash flow management and as emergency liquidity source. FHLBI borrowing capacity was \$4.5 bn. Debt Leverage was modest with 12.2% Debt-to-Capital ratio while EBITDA Interest Coverage was 9x as of YE2018.

### Investment Portfolio

OneAmerica maintains a diversified and conservative investment portfolio with total invested assets of \$23.8 bn as of September 30, 2019. Invested assets were broken down as follows: 43% in public bonds, 14% in private placements, 22% in MBS/ABS, 14% in mortgage loans and 7% in other assets (policy loans, stocks, cash, real estate, other). In 2018 the insurer increased allocation to high quality structured products in lieu of corporates due to weakening market quality and credit metrics and decreased allocation to high yield bonds. OneAmerica has below industry average allocation to high yield bonds with 2.2% of the bond portfolio. The company also has small allocations to equities and alternative investments and larger than industry average allocation to bonds. The company's bond portfolio is well diversified across sectors and is concentrated in public bonds. Private placement bond portfolio provides diversity to the company's fixed income investments with strong covenant protection and historically higher recovery values. MBS/ABS securities portfolio is high quality with average rating of AA+. Majority of ABS portfolio was invested in Collateralized Loan Obligations (CLOs) which is a new asset class for OneAmerica. \$1.6 bn CLO portfolio had weighted average quality of AA as it is invested in higher quality tranches of the CLO structure and 94% of the portfolio was floating rate based. Commercial mortgage loan portfolio of 678 loans and an average loan size of \$4.6 mn was well diversified across sectors (retail 37%, industrial 24%, apartment 22%, office/medical 15% and other 2%). Commercial mortgage loan portfolio has a strong credit quality with weighted average LTV of 43%, minimal loss history, and the company is committed to maintaining high underwriting standards on new loans. OneAmerica emphasizes strong risk management with expectation for better-than-industry loss experience, as well as focuses on actively managing portfolio concentrations and maintaining considerable excess liquidity.

### Strengths:

- Good competitive positions in its business lines.
- Moderate product risk.
- Strong capital levels and conservative investment portfolio.
- Mutual ownership structure.

### Weaknesses:

- Relatively smaller scale vs. competitors.
- Concentration of combination insurance/annuity and long-term care products.
- Longevity risk in pension risk transfer business.

**Key Statistics – OneAmerica Financial Partners, Inc.**

(\$ millions)	09/30/2019 YTD	2018	2017	2016	2015
<b>Total Assets without Separate Account</b>	\$24,559	\$23,409	\$22,396	\$19,346	\$17,895
<b>Separate Account Assets</b>	\$15,345	\$13,588	\$14,755	\$12,858	\$12,313
<b>Total Assets</b>	\$39,903	\$36,997	\$37,151	\$32,203	\$30,208
<b>Capital &amp; Surplus</b>	\$1,646	\$1,595	\$1,502	\$1,467	\$1,395
<b>Net Gain from Operations before Tax</b>	\$94	\$113	\$114	\$118	\$113
<b>Net Realized Capital Gains (Losses)</b>	(\$3)	\$10	\$4	(\$1)	(\$4)
<b>Net Income</b>	\$67	\$111	\$75	\$68	\$60
<b>Return on Average Assets (Stat.)</b>	0.23%	0.30%	0.22%	0.22%	0.20%
<b>Return on Average Equity (Stat.)</b>	5.49%	7.18%	5.04%	4.72%	4.31%
<b>RBC Ratio (ACL)</b>		864.40%	822.65%	909.32%	920.79%

Sources: Company Statutory Filings

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