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What NY Life's, Northwestern Mutual's 'Record' Dividends Mean for Competitors

By Warren S. Hersch December 4, 2017

With 2018 just a month off, major mutual life insurers, including **New York Life**, **Northwestern Mutual** and **MassMutual**, have disclosed planned dividend payments to policyholders. The eight- to ten-figure distributions — in New York Life's case a record total — raises a perennial question: Do the mutual companies derive a competitive advantage from the payouts?



Northwestern Mutual will pay \$5.3 billion in dividends in 2018.

Assessments of market-watchers are decidedly mixed. As a vehicle with which to promote and sell their participating whole life products, dividends can potentially lend the mutual companies an edge, particularly in market conditions where the products outperform competitors' offerings. But skeptics, including **Thomas Rosendale**, a director of **A.M. Best**, say that dividends have proven to be of "limited value" for most of the companies.

"Dividends have had some value for companies, such as Northwestern Mutual, that have a long-term history of paying competitive dividends," he says. "But there are few companies for which dividends could be leveraged as a competitive advantage in the sales process."

Dafina Dunmore, a director at **FitchRatings**, holds an opposing view. "We do see dividends are a competitive differentiator," she says. "From a policyholder perspective, dividends can provide a greater return on policies compared to non-participating products. Mutual insurers also enjoy greater flexibility relative to publicly held carriers to reduce dividends in times of financial stress, as we saw during the [2007-2009] financial crisis."

Huge Payouts in 2018

Such flexibility won't be needed in 2018 among carriers that plan to increase dividends — and substantially so. Indeed, the largest mutual insurers will be doling out billions of dollars in dividends, sustaining payouts that have continued, uninterrupted, since the mid-19th century.



Thomas Rosendale, a director at A.M. Best.

Prime example: New York Life. The New York City-based mutual company disclosed in November that it intends to issue \$1.78 billion to policyholders in 2018, a 36% increase since 2012 and the largest distribution since 1854.

Likewise, Milwaukee-based Northwestern Mutual, the largest mutual insurer, plans to issue a whopping \$5.3 billion in dividends. That's \$142 million increase over 2017's payout and the company's third largest distribution after those of 2016 (\$5.6 billion) and 2015 (\$5.5 billion).

Other mutual insurers also have announced eight- to ten-figure payouts for next year. Among them: MassMutual (\$1.6 billion); **Guardian Life** (\$911 million); and **Penn Mutual** (\$70 million).

The distributions, say experts, reflect one indisputable positive: that carriers' experience in respect to several variables underpinning the pricing of dividend-paying whole life policies — investment performance, operating expenses, mortality and policy lapse rates — have proven more favorable than assumptions. If, say, assets for a whole life block of business generates greater than 4% interest annually (the assumed rate) then, all other factors being neither favorable nor unfavorable, the carrier will pay a dividend based on the excess interest.

Which performance metrics have contributed most to the payouts planned for 2018? Experts agree that investment performance merits the lion's share of the credit. Despite historically low interest rates, carriers continue to generate returns on conventional bond portfolios.



Dafina Dunmore, a director at FitchRatings.

They've also been investing more in equities, which have enjoyed an significant bull run in 2017. The Dow, which closed above 24,000 on Thursday — a milestone — has rocketed 6,000 points since January, achieving 80 daily records over the 11-month period.

“Mutual insurers tend to invest in equities to a larger degree than the publicly held carriers, in part because they have excess capital, which generates higher risk-adjusted rates of return,” says Dunmore. “The favorable equity markets have bolstered their investment performance.”

Experience has also proven more favorable than assumptions in respect to other metrics. With people living longer, carriers can keep whole life policies in force (and generate investment returns on premiums paid) longer

before paying claims. Productivity-enhancing insurance technologies have also cut operating costs, as well as boosted sales. Result: More whole life policies that generate increasing cash values and, thus dividends.

“Dividends reflect the cash value base underlying whole life products,” says Rosendale. “As the cash values of in-force whole life products grow in value, dividend payouts will also increase, even if a carrier’s experience relative to assumptions doesn’t improve.”

Caveats to Consider

This fact often gets obscured in the mutual companies’ glowing press releases about total dividend paid, which from a policyholder’s perspective is a less important metric than the dividend scale or interest rate. By this measure, payouts in 2018 relative to 2017 will be flat for several carriers, including MassMutual (6.4%) Guardian (5.85%) and Penn Mutual (not available). Other mutual insurers (including several that Dunmore did not disclose) have lowered their dividends rates — in one case by up to 150 basis points.

Are dividend scales a reflection of mutual insurers’ financial strength and profitability? Rosendale insists they are not.

“There’s no direct connection between the dividend scale and the financial strength of the company,” he says. “Carriers decide on dividend scales based not only on the various experience components — investments, mortality, expense and lapse rates. They also do so to keep their products competitive in the marketplace.”

MassMutual disagrees. **Mike Fanning**, head of MassMutual U.S., describes the mutual insurer’s \$1.6 billion dividends in 2018 as a “significant achievement that illustrates MassMutual’s strength and stability as a mutual company.” The fact that the carrier can pay a “highly competitive dividend” in a low interest rate environment is, he notes, “a testament to the strength, resiliency and soundness of our strategy.”



Mike Fanning, head of MassMutual U.S.

That strategy, he adds, hinges in part on maintaining well diversified businesses that contribute to the carrier’s ability to sustain both strong earnings and competitive dividends. In addition to its core protection products, the Springfield, Mass.-based insurer also operates institutional, workplace and international insurance businesses, as well as global asset management subsidiaries **OppenheimerFunds** and **Barings**. New York Life, too, has a similarly diversified portfolio that contributes to revenue and profitability.

Northwestern Mutual’s business, in contrast, is more concentrated in insurance products, so dividends tend to fluctuate more. But the carrier, notes Dunmore, also has relative to other mutual companies a greater number of affluent clients — individuals able to buy larger whole life policies that can generate more in dividends.

Taking on the Competition

For market-watchers, a key issue is the extent to which dividends lend mutual insurers a competitive advantage not only relative to each other, but also to publicly held carriers, which account for many of the industry’s estimated 2,000-plus insurers. On both questions, drawing definitive conclusions is problematic.



Deep Banerjee, a director at S&P Global.

On the first score — competitive positioning among the mutuals — A.M. Best’s Rosendale notes that quoted dividends rates are not necessarily comparable. Some rates, represent gross figures (before investment expenses); whereas others are net rates (after expenses). The more important metric to watch, he notes, are year-over-year rates, which have been trending down over the last decade because of low yields on interest rate-sensitive vehicles.

As to measuring mutual insurers’ dividends relative to payouts paid by public companies to their shareholders, the comparison is not a valid one, given the different financial metrics underpinning each, say experts.

But **Deep Banerjee**, a director at **S&P Global**, notes that because of their strong capital positions, mutual companies are generally better able than publicly held insurers to pay dividends from retained earnings when performance metrics don’t match assumptions. And the largest mutuals consistently distribute more than half of their earnings in dividends.

Rosendale adds that, when rating carriers, A.M. Best generally also has a greater “tolerance” for lower profits at mutual insurers. That’s because their earnings are tabulated after paying dividends, whereas at publicly held insurers earnings come before dividends.

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