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Ameriprise Financial, Inc. (AMP) CEO Jim Cracchiolo on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-23-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $4.12 beats by $0.03 | Revenue of $3.3B (0.98% Y/Y) beats by $304.72M

Earning Call Audio

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Ameriprise Financial, Inc. (NYSE:AMP) Q3 2019 Earnings Conference Call October 24, 2019 9:00 AM ET

Company Participants

Alicia Charity - Investor Relations

Jim Cracchiolo - Chairman and Chief Executive Officer

Walter Berman - Chief Financial Officer

Conference Call Participants

Andrew Kligerman - Credit Suisse

Erik Bass - Autonomous Research

Humphrey Lee - Dowling & Partners

John Nadel - UBS

Thomas Gallagher - Evercore ISI

Ryan Krueger - Keefe, Bruyette & Woods

Alexander Blostein - Goldman Sachs & Co.

Suneet Kamath - Citigroup

John Barnidge - Sandler O'Neill

Nigel Dally - Morgan Stanley

Operator

Welcome to the Q3 2019 Earnings Call. My name is John and I'll be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] Please note the conference is being recorded.

And I will now turn the call over to Alicia Charity.

Alicia Charity

Thank you, operator and good morning. Welcome to Ameriprise Financial's Third Quarter Earnings Call. On the call with me today are Jim Cracchiolo, Chairman and CEO, and Walter Berman, Chief Financial Officer. Following their remarks, we'll be happy to take your questions.

Turning to our earnings presentation materials that are available on our website; on Slide 2, you will see a discussion of forward-looking statements. Specifically, during the call you will hear references to various non-GAAP financial measures, which we believe provide insight into the Company's operations.

Reconciliations of non-GAAP numbers to their respective GAAP numbers can be found in today's materials. Some statements that we make on this call may be forward looking reflecting management's expectations about future events and overall operating plans and performance.

These forward-looking statements speak only as of today's date and involve a number of risks and uncertainties. A sample list of factors and risks that could cause actual results to be materially different from forward-looking statements can be found in our third quarter 2019 earnings release, our 2018 annual report to shareholders and our 2018 10-K report. We make no obligation to update publicly or revise these forward-looking statements.

On Slide 3, you will see our GAAP financial results at the top of the page for the third quarter. Below that you will see our adjusted operating results followed by operating results excluding unlocking, which management believes enhances the understanding of our business by reflecting the underlying performance of our core operations and facilitates a more meaningful trend analysis. We completed our annual unlocking in the third quarter. The comments that management makes on the call today will focus on operating financial results excluding unlocking.

And with that, I'll turn it over to Jim.

Jim Cracchiolo

Good morning and thank you for joining us. As you saw yesterday, Ameriprise delivered another strong quarter. We're executing well investing for growth and are well positioned to capture larger share of the need for advice and solutions. This morning, I'll give you my perspective on the operating environment. Then I'll highlight our results and the traction we're getting across the business.

Turning to the markets. Volatility increased given slower global growth and uncertainty around trade policy, the Fed cut short-term rates again and long-term rates remain volatile. And U.S. and European equity markets have been mixed. So our average weighted equity index was relatively unchanged.

Next, let's review our business results in the quarter. I'll start by reinforcing three key areas of focus. First, our Wealth Management business continues to stand out producing strong results quarter after quarter. In today's climate, our advice value proposition is more relevant than ever before, and we're innovating to serve more of our clients and advisors needs and strengthening our position further.

Second, we consistently generate good returns with our Asset Management and Insurance and Annuity businesses. These are well managed, highly profitable businesses that deliver strong free cash flow and play an important role in how we serve our clients.

Third, our financial strength distinguishes Ameriprise and we've taken steps to further increase our capital flexibility. We are investing for growth and steadily returning capital to shareholders at very attractive levels.

At a consolidated level, our third quarter results were quite good compared to a year ago. On an adjusted operating basis excluding unlocking, we delivered revenue growth of 3%, solid EPS growth of 8% and a return on equity of 38%, which remains well above many peers.

Our assets under management and administration were $921 billion and within Wealth Management, Ameriprise retail client assets rose nicely to $612 billion, and advisor productivity increased to $650,000 on a trailing 12-month basis. We're proud of our track record and how we're helping clients while consistently delivering for shareholders. That brings me to our Wealth Management business our growth engine.

Advice & Wealth Management continues to perform well and we are investing for further growth. We delivered good revenue and earnings growth in the third quarter and our margins increased to 23.5% among the best in Wealth Management. Responsible investors want relationships with an advisor and a firm they trust. They're seeking perspective to help them make informed decisions.

That's what we deliver, a holistic advice across a clients full investment life, not a single stock trade. Comprehensive advice is a large and growing market and we are at the center of this opportunity. The way we deliver advice is setting us apart particularly with investors with $500,000 to $5 million in investable assets.

There are some key factors driving our traction in Wealth Management. First, total client assets are up and client flows into fee-based advisory business continues to be strong. This is our 10th consecutive quarter of more than $4 billion of inflows into advisory, bringing total wrap assets to nearly $300 billion. We also saw a good pickup in transactional activity.

Advisor productivity increased 5% from strong client flows and advisors leveraging the support resources of Ameriprise. And on the recruiting front, we welcomed 96 top performing experienced advisors from firms across the industry. Top branded and independent advisors are attracted to our value proposition in the growth potential bringing their practices to Ameriprise.

We feel great about what we've put in place, but we're not standing still. Consumers continue to seek a personal relationship with an advisor complemented with digital capabilities that enhance the interaction and information flow. We're committed to meeting and exceeding that expectation, building up the strong capabilities, we already have in place.

To that end, we continue to invest significantly in our client experience, capabilities, products and solutions. We have strong personal relationships with our clients and we're using our goal-based advice expertise to expand our base and deepen these relationships even further.

Here are Highlights on four of our key initiatives in these areas. Our advice experience is coming alive as we work with more clients and continue rolling out additional digital capabilities as part of our confident retirement approach.

We've been training advisors to implement our integrated suite of tools and we're hearing good initial feedback. Clients who have gone through the experience are feeling more confident and satisfied about how we're helping them track against their goals, and we believe this increased engagement will translate into higher productivity over time.

In our advisory business, the rollout of our integrated customer advisory relationship is under way and will be completed in the next few months. With this program, our various advisory strategies work together on one technology platform giving advisors more flexibility to deliver personal investments and solutions based on client goals. This is a key capability as we serve a more affluent client base.

We're also moving to a new customer relationship management platform that will help advisors manage and act on clients that are in activity in one place. This is an important enabler of the Ameriprise client experience. This conversion is on track and will be completed by the end of the fourth quarter.

And following the bank launch, we continue to add deposits in the quarter with $2.5 billion of cash suite now transferred. In September, we launched a new line of Ameriprise Visa Signature premium credit cards and converted the existing Ameriprise portfolio.

Looking ahead, we will be adding a new mortgage program and a savings product next year. In terms of these initiatives, it takes time to go from introduction to full engagement. So, we expect to see the benefits as our advisors uptake these programs and capabilities over time.

And it's important to note that whenever we introduce new tools and capabilities, we fully integrate them into our ecosystem. I often hear from advisors who have joined us that this is a real point of differentiation for Ameriprise compared to other firms who simply provide advisors with individual tools.

Let's turn to our INA businesses. These are strong books to provide earnings diversification and stability. In the quarter, we delivered a combined $189 million in adjusted operating earnings excluding unlocking. From a sales perspective, variable annuity sales were up 2% in the quarter. In Protection we had a nice growth in VUL sales reflecting the launch of a new VUL product earlier this year. However, total life sales were down, driven by IUL in this rate environment.

Overall, sales remained stable and helped to replenish the book. We're focusing on managing risk appropriately and ensuring we have the right product designed for the environment that includes our successful VA hedging program, which we continue to enhance. We've also made several product adjustments including lowering cap rates on certain IUL products and pricing and benefit changes for our variable annuities.

In regard to our closed-long-term care block, the strong actions we're taking in terms of rate increases and benefit changes are driving positive results and helping to offset the rate environment. As you know, we've reinsured a portion of the fixed annuity book and look to reinsure the remainder of the blocks when rates improve.

Now, I'll turn to Asset Management where we delivered another quarter of solid earnings and remain focused on pursuing long-term growth opportunities. We've built a global business and have good scale as well as investment strength and we're expanding distribution in key markets.

In a highly competitive marketplace, we're competing as a long-term player and making progress. Investment performance remains quite good over 1, 3 and 5-year time frames. On an asset weighted basis, more than 60% of our equity funds are outperforming and in fixed income, the outperformance is over 80%.

Turning to flows, they have improved $6 billion from the year ago with net outflows of $1.3 billion; and if you adjust for former parent outflows in the quarter, we were slightly positive. Let me take you through the drivers. In U.S. intermediary though there continues to be pressure from passive, we're making progress in gaining share inactive with many of our large focus firms having consistently [technical difficulty] quarters.

Redemptions have slowed and we're generating good momentum in strategies. I would highlight dividend income, strategic income, strategic municipal income and mortgage opportunities. When we look at our flow rates compared to active peers, Columbia Threadneedle retail equity rates have improved considerably.

In fact, we are in the top third of active players we benchmark ourselves against. For fixed income, our flow rate continues to improve and there is an opportunity to move this further. In EMEA, the challenges from Brexit and slowing economies have pressured retail flows for the industry.

We remain focused on building on our strength in the UK market and continue to expand our presence in key markets in Europe. Importantly, outflows in the quarter for institutional reflected the benefit of a large UK equity income mandate from an established wealth management that I mentioned last quarter.

In addition, we began to pick up some other wins and high yield in other strategies. Overall, in Asset Management, our assets under management ended the quarter at $469 billion and the earnings contribution to Ameriprise remain good. We are managing expenses well and delivered an adjusted margin at 38%, which is in our targeted range.

As we look forward, we are working to better deliver client solutions and investment strategies, generate consistent competitive investment performance and further improve our operational efficiency.

Now I'll turn to our capital strength, a clear differentiator. As you are aware, we successfully completed the sale of Ameriprise Auto and Home earlier this month. We worked hard to ensure a smooth transition of the business, including securing all regulatory approvals. Our priority was to find a strong partner and a good fit for policyholders and employees, and we delivered.

With the completion of the sale of Auto and Home on October 1st, we received over $1 billion and freed up $700 million of capital, adding to our strong excess capital position. We continue to focus on generating substantial free cash flow that we're reinvesting for growth and returning to shareholders.

As we informed you, we increased our buyback in the quarter, returning nearly a 120% of adjusted operating earnings in the period. Due to the share price volatility in the quarter, we were able to pick up additional shares. In summary, it was a very good quarter for Ameriprise. We are in a strong position and we're executing our plans.

With that, I'll turn it to Walter before taking your questions. Walter?

Walter Berman

Thank you, Jim. Ameriprise achieved another solid quarter of financial results. Ameriprise's adjusted operating net revenue was up 3% to $3.3 billion with limited equity market appreciation of only 1% year-over-year and year-to-date. Revenue growth was driven by strong 8% revenue growth in Advice & Wealth Management from an increase in wrap assets and improved transactional activity.

Asset Management revenue was within expectations given the cumulative impact of net outflows as well as lower market appreciation than we've seen in recent quarters. And Annuities and Protection, are stable businesses with limited revenue growth. We continue to manage expenses well across the firm with total expenses up 4% excluding unlocking and general and administrative expenses of 3%.

And we returned approximately 120% of adjusted operating earnings to shareholders including increased share repurchase of $547 million or 4 million shares as well as $129 million of dividends. This resulted in a solid EPS growth of 8% and return on equity of 38%, which reflects a 680 basis point improvement.

Turning to Slide 6, you can see that our business mix continues to evolve with Advice & Wealth Management generating over half of the Company's earnings up from 42% two years ago. This profitability improvement has been driven by fundamental organic growth and well-managed expenses while investing for future growth. We've seen a consistent growth for the past few years, and expect this to continue as we focus substantial investments in areas of opportunity within the wealth management business.

Let's look at what took place in the quarter, beginning on Slide 7. AWM continues to perform well across leading and lagging indicators. Advice Wealth Management adjusted operating net revenue grew 8% with pre-tax adjusted operating earnings up 12%. This growth rate was impacted by the marginal growth in the WEI from last year, as well as headwinds from recent Fed rate cuts. That said, the quarter benefited from underlying organic growth that was quite strong, with wrap assets up 9% with net inflows of $4.1 billion in the quarter, and 6% improvement in transactional activity year-over-year.

We had an excellent quarter for experienced advisor recruiting with 96 advisors joining us from other firms in the quarter, and a nice pipeline as we head into the fourth quarter, and the expenses were well controlled. D&A was up only 4% excluding the bank. We are continuing to make substantial investments for growth and seeing elevated volume related to expenses given our activity levels. Finally, our margin was excellent at 23.5% up 80 basis points year-over-year.

As indicated, we have strong organic growth trends in Advice Wealth Management that you can see on Slide 8. Total client assets were up 4%, to $612 billion with wrap assets of 9% both on which have benefit from the solid trend of continued wrap net inflows in an environment where equity market depreciation was only up 1% year to date.

Advisor productivity continues to trend upward reaching $650,000 per advisor on a trailing 12-month basis. Strong experienced advisor recruiting, new digital tools and capabilities and serving more of our targeted client markets are key drivers of this trend.

Lastly, brokerage cash balances came in at $24 billion down slightly from the prior year and prior quarter. We earned 204 basis points up from 173 basis points a year ago, but down sequentially from 2010 reflecting recent Fed rate cuts. As other firms have mentioned, we too are monitoring potential Fed announcements and intend to pass along a portion of a Fed rate cut to our clients, while remaining competitive.

Let's turn to Asset Management on Page 9. In the quarter, we saw a substantial $6 billion improvement in net outflows to $1.3 billion excluding former parent related flows. We were breakeven in the quarter. This improvement reflects better trends in North America intermediary as well as the $1.8 billion mandate from St James's Place that funded in the quarter. However, flows in EMEA continue to be impacted by pressure from Brexit.

From a financial perspective, the business continues to generate substantial revenue and pre-tax adjusted operating earnings for Ameriprise. Pretax adjusted operating earnings were down 12% to $173 million driven by the cumulative impact of net outflows with limited offset from equity market appreciation of only 1% year-over-year and year-to-date.

We remain focused on tightly managing expenses while making targeted investments in appropriate areas for future growth and manage required regulatory changes. Margins in the quarter increased to 38% remaining in our targeted range of 35% to 39%.

Turning to page 10, results in Annuities and Protection are solid. Annuity earnings were down 8% to $119 million, primarily from continued low interest rates and net outflows. Unlocking was a favorable $1 million for Annuities which I will describe in more detail shortly. Protection earnings were up 8% to $70 million.

The prior year included a one-time unfavorable cost related to reinsurance. The year-over-year change was in line with the expectations given claims remain within expected ranges despite being higher than a very favorable claim quarter last year for our disability insurance as well as the impact from lower spreads. Unlocking was an unfavorable $13 million from interest rates.

Let's turn to unlocking on Page 11. In total, we realized a negative unlocking impact of $20 million which includes an unfavorable $118 million relating to interest rates. However, before we get into interest rates, I will explain some of the favorable offsets in unlocking.

Annuities benefit from changes in equity-market volatility and correlation assumptions and long-term care benefited from the substantial work we have done to get higher expected premium rate increases and better uptake of benefit reduction offerings which more than offset morbidity impacts.

We have an established consistent methodology for setting our interest rate assumptions. Every year, we assess both the ultimate rate in the past -- which to get to the ultimate rate. Given the liabilities to these blocks of businesses are long in nature, over 50 years in some cases, we assess historical rate changes that can occur over a long period of time and we only make changes to our assumptions when there is compelling evidence that warrants a change.

Until recently, interest rate increases were consistent with the trajectory we have been modeling. As of 6/30/2018, the 10-year rate was 2.85% and increase to 2.84% by early November. By September 2019 rates dropped about 175 basis points. During a 10-day period in September, the 10-year rate recovered 44 basis points then dropped again. This volatility and velocity of change in recent periods supports.

I believe that this movement is anomalous in nature and is not representative of the long-term expectations for the block over time. So, we left our ultimate rate at 5%. Based on this volatility and velocity of change, we felt it was appropriate to extend the grading period to reach our ultimate rate by a year and held the near-term rates flat.

These interest rate assumption changes combined with the true-up for the actual interest rate at 6/30/19 relative to our prior assumption drove an unfavorable impact of $118 million. In the future, if we lower the ultimate interest rate by 50 basis points we estimate that the impact would be $65 million after tax. However, if we determine the environment was less volatile, we could change the grading period if it was warranted and it could reduce the impact.

Now let's move to the balance sheet on Slide 12. We continue to generate substantial free cash flow and our balance sheet fundamentals are excellent. Our excess capital was $1.8 billion at the end of the third quarter and it will increase in the fourth quarter from the Auto and Home closing.

Our strong balance sheet fundamentals and consistent financial performance across our businesses support our differentiated return of capital to shareholders. In the quarter, we returned $676 million to shareholders through buyback and dividends which was approximately 120% of operating earnings. This puts us on track to return 110% of operating earnings to shareholders for the full year.

With that, we will take your questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] And our first question is from Andrew Kligerman from Credit Suisse.

Andrew Kligerman

Maybe just starting off on capital. So, you ended the quarter at $1.8 billion, on October 1st you received another roughly $700 million of capital freed up from the Auto and Home sale. So, basically $2.5 billion of re-deployable capital, do you think you might go above the 110% target in terms of repurchases in the fourth quarter, you did 120% this quarter, or do you see any attractive potential acquisitions out there that might be available and of interest, maybe you could give a little color on that?

Jim Cracchiolo

Okay. Thank you, Andrew. As you saw, we did pick up a buyback in the third quarter and that was 120% of earnings. We actually picked up over 4 million shares because of the price volatility. We are continuing to think favorably, our stock values, we think, undervalued against any of those metrics we look at or a competitive frame. So we think there's good value there.

And as you said, we do have the capital. So I think one of the things that we will definitely be focused on is returning at a good rate to shareholders over time. If we go to acquisitions, we feel like we got a pretty good hand now, and we think that in time there may be some opportunities that come along, but we're not in any rush to use the capital that way unless there is something that really fits nicely and that we can get a really good return appropriate to our strategy.

So, that's the way we're playing it right now, and we think we're in a good position because we have a very solid balance sheet, we're hedged really well, we've got really good liquidity, a good cash flow and it's a good thing to have right now.

Andrew Kligerman

And then maybe a little color on the Bank that you started up. I understand there were $8 million of expenses. Could you tell us what the incremental earnings were in the quarter, where you think they'll be in 2020? And maybe, is there a way to mitigate potential Fed fund rate cuts into that Promontory account that you have, the big sweep accounts that's the $24 billion. Can you move some of those assets out your bank and maybe mitigate any spread pressures that we might be anticipating?

Walter Berman

Okay. Andrew, it's Walter. In the quarter as we -- we had about $3 million of incremental profitability. But now, if you looked at our basic stat supplement, you would see that it's in the certificate aligned with the bank, so certificate went down but that was about the profitability we had there.

Going forward, we do anticipate the Bank's profitability will be increasing as we get into the full year, the rate environment is a bit challenging, but you're correct. By bringing it on to our balance sheet, we can certainly take up our spread on that as we go forward.

Andrew Kligerman

And Walter there is an opportunity to move a significant portion of the $24 billion?

Walter Berman

Well, yes. As we indicated previously, we will be moving portions of it and we will evaluate the trade-off of doing that, but there is clearly an opportunity to move that and profitably into the bank and use this spread capability. It's a tough environment, but we will certainly be able to do that.

Jim Cracchiolo

And Andrew, as we've mentioned, we do have -- and the reason the profitability isn't there yet, but it will be growing nicely, is because of the ramp-up expenses that we bring on the resources, the platforms and do the launches of the various initiatives and products, et cetera. So that's well under way and very much appropriate to the plan we've put in place.

Andrew Kligerman

Excellent, thanks.

Operator

Our next question is from Erik Bass from Autonomous Research.

Erik Bass

It's for Advice & Wealth Management. What is your expectation for G&A expense going forward given some of the investments you've talked about and the continued ramp of the bank? Are there any seasonal impacts we should factor in for the fourth quarter?

Walter Berman

Sure, it's Walter. Yes, as you indicated, we are completing the initiatives of growth and certainly as we plan for the year and as you saw G&A declined sequentially. We do expect the expenses will come back to historic levels. But -- and seasonally in the fourth quarter, we do have higher expenses, but we do expect that in the season excluding that factor, it will return to that level.

Erik Bass

And when you said that level, you mean the historic level of growth in G&A kind of on a year-over-year basis?

Walter Berman

Yes, that's correct.

Erik Bass

And the fourth quarter, I think there is maybe some comp expense, is there a way to think about what size that spend historically?

Walter Berman

Not yet. But historically, I think last year I think it was about $10 million, but this year -- again, it changes, but that's the sort of seasonality, and we do have some year-end expenses of it in comp, but it's seasonally and it will be in that range.

Erik Bass

And maybe a bigger picture question. Recently a number of brokers and wealth managers have announced some fee changes, including reducing or eliminating trading commissions, non bundling advisory fees from investment fees for our separately managed accounts. Do you see this having any impact on your business, either from revenue or competitive standpoint and more broadly, are you seeing any pressure on wrap. Is there any move to unbundle the Advice and Asset Management components for route?

Jim Cracchiolo

At this point -- so first of all, what people have done is moved to zero fees in online trading, but if you recollect, it's gone from 20 to 16 to 11 to whatever it is, to 9 to 4 to 0, we really have not seen any impacts over the years ago. We're not really in the online trading, that's very minor activity for us, for our clients.

From our perspective, some others have said they're reducing some trading transaction fees and advisory accounts. We don't have any transaction fees to our advisors or trading fees in our advisory accounts and even the more recent one I think UBS came out with something. We are unclear of what exactly it means so if we do have discretionary accounts, Columbia funds we don't charge a management fee for today, but SMEs are a small part of our activity as well.

So we feel very good. As you heard in my opening remarks, we are very much focused on the value we provide against the holistic services we deliver rather than trading for stock or a transaction. That's not why clients come to us. It's not what we ask our advisors to do.

So we feel very comfortable with that and the more that we can get our advisors to serve the clients more fully around the advice value, we feel like we can sustain a very good level of fee revenue and even though if fees adjust over time, we feel like the services we provide can really counteract that in a sense of what more we can do for clients.

So, I feel good about what we're doing and where we're investing so that we can sustain the type of business model that we have, but we're not in the trading for no transaction fees or doing that to get people to just give us deposits to compete with the banking community. So we're focused on really what we do well, and I think that's why you can see the investments that we continue to make.

Operator

Our next question is from Humphrey Lee from Dowling & Partners.

Humphrey Lee

A question for Asset Management, like you've mentioned, the flows have been improving this quarter and then you called out in the press release that in North America, the retail flows were notably better. I believe your fixed income products continue to get traction and you've also got some new shelf space and at a distribution were kind of some of the key factors. Do you expect more expansion of shelf space and distribution relationship in the near-term?

Jim Cracchiolo

Yes. So first of all you've said that back very well and understanding what we did say and we have been gaining good traction particularly in the larger firms that we're serving, we are getting more product on their platform as an example of some of the ones I've mentioned like our dividend income, our strategic income, munis, mortgage opportunities et cetera are actually gaining share and prominence, which is good because we weren't really known for on the fixed income side that much, but we have excellent products and excellent performance.

So, these are the areas we want to continue to penetrate and get more of a share that we think we can for the types of products and performance that we have. So we are hard at work there. The other offset benefit is, in the past, some of our good performing funds underperformed a little bit in the period last year and now the performance is back, and that will help us because we experienced a bit more attrition in some of those things that now that attrition or redemptions have come down, which is good.

So the combination of those factors we feel good about. Listen, it's a very competitive frame out there and depending on what happens in markets and volatility, but for the underlying we're making good progress, but we're going to keep at it. This is not a one event or a one inning so we just got to keep it up for nine innings here.

Humphrey Lee

That's helpful. Shifting gears to A&WM, the wrap net flows continue to be good, but I think it was a little bit light at this quarter compared to recent quarters. I think that may be related to kind of a little bit of a slowdown in the summer time as opposed to maybe a change in investor sentiment. Looking into the fourth quarter, I know it's still early, but can you talk about kind of your pipeline for the wrap net flows and how you think about the $4 billion marks going forward?

Jim Cracchiolo

Yes. So I think it was exactly what you said, a bit of those seasonality but also a bit of volatility that we all looked at in the markets, where to stay tuned of what sort of is going to happen, and you can see markets pulling back and then recovering. I think right now it feels a little more stable and balanced. So, I feel that it's back on track. But there was a bit more of that volatility we experienced in the third quarter.

Operator

Our next question is from John Nadel from UBS.

John Nadel

I have a couple of unrelated topics that I'm interested in. First, on the assumption review and specifically the interest rate component, Walter, so your ultimate earn rate assumption is unchanged at 5% and I think that's a new disclosure for you guys. But can you tell us how long you're assuming it will take to grade to that level?

Walter Berman

Yes, John. It will take -- we changed every year. It will take 3.5 years, but for -- in 2019, we are not expecting any increase in interest for those two quarters. So it won't grade until we get into the first quarter of 2020.

John Nadel

And what should we be using as a benchmark for that 5%? Is that like a single a 20-year, 30-year corporate or what is that?

Walter Berman

Actually, if you look at our investments and many of our investment, especially in long-term care and others are aware are actually above that, our investment strategy is certainly at that quality. But I -- we don't -- it's mixed across the board. So on that basis, it is really -- it's a 10-year treasury and but our investment strategy and our AER right now is actually in many cases over that.

John Nadel

Okay and then on the long-term care review, you mentioned that there is the benefit from premium rate increase is more than offsetting pressure from morbidity. I was just wondering if you could talk about what you saw in morbidity relative to your last assumption update a year ago. Obviously, it seems like it worsened. I was just wondering if you could maybe speak to order of magnitude there.

Walter Berman

Sure. So what we saw is as you expect -- as this experience continues and we get a more credible experience, an appreciable portion of that was related to that progression. And then we did see some changes taking place, but it was really at that level. Nothing that really surprised us as we look at the sales, looked at other elements we had going up, things going down, but really the thing to center on as this ages through, this will naturally -- you would basically increase that.

So on the morbidity side, we're feeling quite comfortable with it. And as I indicated with the strategies that we've put in place and the traction we've gotten on, it was more than, as you can see from the chart, more than offset that.

John Nadel

Yes, no, I'm just thinking about some companies who are still sort of stubbornly assuming that morbidity improves over time and I know you guys are not really assuming that. So, that's what I was getting at, and not really...

Walter Berman

No and John, as we've told you over since we've started this, we have constantly taken -- once we assess the actual experience, we've certainly adjusted for that, but there was nothing here of any surprise whatsoever.

John Nadel

And then the last one for you, I just wanted to follow up on the G&A question within Wealth Management. Maybe I can ask it this way, if we ignored the idea of some seasonally higher expenses related to comp and other, what's a better indication of sort of your underlying expectation for G&A, is it the second quarter level that was closer to $350 million or is it the third quarter level that was more like $35 million?

Walter Berman

That's an interesting question. What we were saying is the expenses are well managed with making the investments, we are indicating that we are certainly feeling comfortable about being at historic levels. And all we're saying is, in the course we're heading out of the third quarter into the fourth, you're going to see the normal increases. So that's what we're trying to manage people's expectation within that element, but we feel quite comfortable with the back and certainly be managed within the historic growth levels.

John Nadel

Okay. I mean the only reason I asked is, I think last quarter you guys indicated the second quarter was what you expect to be a run rate into the back half and obviously you did much better in the third quarter, that's all.

Walter Berman

The only thing -- let me actually, let me just try and reposition that. I think we said that the year would actually wind up because the second quarter was high, we said we wanted to give people expectations at the back half is that if we wind up lower and that the year would wind up about 6% in that range.

John Nadel

Yes. Okay. Thanks for the clarification. I appreciate it. Great quarter.

Operator

Our next question is from Thomas Gallagher from Evercore ISI.

Thomas Gallagher

Good morning. Jim, just maybe starting on flows, you had highlighted that the U.S. is seemingly having better traction here, but still some headwinds in EMEA, and it does look like though for the last couple of quarters we've been selected to a better level on flows, do you think we're going to sustain some of the improvement here for a while or when you consider what's going on in Europe, is there more of a chance that will revert to kind of that $6 billion to $8 billion of outflow quarterly level that you had been running at going back a year. Or do you think, you will sustain some of that improvement?

Jim Cracchiolo

No, Tom, I think if I -- and it's hard to know what's going to happen in the market or the political climate. I think what I would say is we have seen, to your point, more consistent improvement, not just the one-time. I mean, we did get an extra win, but it's from a long-term client that we have got wins over the years. It was just a little more lumpy because of something that happened there where they allocated a bit more funds to us in one quarter, but what I would say is, Europe is slower and the same thing with the UK because of the Brexit and because of some of the economic situation there.

But if that was to resolve a bit more, I actually think that the gates would open a little more and flows would come back in. So my team in London et cetera, feel good about where they're positioned. But if you look at many firms there, the flow situation has slowed tremendously because of that situation. So I don't think it will get worse. The question is, could it get better if they actually have some movement there.

And the answer, we feel, is yes but yes. But again, who knows, that's been going on. It looks like there is some positive movement, but we'll see if that happens. In the U.S., we've made some steady progress. We feel we can continue to make some steady progress. We feel like we've got some good products on the shelves and then more that we think we can get on, and it's really in the U.S. more about volatility and what happens. And but if the markets continue to be relatively in good shape, we think that the traction can maintain.

Thomas Gallagher

Walter, your comment on the cash sweep that you intend to pass on some of potential future Fed cuts to customers and you'd -- I guess it would be kind of a split between how much yield take and how much you'll pass on to customers. Is there going to be a point at which you can't pass any of it on to the customers anymore, just assuming you hit your zero crediting rate, like how far are you away from that scenario or do you still have a decent amount of room left?

Walter Berman

Obviously, let me start -- the thing that governs that is our competitive overview as we look at those rate cuts coming through, and that's what we've done and we've indicated approximately for these cuts that have just occurred that we bore 80% and 20% was passed to the customer. We still have room. We will evaluate it based upon -- again the competitive element within that, but there is still room to certainly have that done -- shared.

Thomas Gallagher

And I just wanted to get clarification on your balance sheet review, the 5% interest rate assumption. Is that a 5% 10-year treasury interest rate assumption that you're using?

Walter Berman

Yes it is.

Thomas Gallagher

Okay. I guess the question on that is, that's a bit above where peers are and well above and what's implied by the forward curve, if it's only a $65 million negative adjustment from lowering that, why not just lower it just because as of right now you're somewhat of an outlier in terms of using that assumption. I don't know if that, that's something that you all have thought about.

Walter Berman

It's a good point. Listen, we have studied this and we -- our actuaries have been through this and we have looked at, and we've been using the 5% and actually we were grading toward it certainly as we exited in 2018. And certainly, as we indicated, the rates were for the last three years grading toward that. So we did feel that this is an anomalous situation and as whether it being an outlier or not, we feel that rate is appropriate looking at the long-term nature of our liabilities and other aspects. So certainly we will continue to evaluate as we go through, but we felt that was appropriate.

Operator

Our next question is from Ryan Krueger from KBW.

Ryan Krueger

As you think about your excess capital position and low interest rates, then you get toward year-end statutory cash flow testing. Would you anticipate much of a negative impact as you go to the statutory review at year-end?

Walter Berman

Again, we're going through review now but my handicapping is no, probably not, but I think at this stage, again, as you all know, it's a complex formula.

Ryan Krueger

And then just a high-level question, I guess you have an Investor Day in about a month. I think it's your first one in quite a few years, just curious if you can give us any kind of high level sense of what your key priorities are for that.

Jim Cracchiolo

Yes, we would like to walk you further through the transformation that we've made at the firm, areas that we've invested in and give you a little better flavor for what that looks like, and how we're operating and what it could mean to us moving forward, and just have a further chat with you. It's always hard to do it in these type of phone calls and so we thought it was time for us to spend a little more time with you.

Operator

Our next question is from Alex Blostein from Goldman Sachs.

Alex Blostein

Couple of follow-up questions on the Bank, I guess, first -- sorry, if I missed it, but how much did the Bank contribute to net interest revenue this quarter and I guess the credit card portfolio, it was only there for about a month, so maybe, Walter, give us a sense of kind of what's the incremental benefit to revenues into Q4. I'm just kind of run rating the full quarter of the credit card portfolio coming over.

Walter Berman

As I indicated on PTI basis it was $3 million. I don't have the exact number now on the net revenue element of that, but again, so, Alex, that started up in May, so I will -- we can get you that number. As the credit card -- the credit card, again it's handicapping the contribution that's going to come from the credit card. It is a $200 million book of business. It is certainly well seasoned and it is going to have good profitability. I just don't have the exact number that we're anticipating at this stage.

Jim Cracchiolo

Yes, and I would just want to reconfirm. As we're ramping up the Bank, there is a lot of expenses including like in the quarter, as you mentioned, the transfer of the credit card portfolio and the launch of that et cetera. So, the judge on profitability, it will ramp up over time. We just got a lot of cost initially until we get the revenue streams ramped up.

Alex Blostein

Yes. Now, I totally get the profitability point for now and that actually going to speak to my next question. As you guys build out the Bank that could be an important shield to lower rates that you will be absorbing on the sweep accounts. So help us understand, I guess, maybe the difference in the spread between the NIM at the bank that you think you can realistically get today given where rates are versus what you are earning currently in the sweep account.

Walter Berman

Sure. Obviously, we're in a yield curve. So again our normal plans that we'd have in non-inverted situations are certainly has to be reevaluated. But by investing out in different instruments, I think we can pick up 50, 60 basis points at least and stay in -- if we stayed in floaters.

Alex Blostein

Got it, got it. Okay. And then when you guys talk about the excess capital think I know the answer to that, but that already takes into account the future capital that you will need to contribute to the Bank as you grow that, I think you moved some deposits over this quarter. I'm assuming, again that will come with some sort of a capital dynamic as well, and maybe help us think through like what are you ultimately managing that to? i think a lot of your peers, kind of could hover around 10-ish% leverage ratio or something like that. Is that a fair way to kind of think about the capital consumption of Bank?

Walter Berman

A little high, but certainly we have contemplated that into our certainly, analysis, as we indicated, growing the Bank from that standpoint. And so the $200 million plus we have in there now, certainly it was contemplated and then that came off with the -- if you just want to look at the reinsurances on fixed annuities from that standpoint, but our excess capital is quite strong and certainly the element of capital that will need for the Bank and the earnings that will be generated from the Bank, certainly not going to cause any issue at all. But you're a little high in the 10 percentage thing.

Alex Blostein

Okay, great. And then, Jim, just one question for you around more strategic angle, the Asset Management trends are clearly getting better, you guys made a lot of investments in the platform. And I think a lot of it's being rolled out next year, which should make you guys more scalable. How important a priority is M&A within that space for you guys, now the multiples have come down quite materially among the public players, maybe less so for the private, but you want to get your -- just check your pulse on the appetite for deals in the Asset Management.

Jim Cracchiolo

Yes. So, Alex, I think we actually feel good about the hand we have and so if something comes along that would really make sense or is appropriate. We can entertain it, but right now, as we said, we're really managing against what we have in place, continuing our transformation, rounding out the house a bit more in that regard. And so it's more, you know, if an opportunity came along that made a lot of sense, we would look, but we're not out there hunting.

Operator

Our next question is from Suneet Kamath from Citi.

Suneet Kamath

Just a question back on the assumption review, should we be thinking about any ongoing impacts in terms of earnings from the actions that you took in the third quarter here?

Walter Berman

No, not in VA and on the LTC it's flattened out, so, we really -- no.

Suneet Kamath

And would the same be true, if you lower that ultimate rate assumption from 5% to, you know, say, something 3% or 4% whatever it is. Would that be a one-time adjustment or would there potentially be some ongoing impact?

Walter Berman

I believe that will be a one-time adjustment.

Suneet Kamath

Thanks. And then on the fixed annuity, I think you had said that you're looking to offload the rest of the block when rates improve. Should we be thinking about more of an environment like the first quarter of this year, would sort of be required to transact there?

Walter Berman

Actually, if you go back to when we did it, the rate was probably in the range between 250%, 270%. So again, then you do your calibration of what impact you want to have on seed. So, yes, that's a reasonable level to think about it, Suneet.

Suneet Kamath

And then maybe for Jim at a high level in terms of the wealth management business, I've just noticed it seems like there have been a lot of practices being added to Ameriprise and also leaving Ameriprise. I don't know if there's anything in the environment that's causing acceleration in practices moving around. But can you talk to maybe some of the departures that you've had over the past couple of quarters, I know you've said the pipeline looks pretty good, but I just want to get a handle on what's happening when advisors are leaving you guys.

Jim Cracchiolo

Yes. So, now, we own a net base, listen, there is always going to be recruiting against us and we pull in advisors, et cetera. I think the difference today is that in the past, it's always people who just try to recruit from us. So we do very well recruiting out in the industry. Our net pipeline and net production is quite good coming in, but you're always going to have some advisors leave for whatever reason or people want to pay up a little more.

So that's the nature of the, exercise, so to speak, but we feel good about our position. There is nothing that we feel is unusual. I think some players are just trying to pay a little more these days that we don't know how rational it is, but that's what they do. But having said that, our retention is quite strong, you can see it. Year-over-year is very consistent. And our net gain is from really higher producers coming in versus the ones leaving. So we're pretty much on track.

Operator

Our next question is from John Barnidge from Sandler O'Neill.

John Barnidge

This is a question back to the race for zero among online brokers. Could you actually see this as an event that could cause an increase in inbound interest from advisors at those platforms that are now interested in joining AWM platform?

Jim Cracchiolo

Well, what we -- you see, I think the question comes is more of how those firms are thinking about what business they're trying to attract and where they've always played. So to me, when they move from, as I said $9 to $4 is the same as moving from $4 to zero. So they have continued to focus on what type of people they want to attract and some of those firms, one in particular, is probably focused more on deposits. I mean it's a tremendous part of their whole business right now. We're focused on wealth management and advisor planning and and clients around a longer-term wealth management and protection.

So in our regard, it hasn't fundamentally changed as far as people are attracted to us, they do come to us. To your point, based on the value proposition, about the more holistic advice rather than a free trade or that they're going to someone who is looking at that activity in that regard or part of a banking activity, more broadly. So to me, it does situate us well and that's the reason we are attracting some good people coming to the firm but also our advisors feel really good about the investments we're making to further support them with this value proposition.

So it's an excellent question. But yes, I think it does have some aspect, but fundamentally, the last move they made I think is more to make headlines than anything else.

John Barnidge

And then my follow-up question on the flip side, younger investors generally are more comfortable with robo advisors and index investing and maybe not engaging with wealth management advisors like prior generations have done. What is Ameriprise doing to adjust to that type of environment and bring them in-house now, possibly keep intact advisor client relationship for the next generation? Thank you for your answers.

Jim Cracchiolo

Yes. So I think the question is, we've done a lot of research around this. And actually what we found is, don't get me wrong, just like if you go back a decade, two decades, as the discounters grew, there were some people who really continue to do self-serve or complemented their activities with some self-serve activities and that continue to grow. What's happening now in the robo et cetera, is the people who are actually gaining most of those assets are still the same type of discounters that are there if you look at where the growth is as they switch from the mutual fund supermarket to whatever.

So for us in our research we find that actually the millennials are more attracted to working with a trusted advisor, but they want the digital capability, the information flow, the interaction. But they actually say to us that if they're going to entrust their money, they want someone that they can work with that they trust, that they can converse with in some sense, but they definitely want to be surrounded by the digital capabilities and that's why we're doing the investments we're making to round that out in further support.

So for the people we go after, we call it the responsible mindset, we feel very good about continuing to appeal to them and your next question, what we're doing is the generational transfer. So, we are trying to tie back their parents and grandparent to the children and grandchildren, a bit more and that's an area that we're very much focused on.

Operator

And our last question is from Nigel Dally from Morgan Stanley.

Nigel Dally

High-level question on the Advice & Wealth Management margins, over the course of this call, you've discussed several of the underlying drivers, some of the things with regards to the banking initiatives, the core underlying trends, what's happening with expenses, but on the negative side we're facing the headwind with Fed rate cuts. Maybe you can pull that all together and discuss how you're thinking about the sustainability of the all-in modules you achieved this year as we look toward 2020 and beyond?

Walter Berman

Again, we -- as you indicated, the areas of strength that we have and the other aspects, there is certainly some headwinds against us, but the margins we believe are certainly sustainable. Obviously, as we look at it, there'll be some impact coming from the interest, but we do see a good trajectory with the growth we're seeing and the productivity and certainly, our ability to manage expenses is a key factor.

Operator

Thank you, ladies and gentlemen. That concludes today's conference. Thank you for participating and you may now disconnect.