S&P Global
Market Intelligence

Jackson Financial Inc. NYSE:JXN

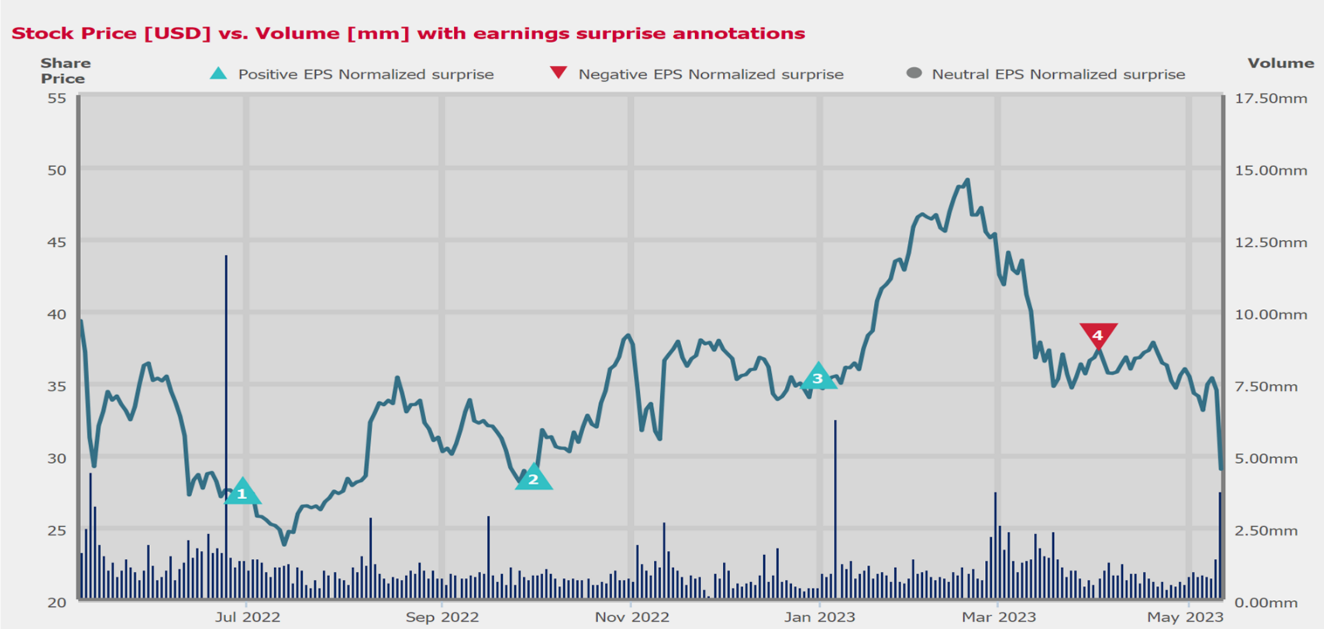
FQ1 2023 Earnings Call Transcripts

Wednesday, May 10, 2023 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.95	3.15	(20.25 %)	3.99	14.39	NA
Revenue (mm)	1641.76	1548.00	(5.71 %)	1624.54	6452.04	NA

Currency: USD
Consensus as of May-10-2023 1:02 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	1.68	2.52	1 50.00 %
FQ3 2022	2.90	4.24	2 46.21 %
FQ4 2022	4.88	5.66	3 15.98 %
FQ1 2023	3.95	3.15	4 (20.25 %)

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Call Participants

EXECUTIVES

Elizabeth Ann Werner
Head of Investor Relations

Laura Louene Prieskorn
CEO, President & Director

Marcia Lynn Wadsten
Executive VP & CFO

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Scott Eric Romine
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Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Hello, and welcome to today's Jackson Financial Inc First Quarter 2023 Earnings Call. My name is Daily, and I'll be the moderator for today's call. [Operator Instructions] I would now like to pass the conference over to our host, Liz Werner, Head of Investor Relations. Liz, please go ahead.

Elizabeth Ann Werner
Head of Investor Relations

Good morning, everyone, and welcome to Jackson's first quarter earnings call. Today's remarks may contain forward-looking statements, which are subject to risks and uncertainties. These statements are not guarantees of future performance or events and are based upon management's current expectations. Jackson's filings with the SEC provide details on important factors that may cause actual results or events to differ materially. Except as required by law, Jackson is under no obligation to update any forward-looking statements if circumstances or management's estimates or opinions should change.

Today's remarks also refer to certain non-GAAP financial measures. The reconciliation of those measures to the most comparable U.S. GAAP figures is included in our earnings release, financial supplement, and earnings presentation, all of which are available on the Investor Relations page of our website at investors.jackson.com. Joining us today are our CEO, Laura Prieskorn; our CFO, Marcia Wadsten; our Head of Asset Liability Management and Chief Actuary, Steve Binioris; our President of Jackson National Life Distributors, Scott Romine; and our President and Chief Investment Officer of PPM, Craig Smith. At this time, I'll turn the call over to our CEO, Laura Prieskorn.

Laura Louene Prieskorn
CEO, President & Director

Thank you, Liz. Good morning, and welcome to our first quarter 2023 earnings call. Today, we'll discuss our first quarter results, our progress towards our 2023 financial targets, and our insights on the current state of the annuity industry. Over the course of the first quarter, we maintained our risk management discipline, preserving our capital strength and positioning the company for continued profitability. Our hedging strategy effectively navigated a period of significant equity market and interest rate volatility, and our capital position remains strong after remitting $600 million from our operating company in March.

The strength of our capital position is reflected in both an operating company RBC within our target range and over $1.5 billion in holding company liquidity, including $533 million in proceeds from our successful preferred stock issuance. We remain focused on returning capital to shareholders and are off to a strong start, having returned $124 million during the first quarter through dividends and share repurchases. We consistently take a long-term view on our business and have significant experience managing through various market conditions. Turning to first quarter results, our adjusted operating earnings were $3.15 per share and largely reflect market impact on separate account values compared to a year ago as well as the impact of the higher minimum interest credit rate we highlighted last quarter.

Our operating results also reflect our efficient expense structure. Retail Annuities delivered attractive operating margins benefiting from variable expenses and lower asset-based commissions. Combined, these variable costs contributed to a 7% decline in operating costs from a year ago and a 3% decline from the fourth quarter of 2022. This quarter, we're providing greater transparency into our investment portfolio given the regional bank crisis and emerging commercial real estate concerns. These additional disclosures provide key metrics that highlight credit quality across our fixed portfolio and commercial real estate assets.

Our conservative underwriting and the high quality of our investment portfolio continue to be a strength of the company. These additional disclosures are in our earnings deck and will be covered in more detail later in the call. Retail annuity sales totaled $3.1 billion for the quarter and were relatively flat from the fourth quarter of 2022. The stabilization of variable annuity sales industry-wide is consistent with our view that recent sales trends reflected cyclical and not secular pressure. We continue to position our product portfolio for future growth, implementing several changes to our traditional VA product offerings over the first quarter.

These changes capture the benefit of the higher interest rate environment, offer attractive value to financial professionals and clients, and are aligned with our pricing and [return requirements]. Fixed and fixed index annuity sales continued to increase and provide positive net flows as we maintain pricing and investment discipline. Our RILA offering, Market Link Pro generated sales of $533 million over the quarter and remains an opportunity for growth. We recently filed an update to our Market Link Pro product suite that will offer enhanced solutions to financial professionals and their clients.

Our growing success in the RILA market has positively contributed to our distribution expansion and diversification strategy, adding over 2,500 relationships with new or re-engaged advisers since introducing Market Link Pro 15 months ago, with nearly 500 added in the first quarter alone. The core of our business is bringing confidence and better outcomes to American's retirement portfolio. We are witnessing the greatest surge of new retirees our country has ever seen with more than 10,000 Americans turning 65 every day, a number that will increase to more than 12,000 each day at its peak in 2024. When you add recent market volatility to the mix, the need for protected retirement solutions is reaching historic highs.

Retirees and pre-retirees continue to report high concerns about inflation and their ability to successfully finance retirement. The 2023 retirement confidence survey conducted by the Employee Benefit Research Institute or EBRI and Greenwald Research shows a significant decline in the confidence Americans feel in having enough money to live comfortably throughout their retirement years. EBRI is a nonpartisan, nonprofit organization that focuses solely on data and research and does not advocate or lobby. This survey was sponsored by 18 of the largest global asset managers and insurance companies, including Jackson.

The survey reports that an understanding of retirement plan investment options is lacking for some and that 2/3 of retirees prioritized income generation over maintaining wealth during retirement with nearly 3/4 of pre-retirees feeling the same. This need in the market fuels Jackson's relentless focus on providing product solutions, planning tools, and resources to help our distribution partners and their clients, protect and grow assets while creating opportunities for guaranteed lifetime income. With that backdrop, Jackson continues to be well-positioned in the industry as the annuity market expands.

According to data from a recent survey of financial professionals and investors by Cogent syndicated, Jackson holds its lead as the firm with the broadest reach and has the strongest perception among annuity users for offering the best retirement income products. Consistent with our long history, Jackson also ranks highest by a notable margin for best-in-class service in acting in policyholders' best interest. Turning to Page 4. I'll review our progress towards our 2023 key financial targets. Our operating company's RBC target range of 425% to 500% provides a significant level of capital to manage through periods of volatility is consistent with our current A rating and rating agency expectations and supports the long-term growth of our business.

With over $1.5 billion in cash and highly liquid securities at our holding company, we believe we are well positioned and on pace to meet our 2023 capital return target of $450 million to $550 million. In addition to our earnings release, we announced our Board has approved a second-quarter common dividend of $0.62 per share. We view our shareholder dividend as an important component of our capital return strategy, representing our continued confidence in long-term capital generation. Turning to Page 5. You will see we have consistently returned capital to shareholders through both dividends and share repurchases.

Through the first quarter, this has allowed us to repurchase 16% of our outstanding common shares since separation in September of 2021. This balanced approach to capital management supports growth and capital return to shareholders while maintaining a resilient balance sheet. With that, I'll turn the call over to Marcia to go over our financial results in greater detail.

Marcia Lynn Wadsten
Executive VP & CFO

Thank you, Laura. I'll begin with our results on Slide 6, where lower comparative equity market levels drove the change in our adjusted operating earnings from the prior year's first quarter. In addition to lower fee income from reduced separate account assets under management, other contributing factors of the year-over-year change include higher minimum interest credited rates on our VA fixed rate options that I flagged last quarter and lower income on operating derivatives.

These operating derivatives have long been a part of our duration management strategy and have protected our spread income from lower interest rates in the past. Given increases in short-term rates in the last year, these have shifted from income to loss. Over time, this will be offset by rising investment income. Improved mortality on the closed block, lower asset-based commission expenses, and higher net investment income provided partial offsetting positive impacts to our adjusted operating earnings. As a reminder, we believe Jackson has taken a conservative approach to the treatment of guarantee fees within our definition of adjusted operating earnings as all guarantee fees are reflected below the line with no assumed profit on guaranteed benefits included in adjusted operating earnings.

This approach is partly why we did not report a negative impact to adjusted operating earnings from fee attribution following the adoption of LDTI. First quarter adjusted book value attributable to common shareholders was down from year-end 2022 due to nonoperating net hedging losses, partially offset by healthy adjusted operating earnings. As Laura mentioned, we've included additional general account investment portfolio details in the appendix of our earnings presentation that provide breakdowns on both U.S. GAAP and statutory basis, excluding the assets reinsured to third parties or funds withheld assets.

Given the increased focus on the potential for a near-term credit cycle, we expanded this section to provide greater transparency, specifically around our exposure to regional banks and commercial mortgages. Regional bank exposure is limited with only $135 million in smaller regional banks. We had zero exposure to Silicon Valley Bank, Signature Bank, and First Republic Bank, and we had no exposure to Credit Suisse AT1s at any point during the first quarter. Jackson's investment portfolio remains conservatively positioned with only 1% exposure to below investment grade securities on a statutory basis, excluding funds withheld assets.

Slide 7 outlines the notable items included in adjusted operating earnings for the first quarter. As we noted last quarter, following the adoption of LDTI, DAC amortization expense is no longer sensitive to market movements, meaning that we will not need a notable item for that impact. This leaves only limited partnership income as a notable item for this quarter. The first quarter of 2023 included lower levels of limited partnership income compared to the same period in the prior year. Results from limited partnership investments, which report on a one-quarter lag, were $20 million lower in the current quarter than they would have been had returns matched long-term expectations.

Comparatively, in the first quarter of 2022, limited partnership income was well above the long-term expectation with a benefit of $36 million to earnings, creating a comparative pretax negative impact of $56 million. In addition to the notable items, the first quarter of 2023 had a lower effective tax rate than the prior year's quarter. First quarter 2022 pretax operating earnings were higher than the current year quarter, which meant that in the case of tax benefits that were similar on a dollar basis in these 2 periods, the current period had a larger reduction to the effective tax rate. Adjusted for both the notable items and the tax rate difference, earnings per share were down 18% from the prior year's first quarter.

A substantial portion of this decline was from the previously flagged increase in VA fixed option crediting rates due to the regulatory minimum requirement. Additionally, the current quarter earnings per share benefited from a lower weighted average diluted share count relative to the first quarter of 2022 due to share buyback activity through the first quarter of 2023. We have continued our share buyback activity in the second quarter with over 800,000 shares repurchased since the end of quarter one through May 3.

Slide 8 illustrates the reconciliation of our first quarter pretax adjusted operating earnings of $302 million to the pretax loss attributable to Jackson Financial of $2.1 billion. Net income includes some changes in liability values under GAAP accounting that will not align with our hedging assets. We focus our hedging on the economics of the business as well as the statutory position and choose to accept the resulting GAAP nonoperating volatility. This presentation has changed under LDTI, in particular, for the treatment of variable annuity guaranteed benefit liabilities. Prior to LDTI, we had some VA guarantees that were calculated as insurance contracts using long-term assumptions and some as embedded derivatives that were effectively fair valued using current market assumptions.

Following LDTI implementation, we now report [all via guaranteed] benefit liabilities as market risk benefits or MRBs, and these are effectively fair valued. As shown in the table, the total guaranteed benefits and hedging results or net hedge result was a loss of $1.9 billion in the first quarter. Starting from the left side of the waterfall chart, you can see a robust guarantee fee stream of $780 million in the first quarter, providing significant resources to support the hedging of our guarantees. These fees are calculated based on the benefit base rather than the account value, which provides stability to the guarantee fee stream, protecting our hedge budget when markets decline.

Consistent with our practice, all guarantee fees are presented in nonoperating income to align with the hedging and liability movements. There was a $2.5 billion loss on freestanding derivatives, primarily the result of losses on equity hedges in a quarter when the S&P was up 7%, with a partial offset from interest rate derivative gains as rates were down modestly. Movements in the net MRB liability provided a small gain due in large part to the same equity and rate movements, which were largely offsetting. It is important to note that MRB calculations reflect the impact of interest rates from both the changes in the discounting of future cash flows, which we take into account in our hedging as well as the impact of rates on assumed future equity market returns, which we do not explicitly hedge.

Because of this dynamic, movements in interest rates will have a larger MRB impact than the associated hedging assets. That means that when interest rates rise, you would expect the net hedge result to be positive and when interest rates decline, you would expect it to be negative, all else being equal. To assist you with analysis, our financial supplement includes the detailed roll forward of the net MRB liability in the appendix section of our earnings presentation includes a slide that provides a simplified definition of each of the components of change in that roll forward. Nonoperating results also include $366 million of losses from business reinsured to third parties.

This was primarily due to a loss on funds withheld reinsurance treaty that includes an embedded derivative as well as the related net investment income. These nonoperating items which can be volatile from period to period are offset by changes in AOCI within the funds withheld account related to the reinsurance transaction, resulting in a minimal net impact on Jackson's adjusted book value.

Furthermore, these items do not impact our statutory capital or free cash flow. Importantly, while the net hedging result was a loss in this quarter, it was a benefit of approximately $3 billion in full year 2022, primarily due to increases in interest rates over the calendar year.

Now let's look at our business segments, starting with Retail annuities on Slide 9. Variable annuity sales are down industry-wide versus a year ago, consistent with prior periods of equity market volatility. While Jackson's VA sales are down as well, we continue to produce significant volumes and total annuity sales are supported by RILA, fixed, and fixed indexed annuity sales, which are up meaningfully from the first quarter of 2022. Overall, sales without lifetime benefits as a percentage of our total retail sales increased from 33% in the first quarter of last year to 43% in the first quarter of this year.

We expect this percentage to vary somewhat over time based on market conditions and consumer demand. When viewed through a net flow lens, the gross sales we are generating in RILA and other spread products translated to nearly $550 million of non-VA net flow in the first quarter of 2023. In addition to partially offsetting net outflows in variable annuities, these net flows provide valuable economic diversification and capital efficiency benefits. Importantly, our overall sales mix remains efficient from the standpoint of new business strain. Looking at pretax adjusted operating earnings for our Retail Annuity segment on Slide 10. We are down from the prior year's first quarter.

This was primarily the result of the impact of reduced assets under management on fee income and the higher interest credited on VA fixed account options noted earlier. As Laura highlighted, our efficient and variable expense structure has helped support earnings in a declining AUM environment. As we disclosed last quarter, starting in the first quarter of 2023, our retail annuity segment will see a negative impact to adjusted operating earnings from the increase in the minimum guaranteed interest rate payable on the portion of variable annuity assets that policyholders have invested in the fixed option. This minimum is reset annually based on the 5-year treasury rate, which was up in 2022.

This rate increase was effective the first of the year and was a key driver in the $41 million increase in credited interest compared to the first quarter of 2022. It is important to note that we will get an offsetting benefit from higher rates over time on our invested assets as they are reinvested at higher yields. As of the end of the first quarter, we have built up $2.5 billion of account value on RILA with 5 quarters of sales since launch. Because of the early age of our RILA book, minimal surrender activity allows for sales to contribute to an immediate buildup in account value.

Similarly, we are growing AUM in fixed and fixed indexed annuities to $1.7 billion at the end of the first quarter. Our other operating segments are shown on Slide 11. For our institutional segment, sales for the first quarter totaled $649 million and account values were $8.7 billion. Pretax adjusted operating earnings of $9 million were down from $23 million in the prior year period as higher interest credited and increased losses on operating derivatives were partially offset by higher net investment income. We remain committed to our institutional business. The value of the business is broader than what is exhibited through GAAP earnings since it provides diversification benefits, is cost-effective, and helps to stabilize our statutory capital generation.

Lastly, our closed life and annuity blocks segment reported a larger first quarter adjusted operating loss compared to the prior year quarter, reflecting losses on operating derivatives, partially offset by improved mortality. Under LDTI, we will now have some additional volatility in this segment due to the quarterly experience update for future policy benefits. While this figure can be a positive or negative in any given quarter, we would expect it to net to a small number over time. You can see this in our financial supplement where the last 5 quarters ranged from a loss of $18 million to a gain of $36 million and on a cumulative basis, totaled to a gain of only $8 million.

Slide 12 summarizes our first quarter capital position. As Laura mentioned, we returned $124 million to our shareholders in the first quarter, which gives us a strong start to the year and puts us on pace to achieve our full year capital return target of $450 million to $550 million. We remained active in share buybacks during the first quarter, which totaled 1.7 million shares or $70 million. As of May 3, we had $457 million remaining on our share repurchase authorization. Net of the $6 million distribution and related deferred tax asset impact, we began the quarter within our operating company RBC target range of 425% to 500% and remain within this range at the end of the quarter.

And importantly, we ended the quarter with over $1.5 billion in holding company liquidity, including proceeds from our preferred equity offering. I think it would be helpful to review the macroeconomic environment during the first quarter. While a simple point-to-point view of equity markets and interest rates would indicate a fairly tranquil period, both equity markets and interest rates exhibited significant volatility with multiple spikes and rapid pullbacks along the way. In fact, interest rate volatility as measured by the [MOVE Index] was at its highest level since the financial crisis in the 2008 to 2009 period.

This was due in part to the market's reaction to the concerns in the banking sector, which led to market outperformance concentrated among a handful of companies. As a result, more diversified, actively managed funds underperformed their respective index. And this was the case in our highly diversified separate account as well. While these types of disconnects can have a positive or negative impact on our RBC ratio in an isolated quarter, they tend to revert to the mean over time. Another important point to consider is that our variable annuity book is in a very healthy position as measured by the projected cash flows of the block.

As we've discussed in the past, this position may lead to a flooring out of statutory reserves at the cash surrender value, which can create an asymmetry between these reserves and hedging assets. We experienced [flooring] during the first quarter as equity markets rose, which in combination with the extreme volatility I noted earlier, drove elevated losses on hedges that were not offset by reserve releases. The healthy cash flows embedded in the books still remain. However, statutory rules limit the ability to reflect the full economic value in our results due to the conservatism in the CSB floor.

Additionally, the decline in total adjusted capital from these items had a knock-on effect on deferred tax asset admissibility, which further impacts the RBC ratio. However, we believe that there is economic value in these deferred tax assets that will eventually be realized, but the conservatism and statutory accounting does not allow us to fully recognize them in our current capital position. Higher equity markets and the update to the mean reversion parameter lowered our required capital or CAL, which declined materially from year-end. Importantly, our hedge spend was within the guarantee fees collected this quarter despite the heightened equity market and interest rate volatility.

As we have previously discussed, interest rates are a key driver of hedging expenses, both in the cost of the hedging instruments used to protect our book, which is driven by short-term rates and the volume of hedging necessary to stay within our risk limits, which is driven by longer-term rates. And we continue to see the benefits of the higher interest rate environment in this way. Our holding company cash position at the end of the first quarter was over $1.5 billion and continues to be well in excess of our minimum buffer. This was boosted by our preferred issuance during the first quarter that helped to effectively prefund our $600 million senior debt maturity coming in November, which we intend to retire at that time.

Following that retirement, we have no debt maturities until 2027 and are comfortable with our absolute level of debt and overall capital structure. We also renewed our revolving credit facility a year early, proactively extending the term to February of 2028. Our strong position supports our capital return targets and gives us flexibility in managing our business. I will now turn it back over to Laura for closing remarks.

Laura Louene Prieskorn
CEO, President & Director

Thanks, Marcia. We're pleased with the performance of Jackson's business in the first quarter of 2023, especially in light of volatile conditions. We continue to maintain a strong financial position with substantial liquidity, are on track to reach our 2023 key financial targets and are well-positioned to deliver against our strategic and operational goals. We had a strong start for capital return in the quarter and remain confident in our long-term prospects for continued success.

Before we open it up to questions, I'd like to take a moment to acknowledge our associates. Along with their exceptional contributions to our business, I am not just proud, I am impressed by the many ways they live out our purpose and meaningfully contribute to the communities in which we live and work. Our associates are the driving force behind our corporate philanthropic efforts, and I'm happy to share that our volunteerism has returned to pre-pandemic levels with more than 1/3 of our associates volunteering in their communities in this past year. You'll find more about our associates' impact and other details related to talent development, our sustainability efforts, and strength in governance in our second annual ESG report published on jackson.com earlier this month. As I shared in that report, the efforts of this Jackson team to shape the future of our industry, build upon our core capabilities to deliver value to stakeholders, and invest in our communities reflect our desire to create a more confident future for everyone. With that, I'll open it up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question today comes from the line of Alex Scott from Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had is just on the projected cash flows you mentioned. I understand there's this [reserve boring] issue -- you feel that the cash flows are strong. I mean, it's been quite some time since we've been able to look at scenarios and projections of your cash flow. So I wanted to see, first, if you could shed some light on that and help us think through how you see those cash flows, at least maybe in the base case.

And then the second piece of my question is just -- is there -- there's so much volatility in your RBC ratio that it sounds like there's a reasonable explanation for why it happens. But just given the noise that it creates with the way your stock trades and the cost of equity that your company receives, have you thought about actions that could be taken whether internal or external to try to mitigate some of that?

Laura Louene Prieskorn
CEO, President & Director

I'll ask Marcia to comment on the projected cash flows.

Marcia Lynn Wadsten
Executive VP & CFO

One thing I would say, I guess, just as a point of support for that statement is that the very fact that the statutory requirements, reserve and capital requirements are based on a present value of projected cash flows under conservative statutory assumptions and the like. And so when that result comes out with a present value kind of implied principles-based or cash value-based set of reserves or capital requirements that are lower than the cash value [floor] that in and of itself kind of, I think, speaks to the fact that there are strong cash flows in the business that are not necessarily able to be fully reflected on the balance sheet because of that cash value floor kind of aspects within the statutory framework.

I'd say that even separate from the -- I think, the projected cash flow illustration that you're maybe referring [that to] we put in our Form 10. We haven't updated that at this point. I think I've mentioned previously that we've had a lot of focus through this point, just getting additional disclosures and everything related to our LDTI implementation. So that is something that we absolutely can look at in the future. But I think just the very fact that the cash value floor comes into play, by definition, indicates that the cash values underneath the block are strong and stronger than what would be implied by the reserve that is required with the cash value floor. So hopefully, that's helpful.

And then to your second point on the volatility and the RBC ratio, I mean we do recognize that the cash value floor is a part of that aspect that creates some of that volatility in the RBC ratio. But again, the -- that is a byproduct of a healthy book that's measured by those projected cash flows and it is just definitionally, I think, results in greater volatility in [tax] as well as greater volatility in the [CAL]. So we are aware of the fact that that is an aspect of our business, given our business mix and market sensitivity. We take it into account in how we look at our hedging and all of that, which is intended to keep us within our risk appetite, it's intended to protect our statutory capital. But we're also aware that with the rising interest rates and the introduction of RILA business, that aspect of the cash value floor is becoming, I think, a bit more of a focus for not just us but others in the industry and we're aware of some of the disclosures others have made about ways they've managed that.

And so we are as well looking into options and things that we might consider to manage that. But we are going to approach that with a thorough and comprehensive review and make sure that whatever we do is the best thing for the business no matter what the time frame that takes. So that is something that is a focus for us, for sure.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. Okay. We'll look for updates there. Second question, on the -- more on the flows and [growth] -- you made some pretty optimistic commentary at the beginning of the call on just the environment and how much growth we could see in the retirement business more broadly for the industry. I listened to that commentary, obviously, the flows overall, including the variable annuities are still negative this quarter. How would you expect that environment to flow into the actual AUM dollars? And would you expect that to inflect and become more significantly positive and create sort of a net flow positive organic growth rate at some point in the near future.

Laura Louene Prieskorn
CEO, President & Director

Thank you, Alex. Scott, do you want to just provide an outlook on the industry and then maybe Marcia can touch on AUM?

Scott Eric Romine
President & CEO of Jackson National Life Distributors LLC

Yes. Sure. I mean we look at the long-term demand for the retirement solutions that really provide protection growth, lifetime income, and as a leading retirement solutions provider we believe we're well positioned to meet this demand. Think about it, we compete on really broad capabilities and a diversified product set that provides strong consumer value. So if we look at it by segment, we believe that there is great pent-up demand for all the benefits that a variable annuity has to be able to grow assets to provide lifetime income. If you look at it from a RILA point of view, our Market Link Pro, RILA is doing exactly what it was designed to do.

It's added diversification onto our product suite. It's brought a protection-oriented solution to market that has really strong consumer value and it's helped us attract new advisers. We recently launched an updated version of our RILA Market Link Pro2 with new product features that we believe will be very attractive and we continue to see that segment of the market as a growth opportunity. Even talking about spread I mean this is -- we've got relatively modest but growing spread sales, and we've got a long history of being in these markets. So if you look at it in totality of our diversified product set, we like where we are. Another way to look at it is really the hallmark of our success has been the depth and breadth of support we offer our distribution partners.

It's meaningful adviser engagement. It's not just a transactional relationship, but rather we focus on building that mutually beneficial long-term relationship. And it's through the entire cycle. We add value presale, point of sale and post sale. It starts with those strong relationships with our highly regarded wholesaling team and it goes all the way through post sale to our award-winning service. So like we're -- we like the retirement market and the growth opportunity there and believe we're well positioned.

Marcia Lynn Wadsten
Executive VP & CFO

And then, Alex, I'll just add on just to kind of fill in the picture from a net flow perspective. When you think about the outflows, I think, first of all, the nature of this a lot of our products in force are such that they provide guaranteed income. So we would naturally expect as the policies age that the policyholders are using those benefits for the very purpose and we see an increase in the outflows.

We'll also see aging in terms of mortality, outflows, and some surrender outflows as well, too, as policies age through the surrender charge period. But I think when you look at the size of our [back book] relative to those outflows in connection with the inflows and opportunity there that Scott just talked about you also have to bring in the fact that historically, we see, on average, positive growth in the market, and that is going to be strongly supportive of our AUM as we move forward in time as well.

Operator

The next question today comes from the line of Erik Bass from Autonomous.

Erik James Bass
Autonomous Research US LP

You mentioned the diversification benefit from the institutional business and presumably growth in RILAs and fixed and indexed annuities is also helping. And it seems like there's a lot of market opportunity to grow in these areas. So how are you thinking about allocating capital to growing in these businesses? And does it make sense to push more growth there to kind of balance the earnings mix and the capital generation.

Marcia Lynn Wadsten
Executive VP & CFO

It's Marcia here. Yes, I think we are happy to be involved in all of those areas and take advantage of the products that we have to offer there. One thing to note is those do tend to be products that have a little bit higher capital requirements. So we want to be thoughtful about the pace in which we would increase our sales in those areas to moderate how we would be building up additional required capital investment in new business at the time we're building up.

We've been actively repricing our spread products and our RILA product [been] active in the institutional market where we can and where the market conditions are favorable. So I think we would continue to kind of try to do that, but all with the lens towards making sure that we are staying true to our disciplined pricing, and we're not going to chase market share in those areas either. So we want to do what we can to be having products on the shelves that are of interest in all types of consumers but at the same time, make sure that we're disciplined in our pricing and anything we can do to further diversify is something we would be happy to realize in time but in a kind of moderated disciplined way.

Erik James Bass
Autonomous Research US LP

Got it. And then just wondering if you could provide a little more color on where the RBC ratio ended up within your target range and then with VA reserves being back to [floored out], how should we think about the impact on [TAC] and the RBC ratio going forward if markets continue to trend higher.

Marcia Lynn Wadsten
Executive VP & CFO

Sure. Let me step back for a moment first. I think just to maybe provide a reminder about the target range that we set out that is still relatively new for 2023 as they moved away from the adjusted RBC target range. So when we set the 425% to 500% RBC target range under normal market conditions, that was established to maintain a high degree of resilience in our capital position to support our ratings and to manage the business within our risk framework. So it's our target and so kind of definitionally, we are happy to be operating anywhere within that range and we had shared last quarter that [425%] is a minimum naturally of that range and that anything, any level above that is really excess capital at the operating company as we view it.

And I would say that what we said at the end of the first quarter, we indeed had excess capital at the operating company as measured through that lens. But I would say, [too], our guidance in this area, the approach to our guidance is not new. We've been guiding to either being above, below or within the range, historically, with our adjusted RBC target.

And the difference here is that we just moved to a focus on the operating company rather than including [holding] company, and the range is somewhat wider in line with how we've historically managed the business and is consistent with our risk framework. So our intent going forward is to provide similar guidance in that regard being either above, below or in range. And so we're happy with our strong capital position at the end of quarter one, having us be in -- within the range. When it comes to.

Erik James Bass
Autonomous Research US LP

No, no, no. You're going to -- there to the second part, sorry.

Marcia Lynn Wadsten
Executive VP & CFO

Yes, second part. So kind of looking ahead and thinking about [TAC] and cash value floor, I think the question is around probably what's the outlook for the evolution of our tax given the flooring. And again, just as a reminder, right, the presence of the cash value floor is really a byproduct of the -- of our healthy books as measured by those projected cash flows, and it does create volatility, as we said. But we take that cash value floor into account when we set our hedging and also in the hedging instruments that we use and our hedging is set to operate to keep us within our risk framework and protect statutory capital, protecting statutory capital is a key objective there.

That's not new to us and it doesn't preclude us from generating capital and I think 2021 is a good example of that. But one of the things that I think is an important point of context is if you look back with a longer view of our history when you look at kind of our average tax position, a year-end tax position over the past 15 years, it was $4.9 billion, and that was also supportive of our ability to pay distributions out of the operating company on average of about $500 million a year. So this is a level of tax that is very much in line with kind of where we typically operate in. We understand that if we continue to have flooring that one could worry that the tax will continue to decrease, but we will adjust our hedging as needed to make sure that we're protecting the statutory capital, and that's just really all part of the byproduct of our risk framework. Steve, do you have [anything to add]?

Savvas Panagiotis Binioris

Chief Actuary

The only thing I'd add is with higher rates, we're able to manage the CSV floor and stay within our budget. For the first quarter, we are benefiting from higher rates. And so our option spend was lower than our guarantee fee base, which is a positive. But again, as Marcia highlighted, we adapt our hedging profile. And obviously, we made even more upside protection if we are [indiscernible] on the CSV and you'll see maybe a shift to more CAL options, but again, all within our hedge spend. So we feel pretty good about that.

Operator

The next question today comes from the line of Suneet Kamath from Jefferies.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

I was just hoping you could start with -- there were a lot of obviously moving pieces with respect to RBC. You had the dividend, you had the DTA, you had the flooring. So would it be possible to just kind of walk through those and just kind of give us some guidance in terms of like how big of an impact these sort of discrete items had on the RBC.

Marcia Lynn Wadsten
Executive VP & CFO

Suneet, let me give some high-level color on that, I guess. So the -- I would say the -- starting with the TAC. I mean, obviously, there are 2 parts here with the numerator and denominator, but let me try to kind of talk about them a little bit and match that up in terms of what that means for RBC. But we did obviously have the distribution -- $600 million distribution out of the operating company in March. That also carries with it effectively since it's a reduction in TAC and associated decrease in the admissibility of deferred tax.

So when you combine those together, that was a fairly significant decrease in the RBC as you might expect, and that's naturally part of ending the prior year in a really strong position. And then as we went through the rest of the quarters kind of influences, I would say we had further impact from the TAC around the cash value floors we were talking about earlier in the sense that our hedging losses with a strong upmarket, up equity market came through in TAC without reserve releases available against that. So that had a decreasing effect on TAC, which was also -- carries an additional impact with the deferred tax asset [admissibility].

But then those same helpful influences from the strong market along with the MRP helped in the denominator, generally because of the flooring, those things are not going to have as much of a benefit on reserves as we already floored out, but they can influence the capital requirement. And so those were benefits within the CAL to help mitigate there. So I think overall, I'd say key drivers, certainly where the distribution [indiscernible] distribution.

Another key driver, I would say, would be the overall effect of the reduced deferred tax asset and visibility, the non-admitted deferred tax asset increased from $1.1 billion at the end of the year to $1.6 billion at the end of the first quarter. So that's pretty significant, but that is real economic value that will be realized in time just a timing item within the statutory framework. Otherwise, I mean, we did have just influences from the market that obviously impacted results to improve as well. But that's kind of the general -- kind of key drivers, I would say.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

Got it. And then if I -- I think we went through this last year in the first quarter. And if my memory serves -- I think the RBC did kind of build back, but I thought a fair amount of that build back was actually because the markets went down in 2Q and that kind of got you away from the floor and you had a little bit more symmetry between the hedges and the reserve releases. I mean, is that kind of what we're looking at? You kind of alluded to this in an earlier question, but I'm just trying to understand, like other than the markets going down, what is it that you can do to kind of support the RBC.

Marcia Lynn Wadsten
Executive VP & CFO

I'd say the market's going down is something that would support TAC. This necessarily mean you need that to support the RBC. So I think last year, you're right, the market did go down and that probably kind of had the opposite effect of what you have in the markets up, right, where you have hedging gains that come through tax, but you don't really have to set up additional reserves because you already have a buffer within that cash value floor.

But when you look at overall RBC, I think as we moved through last year, I would say it was the market's down, that really overall helped RBC as much as it was just the benefits of the higher interest rate environment as we continue to see that persist through the latter part of the year, combined with just the underlying cash generation from the business itself.

I mean if the base product continues to generate good cash flows every period. We continued as we move through the balance of last year to stay kind of within our [indiscernible] fees on our hedging costs and enjoy the benefits of a higher interest rate environment in terms of what that meant to hedging costs overall and overall kind of upward trend on investment income, for example. And I think those things will continue to be helpful to us as we move forward as interest rates kind of remain at a higher level.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

Got it. Maybe just one last quick numbers one. Can you just talk about what your expectation is for capital generation like in a typical year after whatever strain you have associated with new business.

Marcia Lynn Wadsten
Executive VP & CFO

Well, we've shared in the past, I think, that under kind of reasonably good conditions, we would maybe see something in the $700 million to $900 million range. That's kind of what we call, again, maybe normal to good market conditions. And it's hard to, of course, define exactly what that means.

But I would say, for our business, with helpful conditions are where we have modestly growing equity markets, we have some stability in interest rates, and we have more modest levels of volatility maybe than what we certainly saw in the first quarter this year. But I think in that type of environment, you'd continue to see healthy cash flows off of our base contract. You see hedging spend within our guarantee fees as we have and then lower volatility is always helpful for us with a book that has the cash flow in the store kind of impacts, and it certainly is something that we've benefited from [in time to pass]. So we've had a little bit more moderated volatility. But under those kinds of circumstances, I think that level of capital generation is not an unreasonable expectation.

Operator

The next question today comes from the line of Tom Gallagher from Evercore ISI.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

First question is just a follow-up on the comment about your funds within the VAs underperforming the hedges. Can you just comment on how big of a basis risk breakage you had this quarter from that?

Savvas Panagiotis Binioris
Chief Actuary

Tom, this is Steve. Yes, it was a small factor this quarter, and it really was driven by significant returns from a very few small number of stocks. In general, as you know, we are more diversified than the S&P 500 [indiscernible] has served us well long term. And we have seen similar instances like Q1 in the past. But the thing is that these tended [indiscernible] overtime sets up basis risk, has generally not been a nonissue for us historically. To the extent we see basis risk, we tend to prefer to see it in [out markets] like in the Q1, for example, as the guarantees are less fighting in those situations, we do have investment freedom, and we are happy with the underlying separate account performance.

We did have returns of 6% in Q1, which is a very strong separate account return. And then we think we feel that stacks up very well against other disclosures who, in many cases, have volatility control within their separate account funds. So we look very favorably, I think, in Q1. And even if you look back at previous data points like Q1 of last year and Q4 of last year, you'll see that we're very happy with our performance relative to other disclosures. Lastly, I think the one thing that we do watch very careful is policyholder transfer activity. And you know the market is a little bit around. We didn't see any noticeable change in policyholder behavior, which also tend to have very stable allocations.

They keep those allocations and so that is -- that level of stability is very helpful for us when we manage basis risk as a whole.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Got you. And so you all don't really -- the basis risk wasn't really a major contributor to the capital volatility was the other factors this quarter.

Savvas Panagiotis Binioris
Chief Actuary

It was not a major contributor.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Sorry, I was asking -- so the basis risk, what I just want to confirm, was not a major contributor to the RBC volatility this quarter.

Savvas Panagiotis Binioris
Chief Actuary

Sorry, Tom. It was not a major contributor. Right. Right. Okay. Another question I had is just -- I just want to make sure I'm understanding the automatic reset on crediting rate. That was a headwind this quarter. But if I understood your comments, it's based off the 5-year treasury, and I look at year-to-date, that's down 50 basis points. Is it just the -- how does that work mechanically? Is it just the spot rate? Or is there an averaging? And I guess my question there is if we -- if it is just a spot rate and things remain where they are now, would these crediting rates reset downward 50 basis points, so you would actually see spread expansion next year? Or can you elaborate on that?

Marcia Lynn Wadsten
Executive VP & CFO

Certainly. Yes, this is Marcia here. So you're right. This is a formulaic approach for compliance with the [indiscernible] requirements, and it applies primarily to our VA fixed fund options, account values and the methodology is that it resets at the first of each year based on the 5-year treasury rate and where it stood throughout the month of October of the prior year.

So we won't be able to know exactly where it will go at the beginning of next year until we get our way through October this year. But as a reference point to the average 5-year rate [indiscernible] rate within October. And then it would reset down, let's say rates stay sort of exactly where they are, and that's our experience through October, it would reset down.

There's an overall minimum and maximum that it can set to. There's a floor and a cap on that. And it had been at the minimum level at 1% for several years given the rate environment that we were in with last year's rate movement, it moved basically to the top end of that range. So there's really no likelihood of any material increase and that it can only kind of either stay where it is or decrease as may be the case if rates kind of stay where they are now as we move forward through the rest of the year.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Got you. That's helpful. And how much did it actually increase in absolute terms? Like where did it get reset to?

Marcia Lynn Wadsten
Executive VP & CFO

It moved from 1% to 2.9% -- 2.95%, excuse me, and 3% is the [indiscernible] can go to. There's a rounding to the nearest 5 basis point kind of approach to it. So it landed just shy at the upper end of the range at 2.95.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Got you. And so even though the 5-year treasury is above that level, would it still technically move down because it's not -- it sounds like it's not as clear as just spot rate.

Marcia Lynn Wadsten
Executive VP & CFO

Yes, I didn't really give you a whole formula. It's a reference to the 5-year rate, but then there's an adjustment factor to it. There was a reduction to that 5-year rate. So it's -- and that reduction factor is constant. So it's really relative to if the 5-year rate is lower than it was last year, you'll see a corresponding similar -- equal size reduction in the actual rate.

Operator

There are no additional questions waiting at this time. So I'd like to pass the conference back over to Laura Prieskorn for any closing remarks.

Laura Louene Prieskorn
CEO, President & Director

Thank you. We continue to have confidence in our business and our ability to meet our targeted level of capital returns for 2023. We thank you for your interest in Jackson and your participation in today's call. Take care.

Operator
This concludes today's conference call. Thank you all for your participation. You may now disconnect your lines.