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Ratings

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Aegon USA Group

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Aegon USA Group

Credit Highlights

Operating Company Covered By This Report
Financial Strength Rating
Local Currency
A+/Negative/NR

Overview	
Key strengths	**Key risks**
Strong and highly productive multichannel distribution base and diversified product offering	Weaker and volatile operating performance relative to peers
Track record of strong capital generation	Highly commoditized target markets
Strong and effective risk oversight from supportive parent, Aegon N.V.	Uncertain macroeconomic conditions

Aegon USA Group's diverse product segments and well-established retail distribution network differentiate it from peers. Through its subsidiaries, Aegon USA offers protection products, retirement solutions, and investments. As part of its focused operating strategy announced in December 2020, the company discontinued new sales of some traditional variable annuities, long-term care, and fixed annuities. The company's well-entrenched distribution capabilities--because of its partnership and ownership in World Financial Group (WFG)--are pivotal to its aspiration of achieving leading positions in its target markets and product offerings.

Volatile operating performance weakens the company's competitiveness. The company's reported operating performance over the past few years has remained volatile and weaker than that of similarly rated peers. In 2022, the company experienced a decline in capital owing to weak earnings driven by macroeconomic uncertainty, execution of its operating strategy, and statutory accounting distortions for the hedges related to its closed annuity book of business.

Aegon USA has very strong capital and earnings, which we expect it to maintain through 2024. We base this expectation on the company's stable earnings generation without an aggressive investment policy. We also expect dividend payments to Aegon N.V. will not strain Aegon USA's capital.

Outlook

The negative outlook on Aegon USA parallels our negative outlook on the Aegon N.V. group, given Aegon USA's core group status. Similarly, any rating action at the group level would likely lead to a commensurate rating action on Aegon USA. The negative outlook on the Aegon N.V. ratings indicates our expectation that the group will face challenges in maintaining robust earnings and capital at least in the 'AA' range in the next 12-24 months in light of market volatility and the potential volatility of its equity holding in ASR. The negative outlook also reflects uncertainty about the group's future structure.

We expect to maintain our view of Aegon USA as core to Aegon N.V. because we expect it to generate the majority of Aegon N.V.'s earnings and capital after the completion of Aegon N.V.'s sale of its Netherlands business. A material change to any of our expectations for Aegon USA would likely affect our assessment of the overall group.

On a stand-alone basis, we expect Aegon USA to maintain its competitive strengths, with operating performance comparable to that of insurers with similar businesses and capital redundancy at least at the 'AA' level.

Downside scenario

We could lower our ratings on Aegon USA if we downgrade Aegon N.V., perhaps due to sustained deterioration in the group's capital adequacy or impaired competitiveness, which could result from reduced diversity and scope of operations through material divestments or through materially lower earnings contributed from core markets.

Upside scenario

We could raise our ratings on Aegon USA if we upgrade Aegon N.V., which may result from consistent and material improvement in the group's profitability relative to peers or from sustained improvements in core market positions while the group maintains its capital adequacy and effective risk management.

Assumptions

- Real U.S. GDP growth of 0.7% in 2023 and 1.2% in 2024
- Average 10-year Treasury note yield of about 3.9% in 2023 and 3.9% in 2024
- S&P 500 Index at 4,032.9 in 2023 and 4,400.1 in 2024
- Average payroll employment of 153.5 million in 2023 and 152.3 million in 2024
- Average unemployment of 4.1% in 2023 and 5.0% in 2024

Source: "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," March 27, 2023

Aegon USA Group Key Metrics					
(Mil. $)	**2024f**	**2023f**	**2022**	**2021**	**2020**
S&P Global Ratings capital adequacy	>AA	>AA	>AA	AAA	AA
Gross premium written	>25,000	>25,000	27,532	24,121	26,302
Net income	600-650	600-650	(2,123)	343	1,370
Capital and surplus	>6,000	>6,000	6,511	8,365	9,187
Return on capital & surplus (%)	8.5-9.0	8.5-9.0	(28.5)	3.9	14.4
Return on assets (%)	0.5-0.8	0.5-0.8	1.0	1.0	0.5

f--Forecast.

Business Risk Profile

Aegon USA benefits from its diverse products and services, wide geographic footprint, and strong distribution capabilities. In December 2020, the Aegon N.V. group announced a strategic plan to improve its operating performance and create value for stakeholders that discontinued low-margin, capital-intensive products--which in the U.S. included traditional variable annuities with interest-sensitive living and death benefit riders, fixed annuities, and stand-alone long-term care. At the same time, the company refocused its strategy in the U.S. on offerings including employee benefits, retirement plans, indexed universal life (IUL), term life, and whole life. While the discontinuation of certain product lines reduced the diversity of the company's product offerings, we expect this move to improve the company's risk-adjusted returns.

The company relies on its well-diversified distribution network, which includes career agencies, banking channels, and independent brokers. Its strategic alliance with WFG, an Aegon-owned multilevel marketing organization, has been instrumental in growing the company's IUL business. Over the past few years, the company has made investments to improve the customer service experience and the competitiveness of its products, which supported an increase in its products' market share at the WFG distribution level to over 65% in fourth-quarter 2022.

Offsetting Aegon USA's strengths are its weak reported operating performance and the highly competitive and commoditized nature of the company's target product markets. The company's reported operating performance has remained weak due to macroeconomic volatility, unfavorable mortality stemming from the pandemic, and some non-operating items related to statutory accounting, including derivative losses driven by variable annuity and macro hedge positions, but we expect it to stabilize as the company completes the de-risking (via hedging) of its closed annuity block. With the new operating strategy implemented in late 2020, Aegon USA is looking to recapture some market share and regain leadership positions in its target markets, and we continue to monitor its success in achieving its market growth objectives and maintaining positive underwriting margins and strong pricing discipline.

Financial Risk Profile

According to our risk-based capital model for 2021, Aegon USA's capital adequacy was redundant at the 'AA' confidence level, and we expect the company to maintain capital at least at this level over the next two years while it prudently manages its parent's dividend expectations. In our assessment of Aegon USA's capital for captives with unfunded solutions, we have excluded letters of credit and other forms of parental guarantees as assets backing the liabilities in the captives, and we have incorporated these captives in our group capital adequacy analysis.

In our opinion, the company has demonstrated that it has not taken any undue asset-liability management risk with its investment portfolio. We believe Aegon USA's investment portfolio has comprehensive credit limits, and we expect the company to maintain a high-quality portfolio that supports its liabilities.

Exposure to liabilities related to long-term care and guarantees associated with variable annuities with significant interest-rate-sensitive living and death benefit riders, which are now part of the company's discontinued operations, may result in some capital and earnings volatility. This risk is significantly mitigated by effective risk management practices, including strong risk controls, and very strong capital adequacy.

The company has actively executed its strategy to de-risk its legacy variable annuity book, which has entailed expanding its dynamic hedge program to variable annuities with minimum death benefits and guaranteed minimum income benefits. However, the company remains exposed to the impact of equity markets on variable annuity base contract fees, as the company views this exposureas a key driver of future capital generation from the block.

Aegon USA established a voluntary reserve in fourth-quarter 2022 that more closely aligns the recognition of the fees in capital when they are earned and reduces the sensitivity of the exposure to equity market movements. The company also manages its long-term care business actively, which across the life insurance industry has experienced regulatory approvals for actuarially justified rate increases.

Other Key Credit Considerations

Governance

Aegon USA has governance practices highly consistent with those at the consolidated group. The granular operating plan implemented in late 2020 reflects the group's significant efforts to address the inherent volatility and capital intensiveness associated with some of its product offerings. We continue to monitor the execution and implementation of the strategy, as well as the achievement of the consequent financial and strategic goals.

Liquidity

The company's liquidity benefits from its diversified investment portfolio with immaterial confidence-sensitive liabilities or collateral-posting risk, in our view. The company's investments and fixed-income holdings support well-matched insurance liabilities with annuity obligations.

Government/Other support/Group support

Aegon USA's core group status reflects our view that the company is highly unlikely to be sold because it generates more than 50% of Aegon N.V.'s earnings and capital. The Aegon group's business is also expected to be concentrated in the U.S. after the sale of its Netherland operations, leading us to expect the U.S. business to remain highly important to the group. Aegon USA, in our opinion, is integral to the overall group strategy and consistent with overall group objectives. Our view of Aegon USA's robust capitalization is in line with the overall group's capitalization and is further supported by a strong, proven commitment of support from its parent.

Environmental, social, and governance

ESG Credit Indicators

E-1	**E-2**	E-3	E-4	E-5	S-1	**S-2**	S-3	S-4	S-5	G-1	**G-2**	G-3	G-4	G-5

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicators: Definition And Applications," published Oct. 13, 2021.

Environmental, social, and governance factors have no material influence on our credit rating analysis of Aegon USA Group.

Accounting considerations

Transamerica Life Insurance Co. and Transamerica Financial Life Insurance Co., the two operating entities within Aegon USA Group, report its financial results on a U.S. statutory accounting basis. In our analysis, we use the statutory statements to assess the company's operating performance and capital adequacy position.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Insurance | Life: Methodology: Treatment Of U.S. Life Insurance Reserves And Reserve Financing Transactions, March 12, 2015
- Criteria | Insurance | General: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
- Criteria | Insurance | General: Methodology For Assessing Capital Charges For Commercial Mortgage Loans Held By U.S. Insurance Companies, May 31, 2012
- Criteria | Insurance | General: Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Related Research

- Research Update: Aegon Group Affirmed At 'A+' On Announcement Of 2022 Results; Outlook Negative; Two

Subsidiaries Stay On Watch Negative, Feb. 22, 2023

Appendix

Aegon USA Group Credit Metrics History

	--Year ended Dec. 31--		
(Mil. $)	**2022**	**2021**	**2020**
Gross premiums and annuity considerations	27,532	24,121	26,302
Net premiums and annuity considerations	24,785	19,470	21,752
Total assets under management	196,587	238,338	233,783
Total revenue	31,999	26,679	31,214
EBIT adjusted	2,268	2,260	1,181
Net income	(2,123)	343	1,370
Return on assets (excluding realized gains/losses) (%)	1.0	1.0	0.5
Return on capital and surplus (%)	(28.5)	3.9	14.4
Expense ratio (%)	8.0	13.3	10.3
Total invested assets (incl. affiliated investments)	84,943	82,497	84,533
Separate account assets	107,906	152,751	145,973
Net investment yield (%)	4.2	4.1	4.5
Net investment yield including realized capital gains/(losses) (%)	(1.0)	1.6	4.7
Capital and surplus	6,511	8,365	9,187

Ratings Detail (As Of March 30, 2023)*

Operating Company Covered By This Report	
Transamerica Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Negative/NR
Issuer Credit Rating	
Local Currency	A+/Negative/A-1+
Related Entities	
AEGON N.V.	
Issuer Credit Rating	BBB+/Negative/A-2
Junior Subordinated	BB+
Junior Subordinated	BBB-
Senior Unsecured	BBB+
Subordinated	BBB-
Transamerica Financial Life Insurance Co.	
Financial Strength Rating	
Local Currency	A+/Negative/NR
Issuer Credit Rating	
Local Currency	A+/Negative/NR

Ratings Detail (As Of March 30, 2023)*(cont.)	
Transamerica Life (Bermuda) Ltd.	
Financial Strength Rating	
Local Currency	A+/Negative/--
Issuer Credit Rating	
Local Currency	A+/Negative/--
Domicile	Iowa

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.