Q4 2019 Earnings Call

Company Participants

- Brian Duperreault, president and Chief Executive Officer
- Kevin Hogan, general insurance and global chief operating officer
- Mark Lyons, chief financial officer
- Peter Zaffino, general insurance and global chief operating officer
- Sabra Purtill, Head of Investor Relations

Other Participants

- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Erik Bass, Analyst
- Jimmy Bhullar, Analyst
- Meyer Shields, Analyst
- Suneet Kamath, Analyst
- Tom Gallagher, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Good day, and welcome to AIG's Fourth Quarter 2019 Financial Results Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Sabra Purtill, Head of Investor Relations. Please go ahead.

Sabra Purtill {BIO 1764408 <GO>}

Thank you. Good morning and thank you all for joining us. Today's call will cover AIG's fourth quarter and year-end 2019 financial results announced earlier this morning. The news release, financial results presentation and financial supplement were posted on our website at www.aig.com and the 10-K for the year will be filed next week. Our speakers today include Brian Duperreault, CEO; Peter Zaffino, President and Chief Operating Officer of AIG and CEO General Insurance, Kevin Hogan CEO Life and Retirement and Mark Lyons, CFO.

Following their prepared remarks, we will have time for Q&A. I'd also like to note that Peter and Mark will be hosting a fireside chat at the Bank of America Insurance Conference today at 12.35 PM Eastern Time. The link for the webcast can be found under the Investor Relations section of our website. Before Brian begins, please note that today's remarks may contain forward-looking statements including comments relating to company performance, strategic priorities, business mix and market conditions. These statements are not guarantees of future performance or events and are based on management's current expectations. Actual performance and events may differ materially.

Factors that could cause results to differ include the factors described in our first, second and third quarter 2019 reports on Form 10-Q, our 2018 Annual Report on Form 10-K and our other recent filings made with the SEC. AIG is not under any obligation and expressly disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Additionally, some remarks today may refer to non-GAAP financial measures. The reconciliations of such measures to the most comparable GAAP figures are included in our earnings release, financial supplement and presentation, all of which are available on our website.

I will now turn the call over to Brian.

Brian Duperreault {BIO 1645891 <GO>}

Good morning and thank you for joining us to review our fourth quarter and full-year 2019 results. In the fourth quarter adjusted after-tax income was $919 million or $1.03 per common share. The full-year 2019 adjusted after-tax income was $4.1 billion or $4.59 per common share, and return on common equity and adjusted return on common equity were 5.3% and 8.3% respectively. These results reflect a significant progress we made over the course of 2019 on the execution of our strategy to position AIG for long-term sustainable and profitable growth. Our focus on fundamentals, and the foundational work that we've done since late 2017 is becoming evident in our financial performance, with our 2019 results reflecting broad-based improvement across all segments. I will highlight some of the important milestones we achieved this past year, most notable being in those in General Insurance business.

GI produced the full-year 2019 combined ratio of 99.6% and an accident year combined ratio as adjusted of 96%. It's hard to say, given all the issues that AIG over the last decade-plus, but I honestly can't remember the last time AIG at a full-year underwriting profit. This inflection point is critical to achieve and reflects the tremendous effort by our team in general insurance led by Peter, who affected turnaround on the scale and timeline never be seen -- never before seen in our industry. Beginning in late 2017, the GIC's laser-focused urgency to design a strategy to improve underwriting fundamentals, reposition our portfolio, aggressively reduce limits, judiciously deploy capital or capacity and instil expense discipline.

Additionally, the GIC designed an innovative reinsurance strategy to reduce risk and volatility and preserve capital. The disciplined execution, and the leadership they demonstrated in the global marketplace throughout 2018 and 2019 not only dramatically reshaped our portfolio, it stimulated the global market cycle that I believe is improving and sustainable. A great testament to this leadership is that throughout the last couple of years, our clients, distribution, our reinsurance partners as well as other stakeholders actively supported our action and placed their trust and confidence in AIG as we continue to provide solutions for current, and emerging risks. While there is still much work to be done, our strategy is clearly working and the theme in general insurance will continue to make progress over the coming year.

In 2019. We also saw a significant improvements in other areas of our business. Life and retirement delivered consistent solid results in the face of continued headwinds from sustained low-interest rates and tightening credit spreads. Due to Kevin and his team's proactive strategy to develop a diversified portfolio and broad distribution network, L&R ended the year with an adjusted return on common equity of 13.7% ahead of our guidance. Full-year 2019, net investment income was split $14.4 billion versus $12.7 billion in 2018, helped by strong alternative returns, favorable equity markets and tightening spreads in the credit markets.

We also made significant progress in de-risking our legacy portfolio with the announcement of an agreement to sell our majority interest in Fortitude. The sale is subject to regulatory approvals and is currently expected to close mid-year. I'm very pleased that with all we accomplished in 2019 and our progress reflects the hard work and commitment of our workforce across all of AIG. We remain committed to achieving a 10% return on adjusted common equity by the end of 2021. Mark will provide more detail on our 2020 financial outlook.

As we look ahead to 2020, we continue to be laser-focused on the execution of our strategy, to position AIG as both the leading insurance franchise and a top-performing company, AIG 200, which Peter is leading and will discuss in more detail during his remarks, will be a significant body of work this year and over the next several years. Like our approach in general insurance back in 2017, the foundation work for AIG 200 started in earnest in 2019 and will accelerate in 2020. We will continue to build out a world-class team of professionals with significant transformation experience, who will drive this work across our global organization. The team is identifying issues and pain points, and creating plans that will redefine how we do business and how we create value for our stakeholders.

This is not about Band-Aids or temporary fixes that simply kick the can down the road. This work will address underlying problems and position us for sustainable long-term profitability. AIG 200 is a bold program of multiple work streams that require intense focus and disciplined execution. The sustainable improvements AIG 200 will deliver require significant investments, and will ultimately lead to reduced expense base over time. When you consider the scope and complexity I've not seen the transformation of this scale in my career, much like the GI turnaround, we will have some surprises and perhaps setbacks along the way, but we will look -- we will work through them and in the end, we will be vastly improved and a stronger company.

AIG 200 is a marathon, not a sprint. While results will not be linear, we will be fully transparent as this work progresses. My confidence continues to grow that we are on the right path at AIG. I'm very proud of what our colleagues had accomplished. The hard work, dedication and commitment is delivering results and we are energized by what 2020 holds for us.

With that, I'll turn the call over to Peter, who will provide more information on fourth-quarter and full-year financial results in general insurance as well as AIG 200.

Peter Zaffino {BIO 15942020 <GO>}

Thank you, Brian, and good morning everyone. Today, I will review 2019 financial performance for General Insurance, update you on major reinsurance placement completed as part of the January renewal season, share observations regarding current market conditions and outlined notable business units' accomplishments in General Insurance. I will also provide an overview of AIG 200.

As Brian mentioned, we are very pleased that in 2019 General Insurance achieved an underwriting profit. This was an important milestone for our team and reflects the significant work that we've done in 2018 and 2019 to build a world-class leadership team, establish a new comprehensive underwriting strategy for General Insurance, clearly outlined a defined risk appetite for our distribution partners and clients, and complete critical foundational work to improve our portfolio while meaningfully reducing volatility through underwriting actions and a comprehensive reinsurance strategy.

Our improved financial results provide clear evidence that our decisive actions are being accepted in the marketplace. We are re-establishing AIG as a market leader, which could have not happened without the great support and strong relationships we have with our distribution partners and clients.

Turning to our financial results, the adjusted accident year combined ratio for the full-year of 2019 was 96%, a 370 basis point improvement year-over-year, including a 240 basis point improvement in the loss ratio, and 130 basis point improvement in the expense ratio. In North America, the adjusted accident year loss ratio of 67.1%, a 300 basis point improvement year-over-year.

The disciplined execution of our strategy resulted in better quality, a more profitable portfolio and North America also benefited from Validus and Glatfelter. As noted on the third-quarter call, 2019 was a challenging year for crop industry. In the fourth quarter, as we did in the third quarter, we increased loss estimates due to crop yield shortfalls resulting from poor growing conditions and increased reserves due to the preventive planting claims from the impact of wet weather conditions. As a result, crop negatively impacted North America's full-year 2019 adjusted accident year loss ratio by 100 basis points. North America Personal Insurance continued to perform as expected, with an 80 basis point improvement in the adjusted accident year loss ratio for the full-year, as business mix, improved across the portfolio. Private Client Group experienced lower severe and attritional loss activity, and I'm pleased with the progress the new management team is making in that business.

Moving to international, the adjusted accident year loss ratio for the full-year was 56.4%, a 270 basis point improvement year-over-year. This improvement was driven by strong results in Specialty and Talbot and significant remediation efforts taking hold in Property, all of which contributed to lower severe loss. International personal insurance performance was in line with expectations, with a 70 basis point improvement in the adjusted accident year loss ratio for the full-year, driven by personal and auto, particularly in Japan.

From a top-line perspective, net premiums written and net premiums earned continue to reflect our disciplined underwriting and reinsurance decisions. Total net premiums written for the full-year were $25.1 billion, a 4% reduction year-over-year excluding foreign exchange. Net premiums earned for the full-year were $26.4 billion, a 3% reduction year-over-year excluding foreign exchange. Lastly, during 2019, we instilled discipline and focus on expense management across General Insurance reducing total operating expenses by over $500 million. The full-year expense ratio was 34.4%.

Turning to CAT activity, fourth-quarter net CAT losses were $411 million compared to $826 million in the prior-year quarter. Typhoon Hagibis was the single largest driver of losses in the $233 million, of which $155 million was attributable to Validus Re, net of the aggregate retrocessional program which responded in line with expectations. In international Personal and Commercial Insurance, where AIG average market share in Japan is 6% in the regions most impacted by 2019 CAT events. Our reinsurance programs responded as expected and limited net losses from CAT about to $78 million before reinstatement premium.

Remaining CAT activity in the fourth quarter yield approximately $150 million of net losses from events in North America, the largest of which were the Texas tornadoes and unrest in Chile. For the full-year, 2019 total CAT losses were $1.3 billion, net of reinsurance recoveries. This compares to CAT losses of $2.9 billion, net of reinsurance recoveries in 2018 at $4.2 billion, net of reinsurance recoveries in 2017. We continue to refine and enhance our reinsurance purchasing strategy as our underwriting actions take hold.Overall, we are pleased with the outcome of the January 1, renewals.

While there are signs of firming in the reinsurance market, the significant relationships we established over the last 2.5 years, enabled us to achieve favorable renewals of our major treaties in line with our expectations. We continue to enhance both the aggregate and our current structures for our Global Property CAT program, which provide significant protection against both severity and frequency of events, in addition, to providing extreme tail protection against events in geographies where we have lower market share.

For the 2020 aggregate protection, we improved the expiring CAT program by combining the international and North American deductibles to get single worldwide deductible and reducing each and every event deductibles to be more tailored by geography and tower. These enhancements to increase the relevance of the aggregate protection, particularly with respect to secondary and lesser model tariffs. We also purchased two core occurrence towers. One tower covers North America commercial property and the other covers all international property including Japan. As with our expiring 2019, global CAT program, the global aggregate protection also provides us with significant additional limit for losses arising from a single large occurrence.

In addition, we purchased a separate occurrence tower for our US Private Client Group bifurcating it from North America Commercial to have a dedicated tower as part of our initiative with Lloyd's to establish Syndicate 2019, which is focused on our US high net-worth business. This was the only substantial new program we entered into on January 1. With respect to property per-risk through a combination of the significant reduction in gross limits deployed and enhance reinsurance purchasing over the last few years, we dramatically reduced our net retention to any one property loss. As a result, we renewed our 2020 cover with enhancements that reduce the maximum catching point from $50 million of $25 million and we reduced our purchases for higher layers as our strategy to reduce gross limits continues to dramatically improve our risk profile.

In the aggregate, we were able to improve our overall CAT reinsurance program, including terms and conditions, while reducing the overall cost by approximately 7% year-over-year. We will continue to refine and enhance our reinsurance program as the year progresses, and expect to finalize Syndicate 2019 in the first half of the year.

Turning to the overall rate environment and market conditions. During the fourth quarter, we continue to see a meaningful acceleration in rate increases and it was the strongest quarter of rate improvement we've seen over the last decade. Overall rate improvement for general insurance excluding Validus and Glatfelter was in the low-double-digits in the fourth quarter and high-single digits for the year. I'll give a few examples that provide more color on the rate environment. North America commercial rates increased in the low double-digits to mid-teens in the fourth quarter and high-single to low double-digits for the full-year. International commercial rates increased in the low double-digits in the fourth quarter and mid to high-single digits for the full-year on average across all geographies.

North America admitted excess casualty rate increases trending in the mid 40% range in the fourth quarter and energy rates increased about 35%. International fourth-quarter rate improvement were led by the UK where D&O rate increased approached 40%, and marine and energy rates increased in the mid 20% range.

Now I'd like to provide additional insight into the progress we're making in certain lines of business and highlight noteworthy accomplishments. I will start with lessons and which I've spoken about before. And it's a great case study on the disciplined execution of our strategy. 2019, represented the first full-year of executing on our decision to be disciplined in underwriting excess and surplus lines. We shifted our focus to true E&S business, emphasized the wholesale channel and began an effort to improve risk selection to bring better balance to the portfolio.

The response from the market has been remarkable, and our distribution partners have been very supportive of the re-position, casualty and property new business with our wholesale partners more than doubled in 2019.

In Lexington Casualty, fourth-quarter and full-year 2019 submission volume increased 86% and 70% respectively. We reduced limits on our most volatile accounts by 67% in the fourth quarter and 61% for the full-year, while rates increased 28% in the fourth quarter and 21% for the full-year.

In Lexington Property, fourth-quarter and full-year 2019 submission volume increased 41% and 48% respectively. We reduced total in force limits by 19% in the fourth quarter and 52% for the full-year, while rates increased 32% in the fourth quarter and 17% for the full-year. We also increased average deductibles by over 50% in 2019. We expect to see greater underwriting discipline and improving rate environment in the E&S markets in foreseeable.

North America retail property is a great example, of the bold actions we're executing on. This portfolio has taken more time to reposition because of a number of long-term policies that were in force. In 2019, we reduced total in force gross limits by $40 billion or 17% in the fourth quarter and by over $150 billion or 44% for the full-year.

We increased average deductibles by 21% in the fourth quarter and 31% for the full-year. Rate increases were in excess of 40% in the fourth quarter for both the total portfolio and when excluding the impact of long-term agreements. For the full-year, total rate increases were 19% and increases excluding the impact of long-term agreements were 25%. As you can see, we have dramatically changed portfolio and in 2020, we expect to see further improvements de-risking as long-term agreements roll-off.

In North America Financial lines commercial D&O rates include nearly 35% in the fourth quarter, marking the second consecutive quarter of increases exceeding 30%. On a full-year basis, we achieved rate increases that exceeded 25%. This improvement was led by public D&O, the rate increases were 38% in the fourth quarter and 29% for the full-year. We continued to manage our exposure to D&O trends and reduced primary commercial D&O aggregate limits by 40% in the fourth quarter and over 35% for the full-year.

Additionally, we reduced policies with limits greater than $10 million in lead layers by 50% in the fourth quarter and over 40% for the full-year. With respect to international, we're very pleased with the performance of our specialty business led by a significant improvement in our energy portfolio. The improvement in full-year, adjusted accident year combined ratio was as a result of limit reductions, changes to underwriting guidelines and deductibles, rate actions and selected class exits. Finally, our global A&H business produced a strong underwriting profit in 2019. We plan to accelerate investment in this growth business while maintaining focus on risk selection and portfolio optimization. General Insurance entered 2020 with great momentum. We will continue to execute on our underwriting and reinsurance strategies to further improve profitability.

Next, I'd like to spend time on AIG 200, which is our global multi-year effort to focus on the long-term strategic positioning of AIG and a top priority for us in 2020. As Brian noted, this work focusing on transformational change to our infrastructure and underwriting operations, as well as developing a new data architecture as we focus on delivering value through scale and simplification. In 2019, we engaged colleagues across AIG in the robust diligence exercise that provided important perspective and insight into how we define who we are as a company, how we differentiate ourselves in the global insurance marketplace, how we create value for clients, policyholders, distribution partners, our colleagues and other stakeholders. We conducted a careful analysis and evaluation of the output in this initial phase of work guided by the four core objectives for AIG 200 achieving underwriting excellence, modernizing our operating infrastructure, enhancing user and customer experiences and becoming a more unified company. Based on this analysis, we identified 10 core operational programs that we will begin to execute on in 2020. We expect these programs will require $1.3 billion of investment over the next three years and deliver $1 billion of run-rate benefit to GOE by the end of 2022. We've been carefully planning execution roadmaps for each of these operational programs with a focus on resource and investment prioritization, as well as disciplined execution.

Let me provide a brief overview of the 10 operational programs. Three sit within General Insurance. Building out a standard commercial underwriting platform, enhancing digital workflow in our Japanese business and improving capabilities and product lines. The standard commercial underwriting platform will modernize our global underwriting capabilities by simplifying and streamlining processes and tools to create a contemporary data architecture. This platform will enable improved underwriting analysis and allow us to drive better risk management, pricing, and portfolio decisions while improving user experience.

With respect to Japan, we will transform this business into a next-generation digital Insurance company with the ability to offer anywhere, anytime, any device experience that our customers and agents expect. To deliver on this digital-first approach, we will modernize our underlying technology infrastructure. In our Private Client Group business, decision making will improve primarily through modernizing our legacy technology and moving to digitized workplace. As a result of this work, PCG will be well-positioned to offer brokers, agents and clients an improved user experience.

The other operational programs will transform shared services, IT, finance, procurement and real estate across AIG. With respect to shared services, we will expand our existing capability on a global basis to create AIG Global Operations, a multi-functional fully integrated operating model with digitally-enabled end-to-end process with increased scope and scale. Our goal for AIG Global operations is to instill a strong culture of operational excellence and continuous improvement that also unifies the company and delivers best-in-class capabilities.

In IT, where we have two workstreams, we will transform the operating model of the function itself and build a modern, scalable and secured technology foundation to improve operational stability and enable faster business technology deployment. The key components of this program focus on materially eliminating legacy technology debt, simplifying our business application portfolio and strategically moving to cloud services.

In finance, where we also have two workstreams, we will transform the operating model of the function itself and modernize our infrastructure through technology solutions and simplified finance and actuarial processes, while materially improving our analytics capabilities.

In procurement, we are creating a highly efficient global procurement and sourcing organization to leverage our purchasing power, maximize value, minimize risk and support continuous and sustained profitable growth for AIG.

Lastly, we're optimizing and consolidating AIGs real estate portfolio to ensure it is cost-effective, resilient and reflective of our global footprint. Each of these programs is complex and will require disciplined execution. In the end, this work will materially improve, how we do business and strategically position AIG to become a top-performing company. We will be fully transparent about the execution of AIG 200 and will provide quarterly updates on our progress.

Now, I'll turn the call over to Kevin.

Kevin Hogan {BIO 4650423 <GO>}

Thank you, Peter, and good morning everyone. Today I will discuss our full-year results and outlook for 2020, then briefly comment on our results for the fourth quarter. Life and Retirement recorded adjusted pre-tax income of $3.46 billion for the full-year and delivered adjusted return on attributed common equity at 13.7%. Adjusted pre-tax income increased by $268 million from the prior year. Solid underlying results were further supported by capital markets conditions and their effect on both assets and liabilities. Impacts from accretive equity market returns, increased by $244 million including higher fee income, lower deferred acquisition cost, amortization and higher returns on alternative investments.

Short-term positive impacts from lower interest rates and credit spreads increased by $154 million, including higher returns on fair value option securities and gains on calls. Our earnings also benefited from higher assets due to new business growth. These positive impacts were partially offset by a further impact from spread compression of approximately $112 million or 7 basis points annually and investments to enhance our operating platforms.

As to our top-line, 2019 was a good example of our strategy to accelerate or moderate new business depending on relative returns. With very favorable pricing conditions during the first quarter, we deployed significant capital in individual retirement and produced robust new business volume at attractive margins. As rates and spreads declined over the remaining three quarters, we adjusted our pricing and reduced individual annuity sales levels, as our view of margins became less attractive. At the same time, we achieved record year for new group acquisitions and group retirement and continued to grow international sales for our Life Insurance business and focused on consistent profitable growth in institutional markets.

Looking ahead to full-year 2020, we expect adjusted pre-tax income to be more in line with our 2018 results. These expectations assume equity market returns of 6.5% and 10-

year treasury rates around 1.7%. To give you an idea of market sensitivity of our adjusted earnings, including impact to both assets and liabilities, a 1% decrease in equity market returns would decrease adjusted pre-tax income by approximately $30 million to $40 million annually and there would be a corresponding increase in earnings from a 1% increase in equity market returns.

A 10 basis points decrease in 10-year treasury rates would decrease earnings by approximately $5 million to $15 million annually and there would be a corresponding increase in earnings from a 10 basis point increase in treasury rates. It is important to note at these market sensitivity ranges are not exact nor linear, since our earnings are also impacted by the timing and degree of interest rate movements, as well as credit spreads and other factors. Based on our interest rate level assumptions, our expectation for full-year 2020, is for base investment spreads across the whole portfolio to decline by approximately 8 to 16 basis points annually with the middle of the range resulting in a headwind of approximately $200 million.

Based on our expectations for rates and spreads, we expect negative net flows for group retirement and individual retirement for the year with decreased levels of individual annuity sales, particularly and fixed annuities. Finally, from a statutory perspective, we expect to continue to generate solid earnings and maintain strong capitalization for our operating entities.

Now, I will briefly discuss our results for the fourth quarter. Life and Retirement recorded adjusted pre-tax income of $839 million for the quarter. Adjusted pre-tax income increased by $216 million from the prior-year quarter. Impacts from accretive equity market returns, increased by $176 million and short-term positive impacts from lower interest rates and credit spreads increased by $46 million. These positive impacts were partially offset by spread compression and previously mentioned investments to enhance our operating platform.

For Individual Retirement, premiums and deposits decreased primarily due to lower fixed annuity sales reflecting low rates and reducing credit spreads. Lower sales resulted in decreased net flows for total individual annuities. Our total assets under administration grew driven by strong equity market performance and higher annuity net flows in the first half of the year.

For Group Retirement premiums and deposits increased by 10% from the prior-year quarter, driven by strong new group acquisition results. Net flows were below the prior-year quarter due to higher group surrenders. Despite this negative net flows for a period of time, we've continued to produce solid earnings for this business as assets under administration have continued to grow.

For our Life Insurance business, total premiums and deposits increased due to higher international sales. Our US Life sales declined as we continue to de-emphasize guaranteed Universal Life sales in the current interest rate environment, and Indexed Universal Life sales remained under pressure. Lastly, our overall mortality returned to trend and was once again favorable making this 10 out of the last 12 quarters where mortality was either at or favorable to pricing assumptions.

For Institutional Markets, we have continued to grow our asset base and earnings in the business continues to be well-positioned to capitalize on available growth while remaining focused on achieving targeted returns. Deposits decreased due to robust pension risk transfer activity in the fourth quarter of last year.

Across our businesses, we are continuing to invest as needed to prepare for the evolving regulatory and accounting landscape and to leverage these ongoing investments to further improve our efficiency and competitive position. We are pleased with the comprehensive retirement reforms provided by the passage of the Secure Act. In addition to the expected outcome is increasing the availability of income solutions for participants in defined contribution plans, we believe that will ultimately enhance the overall education and awareness of the need for protective lifetime income as part of a comprehensive diversified retirement plan.

For our Group Retirement business, we are evaluating several unique and lifetime income options. Other benefits of the Secure Act, include raising the age for required minimum distribution to 72 and eliminating the age limit for contributions to IRAs, all of which present opportunities for both our Group Retirement and Individual Retirement businesses.

To close, we remain committed to our ongoing strategy to leverage our broad product expertise and distribution footprint to deploy capital to the most attractive opportunities, which we believe positions us well to help meet growing needs for protection, retirement savings and lifetime income solutions.

Now I will turn it over to Mark.

Mark Lyons {BIO 6494178 <GO>}

Thank you, Kevin and good morning all. AIG's adjusted after-tax earnings per share was $1.03 for the fourth quarter compared to a negative $0.63 per share in the prior quarter. AIG had adjusted pre-tax income of $1.2 billion and adjusted after-tax income of $919 million for the fourth quarter and for the full-year adjusted after-tax earnings for approximately $4.1 billion or $4.59 per diluted share, representing a $3.42 per share improvement over 2018. Adjusted book value per share, which excludes AOCI and DTA $58.89, an increase of 2.2% from third quarter, and 7.2% relative to year-end 2018. Return on adjusted common equity or ROCE was an annualized 7.3% for the quarter and 8.3% for the full-year, driven by General Insurance at 9% for the full-year and Life and Retirement at 13.7% for the full-year. An important driver of earnings and ROCE improvements in the fourth quarter was our net investment income or NII, which was $3.5 billion on an adjusted pre-tax income basis, almost the same as the third quarter of 2019, reflecting higher alternative investment income and prepayments and bond calls. NII on an adjusted pre-tax income basis was up $649 million for the fourth quarter 2018, which was negatively impacted by higher rates, lower equity markets and negative returns on alternative as last year.

On a full-year basis, 2019 NII was nearly $14.4 billion on an adjusted pre-tax income basis, well above our original expectations and up $1.7 billion from 2018, due to strong alternative returns, impact of lower rates and credit spreads on fair value option bonds and equity markets, offset in part by the impact of lower reinvestment rates. Legacy contributed $2.5 billion of NII for 2019.

I want to call your attention to additional investment income information on Page 46 of the financial supplement, which provides information on the drivers of NII for both GI and Life and Retirement. This should help you refine your models, including the impact of continued low rates on margins in L&R and elsewhere. I'll discuss our 2020 outlook later in my remarks.

Turning to General Insurance, the segment produced an underwriting profit with a calendar quarter combined ratio of 99.8% and current accident quarter excluding CAT combined ratio of 95.8%. The calendar quarter underwriting income was $12 million, an increase of nearly $1.1 billion from the fourth quarter of 2018, with North America contributing $852 million of improvement and international operations contributing $231 million of improvement. Also, both commercial and personal lines improved their accident quarter, underwriting margins within fourth quarter versus the prior-year quarter.

Moreover, each reportable segment also saw improvements for the full accident year of 2019 over 2018, both in North America and International commercial lines and personal lines. The full 2019 accident year combined ratio improved 370 basis points relative to 2018, and as Peter mentioned, with a 240 basis point improvement in the loss ratio, 140 basis point reduction in the GEO ratio, partially offset by a marginal 10 basis point increase in the acquisition ratio.

Additionally, for your records crop results for the year, negatively impacted the full global 2019 accident year by 0.5 loss ratio points at a global level. It's also important to note that this improvement in the loss ratio represents the benefits from all the underwriting actions taken in 2018 and 2019. And 2020 and beyond should begin to see additional improvements at finer point adjustments filter through our financial results.

The net payout ratio for the quarter was 6.5% versus 11.3% in fourth quarter of 2018, despite a high level of gross CATs in both quarters as the combination of gross line re-underwriting together with the improved reinsurance program continues to reduce general insurance net CAT ratios. Both quarters had losses from California wildfires the Japanese typhoons, but our aggregate reinsurance program reduced our net exposure, consistent with our commentary on the third-quarter call.

Turning to prior-year development or PYD. As in prior quarters, we'd like to unpack that for you. The reported $153 million of favorable development includes $58 million of favorable amortization from the ADC deferred gain or adverse development cover deferred gain, resulting in $95 million of favorable development, excluding that influence, which is on a post-ADC recoverable base. On a pre-ADC basis, we had a $118 million of favorable development with 2017 CAT releases and wildfire subrogation producing approximately $290 million of favorable development. Global specialty providing $70 million of favorable development, $60 million of favorable development in international personal lines, $5 million of favorable development US primary casualty lines, which include general liability and workers compensation and approximately $13 million from various other units.

On the other side, we had unfavorable pre-ADC development of approximately $320 million stemming from our US financial lines book. This unfavorable development emanates primarily from our private not-for-profit D&O book, which represents about $130 million unfavorable, and the mergers and acquisitions book which represented roughly $90 million of unfavorable. Other areas largely represented fine-tuning. As Fidelity had $39 million unfavorable, public primary and excess D&O roughly $35 million unfavorable, $16 million in cyber, and $7 million unfavorable was in (inaudible). This represented roughly a $210 million unfavorable on a post-ADC basis, which indicates that the strengthening was mostly centered in accident years 2016 to 2018.

On a full-year pre-ADC basis, the company enjoyed $341 million of favorable development, led by workers' compensation, personal lines, global specialty and commercial short-tailed lines with unfavorable development on the annual basis emanating from financial lines, as just discussed, and some in excess casualty. On an accident year and post-ADC basis and as shown in the financial supplement accident year 2018 increased by 1 loss ratio points over the year and 2017 accident year decreased by 0.6 loss ratio points and actually your 2016 remained flat.

We reviewed the roll forward potential and the impact of accident year 2019, but it would not be material, in some segments somewhat improved and others somewhat worsened. Peter discussed the rate increases being achieved through our General Insurance and although they bode well for 2020, the uptick in US social inflation, together with an increasing proportion of litigated claims and increased securities class action filings may cause lower recognition of any arithmetically implied margin expansion. The book has undergone massive re-underwriting, so our historical experience is only moderately useful projecting forward. Given the changes in the external economic and legal climate coupled with AIG's material underwriting changes, it's prudent and best practices that let the loss experience emerge for any accident year 2020 adjustments are compensated.

Turning to the Life and Retirement segment, adjusted pre-tax income was nearly $3.5 billion. As Kevin noted, an increase of $268 million from 2018. For the quarter adjusted pre-tax income was $839 million, up $260 million over fourth quarter 2018, helped along in part by higher equity levels. Premiums and Deposits decreased 3.6% on a full-year basis, as we continue to be prudent on product pricing in this environment. Regarding spread compression, Individual Retirement, Variable and Index Annuities combined base net investment spreads fell off 28 basis points for 2019 versus last year. Whereas Individual Retirement Fixed Annuities base investment spreads fell off just 9 basis points for 2019 versus 2018. On the Group Retirement side base net investment spreads actually increased 4 basis points versus last year. Regarding net flows on a full-year basis Individual Retirement across all products combined at negative net flows, although these cut in half, relative to last year. Fixed annuities materially reduce their net outflows, variable annuities were similar to last year, whereas indexed annuities continue to exhibit material strength with positive net flows of $4.7 billion for the year and retail mutual funds had a similar level of net negative outflows. As respect surrender rates for the year, fixed annuities were 90 basis points lower than 2018, whereas the composites of variable and fixed annuity rates were effectively flat. On the Group Retirement side, net flows were negative but marginally better than 2018 and the surrender rate decreased 60 basis points on a full-year basis.

Additionally, as a measure of future earnings power, assets under administration grew 14.5% during 2019, with similar growth experienced by both individual and group retirement. The Life segment through life insurance in force by nearly 10% during the year, aided by the growth in international Life. Institutional markets had $45 million more in adjusted pre-tax income with premiums and deposits double in 2019, and the pension risk transfer space with guaranteed investment contracts down in volume. As Kevin discussed, the combination of reinvestment yields including low rates and tight spreads and minimum crediting rate put pressure on 2019 earnings, which were offset in part by very strong alternative returns, including a large gain on the private equity as previously discussed.

Turning to legacy, adjusted pre-tax income was $177 million compared with the fourth quarter 2018 loss which has reflected a $105 million charge loss recognition on accident, and health, cancer and disability blocks. Legacy NII and a full-year basis was nearly $2.5 billion, slightly higher than last year and the annualized recurring on attributed common equity was 5.4% for the year, driven by $501 million of adjusted pre-tax income.

As a reminder, Legacy is largely driven by Fortitude Re and in November, we announced the agreement to sell at 76.6% interest in Fortitude which we expect to close mid year subject to regulatory approval. With respect to tax, the final effective tax rate was 22.1% for 2019 applicable to adjusted pre-tax income and 19.3% for the quarter inclusive of discrete items, which also includes a 9-month $14 million catch-up adjustment to reflect the lower full-year tax rate. As you know, effective tax rates or updated each quarter, using accident year-to-date results, and remaining quarters are forecasted an integrated and as always the tax rate is heavily influenced each quarter by the geographic distribution of income by tax jurisdiction.

We did not repurchase any shares in the fourth quarter. So our Board authorization remains at $2 billion. Moving to leverage, as compared to year-end 2018, our total debt and preferred to total capital ratio improved 310 basis points to 26.2% at the year-end 2019. Adjusted book value per share increased 7.2% from year-end 2018 and GAAP book value per share increased 15.2% since the year-end 2018 benefiting from approximately $6.4 billion as they AOCI gains during the year.

Now I'd like to pivot providing some information on our outlook for 2020, all on an adjusted pre-tax income basis. First, however, recall that 2019 had some very strong component to profit that aren't expected to recur in 2020. Net investment income or NII is a key example, the excess returns of our alternative portfolio, together with credit spread compression not expected to repeat 2020 together lead to how we built NII forecast for

2020. NII is expected to be nearly $13.6 billion on a full-year basis, which represents an approximate 4.3% yield on investable assets with an associated range of plus or minus 25 basis points. The 2020 NII by segments from a point estimate perspective is expected to be $3.2 billion for General Insurance, $8.2 billion the Life and Retirement and $2.2 billion for Legacy on the basis that Fortitude stays with AIG all year, at the 100% level.

General Insurance is expected to achieve $45 billion for 2020 net written premiums, virtually flat with 2019 and therefore a similar 2020 network premium outlook. However, given what Peter discussed about the evolving structure Syndicate 2019, our forecast for net written premiums may decrease as this structure is finalized. We will provide an update of Syndicate 2019 on our first-quarter call.

Moving on to underwriting profitability. The accident year combined ratio for 2020 is expected to be in the range of 93.8% to 94.8% ex-CAT. Life and Retirement is expected to have adjusted pre-tax income between $3.1 billion and $3.3 billion for 2020, which is a level comparable to 2018. Legacy on a full-year basis, is expected to provide APTI of roughly $100 million to $120 million.

Other operations -- well, beginning with the first quarter of 2020, we're going to provide more clarity and insight into other operations. However, in total, we expect that the adjusted pre-tax income for 2020 to be between $60 million to $75 million lower than 2019, meaning a bigger negative. This represents an amalgam of consolidation and eliminations of entities, interest expense on direct AIG debt, as well as interest on debt within consolidated investment entities, blackboard and both GOE and other income that in some cases is grossed-up for internal service chargebacks.

We've now given you the aggregate expected financial impact, but this highlights the need to provide increased visibility into the components and we will do so. As Peter noted with respect to AIG 200, we expect to invest $1.3 billion over the next three years and to realize a $1 billion of run-rate GOE savings as we exit 2022. The anticipated impact to adjusted pre-tax income in 2020 is a $150 million APTI gain with roughly 75% of this being reflected in General Insurance with the balance evenly split between Life and Retirement and other operations.

Run rate GOE savings are expected to today on a cumulative basis $300 million, and $600 million then $1 billion in 2020 through 2022. We currently estimate roughly $400 million of the $1.3 billion cost to achieve being capitalized as the assets are put into service. We anticipate establishing a restructuring charge in the first quarter and we'll provide more details at that time. Regarding capital management and associated liquidity, our options are primarily directed towards debt reduction and expected IRS payment of approximately $1.7 billion in the first half of 2020, AIG 200 to $1.3 billion of investment beginning in 2020 and other possibilities to invest back into our core businesses.

As for share repurchases, we continually evaluate that option, but we'll wait until the Fortitude sale is closed review more fully. Lastly, we expect to make additional progress reducing our year-end debt and preferred to total capital ratio lower than the current 26.2%.

And with that I will put it back over to Brian.

Brian Duperreault {BIO 1645891 <GO>}

Thanks, Mark. We had a lot of content. So we'll go to questions, we will stay on fast 9 o'clock to take as many questions as we can. So we'll start then, operator.

Questions And Answers

Operator

Thank you. The question-and-answer session will be conducted electronically. (Operator Instructions) We'll go first to Meyer Shields at KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Great. Thanks. Good morning. Two really quick questions.

A - Brian Duperreault {BIO 1645891 <GO>}

Good morning.

Q - Meyer Shields {BIO 4281064 <GO>}

Good morning, sorry. In the accident year loss ratio, excluding crop are there any other adjustments to the full-year numbers -- to full-year 2019 numbers?

A - Peter Zaffino {BIO 15942020 <GO>}

For the full-year aggregates, there's nothing material.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay Perfect. And when we look forward, I'm wondering how the planned reduction in earnings volatility aligns with what we see as much better pricing in the retro markets in particular, as far as Validus goes? Should we expect more exposure on year-over-year capacity losses or to retro cover?

A - Brian Duperreault {BIO 1645891 <GO>}

So it's really a question around retros increase in costs, I guess, Peter can answer that question. I think we've gone to our market with our reinsurance program. You heard Peter described it. So for 2020, I think we've established what the cost will be for us. But Peter, do you want a take that?

A - Peter Zaffino {BIO 15942020 <GO>}

So thanks, Meyer, the retro costs have increased and I think it'll be a little bit different than last year because, believe as we enter into the April 1 and June 1 renewal dates for Japan and (inaudible) respectively, we're going to see meaningful rate increases on same structures. And so while the reinsurance market has seen increased retro cost. I believe that the reinsurance cost will be able to bear that cost in terms of how we are going to reinsure different portfolios and we are not taking a lot more volatility in the portfolio. In other words, because of the retro cost, we're not looking to take a lot more net, but consistent with our overall strategy on volatility and risk retention.

A - Brian Duperreault {BIO 1645891 <GO>}

You might talk about that Validus a second.

A - Peter Zaffino {BIO 15942020 <GO>}

In terms of Validus, yeah, that's also referring more on April 1 and June 1 that they ought to be able to position themselves in the marketplace. But we're not looking to grow and take on more CAT exposure on a net basis throughout 2020.

A - Brian Duperreault {BIO 1645891 <GO>}

Next question.

Operator

We'll move next to Jimmy Bhullar at JPMorgan.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Hi, good morning. I had one question on guidance. And then also on Life and Retirement. The guidance you gave a lot of detail on expectations for the year on margins and stuff. I don't know if you've mentioned anything on the tax rate and also on what type of CAT load do you expect for the year, if there is such a thing as a normal CAT load?

A - Brian Duperreault {BIO 1645891 <GO>}

Mark.

A - Mark Lyons {BIO 6494178 <GO>}

Yes. Thanks for the question. No, we gave guidance on an adjusted pre-tax basis at this point...

Q - Jimmy Bhullar {BIO 4278955 <GO>}

My point is, what do you expect the tax rate to be if you -- because it was very low in the fourth quarter and relatively low in 2019 as a whole?

A - Mark Lyons {BIO 6494178 <GO>}

Yeah, actually the guidance around that is pretty similar to what we said year. So 22%, 23%.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay. And anything on the...

A - Brian Duperreault {BIO 1645891 <GO>}

And at CAT question?

A - Mark Lyons {BIO 6494178 <GO>}

CAT load? Well, CAT load, I'm really glad you asked this question because you may recall that I think in the middle of the year, we said we're going to start looking at this, like every other company which is looking at return periods and looking at it on OEP and AEP basis. 10-K that will be coming out we'll provide that information for you. But. AALs we're getting away from, we don't manage the company that way. We manage it on the return-period basis and I'll leave it at that.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

And then on the Life and Retirement business, your spreads declined more than I think the guidance you had given earlier this year, around 2 to 3 basis points a quarter in both individual and group retirement. So, is it just rates that's driving this or is it competition or flexibility to cut granting rates? If you just comment on what's really driving the deterioration in spreads?

A - Kevin Hogan {BIO 4650423 <GO>}

Yes. Sure, Jimmy. Thanks. There is a little bit of noise in the spread movement third quarter to fourth quarter and year-over-year. And frankly, it's relative to just some of the specifics of the market conditions through the quarters and for us, the year-over-year trend is really I think much more relevant. And so based on the environment that we're expecting we're sort of looking on an annualized basis at a 8 to 16 basis points compression, which is a little bit of an increase based on what we had before. But on the entire year basis our compression in 2019 was 7 basis points collectively.

So I think that we're seeing a little bit of compression is largely within what we expected. Certainly market conditions are very challenging, right now. There was a little bit of noise third quarter to fourth quarter, but no impact on trend as far as we're concerned. And maybe most importantly, we are still seeing very attractive spreads available.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Thanks. Tom, our next question, I should say.

Operator

We'll go next to Tom Gallagher at Evercore.

Q - Tom Gallagher {BIO 3311667 <GO>}

Good morning. Just first question on the expense side, the restructuring charge that's coming in 1Q, Mark, that you referenced is that is likely to be most of the -- or sizable portion of the a $1.3 billion investment. Are you going to take that all up or is that going to be far more modest? And how should we think about charge -- will charges be below the line or included in operating as you record some of these?

A - Mark Lyons {BIO 6494178 <GO>}

Yeah. Good questions. Some of that will be giving you chapter and verse when we go in our first quarter calls as we move, but you're going to have next year, so what's above and below the line. You've -- then we'll give you all that detail, as far as whether it's the major part of the restructuring of the total cost of the investment. It's not going to be the major, but we'll give you the details on that again in 1Q.

Q - Tom Gallagher {BIO 3311667 <GO>}

Okay and then just a follow-up sorry, just a follow-up on Kevin for investment spreads. I just want to be clear, I know what the message is here I heard the year-over-year comment on spreads. Do you expect spreads to be down versus the 4Q level because it was kind of a sharp drop in 4Q. Would you expect them to be more stable versus 4Q or still compressed from 4Q levels?

A - Kevin Hogan {BIO 4650423 <GO>}

Well, I think that obviously, It does depend on what the specifics of each quarter-to-quarter movement are, but we would expect spreads, you know, comparable to -- largely comparable to where we were at the 4Q depending upon ultimately the market conditions. There was a little bit of movement, sort of the 3Q to the 4Q as a result of certain characteristics of the investments, Tom.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay, next question, please.

Operator

We'll go next to Yaron Kinar at Goldman Sachs.

Q - Yaron Kinar {BIO 17146197 <GO>}

Good morning, everybody. My first question goes to the 10% adjusted ROCE target by the end of 2021, does that incorporate the sale of the majority stake in Fortitude Re and maybe the impact on from CECL? And if it does, maybe you could help us think about the impact from the sale of Fortitude Re?

A - Brian Duperreault {BIO 1645891 <GO>}

So, let me take it and then Mark can fill it in. So when I gave you that target some time ago, we had not contemplated the sale of Fortitude. And so we believe that there now we have a Fortitude sale impending, expected it would close mid-year, that helps that number, but that number we believe was achievable either case. But I'll let Mark talk about the rest of the stuff, CECL and so on.

A - Mark Lyons {BIO 6494178 <GO>}

Yes. Thank you. Yes, first off, yes, it contemplates both. This will contemplate the CECL, which will have a shareholders' equity debt coming into the year, as per regulations. We had guided to last quarter that that was about $645 million. You'll see in our K it comes out the actual number that's not materially different from that. So yes to that. As far as Fortitude, it's all in. So, the difficulty is there is -- two things, one, we estimate closing -- we don't know exactly when closing is, and we've been around long enough to know you take down those doubts. And secondly, interest rate environment will be fairly material for the ultimate impact of what it'll do to book equity. So, it's fairly hard to predict, but yes, we're anticipating that's all in.

Q - Yaron Kinar {BIO 17146197 <GO>}

Thank you. And then Mark my second question is around the GOE kind of cost-saving targets that you laid out are those gross or net?

A - Brian Duperreault {BIO 1645891 <GO>}

Mark?

A - Mark Lyons {BIO 6494178 <GO>}

What's your definition of that gross -- gross or net?

Q - Yaron Kinar {BIO 17146197 <GO>}

Well, I just used (multiple speakers) million. I am sorry.

A - Mark Lyons {BIO 6494178 <GO>}

Okay. Just for clarifying. So the -- if I go back to the comments from 2020 to 2021 it was $300 million, $600 billion, $1 billion pure GOE. But that -- if you mean tax that's gross of tax.

Q - Yaron Kinar {BIO 17146197 <GO>}

Sounds like you would expect a certain portion of that could be reinvested back in the business?

A - Mark Lyons {BIO 6494178 <GO>}

Well, that's part of our conversation back in the first quarter when we laid things out. But Peter talked about the $1.3 billion of investment, and that's going to be reflected -- there is cash aspects, there is putting capitalized assets into service and the timing of those when they're ready and you've to depreciate for that. There's a lot of moving parts. So I don't mean to be vague, but there is a lot of moving parts and we'll give that to you on the first quarter.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. Thank you.

A - Brian Duperreault {BIO 1645891 <GO>}

Next question, please.

Operator

We'll go next to Elyse Greenspan at Wells Fargo.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi. Thanks. Good morning. My first question on you guys are seeing your premiums drop in the fourth quarter, and it sounds like you expect them to be flat in 2020 yet you're getting a real good amount of rate and it sounds like there wasn't that much material changes to your reinsurance purchases for 2020. So I'm just trying to understand, can you give us a sense of what businesses you're still shedding? And how business mix is offsetting some of the impact of rate is? Do we still look at the kind of flat premiums written in 2020?

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. We'll start Peter. I have a comment but go on.

A - Peter Zaffino {BIO 15942020 <GO>}

Yeah. Thanks, Elyse. I mean I think it's going to be consistent. But just a little bit more tailing off in 2020 when you compare to 2019 which is going to be gross underwriting actions that continue. I talked a little bit about long-term agreements rolling off the big part of our re-underwriting in the first quarter for property. We're still working through the Lexington and even those statistics are daunting for us in terms of the improvement of the portfolio on the repositioning that still is going to be work, that's going to be done. And then also the reinsurance, think about the casualty quota share, which was something that we felt really mitigated volatility, we entered into that in 2019 but that continues in 2020.

So some of the discrete reinsurance purchases will have an impact on net premiums written, not to the same extent it did in '19 but certainly will carry over into '20.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay?

Q - Elyse Greenspan {BIO 17263315 <GO>}

Thanks. And then my second question on...

A - Brian Duperreault {BIO 1645891 <GO>}

Let me just add something here you know when we started this turnaround. What do we face? We had businesses that were had limits that were way too high. We weren't getting base. We had concentrations of risk where you just couldn't keep that concentration and we're taking it on that. And we were getting price paid for that thing. So you start -- we've cut volatility out of this company by taking the limits down that takes premium out of the pot, we raised retention that takes premium out of the pot. Yes, we've raised rates. We've also bought reinsurance, takes premiums out of the pot.

So we have not been concentrating on the top-line because we had to concentrate on the bottom line that's -- so once you get a base that you believe is sustainable then you grow it. And so we want to grow the business but we're going to concentrate on making sure this portfolio's rock solid. That's number one kind -- that's the number one priority.

Okay, Elyse, you got another question.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Yes. Thanks. And then my second question Mark in your guidance commentary you pointed to an accident year combined ratio of 93.8% to 94.8% in general insurance. I recognized some of the expense figures you gave are exit run rates that $300 [ph] million for 2020. But if I kind of do some rough math, it seems like of that improvement that you will see over the next 12 months about half should come from the underlying loss ratio and half from the expense ratio? Does that feel about right given the expense program and the guidance you laid out?

A - Mark Lyons {BIO 6494178 <GO>}

Well, I'd say probably skewed more and more to the loss ratio. And as we go from '20 to '21, you see -- probably see that flip, some degree of improvement.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Next question, please.

Operator

We'll go next to Erik Bass at Autonomous Research.

Q - Erik Bass {BIO 19920101 <GO>}

Hi, thank you. And I appreciate the additional guidance details. Just I want to ask a bigger picture question. If you could help us kind of bridge the gap to the 10% ROE by year-end '21, where it seems relative to 2019 Life and Retirement is facing a little bit of pressure. So can you help us just think about the contribution from GI margin expansion and AIG 200 to get there? And are there any other major moving pieces to consider?

A - Brian Duperreault {BIO 1645891 <GO>}

Keven and Mark?

A - Mark Lyons {BIO 6494178 <GO>}

Well, to get -- it gets to a couple of things you got to think about is I think as I tried to layout the 8.3% return in calendar 2019 had some extraordinary gains. So if you normalize for that, and things of that nature. It's not quite the same. I also think in the prior quarter, I've mentioned to get to 10% is not linear that we would expect more in the back half than the front half of that. We have great expansion in GI on expected underwriting gain. And although there's a stronger marketplace environment. It's also a radically modified portfolio.

So by the time we're in 2021, we'll have a little more back of the window view of what 2020 looks like. And if we're lucky enough that the environment continues that's a great tailwind to help us out. AIG 200 is going to also help and along the lines we just mentioned. So there should be incrementally better contribution from AIG 200 each year through 2021.

A - Kevin Hogan {BIO 4650423 <GO>}

And we'd expect L&R to be stable this environment. Maybe the ROEs will come down a little bit as we discussed but we'd expect L&R to be stable on the wheels -- it wheels around the GI improvements. It's loss ratio now, the AIG200 kicks in, it will be expense ratios coming later.

Q - Erik Bass {BIO 19920101 <GO>}

Got it. Thank you. And then just one follow-up on Life and Retirement guidance, I think you talked about $200 million or so drag from spread compression. But based on the sensitivity, Kevin that you gave on the equity markets I would think you would see some of that or much of it offset, given the gains we saw last year. So are there other pieces to the factor in that would kind of get you to the lower earnings next year?

A - Kevin Hogan {BIO 4650423 <GO>}

Well, Eric, as I pointed out, I mean, our assumptions are from the starting point of the year, 6.5% on the equity markets and that 10-year will be around 1.7% and the sensitivities that we gave were relative to those assumptions.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay, next question.

Operator

We'll move next to Brian Meredith at UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Hey, thanks. Just two from here quickly. On the GOE is some of that -- on the AIG 200 is some of that going to come from loss adjustment expenses? And then maybe you can frame it a little bit how much kind of Corporate versus General Insurance?

A - Brian Duperreault {BIO 1645891 <GO>}

Peter, you want to take that.

A - Peter Zaffino {BIO 15942020 <GO>}

So, no, we did not contemplate in AIG 200, the loss adjustment expense, Brian. And then, in terms of the way we've framed out the program. I think if I understand your question correctly, Mark put it into his prepared remarks, which is basically three-quarters of it will come through General Insurance over the program and then the other quarter will come in from Life and Retirement and Corporate. And again, in terms of the sequencing of that I think it would be fairly consistent throughout the three years.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. Helpful. And then my second just a little clarification -- sorry to kind of go on this one, but if I look at your ROE in 2022 when we come out here. We know that Legacy is going to cause a little over $3 billion hit to your equity when we take a look at that return on equity will -- if I add back that $3.5 billion half of equity where we still have a double-digit return on equity in 2022?

A - Mark Lyons {BIO 6494178 <GO>}

I'll take that one. Two things that are kind of countervailing -- actually three things come to mind. First off, when we originally set the 10%, we had a completely different investment and that was outlined. So from that point of view, having the Fortitude sale, the impact on that is very helpful to offset some of the investment income, outlook differences. And the other thing is the $3 billion number that's approximate that you've talked about that's the impact on the effect of consolidation as opposed to the impact from sale and impact from sale is a function of whatever the market conditions are going to be on the date of closing. So equity is pretty hard to predict. I know it's complicate hopefully that helps.

A - Brian Duperreault {BIO 1645891 <GO>}

Let take maybe one more question.

Operator

I'll take that question from Suneet Kamath at Citi.

Q - Suneet Kamath {BIO 4776228 <GO>}

Thanks. Just follow up on Brian's question on the equity as we think about kind of the path to the 10%. Is there a capital return or share buyback expectation that's built into that guidance? I know you talked about delevering, but I just wanted to get a sense of what we should think about in terms of getting to that 10%?

A - Brian Duperreault {BIO 1645891 <GO>}

We both look at each other, Mark and I -- I'd say, look we'd expect that as we manage our capital, we told you what our priorities are for this year, we're going to look at -- once we do close Fortitude, we will relook at share buybacks. I'm just talking about the second half of the year. It's still a management tool. We have an authorization. So it's certainly possible.

Q - Suneet Kamath {BIO 4776228 <GO>}

And then my follow-up is just on the -- on the first-quarter call, you mentioned a couple of times we're going to get some more detail. Can you just maybe give us a sense of what you're planning on disclosing in terms of AIG 200 on the first-quarter call just the pieces?

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Mark you want to go back over that.

A - Peter Zaffino {BIO 15942020 <GO>}

Yeah, I think what we're going to try to do in the first quarter is just give you a little bit more clarity on the sequencing. And so while we had 10 initiatives and they'll largely be launched in the first quarter, there will be sequencing in terms of where we start and giving you a little bit more insight as to how that program progresses. And then I think that will tie to where Mark said before, which is what type of expense needs to be deployed with that sequencing to match expenditures and getting after this launch. And so I think we'll be able to give a little more clarity as to what you should expect on each of the programs and what it looks like for the rest of 2020.

A - Mark Lyons {BIO 6494178 <GO>}

And I'll just augment Peter's comments to probably what you're referring and someone else had asked a lot more clarity on may perhaps the timing of capital is being put in service or you capitalize things you put in service. But clearly above and below line aspects. So that'll all be laid out.

A - Brian Duperreault {BIO 1645891 <GO>}

Okay. Thank you very much. Let me -- I appreciate you staying on a little longer and all of the attention. I just want to make one last comment. And that is that, as I said at the beginning the call, I'm really pleased that we delivered on our 2019 commitments and we ended the year strong. I'm grateful for the support we received from the industry partners and our clients and we're really optimistic about what the future holds for AIG. But last and certainly not least, I want to thank our AIG colleagues across the globe, the resiliency they've shown over the last couple of years is tremendous, and I'm proud to lead a group of such talented professionals, who continue to go above and beyond to make AIG a better stronger company. So thank you all and have a great day.

Operator

And that does conclude today's conference. Again, thank you for your participation.