S&P Capital IQ

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Aflac Incorporated NYSE:AFL

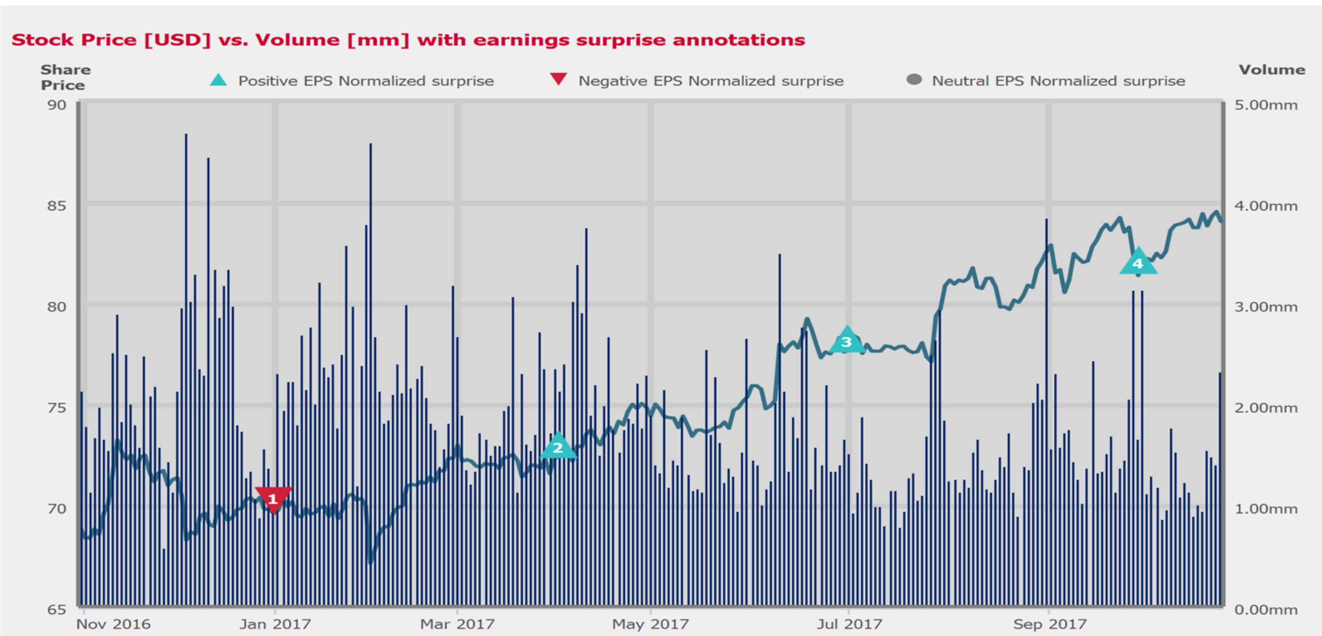
FY 2017 Earnings Call Transcripts

Thursday, February 01, 2018 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-			-FQ1 2018-	-FY 2017-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	1.55	1.60	▲3.23	1.93	6.75	6.81	
Revenue (mm)	5442.00	5424.00	▼(0.33 %)	5570.00	21646.50	21667.00	

Currency: USD
Consensus as of Feb-01-2018 11:30 AM GMT



Call Participants

EXECUTIVES

Daniel P. Amos
Chairman & CEO

David A. Young
Vice President of Investor & Rating Agency Relations

Frederick J. Crawford
Executive VP & CFO

Masatoshi Koide
President & COO of Aflac Japan

Teresa Lynne White
President of Aflac US

ANALYSTS

Erik James Bass
Autonomous Research LLP

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

John Bakewell Barnidge
Sandler O'Neill + Partners, L.P., Research Division

Nigel Phillip Dally
Morgan Stanley, Research Division

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

Sean Robert Dargan
Wells Fargo Securities, LLC, Research Division

Suneet Laxman L. Kamath
Citigroup Inc, Research Division

Taylor Alexander Scott
Goldman Sachs Group Inc., Research Division

Thomas George Gallagher
Evercore ISI, Research Division

Presentation

Operator

Welcome to the Aflac fourth quarter earnings conference call. [Operator Instructions] Please be advised today's conference is being recorded.

I would now like to turn the call over to Mr. David Young, Vice President of Aflac Investor and Rating Agency Relations.

David A. Young
Vice President of Investor & Rating Agency Relations

Good morning, and welcome to our fourth quarter call. Joining me this morning from the U.S. are Dan Amos, Chairman and CEO of Aflac Incorporated; Fred Crawford, Executive Vice President and CFO of Aflac Incorporated; Teresa White, President of Aflac U.S.; Eric Kirsch, Executive Vice President, Global Chief Investment Officer and President of Aflac Global Investments; Todd Daniels, Executive Vice President, Global Chief Risk Officer and Chief Actuary. Joining us from Tokyo are Charles Lake, President of Aflac International and Chairman of Aflac Japan; Masatoshi Koide, President and COO of Aflac Japan; and Koji Ariyoshi, Executive Vice President and Director of Sales and Marketing.

Before we start, let me remind you that some statements in this teleconference are forward-looking within the meaning of federal securities laws. Although we believe these statements are reasonable, we can give no assurance that they will prove to be accurate because they are prospective in nature. Actual results could differ materially from those we discuss today. We encourage you to look at our annual report on Form 10-K for some of the various risk factors that could materially impact our results. The earnings release is available on the Investors page of aflac.com, and also includes reconciliations of certain non-GAAP measures.

Now I'll turn the program over to Dan, who will begin this morning with some comments about the quarter as well as our operations in Japan and the United States. Then Teresa will give an update on the U.S., followed by Koide-San, who will cover Aflac Japan operations. Fred will follow with comments about our 2018 financial outlook and capital management. Dan?

Daniel P. Amos
Chairman & CEO

Thank you, David. Good morning, and thank you for joining us.

Let me kick the morning off by saying, 2017 was another great year for Aflac. One competitive advantage we've held for more than 6 decades is our distinct product focus on voluntary insurance in the United States and third sector products in Japan. That focus sets us apart from every other competitor and has been a major contributor to our success. I believe we will continue to drive our leading position as we look ahead.

I'm especially pleased that our 2017 operating earnings per share growth before currency came in at the high end of the upwardly revised guidance. I think this is especially noteworthy given our disciplined approach to investments in the United States and Japan's platforms with a goal of driving future growth and operating effectiveness.

On the subject of investing in our business, we are pleased that the U.S. Tax Reform enacted in December of 2017 allowed us to increase and accelerate our investments in initiatives that reflect our company's values and objectives. As we communicated, we expect to increase the overall investments in the U.S. by approximately $250 million over the next 3 to 5 years. These strategic investments target continued growth in the company's U.S. operation, investing in technology and digital businesses, training programs and expanding employee benefits. These expanded employee benefits, which include both an enhanced 401(k) matching program and additional company-paid Aflac policies, underscore our company's culture and the very nature of what we do as business, help protect a person's financial wealth and well-being.

You'll hear from Teresa and Koide-San today in greater detail about the 2 operating segments, Aflac U.S. and Aflac Japan. But let me make a few brief comments on our sales performance in both segments.

Our U.S. sales results came in at the top end of the 3% to 5% long-term guidance that we've given. Sales were fueled by solid performance both in our traditional agent channel and our broker platform that we're building on. Performance was strong across the majority of the sales territories, and we are on track to drive similar results in 2018 with the increased building as the year goes on.

In Japan, we ended the year at just about 4% growth in the third sector, coming off a very challenging 2016 comparison. As I mentioned during the outlook call, we expect third sector sales to be down in the first half of the year. This is especially true for the first quarter, recognizing that we introduced our refreshed core medical product in the first quarter of 2017, driving our sales increase up 7.6%.

As we prepare for Japan's conversion and delayed product introductions until the second quarter, we believe the third sector sales could be down in the high single digit in the first quarter of the year. However, we expect a strong recovery in sales as the year proceeds, consistent with our December outlook call guidance.

I will just take a moment to reiterate that the conversion of Aflac Japan to a subsidiary is on track to take place as early as April 2, 2018, the first business day of the -- of fiscal year for Japan. Overall, I am pleased with the results for 2017. I'm so proud of the hard work and accomplishments of our management team, our employees and distribution in Japan and the United States as they work hard every day to help protect our policyholders. I believe our business segments are well positioned to achieve the performance goals communicated on our December outlook call.

Turning to capital management and deployment. Fred will provide more details shortly, but I'd like to touch on the dividend announcement. I know the importance you place on capital deployment and financial soundness. We have been and will continue to be very disciplined in evaluating capital deployment within a sound risk framework.

We view our primary capital deployment options as dividend, share repurchase and enhancing organic growth. It goes without saying that we treasure our 35 years of dividend growth. I'm pleased that the board decided to increase the dividend by more than 15% effective the first quarter of 2018, just after our traditional increase in the fourth quarter.

While the board reserves the right to look at the dividend on a quarterly basis, we plan to shift the dividend increase to the first quarter review cycle. While cash reform drives an increased level of earnings and cash flow, our dividend reset primarily driven by the overall capital position outlook for stable earnings growth and the balanced approach to returning capital back to shareholders.

In fact, this is not the first time we have had significant increases in the dividend. As recently as 2006, 2008, and again in 2011, we announced double-digit increases in our quarterly dividends, in each case driven by financial strength in our business. We will continue to strike that right balance of investing in growth and repurchasing stock and continuing our long record of dividend growth.

Before I hand it over to Teresa, I want to take a moment to reiterate that when the false allegations were made recently by a very small group of independent contractors in the United States, we responded in a very transparent manner that represents our way of doing business. We posted an over 70-page full report from a special litigation committee of our board, consisting entirely of independent directors, and we've committed to conducting all our operations in the same transparent manner.

I also want to take a moment to say that we have a robust internal audit function, and our compliance function reports to the office of the General Counsel with direct, regular communications to the Audit Committee of the Board of Directors. Long ago, we created a special investigation unit, an anonymous ethics hotline available to all stakeholders and manned by independent third-party service. We take all of this very seriously. When appropriate, we bring in outside independent support to investigate the incidences of compliance we receive, regardless of where they may come from or their motivation. We take swift, corrective action when needed, and we look forward to fighting any false statements made about the company to the fullest extent in the court of law.

That said, I want you to know that our intention -- our attention remains on executing our strategy for delivering value to our policyholders and our shareholders, and we are confident that we will achieve our objectives as discussed on our December outlook call.

So with that, I'll turn the program over to Teresa, who'll provide you an update on Aflac U.S. Teresa?

Teresa Lynne White
President of Aflac US

Thank you, Dan. I am pleased with Aflac U.S. sales results, both for the quarter and the year. Not only were Aflac U.S. sales for 2017 up, but we also generated the best year of new annualized premium sales since 2007. We also had the best fourth quarter in company history. On top of that, I'm pleased with the strong overall growth of the broker distribution and the improved growth in our career sales distribution.

Coming off of 2016, I talked about improving sales in 4 areas in 2017: career agent sales; more specifically, veteran engagement; new associate conversion to producers; the middle market broker sales; and then public sector. From a career agent standpoint, we saw improvements in productivity for both veteran and new agents for the year as both groups outperformed the prior year and our expectations.

Our success with veteran agents benefited from our investment in tools and solutions to better equip them to service their customers. Our success with new agents meant working to cultivate more productive Aflac sales associates who stay with Aflac longer. I continue to believe the small-case market is a growing opportunity for Aflac, because our career agents are best positioned within the industry to reach, and therefore, succeed with these smaller employers.

Broker sales as a whole continues to represent a growing amount of new sales for Aflac. We increased the number of our broker sales professionals and onboarded them with the expectation of seeing positive results in the second half of the year.

While our total broker sales outpaced market projections, we still see opportunities for improvement, particularly in the mid-case market, which will be an area of continued focus for us in 2018. Along with better market coverage, we are also seeing the benefit of technology investments and enhanced value with our large broker clients.

Finally, in the public sector, we continue to build out strategies, including customized tools and services for that market, which led to an increase in public sector new annualized premium for 2017. These initiatives, along with our focus on executing our strategy, generated a 6.7% increase in sales for the quarter and a 4.7% increase in sales for 2017. Needless to say, I'm proud and pleased with the efforts of the Aflac U.S. operations. In 2018, we anticipate new annualized premium growth in the range of 3% to 5%, resulting in a 2% to 3% growth in earned premium.

We will continue to focus on growth, efficiency and customer experience. Our platform investments like Everwell and One Day Pay are already paying off in terms of customer experience. From our simple product enrollment process to our strong compliance culture and expedited claims process and every step in between, we are focused on enhancing the ways we deliver on the promise to our policyholders. We want their experience to be easy.

In fact, in an independent -- recent independent survey from The Bantam Group, we found that 97% of those enrolling electronically with Aflac, said the process was easy. And 94% of claimants said that their claims were processed or paid quickly. We believe these results differentiate and reinforce our strong brand and policyholders' trust. We're committed to meeting or exceeding our policyholders' expectations at every touch point.

Now let me turn the call over to Koide-San.

Masatoshi Koide
President & COO of Aflac Japan

Thank you, Teresa. I will now provide highlights from Aflac Japan operations, which had a profitable year in terms of the pretax earnings.

From a product standpoint, let me start with the third sector. I'm very happy with Aflac Japan's strong annual third sector sales increase of 4.1%, and especially, with our 2.3% year-over-year earned premium growth. This growth was driven by strong medical sales, particularly from the release of our revised medical insurance product in February 2017. We anticipate that third sector earned premium will continue its steady growth in the 2% to 3% range, reflecting Aflac Japan's stable sales performance.

Cancer insurance sales were essentially flat for the year. This was primarily due to the traditional advanced sales channels focusing on sales of our revised medical insurance product. We saw strong cancer insurance result in our other alliance channels, including Japan Post. I believe we will be able to maintain our sales momentum for third sector as a whole by steadily implementing our product and marketing strategy across our distribution channels.

Looking at the third sector as a whole, we have taken our third sector business from the mid-$60 billion range in 2012 to approximately $87 billion today, and that's good business. Life reinsurance providers indicate that they see growing opportunities within the third sector, but Aflac Japan remains the hands-down leader with continued growth in new and in-force annualized premium.

We have seen growth, particularly at 2 -- 20,000 post offices that offer Aflac's products. Our nationwide model sales office initiative is almost complete. The initiative is aimed at enhancing sales agent productivity and further strengthening selective high market potential agencies. While not expecting to impact the sales in 2018, we will be actively investing in alternative distribution opportunities for future growth.

To touch on first sector products, as you know, Aflac Japan has substantially reduced sales of same type first sector products with our aggressive repricing of interest-sensitive products. Total first sector sales, including interest-sensitive products such as WAYS and self-enrollment were down 59.4% in the quarter, reflecting our actions to limit the sales of those products. At the same time, we will continue to offer protection-type first sector products to provide our exclusive agency channel with a comprehensive product portfolio to continue growth setting with third sector products.

Looking ahead to 2018, sales of third sector products face challenging comparisons, especially in the early part of the year due to the conversion of the Japan branch. However, we expect to see improvements in the second half of 2018 following the completion of the conversion. And with the help of our third sector product launch, we are planning upon conversion. Finally, regarding the Japan branch conversion to a subsidiary. As Dan mentioned, we are proceeding on schedule, and I believe we'll be able to transfer business as planned on the first business day of Japan's fiscal year 2018.

In closing, I'm pleased to say that our initiatives and investments to enhance our operational initiatives are proceeding as planned. I'm also excited about 2018, and confident that Aflac is implementing the nimble, robust product and distribution strategy needed to continue leading the third sector insurance market in Japan.

Now let me turn it over to Fred.

Frederick J. Crawford
Executive VP & CFO

Thank you, Koide-San. As Dan noted in his comments, we're very pleased with our overall financial performance in 2017. Earnings results for both the quarter and the full year exceeded our expectations.

For the quarter, operating earnings per share of $1.60 benefited from stronger-than-expected pretax margins both in Japan and in the U.S. Our reported results were impacted by a modest weakening of the yen as compared to 2016, negatively impacting the quarter by $0.03 a share.

Operating earnings per share on a currency neutral basis for the full year came in at $6.91 per share, up 6.3% and at the high end of the increased guidance range communicated on our third quarter call.

Japan branch conversion costs in the quarter and for the full year were $18 million and $42 million, respectively. We expect to come in at the lower end of our $120 million to $130 million original estimate with the bulk of the remaining cost expected in the first half of 2018.

Turning to our Japan segment results, Japan's benefit ratio, expense ratio and pretax margin were all in line with recent results and our outlook call guidance. We completed our actuarial testing work in Japan during the quarter with no material adjustments to reserves. We did reduce our cancer and medical claim reserves by approximately JPY 3 billion, generally in line with similar adjustments in recent years and driven by continued strong underlying claims trends. Investment performance in Japan contributed to our strong results in the quarter with outperformance driven by higher yields on yen investments and lower hedge costs, driving favorable dollar program income. The U.S. dollar hedge costs in the quarter were $60 million with full year cost of $228 million, below our original forecast for the year.

As discussed on our December outlook call, we have increased our unhedged U.S. dollar position based on a review of the stressed economic surplus in Japan, thus reducing our notional forward position and associated costs. Our approach to sizing the capacity for unhedged dollar investments seeks to balance the potential long-term currency exposure to the value of our Japan franchise under a weakening yen scenario, and prudent management of regulatory capital and earnings volatility that comes with holding unhedged dollar assets. Our tolerance for an unhedged dollar portfolio is, first and foremost, guided by the objective to secure the financial strength of Aflac Japan and the funding of yen's liabilities.

Monday, we announced a follow-on $75 million equity investment in NXT, a recognized leader in middle market lending, further strengthening a partnership we began about a year ago. In connection with our strategic investments, we have committed to fund over time a $2 billion portfolio of floating-rate first mortgage loans for institutional quality in middle market commercial properties throughout the U.S.

To initiate that allocation, we will be purchasing from NXT a portfolio of those -- these loans totaling approximately $1.1 billion. This move accelerates the build of our U.S. dollar floating-rate portfolio in Japan, and gives us a strong start to building investment income in 2018.

Turning to U.S. results. Our benefit ratio was in line with guidance and our expense ratio, while elevated in the quarter, came in favorable as compared to the 2016 quarter. This is somewhat consistent with past years and reflects progress on certain strategic initiatives throughout 2017.

Overall, our profit margin in the quarter improved over last year driven by revenue growth of 2% on relatively flat expenses. With the signing into law of tax reform, we announced our intent to invest up to $250 million over the next 3 to 5 years in our U.S. platform. As Dan noted in his comments, this commitment includes investments in our employees, philanthropic efforts and growth initiatives. U.S. expense ratios are expected to run modestly above the midpoint of our 34% to 36% outlook call guidance. Importantly, the pace and nature of additional growth investments have not been finalized, and therefore, are not incorporated into our guidance for 2018.

In terms of capital, we ended the year in a strong position. Japan's solvency margin ratio is estimated in the 1000% range, recognizing we have allocated an additional JPY 60 billion of capital to support our increased unhedged dollar position.

Our U.S.-only risk-based capital ratio prior to the impact of tax reform stands at the mid-800% range. We expect a 15% reduction in our ratio or approximately 120 percentage points as a result of tax reform. We recover this negative impact over a period of 3 to 5 years through additional statutory income, assuming that income is fully retained.

We do not expect any disruption to our U.S. excess capital drawdown plans as outlined at our 2017 financial analyst briefing. We ended the year with over $2 billion of liquidity at the holding company, setting aside $1 billion as contingent capital. Overall credit conditions and asset quality remains strong with only a modest level of impairments in the quarter.

I'm pleased to say, we continue to return a significant amount of capital to shareholders. Including dividends and share repurchase, we returned approximately $2 billion to our shareholders in 2017.

As Dan highlighted in his comments, we have reset our common stock dividend with an increase of 15.6%. The Aflac board approved this move reflecting on our recent performance, current payout ratio and stability of earnings and cash flow as we look forward. The increase also takes into account the optimal allocation of annual excess capital generation. We have taken a balanced approach with a desire to sustain our 35-year track record of increases and recognizing both our earnings and cash flows are influenced over time by yen/dollar currency movement.

We are maintaining our current range for repurchase of $1.1 billion to $1.4 billion in 2018. We remain tactical within the range guided by relative returns and options for our use of excess capital.

Before handing the call back to David for Q&A, I'll comment briefly on the impact of U.S. Tax Reform on our financials. In the quarter, we reduced our deferred tax liability, or DTL, by $1.7 billion. Our DTL was primarily driven by the tax treatment of Japan reserves, Japan deferred acquisition costs and the impact of unrealized investment gains. The result is lower current-period cash taxes and the build of an associated GAAP deferred tax lability.

Given the nonrecurring and noncash nature of the adjustment, we pulled this income item out of our definition of operating earnings. The $1.7 billion represents a best estimate of remeasuring the net liability when applying our new estimated effective tax rate. We are likely to see further adjustments to the liability as we refine our estimates.

We included in our press release a revised 2018 outlook for operating earnings per share. We are assuming an effective tax rate in 2018 of 26.5%. This derived from Japan's corporate tax rate of 28%, the U.S. rate of 21% and assuming a stable mix of earnings. We estimate operating earnings per share will increase approximately $0.80 a share and have reset our 2018 EPS guidance range accordingly. We estimate annualized capital generation will improve by approximately $250 million a year. The incremental capital generation in 2018, together with excess capital in the U.S. from our RBC drawdown plans, drives our estimated capital deployment in 2018 to approximately $2.1 billion to $2.4 billion. This assumes markets remain stable throughout the year.

Looking ahead to 2018, we are well positioned in terms of core margins and capital strength.

I'll now hand the call back to David to begin our Q&A session. David?

David A. Young
Vice President of Investor & Rating Agency Relations
Thank you, Fred. [Operator Instructions] We will now take the first question.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Nigel Dally of Morgan Stanley.

Nigel Phillip Dally
Morgan Stanley, Research Division

So we see a news article that came out in January. Regardless of the truth of the allegations has the potential to be somewhat damaging to your brand, so with that in mind, are you seeing any impact on sales or recruiting from that article? Or is it just too early to tell?

Daniel P. Amos
Chairman & CEO

I think it's too early to tell at this particular point. But as I told you, we expect to achieve our target for the full year and believe that when it's all said and done, we will be able to handle any of the issues that were brought before us and resolve them in our favor.

Nigel Phillip Dally
Morgan Stanley, Research Division

Great. And so a follow-up on tax reform. Will any of that benefit be passed along to your policyholders through lower prices or any other benefits? Because a market -- smaller market tend to be less price sensitive.

Frederick J. Crawford
Executive VP & CFO

Yes, I think you have that right. Obviously, for starters, it goes without saying that our Japan business is unaffected by this since there's no corporate tax rate change there, and we incorporate corporate tax rates in Japan in our pricing. So it's really a U.S. issue. And from a U.S. standpoint, you have that right. The nature of our products are such that there's very little delta, if you will, relative to changes in tax rates as it pertains to pricing and ultimate premium levels in our products. What we will do is what we always do and that is, we'll certainly monitor the competitive environments and make sure that the value proposition of our policies and the associated premium remains very strong and in practice.

Operator

The next question comes from Jimmy Bhullar of JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

First, I had a question on U.S. sales. It seems like you had decent momentum in the last couple of quarters and some of the initiatives that you've had ongoing, like expansion through the broker channel, it seems like they are not fully in the numbers yet or the benefit is not fully in the numbers yet. So it appears like the guidance -- the sales guidance of -- or you could exceed your sales guidance in 2018. Is there anything that you're seeing that makes you believe otherwise? Or is the guidance somewhat conservative?

Teresa Lynne White
President of Aflac US

We believe -- this is Teresa, Jimmy. We do see a tremendous opportunity in the broker market. There are some areas that we believe we can improve upon, specifically in that middle market segment and that's where our focus will be in 2018. But as to our results, overall, we believe that we will be within that range of 3% to 5%. So we feel good about that range.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And is there anything that's making you concerned about why you expect a slowdown in sales versus where they've been in the last couple of quarters?

Teresa Lynne White
President of Aflac US

No. I don't have any concerns as it relates to any slowdown.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And then on the Japan business...

Teresa Lynne White
President of Aflac US

So let me be very clear. In the first quarter, that's probably our lowest quarter. So we will see a lower first quarter, still positive, but we're projecting it to be the lowest quarter and then you'll start seeing a pickup throughout the year.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And on the Japan business, the income support product seem -- sales seem to have stagnated. What's your view of the ultimate market for that product? And has that changed versus what you might have thought maybe at 6 months or a year ago?

Masatoshi Koide
President & COO of Aflac Japan

[Foreign Language] This is Aflac Japan, Koide. [Foreign Language] Our income support market itself is still in its growing period. So what we are trying to do right now is to really pursue or look into an effective way to really appeal to our customers. [Foreign Language] As a result, we do believe that it will take some time for the income support to grow significantly. [Foreign Language] However, just to let you know that in the second half of 2017, our growth of this product was higher than that of the first half of 2017. [Foreign Language] And particularly, in our agency channel, there are some agencies that have taken this product as their routine sales and so that has taken root in their sales activities. [Foreign Language] And so as a result, what we will do is to make an effort in the long term to really strengthen the sales and promotion of this product. And particularly, in 2018, we will try our best in trying to promote this product, so that the product recognition will increase among our customers. [Foreign Language] For example, those people who are concerned about one not being able to work at some point and have concerns about paying off their housing loans. [Foreign Language] And we also would like to cross sell this product together with medical product. [Foreign Language] But as always, we are not just particularly focused on the income support product, we will try to balance out our third sector products and push forward with all products. [Foreign Language] That's it from me.

Operator

The next question comes from Tom Gallagher of Evercore.

Thomas George Gallagher
Evercore ISI, Research Division

First question. So Fred, $250 million increase in annual capital generation from tax reform. Should that be pretty constant or do you see that changing over time? Is there any meaningful delta on that or is that -- should that be pretty constant based on how your earnings will change?

Frederick J. Crawford

Executive VP & CFO

Yes, it should be pretty constant, Tom, the way we look at it. We don't have any -- I know that for -- to those companies that have concentrated businesses in the U.S., there's certain dynamics related to the treatment of both DAC and reserves that came out of tax reform that creates more timing dynamics related to the pace of cash taxes versus reported tax rates. We don't have that dynamic. And so we would expect this type of steady run rate improvement cap, provided, of course, tax rates remain the same both in the U.S. and Japan as they're currently stated. Unfortunately, while we are impacted in the U.S. business from tax reform just like any other insurance company because we have relatively light reserve-type business, there's not a tremendous amount of reserve buildup related to the types of products we do as compared to other capital-intensive products. We weren't hit quite as much by tax timing-related issues that come through the tax plan, so it's a pretty steady number.

Thomas George Gallagher
Evercore ISI, Research Division

Okay. And then by follow-up. Dan, just in terms of these legal allegations. After you conducted your review, which sounds like you had some outside people involved in that, was there anything that you found that you ended up changing business practices? Or anything else that was an outcome of that review?

Daniel P. Amos
Chairman & CEO

They're not through, we have one more report that is to come out that we haven't seen yet. And it should be out very shortly. We said, before the end of February. But in the first report, I think we were -- it spoke for itself in terms of what we're doing. But let me be clear, we're always looking to see if there's a better way to regulate things and to make sure we're following all the guidelines that are set forth. And so we're constantly adjusting to do those things. But we're trying to do the right things, and we're going to continue to do that as we move forward and feel like. We've had that hotline to where they can call directly, it circumvents management. It goes to the General Counsel's office. From there, it goes to the Audit Committee. So there's a wave of information that if there's any real issues to where it can't be bought by anybody. And that's what we want to make sure of is, is that we're open-ended and that we're transparent and we're trying to make sure we run this company in the most ethical manner possible.

Operator

The next question comes from Alex Scott of Goldman Sachs.

Taylor Alexander Scott
Goldman Sachs Group Inc., Research Division

A question on Japan, I guess. After the branch conversion and some of these new products are coming out, are -- is there more pricing pressure? Like, could you talk about, like, how much of the need to adjust the products is pricing versus structural? And what you'd expect for the benefit ratio impact kind of thinking out over the next couple of years?

Frederick J. Crawford
Executive VP & CFO

And I'll start this, this is Fred. My general comment is that the competitive landscape in Japan has for quite a while been very competitive, it remains competitive, and we expect it to be competitive going forward. And so as a result, in order to maintain margins, we have to be very proactive in the development and refreshing of our products just to stay competitive and continue the growth rates. But this competitive landscape and sensitivities around that, pressures, if you will, related to competitive landscape, that's been around this company and our Japan franchise for many years, and we've been able to navigate that and maintain our margins.

Taylor Alexander Scott
Goldman Sachs Group Inc., Research Division

And then in the U.S., the investment that you are looking at, can you provide any kind of details around specific areas? And how much upside that, that could provide to the long-term growth rate for premiums?

Frederick J. Crawford
Executive VP & CFO

Yes. I think you're referencing the announcement we made over the holidays and our commitment to invest up to $250 million in the U.S. over 3 to 5 years. I realize part of that investment is an investment in our employees through issues such as 401(k) matching and offering up our products to our employees, fully subsidized and then also philanthropic efforts. We have a significant effort at Aflac to fight childhood cancer and that's a major initiative for the company, it has been for a while. We're stepping up all of our activities around that. If you look at the $250 million over 3 to 5 years, around 20% to 30% of that number is that commitment, the commitment to employees, philanthropic and benefits. The remainder is very opportunistic in nature but really represents an acceleration of what we would anticipate in doing over the long run. And tax reform allowed us to accelerate some of our plans with confidence and capital to make those commitments. They're going to revolve largely around digital advancement, technology advancement, in some cases, distribution, including alternative distribution. And what's very important is, they've not been crystallized or identified, both timing and amount, but also realize the nature of the investment will matter a lot in terms of guidance. For example, a number of the investments we would contemplate would be capitalized, some would take place at the holding company level, some would take place in the U.S. entity affecting ratios. So as those crystallize, we'll certainly give guidance accordingly. But that's our intent.

Operator

The next question comes from Erik Bass of Autonomous Research.

Erik James Bass
Autonomous Research LLP

At the FAB Meeting, you laid out a plan to deploy, I think, it was $5.75 billion to $6.5 billion of capital for 2017 to 2019. It's based on the dividend increase you announced and the improvement acceleration. I mean, does this change how you are thinking about that total amount of capital deployment?

Frederick J. Crawford
Executive VP & CFO

The only change in that total amount of capital deployment is we do have one rate additional capital that would come in vis-à-vis the tax reform. And so I noted in my prepared remarks what that impact is to 2018. But over a 3-year period, you would expect that to accumulate. We stepped back on the totality of the quality of our cash flow and capital and then looking at relative uses of capital, and that really was the foundation of making the move on the dividend. It has the effect of allocating approximately $100 million a year towards the dividend. And this was something we had been looking at for quite a while as we looked at our payout ratio relative to peers, but then also the relative value of using our excess capital. What's the best and highest use of using excess capital. And the dividend really started to shine in recent years as an area where we had opportunity to lift that. So we've made that move. Otherwise, we're sticking with our general repurchase guidance, including allocations to repurchase over that time frame. And so therefore, what solves for the added capital and cash flow is more opportunistic investment. And again, as Teresa has outlined and Koide-San has outlined, in Japan, we think we have opportunities to invest in growth initiatives around technology, digital, distribution expansion, et cetera, and that's where we would look to dedicate some of the excess capital.

Erik James Bass
Autonomous Research LLP

And then it's the follow-up on Alex's question. I mean, if you think longer term, do you see the investments in the U.S., including the incremental $250 million but plus what that you had -- have already been doing, do you see that as potentially enabling you to accelerate sales and earned premium growth above the ranges you're targeting near term? Are these investments more that are needed to just keep pace with the industry?

Frederick J. Crawford
Executive VP & CFO

Well, I imagine at the end of the day, they're going to fall into a mix of both. Because certainly, if you look at the rest of the industry, investments are being made along these lines. So you absolutely do need to keep pace. But we've got a great foundation here at Aflac, a strong brand, significant distribution reach, scale in what we do. And so we touch 440,000 small businesses who employ 50 million people, 8 million of which currently have our policies. And so when we talk about investing in growth, digital technology, et cetera, it's to drive greater penetration and greater growth. And you would expect that to yield benefits in earned premium, annualized premium, client accounts, policies in force, et cetera, but that would be the intent of these investments. I would say, productivity and efficiency are also playing into it.

Operator

The next question comes from John Barnidge of Sandler O'Neill.

John Bakewell Barnidge
Sandler O'Neill + Partners, L.P., Research Division

In Aflac U.S., the average weekly producers, when was it that high either on a quarterly basis or on an annual basis?

Teresa Lynne White
President of Aflac US

When was it that high? I'm not sure I understand the question. This is Teresa.

John Bakewell Barnidge
Sandler O'Neill + Partners, L.P., Research Division

It was 176.183 on Page 18 of the supplement and it doesn't seem like on an annual basis there it was that high previously.

Teresa Lynne White
President of Aflac US

Yes. I think what you're referring to is the productivity. And certainly, from a productivity standpoint, that's really been our focus. We have not seen productivity that high probably since 2007 or so, but I'd have to go back and look at those numbers. But our focus has been on productivity and training, development, driving producers or working with producers to become productive agents. So I'm not surprised that where we are, I'm excited about that, quite frankly.

John Bakewell Barnidge
Sandler O'Neill + Partners, L.P., Research Division

And then with tax reform, does that change how you think may be your earnings mix between the U.S. and Japan? And do you seem inclined to maybe grow the U.S. component a bit more either organically or through M&A into new products or channels?

Daniel P. Amos
Chairman & CEO

Tax reform in and of itself is not necessarily influencing where we invest our dollars. Something I would remind you of is that remember, we remain a U.S. taxpayer on the entirety of our earnings because our -- Japan is a branch for tax purposes. So despite having converted it or planning to convert here in April to a subsidiary, we remain a branch for tax purposes. So we're a U.S. taxpayer on all of our earnings. Obviously, we have the dynamic where the corporate tax rate is higher in Japan. But that's not necessarily skewing our desire to make investments, we generate strong profitability in both regions. And so it's attracting capital accordingly.

Operator

The next question comes from Ryan Krueger of KBW.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

On Japan, I guess, first would you expect to make the product revisions in April shortly after the conversion? And then secondly, are you planning to have refreshed products for both cancer and medical?

Daniel P. Amos
Chairman & CEO

Could you hear that, Koide?

Masatoshi Koide
President & COO of Aflac Japan

Yes. [Foreign Language] This is Koide-San from Aflac Japan. [Foreign Language] And since our new product has not been formally announced, therefore, I would like to refrain from really announcing the details here. [Foreign Language] But what I can say is that, we will be injecting a product that really reflects the recent medical treatments and to cover that -- offer coverage that supports that. [Foreign Language] And to align with the timing of our conversion or incorporation in Japan, we are planning to launch a very, very strong product. [Foreign Language] That's it from me.

Daniel P. Amos
Chairman & CEO

I want to just remind you that have not been on this call very often that that's a requirement of the Financial Services Agency that we not discuss the actual approval date of product. They do not want us to do that. So we're following their guidance. So just to make sure, it's not us. We'd be glad to tell you, but we're following that. But you can kind of figure it out with what we did last and what we're doing now and it kind of adds up for you if you look at it.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

And then, Fred, just after the increase in book value from the DTL change, does that increase your view of debt capacity with the debt to capital ratio now below 20%?

Frederick J. Crawford
Executive VP & CFO

Yes, it's a fair question. I'm not at the moment reacting or overreacting to the one-time noncash DTL reduction to run out and necessarily redial leverage over time. Our leverage is largely dictated by understanding the dynamics of cash flow and the quality of cash flows. When you are able to, for example, make a move on the dividend the way we have, that's in part because we have a relatively light level of interest expense, and so we can make those kinds of decisions as to what the highest and best use of excess capital is. So there are no plans to pump up leverage. I would also remind you that we look at leverage in 2 different ways. We look at the leverage on a recorded ex-AOCI basis, which is where you see it dropping down below 20%, which is in fact below our 20% to 25% stated policy. But we also look at leverage when you incorporate the unrealized gain and loss from foreign currency translation. Now that's a part of AC -- AOCI that is at times not a small number, and we try to look at our leverage with that as well. Why? Because that's economic in nature in the sense that even though it's unrealized, over time it may become realized because it's related to the currency impact to the value of our Japan franchise. And so we look at it in both ways. And with that currency adjustment, leverage is up around 21% in change, still low, but we look at it both ways. So -- and I should also add the rating agencies do as well. So right now, no plans. But of course, we are relatively low-levered. We have a very high coverage ratio on interest expense and that allows us to be opportunistic in deploying capital such as a nice dividend increase.

Operator

The next question comes from Sean Dargan of Wells Fargo Securities.

Sean Robert Dargan
Wells Fargo Securities, LLC, Research Division

I have a question for Fred around RBC and tax reform. So the 120 point RBC hit, that's inclusive of everything, not just the DTL -- I'm sorry, the DTA?

Frederick J. Crawford
Executive VP & CFO

That's right. It's -- it has a DTA impact. And then the way I think of it is, there's a numerator impact and a denominator impact. And so there's also the loss of certain favorable tax treatment in the required capital, if you will, or denominator. And so it incorporates both of those elements.

Sean Robert Dargan
Wells Fargo Securities, LLC, Research Division

Okay. And then about your comment to rebuild that over time, have you had conversations with the rating agencies and kind of sounded out how they're thinking about that? Are they going to give you some compensation?

Frederick J. Crawford
Executive VP & CFO

Yes, it's -- I might also add a little more color, too. I mentioned that we recover the RBC over 3 to 5 years, that is based on an estimate right now of additional statutory income of around $85 million a year. This would when -- this would be when you consolidate all of our statutory and legal entities in the U.S. And so that's what I mean by starting to gain back the RBC. To your question, is there going to be a "reset of RBC"? I'll tell you exactly what I've told my team here internally and even our Audit Committee, and that is, I've never really held my breath on the rating agencies coming out and saying, hey, last year's 500% is this year's 400%. I sort of go with the plan that we're going to be held to the same standards irrespective of these adjustments. If it plays out differently and if there becomes a reset, if you will, relative to these types of events, then so be it. But I think, right now, we are sticking with our plan targeting 500% RBC over the next few years, has no impact on our drawdown plan of excess capital. And if we find ways in which we can optimize in the future, we'll do that.

Operator

The next question comes from Suneet Kamath of Citi.

Suneet Laxman L. Kamath
Citigroup Inc, Research Division

Just wanted to start with the U.S. and the group sales, which have been strong of late. Do you have a sense of what percentage of those sales represent new customers, new Aflac versus conversions?

Teresa Lynne White
President of Aflac US

So let me first speak to -- and I think what you're referring to is movement from business from individual to group. So...

Daniel P. Amos
Chairman & CEO

I'm not sure of what he's asking.

Teresa Lynne White
President of Aflac US

Is that what -- what are you...

Suneet Laxman L. Kamath
Citigroup Inc, Research Division

Just in terms of a new...

Daniel P. Amos
Chairman & CEO

Do you want re-enrollments and accounts?

Teresa Lynne White
President of Aflac US

New groups?

Daniel P. Amos
Chairman & CEO

New accounts? What are you kind of asking to make sure we're on the same page?

Suneet Laxman L. Kamath
Citigroup Inc, Research Division

A customer that had been on the individual side or paid, that's no longer sold through the individual agent, but is now are sold through Aflac?

Teresa Lynne White
President of Aflac US

Right. So it's a very, very small amount, less than 1%. So it's a very small amount, may be about 1%. 1%.

Daniel P. Amos
Chairman & CEO

We believe that -- okay, let me say one thing. We believe that the individual policy is in the best interest of the customer. A lot of our people do because they can take it with them when they leave.

Teresa Lynne White
President of Aflac US

But look, I think what's more important is the group and individual, they are totally separate companies, right? And the employer makes a decision as to whether they want to offer a group policy or an individual policy to their employees. Now if there's an individual employee that has -- there's a person who has an individual policy and their employer decides to go to a group policy, just by normal course, we give the individual the choice as to whether they want to keep their individual policy or move to group. So I guess, that from that standpoint, does the activity happen? Sometimes, but it's a very small amount of activity of transferring people from individual to group. And the choice is basically made from the employer's standpoint. And then the choice of whether the individual, as Dan said, it's an individually issued product, it is their product, it's underwritten differently. So those can -- they can make the decision as to whether they want to keep that product. I hope that helps.

Daniel P. Amos
Chairman & CEO

The real driver though is that the business that we've been writing on an individual basis are generally small accounts.

Teresa Lynne White
President of Aflac US

That's correct.

Daniel P. Amos
Chairman & CEO

And when we got into the group business, it's predominantly large accounts that is driven by brokers or driven by brokers working with our associates. So that's a major difference as you look at this. So there's not as much overlap because of that. So that's why that number is relatively low.

Teresa Lynne White
President of Aflac US

That's correct.

Daniel P. Amos
Chairman & CEO

And one reason for that, just to explain it to you, is the employer wants to make sure that these large accounts when it goes across state lines, that everyone has the same policy and they had that under that arrangement. In the case of individual policies, it's where it's written. So they -- within an account you could add different. So take, for example, here in Columbus, where Alabama is across the line, if it was an individual policy then the people in Alabama that are being -- really would have a different policy from Georgia people. And most employers and human resources people don't like that, so that's why these larger accounts tend to be that way.

Suneet Laxman L. Kamath
Citigroup Inc, Research Division

Got it. Okay, that's fine. And then may be just one quick one for Fred on the RBC. Just wanted to make sure I understand, I know that you had said you're going to draw that down to around 500% by 2019. But I think that there was the thought that maybe after '19, even when we have more, given the low-risk business model of Aflac U.S. Just want to be clear, does the impact of tax reform, which is going to knock that RBC down a little bit, does that impact your ability to draw that down beyond 2019?

Frederick J. Crawford
Executive VP & CFO

It doesn't really change my views in the sense of being able to run our business at a lower RBC than, say, more capital-intensive businesses. And so right now, my assumption is that we continue to manage to a 500% RBC through the retention of ongoing earnings, while drawing down the excess capital. If, however, we're able to work with the rating agencies, and of course, upon assessment of our own risk management parameters, bring that down, we'll look to do that and optimize. But right now, that's not the game plan. Right now, we're sticking with the plan of 500%. Once we settle into the blue books, settle into the pace of statutory earnings, communicate more proactively on a U.S.-only basis, that should offer us opportunity to optimize over time. But this is a year of transition. And as I've mentioned to you before, it's been 40 years since we've had a U.S.-only blue book. And so once we get into those numbers and be able to communicate properly and make a case for the very low risk profile of the business and the ability to bring that RBC maybe more efficiently.

David A. Young
Vice President of Investor & Rating Agency Relations

Operator, I think we are past the top of the hour. So we -- it is time to conclude our call. I want to thank, everyone, for joining our call this morning and please feel free to contact our Investor and Rating Agency Relations department with any questions. We look forward to speaking with you soon.

Operator
Thank you. That concludes today's conference. Thanks all for participating. You may now disconnect.