

Research Update:

# Ameritas Life Insurance Corp. 'A+' Ratings Affirmed Following Revised Capital Model Criteria; Outlook Remains Stable

February 28, 2024

## Overview

- On Nov. 15, 2023, we published our revised criteria for analyzing insurers' risk-based capital (see "Insurer Risk-Based Capital Adequacy--Methodology And Assumptions").
- The revised risk-based capital criteria has no impact on the company's capital and earnings--which we continue to assess as excellent--and, consequently, our view of Ameritas' creditworthiness.
- We affirmed our 'A+' financial strength and issuer credit ratings on Ameritas.
- The stable outlook reflects our expectation that Ameritas will maintain its strong competitive position in its core markets and excellent capitalization.

## Rating Action

On Feb. 28, 2024, S&P Global Ratings affirmed its 'A+' insurer financial strength and long-term issuer credit ratings on Ameritas Life Insurance Corp. and Ameritas Life Insurance Corp of New York. The outlook remains stable.

## Impact Of Revised Capital Model Criteria

The implementation of our revised capital model criteria did not lead to any actions on our ratings on Ameritas because its capital adequacy is relatively unchanged and still redundant at the most severe stress level. This is largely due to an increase in required capital (from applying a more severe stress) offset by an increase in total available capital (from adding the value of in-force).

### PRIMARY CREDIT ANALYST

**Shelby Merberg**  
New York  
+ 1 (212) 438 0270  
shelby.merberg  
@spglobal.com

### SECONDARY CONTACTS

**Neil R Stein**  
New York  
+ 1 (212) 438 5906  
neil.stein  
@spglobal.com

**Akash Chatterjee**  
New York  
+1 2124381035  
akash.chatterjee  
@spglobal.com

## Credit Highlights

### Overview

Key strengths	Key risks
Diverse products and services.	Diversification provides for historically stable earnings, though strategy has resulted in recent earnings volatility.
Flexibility in responding to market conditions.	Operating performance on par with peers, but low profitability relative to life sector.
Excellent capital and earnings driven by capital redundancy at the 99.99% level.	Macroeconomic uncertainty.

### Outlook

The stable outlook indicates our expectation that Ameritas will maintain its strong competitive position in its core products and excellent financial risk profile. We expect Ameritas will maintain capital redundancy at the 99.99% confidence level of our capital model over the next two to three years.

### Downside scenario

We could lower our ratings in the next 24 months if, contrary to our expectations:

- Capital adequacy falls below the 99.95% confidence level, according to our capital model, and we expect it to remain there; or
- Ameritas boosts its allocation to what we view as higher-risk assets, indicating an increase in its risk exposure tolerance.

We could also lower our rating if the group's competitive position or operating performance weakens relative to similarly rated peers.

### Upside scenario

We are unlikely to raise our ratings in the next 24 months because we do not expect the group's operating performance or market position to outperform our expectations or peers.

### Rationale

Ameritas has a strong competitive position, supported by a diversified product portfolio across three core business divisions: individual (life, annuity, disability income, and wealth management), group (dental and vision sold to groups and individuals), and retirement (group annuities and net asset value plans). Its individual business and group dental solutions are the primary contributors to operating income. Ameritas markets its individual products primarily to middle- and upper-income individuals in all 50 states.

The group seeks to capture shifts in consumer trends, which provides flexibility but can limit potential dominance in a particular business division. Ameritas maintains a top 25 position in

indexed annuities--a key source of growth in the individual division in recent years--as well as a top five ranking in group dental and top seven in individual disability income. It operates through noncontrolled distribution channels and remains focused on recruiting general agencies and independent advisers, along with expanding through strategic acquisitions and partnerships.

Ameritas manages its product portfolio to address risks associated with the features of its products, including exposure to interest rate risk and guaranteed income and death benefits. We continue to keep close tabs on any further strategic tuck-in acquisitions the company initiates.

We view Ameritas' capital and earnings as excellent and redundant at the 99.99% (extreme stress or highest confidence) level, based on our capital adequacy model, and expect it to remain so. It also has diversified earnings sources. While earnings have been volatile the past five years--partly because of acquisitions and the economy--they have normalized. We forecast that earnings will rise with lower mortality claims and expenses, along with accelerating annuity sales on account of rising interest rates. Overall, we believe earnings will improve and contribute to stable capital redundancy.

Ameritas has well-diversified investments and limited exposure to high-risk assets. The portfolio includes fixed-income securities and commercial mortgage loans (85% of invested assets combined) and is largely investment grade--the weighted-average rating was 'A-' as of year-end 2022. High-risk assets are approximately 9% of total invested assets. We consider Ameritas' high-risk assets to total adjusted capital as neutral. Its portfolio has no material concentrations by sector or obligor and no unhedged foreign-exchange risk.

Ameritas' funding structure is neutral to the rating, in our view. Although, as a mutual organization, it has a slight disadvantage versus publicly traded peers. The group can raise capital by issuing debt at the holding company level, in addition to surplus notes at its operating companies. The group currently has one \$50 million note outstanding due 2026, to which we attribute no equity content since these notes have less than 10 years to maturity.

Ameritas had low financial leverage of less than 10% at year-end 2022, and we expect it to remain low. Ameritas Life Insurance Corp. is a member of the Federal Home Loan Bank (FHLB) of Topeka and has a board-authorized borrowing capacity of \$250 million (for liquidity) and \$700 million in authorized funding agreements, with \$700 million outstanding as of Dec. 31, 2022. Ameritas also has a \$150 million line of credit. Ameritas Life Insurance Corp. of New York, a member of the FHLB of New York, has a board-authorized borrowing capacity of \$20 million (for liquidity) and an additional \$30 million in funding agreements.

We think Ameritas has more than sufficient resources to support its existing operations and sensible growth. In our view, its excellent capital position and operating prospects give the group ample latitude to fund its strategic initiatives.

We consider Ameritas' liquidity as exceptional because of the lack of confidence-sensitive liabilities and contingent collateral-posting exposure.

## Ratings Score Snapshot

Financial strength rating	A+
Anchor*	a+
Business risk	Strong
IICRA	Low
Competitive position	Strong

Financial risk	Excellent
Capital and earnings	Excellent
Risk exposure	Moderately low
Funding structure	Neutral
Modifiers	
Governance	Neutral
Liquidity	Exceptional
Comparable ratings analysis	0
Support	
Group support	0
Government support	0

IICRA--Insurance Industry And Country Risk Assessment.

\*Anchor selection is influenced by our view of Ameritas' weaker operating performance and earnings volatility compared with peers as well as smaller scale relative to peers at this rating level.

## Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings List

### Ratings Affirmed

#### Ameritas Life Insurance Corp.

#### Ameritas Life Insurance Corp of New York

Issuer Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--

#### Ameritas Life Insurance Corp.

Subordinated	A-
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