S&P Global
Market Intelligence

Equitable Holdings, Inc. NYSE:EQH

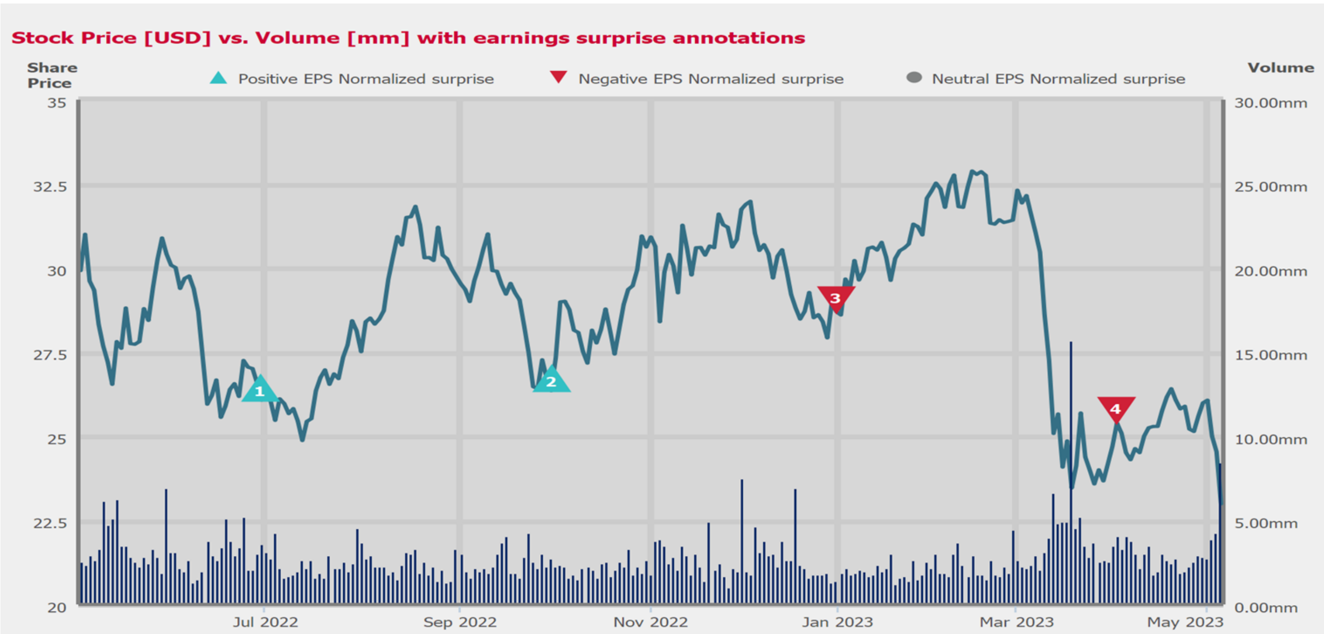
FQ1 2023 Earnings Call Transcripts

Thursday, May 4, 2023 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.19	0.96	(19.33 %)	1.30	5.17	NA
Revenue (mm)	3272.92	3270.00	(0.09 %)	3375.43	13591.89	NA

Currency: USD
Consensus as of May-04-2023 5:46 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	1.28	1.31	2.34 %
FQ3 2022	1.10	1.28	16.36 %
FQ4 2022	1.25	1.11	(11.20 %)
FQ1 2023	1.19	0.96	(19.33 %)

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Call Participants

EXECUTIVES

Isil Muderrisoglu

Mark Pearson
President, CEO & Director

Nicholas Burritt Lane
President of Equitable, Senior EVP & Head of Retirement, Wealth Management & Protection Solutions

Robin Matthew Raju
Senior EVP & CFO

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Suneet Laxman L. Kamath
Jefferies LLC, Research Division

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Goldman Sachs Group, Inc., Research Division

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Presentation

Operator

Thank you for standing by, and welcome to the Equitable Holdings First Quarter Earnings Call. [Operator Instructions] Finally, I would like to advise all participants that this call is being recorded. Thank you. I'd now like to welcome Isil Muderrisoglu, Head of Investor Relations, to begin the conference. Isil, over to you.

Isil Muderrisoglu

Good morning, and welcome to Equitable Holdings First Quarter 2023 Earnings Call. Materials for today's call can be found on our website at ir.equitableholdings.com. Before we begin, I would like to note that some of the information we present today is forward-looking and subject to certain SEC rules and regulations regarding disclosure.

Our results may materially differ from those expressed in or indicated by such forward-looking statements. So I'd like to refer you to the safe harbor language on Slide 2 of our presentation for additional information.

Joining me on today's call is Mark Pearson, President and Chief Executive Officer of Equitable Holdings; Robin Raju, our Chief Financial Officer; Nick Lane, President of Equitable Financial; and Kate Burke, AllianceBernstein's Chief Operating Officer and Chief Financial Officer.

During this call, we will be discussing certain financial measures that are not based on generally accepted accounting principles, also known as non-GAAP measures. Reconciliation of these non-GAAP measures to the most directly comparable GAAP measures and related definitions may be found on the Investor Relations portion of our website, in our earnings release, slide presentation and financial supplement.

I would now like to turn the call over to Mark and Robin for their prepared remarks.

Mark Pearson
President, CEO & Director

Good morning, and thank you for joining today's call. This is the first time we are presenting our results under the new LDTI accounting standard. And also this quarter, we provided additional disclosures through our new wealth management segment and separating our legacy VA portfolio from our core retirement business. Let's get straight into it.

On Slide 3, we present highlights from this past quarter. Non-GAAP operating earnings were $364 million or $0.96 per share. Adjusting for notable items in the period, which included elevated mortality claims and lower alternative returns, earnings per share were $1.21, up 9% on quarter 4 2022 and down 18% compared to prior year quarter, reflecting movements in equity markets and alternatives.

Assets under management and administration ended the period at $864 billion, down 8% year-over-year, but up 5% year-to-date. Our businesses delivered strong results this quarter with $3.2 billion inflows in our core businesses, positive across retirement, asset and wealth management.

With the collapse of SVB, Crédit Suisse and Signature Bank, there has understandably been a lot of attention on the finance sector. Today, Robin and I will spend most of our time on our liquidity position and strength of our balance sheet. We are conservatively positioned with an A2-rated investment portfolio and a high-quality diversified mortgage portfolio. Lapse rates remain within expectations as well as historical averages, a testament to products that are ALM matched and hedged to protect both policyholders and shareholders. We'll touch on this later in more detail.

Turning to capital. We have $1.8 billion of cash at Holdings, supporting financial flexibility and giving confidence that we can consistently deliver on our payout guidance across market cycles. In the quarter, we returned $286 million to shareholders, including 214 million in share repurchases. As such, we delivered a 63% payout in the quarter, which is at the upper end of our stated guidance.

Our RBC ratios remain above target levels. This quarter sees the introduction of the new LDTI accounting standards, the most meaningful change in over 40 years. Equitable welcomes the greater transparency and the closer alignment between accounting and fair value management. We are also taking this opportunity to show our businesses in what we think will be a better way for investors.

Firstly, we are splitting out our capital-intensive legacy VA business from our core retirement business. This reflects the fact that 5 years since the IPO, we have been very successful in reducing the risks on the legacy portfolio and it is now no longer significant. The book is only $22 billion in account value, 16% of the total.

Through reinsurance, hedging and buyback programs, we have reduced CTE98, that is assets needed to withstand the average of the worst 2% of scenarios, by over 70% since our IPO. The danger before this was that capital-intensive legacy was lumped with and obscuring the value in our more capital-light and spread-based individual retirement products.

Products like our market-leading SCS are perfectly ALM matched and have no living benefits. As such, there is a very narrow range of financial outcomes, very different profile to the legacy VA. Our revised disclosures provide greater visibility into the drivers of value within our business.

As a reminder, over 50% of our annual cash flows come from unregulated sources, primarily wealth and asset management. Our new wealth management segment highlights one of the faster growing and higher multiple portions of our business and demonstrates the synergies and strong client persistency we realize from one of our biggest assets that is our 4,100 affiliated advisers. We are excited about the growth prospects here and believe that our holistic life planning advice model and investment capabilities should translate into attractive growth in the future.

Turning to Slide 4. You will see an overview of what has changed in our new disclosures. In our largest segment, Individual Retirement, investors now have greater visibility into the size, earnings power and momentum of our core retirement offerings. This segment has $79 billion in AUM in a mix of fee-based and spread-based earnings and totals approximately 38% of operating earnings in the quarter. We expect to see continued growth in this segment through our privileged distribution, meeting the demand for tax-deferred accumulation and income.

In wealth management, we capture investment advisory fees, income on cash sweeps and distribution margin on insurance sales. We've grown from approximately $40 billion of assets under administration at IPO to $76 billion today. This segment contributed $32 million of operating earnings in Q1, and net flows have been growing at an 8% CAGR over the last 5 years.

Last is our legacy segment. This includes capital-intensive fixed rate variable annuities issued prior to 2011, which were previously included in individual retirement. Legacy represents approximately 12% of operating earnings adjusting for notable items. This segment continues to generate earnings and cash flow, and we are comfortable with the reserving and hedging of these liabilities.

In 2021, we completed the Venerable transaction, which significantly reduced our risk profile. This is our smallest segment with $22 billion of account value and running off at $2 billion to $3 billion per year. We look forward to providing more detail on these segments and the broader opportunity ahead at our Investor Day next week.

Please turn to Slide 5. To understand EQH, it is important to understand the benefit from synergies we get between our businesses. We are uniquely positioned in advice, retirement and asset management. 85% of Equitable adviser annuity sales go to Equitable and nearly 100% of life insurance sales. Equitable has also received new business from approximately 14,000 third-party advisers in the last year.

Equitable uses its general account to see the build-out of AB's private markets in return for higher risk-weighted returns. AB has been very successful in attracting $4 of third-party funds for every $1 of seed money and has now built a broad alternatives platform, including the CarVal acquisition, which now stands at $58 billion.

We have deployed over 70% of our $10 billion capital commitment to AB, which provides higher general account yields and attractive high multiple fee revenue at AB. Beyond our capital commitment from the general account, continued growth in structured capital strategies product range is benefiting AB as they manage over 90% of our SCS account values.

Turning to our businesses. In retirement, we delivered $4.7 billion in premiums, led by our suite of RILA products, up 12% year-over-year, as we continue to innovate and capitalize on the demand for protected equity. Approximately 50% of all sales come from our affiliated distribution.

We had another strong quarter with $1 billion of net inflows, benefiting from strong demand and client persistency. We also continue to progress on our expense initiatives achieving $60 million run rate savings through quarter end. We remain on track to achieve this target by year-end.

Turning to asset management. AB's global platform generated positive net flows of $0.8 billion, with $1.8 billion of active inflows as retail and high networth investors became more comfortable taking on risk, and we're keen to take advantage of higher fixed income yields.

AB's realized fee rate improved by 4% year-over-year, driven by the addition of CarVal. In AB's institutional channel, the pipeline remains strong with $13 billion, 2/3 of which is comprised of private alternatives, which continues to give us confidence in the growth of our $58 billion private markets platform.

In our new wealth management segment, we generated $1.4 billion in net inflows in the quarter with assets under administration growth of 4% year-to-date to $76 billion. In Equitable Advisers, we now have 700 wealth planners, advisers focused on financial planning and investment products.

Through continued productivity improvements and a shift towards fee-based advice, we expect to continue to improve our margin in this 90% free cash flow conversion business.

In summary, our unique retirement, asset and wealth management businesses continue to be resilient in all markets.

Turning to Slide 6. Robin and I will spend a few minutes discussing the current market environment and addressing a few areas of focus for investors. The banking crisis that commenced on March 8 has clearly impacted our sector. As we've seen, our business tracks the broader market and with the S&P 500 up 9% year-to-date, our fee-based businesses like AB and wealth management benefited.

On credit quality, we are conservatively positioned and can withstand very severe shocks. We maintain a high-quality commercial mortgage loan portfolio. And on liquidity, we are structurally very different to a bank as our mainly retail clients, old products which have market value adjustments, or surrender charges.

Let me pass over to Robin to go into the data for you. Robin?

Robin Matthew Raju
Senior EVP & CFO

Thank you, Mark. Turning to Slide 7. I will now spend a few minutes discussing the 3 areas Mark just highlighted. First, on credit. We are well positioned to withstand a credit event and recover quickly from it. Generally, the insurance industry is well capitalized. However, as you can see on the left-hand side of this page, Equitable can better withstand significant stresses in our investment portfolio.

At the top is an independent stress test by Autonomous, which shows that in the credit event that is similar to the global financial crisis of 2008, our RBC ratio holds up better than peers with a drop of only 40 points versus peers at 48 points. In this event, we will stay within our target range of 375% to 400% RBC.

We are also constantly performing internal stresses on our portfolio, which are more severe than this example. On the bottom, you can see one of our internal stresses, which tells a similar story through Autonomous. Equitable's portfolio and capital remains resilient through a scenario that is more severe than a global financial crisis.

We define this stress as used in the global financial crisis for investment grade. The dot-com crisis for below investment grade, which was more severe than the global finance crisis, while also using a 40% valuation shock to the office CML portfolio, and a meaningful shock to other CML types. And even in our internal stress scenario, our RBC ratio is only impacted by 52 points.

There are a few observations that we would make from these results. First, our high-quality investment portfolio is resilient. 96% of our fixed maturities are rated investment grade and the portfolio has a total credit rating of A3, which excludes treasuries.

Second, we have a track record of maintaining a strong RBC ratio. Through every period since our IPO, we had delivered an RBC ratio above 400%, a testament to our economic management of the balance sheet.

And last, our statutory capital generation remained strong. In 2023, we will generate roughly 10 RBC points per quarter in the retirement company. This means that should a material credit event arise, we will likely be able to fully build back our regulatory capital to the current excess levels within 1 year's time.

So in summary, our portfolio is high quality and able to withstand stresses in the credit cycle. The next topic I will address is our real estate exposure through our mortgage loan portfolio, which represents approximately 17% of our highly diversified general accounts.

Within our $17 billion portfolio, we hold agricultural loans and a diversified portfolio of commercial mortgage loans, which have allocations to resilient sectors like multifamily housing and industrial. These CMLs provide an attractive risk-adjusted investment for Equitable.

The portfolio is resilient, which is reflected in the underlying fundamentals with an average loan-to-value ratio of 62%, a debt service coverage ratio of 2.1x and 97% of the loans rated investment grade. It is important to note that we update our loan-to-value every year, which not everyone does. This means that our loan-to-values reflect the impact of recent market developments like COVID and rising rates, and we feel it is appropriate way to measure the portfolio giving our shareholders the highest level of transparency.

From a relative value perspective, CML typically earns over 50 basis points more than comparable quality fixed maturities making them an attractive use of capital. They also have an excellent historical performance across multiple down cycles. Additionally, the asset class provides more flexibility than many others. CMLs have manageable maturities, resulting in tighter asset liability matching.

Diving deeper in the office portion of our portfolio. Our investments in the office space are high quality with strong credit metrics. Our office portfolio has an average loan-to-value of 65%; a debt service coverage of 2.3x, while 99% of our loans are investment grade.

Additionally, like any type of underwriting, we focus on the high-quality properties and tenants with nearly all of our loans being tied to Class A buildings with an average occupancy rate of around 90%. Looking to the future, 2023 office maturities represent only 2% of our overall CML portfolio coming due this year.

In summary, Equitable has a long history in this space, and we have expertise to manage through turbulent markets. Our track record of having no losses or delinquencies through the global financial crisis or COVID-19 pandemic is proof of this.

The last area I would like to highlight is policyholder lapses, given what has happened in the banking sector. Insurers have more structural protection from severe lapses and bank deposit scale, and the markets that we operate in have generated consistently stable lapse rates historically.

In a rapidly changing market like we just experienced, our product type features called market value adjustments, which means that clients can only withdraw the current value of their policy rather than the full benefit. This reduces the incentive that the client can move their money.

Next, we provide millions of Americans with individual retirement accounts. As a result, more than 98% of our client balances are in retail. This means that we aren't susceptible to a couple of large institutions [on] their money as seen with some of the banks affected by the crisis. These retirement accounts are so primarily through financial advisers and our in [tax-advantaged] accounts. This creates operational friction for clients to move money and tax consequences if they would like to liquidate their funds into cash.

Lastly, our policies are protected by surrender charges for early lapses that lasts for more than 6 years on average. In all, 90% of the account value in our retirement products have lapsed protection. This has resulted in consistent lapse rates hovering around 8% since early 2000. In this time, we've experienced the global financial crisis, a decade-long bull market, a global pandemic and rapid rate hikes. These features enable us entirely match our assets and liabilities.

Our current duration gap is less than half a year. This means our investment portfolio can hold high-quality assets to maturity and is not required to unnecessarily sell assets to meet obligations.

In summary, the structure of our product protect us from lapses, and this has proven to be true over the long term through different market cycles.

Turning to Slide 10. I will highlight total company results for the quarter. This is our first quarter in the new accounting regime, the biggest accounting change for the industry in over 40 years, which we believe will increase transparency to the market for the entire industry.

We're excited this is finally here. And as you know, for Equitable, this change has no impact to our hedging program or cash flows because it moves closer to fair value. We reported non-GAAP operating earnings of $364 million or $0.96 per share, up 10% compared to the fourth quarter. On a year-over-year basis, we saw volatility and mortality and lower alternative returns, offsetting our higher RILA spread income in the quarter.

As I discussed previously, you can expect volatility and mortality as our protection business focuses on VUL policies with higher face amounts. These are accumulation-oriented policies which are reserved at cash surrender values, leading to volatility in results under LDTI.

We had positive mortality experience in Q2 and Q3 in 2022, which helped offset the last 2 quarters of adverse experience. Over the last 9 quarters, mortality continues to be in line with expectations on a cumulative basis taking into account our COVID sensitivities.

Additionally, alternatives were lower year-over-year, as you would expect. Our portfolio experienced gains in our traditional private and growth equity strategies, which was offset by declines in our real estate equity investments, which had strong performance in 2022. Adjusting for $92 million of notable items in the quarter, non-GAAP operating earnings were $456 million or $1.21 per share, down 18% on a comparable year-over-year per share basis, but up 9% over the fourth quarter. This is largely driven by the impact of lower market and alternative returns, offset by share buybacks, which reduced our share count by 7% year-over-year.

In our results, you can also see the benefit of our growing spread business in SCS and productivity, which we captured an additional $10 million of savings in the quarter as we continue to execute against our strategy.

Turning to GAAP results. We reported $177 million of positive net income in the quarter. This reflects LDTI's reduced sensitivity to equity movement by 80% and our general account interest rate hedges, which are captured in OCI.

Quarter end assets under management and under administration was in line with market movements, as year-over-year market declines drove assets lower. However, elevated markets and net inflows in each of our businesses in the first quarter drove assets under management and administration up 5% versus the last quarter.

Turning to Slide 11. Our prudent capital management has enabled us to consistently return capital despite the ongoing market volatility. In the quarter, we returned $286 million, which includes 214 million of repurchases, resulting in a 6 million share count reduction in the quarter.

As I highlighted earlier, over the last 12 months, we have reduced our shares by 7%, demonstrating our ability to create shareholder value through challenging markets. We have $1.8 billion of cash at the holding company. This is a net cash number following the repayment of our latest debt maturity in April.

As a reminder, we have no more debt maturities until 2028. This provides us financial flexibility to navigate through various market cycles going forward. Additionally, we are on track for our guidance of $1.3 billion of cash generation to the holding company this year. This is enabled by our diverse cash generation sources with nearly 50% coming from unregulated entities of AB, wealth management and the investment contract for our retirement business. Later this month, we intend to increase our dividend to $0.22 per share, up from $0.20.

This will bring our dividend yield up to nearly 3.5% which is above the 2% yield for the average S&P 500 company. I will now turn the call back to Mark for closing remarks. Mark?

Mark Pearson
President, CEO & Director

Thanks, Rob. In closing, our Retirement, Asset and Wealth Management businesses continued to deliver strong operating results, while our fair value balance sheet, conservative investment portfolio and holdco cash position give us confidence in our ability to navigate periods of market stress.

We continue to execute on our stated targets, including productivity savings and consistently returning 55% to 65% of earnings to shareholders. Through enhanced disclosures, we are providing investors with additional information to value our growing retirement, asset and wealth management franchises. We're also looking forward to meeting again next week as we host our Investor Day on our 5-year anniversary as a public company.

I'm incredibly proud of what we have delivered to our clients and shareholders since our IPO, and our management team looks forward to highlighting the opportunity ahead for Equitable Holdings.
Thank you, and we'll now open the line for your questions.

Question and Answer

Operator

[Operator Instructions] We will begin our first question from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, so you guys have $1.8 billion at parent, right, net of the recent debt maturity and so that's obviously a good amount above your target. A couple of times in the prepared remarks, you guys have mentioned just uncertain and volatile time. So how should we think about where you would want to be in reference to your $500 million target, just as we deal with a lot of uncertainties out there right now?

Robin Matthew Raju
Senior EVP & CFO

Sure. Good morning, Elyse. We're quite pleased to be able to sit with $1.8 billion of cash at the holding company in this type of market environment. And that's a reflection of, one, the strong economic risk management that we have in hedging program; and two, the diversified sources of cash flows that we have coming up to the holdco from AllianceBernstein and our wealth management business, along with continued dividends from the Retirement business.

Given the market environment, we prefer to have a buffer at the holding company until this uncertainty clears up. We still have -- we're still on track to generate the $1.3 billion of free cash flow this year, which will allow us to meet our 55% to 65% payout ratio. And over the long term, we'll continually reassess the holdco cash position as it relates to the market environment around us.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Could you also provide us an update just on your progress in moving your business out of New York to Arizona?

Robin Matthew Raju
Senior EVP & CFO

Sure. So there are multiple steps there. The first one was moving our Individual Retirement business, new business to be written out of Arizona. We completed that last year. So all of our business from our Individual Retirement line, which is our largest line, $2.8 billion of sales this year came from the non-New York policies from the Arizona company.

Second is our Group Retirement business that will be on track to be completed this year. And then third, on our in-force, we're in process of restructuring the company and working on our internal reinsurance. We continue to work on that and look forward to providing an update once completed.

Operator

Your next question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, just a question on your commercial mortgage loan book. Any -- are you able to provide any metrics on problem loans or those that are on your watch list and how that's trended in recent months for the book overall and specifically on the office portion of the portfolio?

Robin Matthew Raju
Senior EVP & CFO

Sure. Thanks, Jimmy. I'll just reiterate just a few comments on the CML portfolio. It's certainly a sector that we see risk in, especially in the office sector over a wide spectrum. But just like any other credit, what's really important is the underwriting capabilities and in that sector, who your tenants are. And in the office sector, which is about 5% of our total general account, we're in nearly all Class A buildings, and we have a 90% occupancy rate and a strong debt-to-service coverage ratio, which means troubled loans would be limited when you have a strong debt-to-service coverage ratio of that amount.

Less than 2% of our maturities come up to date in 2023. So we feel well positioned in that portfolio. And then also if you look at the quality and the different pieces, most of it's CM1 and CM2 and our CM3 portion of the portfolio actually decreased from 8% in 2022 to 3% in the latest quarter. So we've actually seen improvement. And at the same time, Jimmy, as you know, we update our appraisals on an annual basis, and that's not something everybody does, and we think that's important.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And then on the Protection business, how much of the loss was because of normal seasonal volatility versus maybe poor mortality beyond seasonality? And what's your expectation for the earnings power of the Protection business on annual or longer-term basis?

Robin Matthew Raju
Senior EVP & CFO

Sure. So most of our Protection business is written on VUL policies, which are higher face amounts and naturally lead to more volatility. But we see a few things occurring on the mortality side. One is COVID move into up from a pandemic to an endemic state, and this did lead to some of the higher mortality that we see on top of the normal first quarter seasonality.

In addition, we did see a higher flu season into 2022-2023 year, and which was particularly bad, especially impacting those higher face amounts. But I think it's important, if you look back over the last 9 quarters, our mortality has been in line with our GAAP reserves and expectations. So although you see volatility, and you saw 2 positive quarters consecutively in 2022, followed by 2 negatives, the end of cumulative result is what's important, and that shows our pricing in line and the profitability is in line for the business.

As we look forward into the year, we'd expect mortality to normalize back to our protection run rate that we put out to the market. And so far in April, we see mortality in line with expectations.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And just on the mortgage loans, do you have any loans that are on the watchlist or not performing currently or not?

Robin Matthew Raju
Senior EVP & CFO

We do. We have about 4 of our close to 188 loans on the watchlist, and we continue to monitor. But everything, as I said, the overall book is high quality.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And that 4 has been fairly consistent or has it just come up in the last few months?

Robin Matthew Raju
Senior EVP & CFO

Been consistent.

Operator

Your next question is from the line of Tom Gallagher from EVR.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Robin, I just wanted to follow up on that last answer you gave on ratings migration of the commercial mortgage loan book. Did I hear you correctly, you went from 8% at year-end 2022 in CM3-rated loans down to 3% in Q1?

Robin Matthew Raju
Senior EVP & CFO

That's right. Our ratings actually improved over -- it was over the last year. So our ratings were 8% in 2022 and it moved down to 3% in CM3. So the overall quality of the book actually improved even despite this environment. So again, that goes back to the testament. It's all about the underwriting, who your tenants are and the quality of the office space that you're in.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Okay. I just want to make sure I'm clear on that timing, though. Is that -- was that a year -- it was down to 3% at year-end 2022. So that would have been reflected in your RBC at year-end '22? Or is that something that just happened at the end of this past quarter that we would then get an RBC tailwind on?

Robin Matthew Raju
Senior EVP & CFO

No, it's down. It moved from 8% to 3% over the last year. So some of that is reflected as of year-end. And in the first quarter, as we stand here today, it's at 3%.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Got you. So that wasn't a big drop just in one quarter, that was over the course of the year?

Robin Matthew Raju
Senior EVP & CFO

Correct.

Thomas George Gallagher
Evercore ISI Institutional Equities, Research Division

Okay. My other question is the $1.3 billion of cash generation that you're still reiterating for '23, I think that implies a $600 million to $700 million dividend out of the Life company. I think from what I recall reading, you have dividend capacity of $1.7 billion this year. So just curious how you're thinking about as you approach that, I guess, what midyear decision of how much of a dividend to take out of the Life company? Is it possible we're going to get something a lot higher than the $1.3 billion depending on how your capital generation looks?

Robin Matthew Raju
Senior EVP & CFO

Sure. So the capital position is strong in the company. We intend to meet our $1.3 billion of free cash flow guidance we've given to the market, and that assumes a $600 million dividend from the retirement business. Keep in mind that although we have excess ordinary dividend capacity, if we're successful in moving the policies from our New York business to our non-New York business, we'll also need to fund the capital for those liabilities and we'll have to use the capital in New York.

So we'll elect to use some of that extraordinary dividend capacity to back the capital that we -- the liabilities that we move to the non-New York entity as well. So I think the number you need to look at from a free cash flow basis is $600 million leading to the $1.3 billion of free cash flow guidance.

Operator

Your next question comes from the line of Andrew Kligerman from Crédit Suisse.

Andrew Kligerman

Just following up on the commercial mortgage loans. Robin, you mentioned that every year, you reevaluate these loans. So how should we be thinking about the 62% LTV? Is that a year-end number? Could it have potentially changed a lot in the first quarter?

Robin Matthew Raju
Senior EVP & CFO

Look, I think -- yes, the 62% is a year -- is the first quarter number as of the first quarter. But as you've seen historically, we update on an annual basis, and it reflects the different market environments that we're in and the strength of the tenants that we have in these buildings with strong income coming in from those tenants. In addition, you should know that all of our appraisals are lower than any third-party appraisals that we received. So meaning we're taking a conservative approach to our appraisal methodology as it relates to those LTVs as well.

Andrew Kligerman

I'm sorry, Robin. So in other words, during the course of the year, you're getting updates on each property and each happens once a year. So there could be some that are several months old that they're not completed in the course of 1Q '23. Some of it could have been in 3Q '22, for example, but they're all done within a year. Is that the right way to think about it?

Robin Matthew Raju
Senior EVP & CFO

Yes, that's the right way to think about it.

Andrew Kligerman

Okay. Got it. And then with regard to the Individual Retirement segment, it looks really solid in terms of first year premiums $2.84 billion, up a little bit from last year. Could you talk a little bit about what's driving the strong RILA sales? Were there any major -- one, any major product feature changes; and two, any color on the wholesaling?

Nicholas Burritt Lane
President of Equitable, Senior EVP & Head of Retirement, Wealth Management & Protection Solutions

Sure. This is Nick. As you mentioned, we're building off of a record 2022 in volume and value as you alluded to, evidenced by the 12% increase in RILA sales. Look, I think we're well positioned to capture a disproportionate share of value given our track record of innovation. We did come out with some new segments in the first quarter, but also our distinct distribution network of both affiliated distribution and Equitable Advisers and our privilege based and third party where we have a long track record of communicating the protected equity stories. So given the macro trends and given our distinct position, we think we have a sustainable edge to continue to go forward.

Andrew Kligerman

And any particular feature you would call out that was different from the year ago?

Nicholas Burritt Lane
President of Equitable, Senior EVP & Head of Retirement, Wealth Management & Protection Solutions

I would attribute it to our structural modes of consistent performance. So I think we've got a sustainable edge going forward. We obviously continue to innovate, and I look forward to going into more detail at Investor Day next week.

Operator

Your next question comes from the line of Suneet Kamath from Jefferies.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

So on Slide 4 of your deck, you spent a lot of time talking about capital-light, which makes sense. But if I think about your payout ratio, that 55% to 65%, which got a lift from LDTI, it seems like that's maybe broadly in line with the life sector. So I guess, given the changes in your business mix, should we expect some upside eventually to that 55% to 65% driven more by sort of the numerator as opposed to the denominator?

Robin Matthew Raju
Senior EVP & CFO

Sure. Thanks, Suneet. I'll just point you to, as you recall at IPO, our payout ratio is 40% to 60%, representing the larger range of outcomes that we had from the business mix at that time. As we've improved business mix and yes, LDTI as well as earnings move closer to cash, that payout ratio is now 55% to 65%.

Over time, as we continue to improve business mix, that could certainly lead higher. But for a business that writes a lot of profitable, retail-oriented sales that you just heard from Nick, it's never going to be 90% to 100% in aggregate because we have to fund the new business in that given year, which isn't recognized under GAAP but is recognized under cash. But overall, I do think that could move as we continue to move the shift of our business mix over time.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

Okay. That makes sense. And then, I guess, on the wealth management business, I was looking at your supplement that you put out when you give the LDTI disclosures, and it just looks like the earnings in that business went from like $58 million in '21 to $101 million in '22. Revenues were flat. So the big driver there seemed to be expenses, and that growth came despite the market challenges.

So I just wanted to maybe unpack that a little bit just so we get a sense of like that's such a big move, like what's the trajectory of this business kind of going forward? And maybe what happened in '22 on the expense side that caused that big earnings lift?

Nicholas Burritt Lane
President of Equitable, Senior EVP & Head of Retirement, Wealth Management & Protection Solutions

Sure. This is Nick. As a reminder, our new wealth management segmentation is a comprehensive P&L of our entire assets through Equitable Advisers. It continues to be a fast and growing business, evidence, as you saw, by the increase in net flows. The 3 main drivers there that will unpack in Investor Day are the distribution fees, the advisory fees and the cash sweep accounts. So we're excited about the growth of that business and believe we have a distinctive edge to continue to move forward.

Robin Matthew Raju
Senior EVP & CFO

It's a pretty good model, Suneet. If you look year-over-year, despite AUA being down, earnings are flat and benefiting a big piece from the interest rate sweeps that Nick just mentioned. So I think we had an $11 million benefit year-over-year from interest rate sweeps. So it's a good model that in this type of market environment, we'll continue to grow, and it's our fastest-growing business line as we sit here today.

Suneet Laxman L. Kamath
Jefferies LLC, Research Division

That makes sense. If I could just sneak one more in and maybe you'll talk about this next week, but some of the other companies that we cover that have wealth management businesses, have kind of focused on growing a bank sort of internally is just another sort of arrow in the quiver in terms of driving growth. Is that something that you guys are thinking about?

Robin Matthew Raju
Senior EVP & CFO

I couldn't imagine answering questions about a bank in addition to all the other questions that we get on our -- but look, we have -- and Nick will touch on it more on Investor Day. We have a pretty good model leveraging our relationship with LPL that gives us good internal leverage and benefiting from the sweep accounts at this type of interest rate level. So we feel pretty comfortable in the model that we have.

Operator

Your next question comes from the line of Alex Scott, Goldman Sachs.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had is on the legacy business. I just wanted to see if you could frame the amount of capital that's backing that business, whether GAAP allocation or stat allocation, just to help us think through the value of that and as you kind of do some of this restructuring, what kind of amount of capital is backing it? Is that something you all could provide?

Robin Matthew Raju
Senior EVP & CFO

Sure. And I think we highlighted a bit on the call. Look, the legacy business today is quite small. It's 16% of our total AUM. The capital behind it, as we measure by CTE98, has declined almost by 70% since IPO from $14 billion to about $4 billion as of year-end, and it continues to run off about $2 billion to $3 billion organically over the years.

So we're quite pleased with the work done on that business. It's fully reserved. That was validated through the Venerable transaction. And over time, it will run off, and we'll continue to grow that core business and generate good cash flow for shareholders.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. And the second question I had, I mean, really a more theoretical question. Your stock obviously is trade to the cash flow multiple, it's a bit of a head-scratcher at times. And I mean, what's your perspective on how to fix it? I mean it seems like with the resegmentation, you can show in a much better way you're shifting towards these high multiple businesses, they're growing, et cetera. I think some of the things you mentioned in response to Elyse's question suggested there's a variety of things being considered in terms of restructuring different parts of the business geographically and maybe some other things.

I mean I guess the question is, can you speed that up in terms of the mix shift? Are there ways to do that using your excess capital in some of these restructuring transactions? Or is it going to just take some time before you're able to more fully make a shift towards more wealth management and asset management?

Mark Pearson
President, CEO & Director

Alex, it's Mark Pearson. Thanks for the question. This will be a big part of our Investor Day discussion next week. But just at a very high level, I think we'd agree with you the relative valuation metrics and taking into account the strength of our flows suggest upside potential for shareholders. And that's certainly something we'll be talking about yesterday -- next week.

I think if you look over the last 5 years, you've seen the cash flows grow, but we've also seen the percentage of cash flows from noninsurance regulated entities move from 17% to 50%. So we have moved very, very fast in this transformation over those 5 years. And I think with the additional disclosures we've given now, firstly, on the more faster moving wealth management, AB has been performing relatively extremely strongly.

We'll start to see that ratio even improve further as we move out. And I think as Robin has just alluded to on the legacy side, we pulled legacy out now 16% of the account value [that's] running off of $2 million to $3 million, it is not significant, it's fully reserved, anybody using that to value EQH, it's just well. We'll give some more detail next week. It will be a big part of our Investor Day.

Operator

Your next question comes from the line of Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

On the topic of ALM, I would like to touch upon your funding agreements. I realize that FABNs are not surrenderable. So really there's no run-on deposits type of concept. But the key is to duration match that operating debt with backed assets. And I noticed that your 2022 and 2023 FABNs due is $2.5 billion.

So my question is, did you build in any refinancing assumption in order to maintain that balance? Or do you approach the market more opportunistically and have assets backing those issues with the same duration, so you could actually see that balance go down?

Robin Matthew Raju
Senior EVP & CFO

Tracy, thanks for the question. Our FABN book is perfectly matched. We have -- it's an opportunistic trade that we have in the marketplace, and we ensure that it's perfectly duration-matched. And as you know, rating agencies require that as well.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. Awesome. Just a quick clarification on your comment about a higher flu season. I was actually just looking this morning at CDC data and it looks like it's telling to 19,000, which does feel low versus prior seasons pre-pandemic. So are you just comparing what you're seeing to last year's season?

Robin Matthew Raju
Senior EVP & CFO

Yes, we're comparing what we've seen over the last 5 to 7 years. And combined with if you -- it's a combination of COVID going from pandemic to endemic, elevated flu season, which was particularly bad in '22-'23 when you look at the standard deviation on it as well. And it's impacting some of our higher face amount clients and that's what we saw in the mortality, volatility in the quarter.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. And just real, really quickly. Can you just add more color what's driving 10 points of RBC generation a quarter within Individual Retirement? Is that just your typical statutory earnings generation and does not contemplate operating dividends?

Robin Matthew Raju
Senior EVP & CFO

That's right. That's across all the retirement and protection businesses, we expect to generate that 10 points of RBC that's purely from organic capital generation.

Operator

Your next question comes from the line of Ryan Krueger from KBW.

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

I just had a quick one, and I'm not sure if I missed this, but do you still view $75 million of quarterly protection or means it's a good run rate with more quarterly volatility under LDTI or I guess, [has this] $75 million changed at all?

Robin Matthew Raju
Senior EVP & CFO

That's right. We still expect that $75 million to be a run rate, that's the guidance we give. But as you mentioned, we expect higher volatility given our higher face amounts and the way it's accounted for in LDTI. And over the last 9 quarters, I think if you look back, that's what we delivered on the mortality front.

Operator

Your next question comes from the line of Michael Ward from Citi.

Michael Augustus Ward
Citigroup Inc., Research Division

I was just wondering on the stress test. I was wondering if you could isolate the office mortgage loan component in the RBC points.

Robin Matthew Raju
Senior EVP & CFO

We did not isolate the -- and call out the office component. But if you look at the comparison of the independent stress test and the real estate stress test, we specifically ran that 40% valuation shock on the office portfolio, which comes through in some of the credit stress line and also the ratings migration line, but we didn't call out all the different pieces of it, and we put it all together as one combined shock, assuming dot-com for below investment grade, which is almost 2x that of the global financial crisis; the 40% CML office portfolio; and the 10% shock on the other. So it's all combined at the 52 points.

Michael Augustus Ward
Citigroup Inc., Research Division

Got it. And then -- so the average office LTV, I think, is 65%, and so you shocked them by 40%. So I was just wondering like how you might hypothetically expect that to flow through? Does it assume defaults maybe of LTVs that hit 100%? And does it assume that you take on equity after?

Robin Matthew Raju
Senior EVP & CFO

It doesn't assume we take on equity after, it assumes that above 100%, you take a hit on the loan and then it assumes some of migration as well that we have in our stress test. And that's what you see on the ratings migration line.

Michael Augustus Ward
Citigroup Inc., Research Division

Okay. And then maybe one more. Just have you extended any commercial or office property loans already?

Robin Matthew Raju
Senior EVP & CFO

Yes, I mean, we always work on the loans. We have a good long-standing history with the tenants. We work with them on extensions as necessary. We have less than 2% of the overall portfolio coming up this year, and we'll continue to work on those as they come through.

Operator
As there are no further questions, I would like to thank our speakers for today's presentation, and thank you all for joining us. This now concludes today's conference. Enjoy the rest of your day, and you may now disconnect.