

American United Life Insurance Company

Credit Summary Report | June 2021

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

Ratings as of: June 2021
Fitch: 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 75% of GAAP pre-tax operating earnings, Retirement Services (RS) contributing 22% of earnings and Employee Benefits contributing 3% of earnings.

Individual Life and Financial Services segment comprises of life insurance, annuities and asset-based long-term care products. Life-based long term care products contributed 43% of in-force reserves, 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 \$5-100 mn and potential expansion into \$200 mn+ plan market. PRT business has grown from startup in 2015 to \$2.4 bn in reserves in 2020. 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 offered primarily to small and medium-sized employer groups and their employees. Group products are offered at the workplace which provides distribution platform for individual products. Employee Benefits segment targets underserved middle-America market. The business had 1.1 mn+ in-force covered lives as of YE2020.

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 2020 OneAmerica reported total sales of \$3.4 bn, down 12% y/y and statutory premiums and trust deposits of \$7.95 bn, down 2% y/y due to disruptions caused by COVID-19. In 2020 OneAmerica reported GAAP adjusted revenues of \$2.2 bn, up 4% y/y and core pre-tax operating income of \$158 mn, up 23% y/y and net income of \$129 mn, up 12% y/y. Core pre-tax operating income exceeded plan by \$3.2 mn driven by strong results in Institutional Markets and ILFS businesses and management actions, which offset COVID-19 and equity market headwinds. Adjusted revenues were below plan by 8% due to lower than expected sales but better than prior year by 4%. Sales results were impacted by COVID-19 ending 18% below plan. During 2020 assets under administration increased 13% to \$98 bn, with a compounded annual growth rate of 6% over the past five years. Customer retention has remained consistently high over time and was at 94% in 2020.

2020 sales by segment were as follows: ILFS (unweighted) sales of \$556 mn, down 49% from 2019; Employee Benefits sales of \$52 mn, down 40% from 2019 and Retirement Services of \$2.8 bn (including PRT), up 3% from 2019. Over the past three years, annual adjusted revenue growth rate was 9%, led by 19% in Employee Benefits, 9.6% growth rate in ILFS and 2.1% in Retirement Services. GAAP pretax earnings were as follows: \$124 mn in ILFS, \$42 mn in Retirement Services and (\$9) mn in Employee Benefits.

OneAmerica targets core GAAP pre-tax operating income of \$160 and \$170 mn in 2021 and 2022, respectively. Despite continued interest rate pressure the insurer expects to be able to grow earnings over the period driven by strong retention, business growth primarily from less interest sensitive products, investment account actions, in particular alternative assets, disciplined expense management and decrease in COVID-19 claims.

Capital and Liquidity

As of 12/31/2020 OneAmerica had total statutory assets of \$46 bn and statutory capital of \$1.9 bn. Capitalization benefited from retained earnings. As of YE2020 Enterprise Risk-Based Capital ratio was 467%, above 400% RBC target. American United Life Insurance had Risk-Based Capital Ratio of 461% as of YE2020. GAAP Adjusted Equity was \$2.5 bn at YE2020, up from \$2.4 bn a year ago. At YE2020 financial leverage was 15.8%, an increase from a year ago due to issuance of senior unsecured debt in 2020.

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.

Investment Portfolio

OneAmerica maintains a diversified and conservative investment portfolio with total invested assets of \$29.7 bn as of YE2020. Invested assets were broken down as follows: 42% in public bonds, 16% in private placements, 19% in MBS/ABS, 14% in mortgage loans and 9% 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 4.3% 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. \$1.9 bn CLO portfolio had weighted average quality of AA as it is invested in higher quality tranches of the CLO structure and 89% of the portfolio was floating rate based. Commercial mortgage loan portfolio of 745 loans and an average loan size of \$5 mn was well diversified across sectors (retail 34%, industrial 28%, apartment 24%, office/medical 12% and other 2%). Commercial mortgage loan portfolio has a strong credit quality with weighted average LTV of 42%, 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, particularly in its niche care solutions business.
- Consistent sales growth across product lines.
- Strong capital levels and conservative investment portfolio.

Weaknesses:

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

Key Statistics – OneAmerica Financial Partners, Inc.

| (\$ millions) | 2020 | 2019 | 2018 | 2017 | 2016 |
|--|----------|----------|----------|----------|----------|
| Total Assets without Separate Account | \$30,006 | \$24,857 | \$23,409 | \$22,396 | \$19,346 |
| Separate Account Assets | \$16,377 | \$16,377 | \$13,588 | \$14,755 | \$12,858 |
| Total Assets | \$46,382 | \$41,234 | \$36,997 | \$37,151 | \$32,203 |
| Capital & Surplus | \$1,911 | \$1,613 | \$1,595 | \$1,502 | \$1,467 |
| Net Gain from Operations before Tax | \$40 | \$98 | \$113 | \$114 | \$118 |
| Net Realized Capital Gains (Losses) | \$5 | (\$4) | \$10 | \$4 | (\$1) |
| Net Income | \$18 | \$57 | \$111 | \$75 | \$68 |
| Return on Average Assets (Stat.) | 0.04% | 0.14% | 0.30% | 0.22% | 0.22% |
| Return on Average Equity (Stat.) | 1.00% | 3.53% | 7.18% | 5.04% | 4.72% |
| RBC Ratio (ACL) | 924.86% | 892.96% | 864.40% | 822.65% | 909.32% |

Sources: Company Statutory Filings

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