Great-West Lifeco Inc.

Third Quarter 2024 Results

Conference Call Transcript

November 7, 2024

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

From time to time, Great-West Lifeco (the Company) makes written and/or oral forward-looking statements, including during the course of the Company's Q3 2024 earnings conference call. Forward-looking information includes statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "will", "may", "expects", "anticipates", "intends", "plans", "believes", "estimates", "objective", "target", "potential" and other similar expressions or negative versions thereof. Forward-looking information includes, without limitation, statements about the Company and its operations, business (including business mix), financial condition, expected financial performance (including revenues, earnings or growth rates, medium-term financial objectives and base earnings objectives for the Empower business), strategies and prospects, expected costs and benefits of acquisitions and divestitures (including timing of integration activities and timing and extent of revenue and expense synergies), expected expenditures or investments (including but not limited to investment in technology infrastructure and digital capabilities and solutions and investments in strategic partnerships), value creation and realization and growth opportunities, expected dividend levels, expected cost reductions and savings, expected capital management activities and use of capital, estimates of risk sensitivities affecting capital adequacy ratios, anticipated global economic conditions, potential impacts of catastrophe events, potential impacts of geopolitical conflicts and the impact of regulatory developments on the Company's business strategy and growth objectives.

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The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in filings with securities regulators, including factors set out in the "Risk Management and Control Practices" and "Summary of Critical Accounting Estimates" sections of the Company's 2023 Annual MD&A and in the Company's annual information form dated February 14, 2024 under "Risk Factors", which, along with other filings, is available for review at www.sedarplus.com. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking information.

See also "Important Note Regarding Sustainability Disclosure" in the Company's Q3 2024 MD&A.

Other than as specifically required by applicable law, the Company does not intend to update any forward-looking information whether as a result of new information, future events or otherwise.

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Operator:
Welcome to the Great-West Lifeco Third Quarter 2024 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity for analysts to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, then zero.

I would now like to turn the conference over to Mr. Shubha Khan, Senior Vice President and Head of Investor Relations at Great-West Lifeco. Please go ahead.

Shubha Khan:
Thank you, Operator.

Hello everyone, and thank you for joining the call to discuss our third quarter financial results.

Before we start, please note that a link to our live webcast and materials for this call have been posted on the website at greatwestlifeco.com under the Investor Relations tab.

Please turn to Slide 2. I'd like to draw your attention to cautionary language regarding the use of forward-looking statements, which form part of today's results. Please refer to the Appendix for a note on the use of non-GAAP financial measures, and important notes on adjustments, terms, and definitions used in this presentation.

Please turn to Slide 3. To discuss our results today, joining us on the call are: our President and CEO, Paul Mahon; our Group CFO, Jon Nielsen; David Harney, President and COO, Europe and Capital and Risk Solutions; Fabrice Morin, President and COO, Canada; Ed Murphy, President and CEO, Empower; Linda Kerrigan, Senior Vice President and Appointed Actuary; Jeff Poulin, Executive Vice President, Reinsurance; and Raman Srivastava, Executive Vice President and Chief Investment Officer.

We will begin with prepared remarks followed by Q&A.

With that, I'll turn the call over to Paul.

Paul Mahon:
Thanks, Shubha.

Before I turn to our business results, I'd like to recognize the loss of an incredible Canadian leader. Murray Sinclair dedicated his life in service to others, as the first Indigenous justice in Manitoba, as co-commissioner of the Aboriginal Justice Inquiry, as Senator, and perhaps most memorably as Chair of the Truth and Reconciliation Commission of Canada. Through his essential and compassionate work in developing the Commission's calls to action, he touched the lives of all Canadians and laid out a path towards a better future. His loss is felt by so many of us. On behalf of Canada Life, I extend our deepest condolences to his family.

Now turning to the business, please turn to Slide 5. I'm happy to report that Lifeco delivered record base earnings for a fifth consecutive quarter, further building on our track record of growth. We have strong underlying momentum across all our segments. This is led by the U.S., which is now our largest segment, and once again achieved strong base earnings growth of 35%, delivering well ahead of the objective we provided in early 2024.

The post-election outlook for the U.S. market supports continuing positive momentum, which I will speak to later in my comments. We continue to meet, and in some cases exceed, our medium-term financial objectives. Base EPS is up 14% year-to-date and is on track to exceed our objective in 2024. Base ROE is above the top end of the range, with Empower's base ROE alone increasing nearly 300 basis points in the past year.

Our Wealth and Retirement business continue to drive growth, and we've taken additional steps in this quarter to advance these strategies and strengthen our market positions. In Canada, we signed a strategic agreement with Primerica Life Insurance to drive growth in our Wealth business by giving more Canadians in previously underserved markets access to seg funds.

In the U.S., Empower acquired Plan Management Corporation, the creator of OptionTrax, a leading digital equity plan administration platform. We believe this acquisition will make Empower's holistic offering even more attractive to existing and future clients.

Overall, our business continues to operate from a position of strength, with all segments showing strong capital and cash generation. Robust regulatory capital levels provide stability and give us the flexibility to capitalize on future opportunities as they arise.

The disciplined approach we take to managing our business continues to support our long-term success. Based on preliminary estimates, we do not expect the two recent tragic hurricanes in the U.S. to have a material impact on our reinsurance business. Additionally, our regular review of actuarial assumptions on insurance contracts has resulted in a net positive economic impact, which Jon will discuss further in his portion of the presentation.

Please turn to Slide 6. This quarter's results demonstrate great progress against our medium-term objectives. Base earnings of over $1 billion and base EPS of $1.14 both increased 12% over the prior year. Base ROE increased to 17.3%, up nearly a full percentage point from the prior year. Book value per share also increased, by 7%. Our regulatory capital position has strengthened, with our LICAT ratio increasing four points over last quarter, and we've maintained a comfortable leverage ratio.

Please turn to Slide 7. Canada had a good quarter, as the business remains focused on driving growth and customer value. Our Individual Wealth business continued to expand its presence in the market, supporting our growth of becoming the preferred home for advisors. Recent acquisitions, market performance, and improved net flows have led to significant AUA growth over the past year. A key part of our Wealth strategy is offering a comprehensive range of products to advisors and their clients. Our new Primerica relationship, which I referred to earlier, reinforces our commitment to make the unique and valuable futures of seg fund products available to even more Canadians.

Our results in the Group Life and Health demonstrate our focus on strengthening and deepening relationships with plan members. Book premiums grew modestly relative to the third quarter of last year, which included the addition of the public service healthcare plan. Several factors contributed to the net increase in book premiums, including inflation, employment growth, and net plan sales, which improved over last quarter. As we look forward to the fourth quarter, we're pleased to expand our business relationship with the federal government as we extend our coverage under the public service dental plan.

In Insurance and Annuities, CSM declined largely due to assumption changes, which Jon will discuss in more detail in a bit. As I've stated in the past, we don't view CSM as the metric that defines our future Canada value creation potential, for a few reasons, but mainly because our highest growth opportunities are in Wealth and Workplace, where there is no CSM.

Please turn to Slide 8. We delivered great performance in Europe across all the value drivers. This is supported by strong fundamentals in our businesses in Ireland, the U.K., and Germany. In Wealth and Retirement, we're continuing to expand our offerings and scaling to reach and serve more clients. Average AUA in these businesses was up 21% year-over-year due to solid market performance and net inflows. There was a large change in net flows this quarter due to a one-time rebalancing of a large institutional mandate.

In Group Life and Health, we're pleased to report solid sales and organic growth with book premiums up 11% year-over-year, as our businesses in Ireland and the U.K. benefited from strong employment growth and higher salaries. We're also seeing good performance in our Insurance and Annuities business. This is largely fuelled by the demand for bulk annuities in the U.K., underscoring the success of our targeted efforts in this market. CSM also benefited from favourable assumption changes and positive currency impacts.

Please turn to Slide 9. Our Capital and Risk Solutions business continues to be a key diversifier for our portfolio and a driver of sustained growth. Run rate reinsurance earnings were up slightly over last year, supported by growth in long-term structured business. As a reminder, these results do not include the impact of global minimum tax, and as such, better reflect CRS' underlying business performance.

We're pleased to report that given our disciplined approach to participation in the property and casualty reinsurance markets, we don't anticipate impacts from the recent catastrophic events in Florida with Hurricane Helene and Milton. Recognizing this is a good business outcome for Lifeco, our thoughts are with so many people who've been impacted by these tragic events.

Changing the longevity assumptions this quarter significantly contributed to CSM, which increased 32% year-over-year. As we've highlighted in the past, our prudent approach to reinsurance underwriting and pricing is an important part of our long-term success in this business.

Please turn to Slide 10. We're very pleased to see another quarter of double-digit growth at Empower. In Workplace, average AUA was up 16% over last year, primarily driven by sustained strength in U.S. equity markets. Rising markets have boosted account balances, which in turn has led to increased withdrawals from plan members as they use this greater wealth to fund retirement, including offsetting higher costs from inflation. This has resulted in net outflows this quarter, a trend across the industry. It's important to note that for Empower, the benefits of higher markets on fee income vastly outweigh the impact of these net outflows. Ed will provide more details on this on the next slide.

While we've experienced some volatility in net sales flows at the plan level quarter-over-quarter, we have a strong track record of growing share through strong plan sales and excellent plan retention. Our confidence in Empower's ability to continue to grow share in the U.S. retirement market remains strong, supported by a differentiated, scale-driven value proposition.

Empower Personal Wealth delivered an outstanding quarter. Average AUA was up 25% over last year, and net flows were positive due to higher sales across distribution channels. The business continues to build on its recent success, leveraging scale from the Workplace segment to capture rollovers and drive sales from new customers.

With this strong momentum in Empower Personal Wealth and continuing share gain in Workplace Retirement, we continue to see a path to solid double-digit growth. As mentioned earlier, the post-election outlook for the U.S. economy, including greater regulatory certainty and continued bipartisan support for policies that promote retirement savings, further supports this growth outlook.

I'd now like to pass it over to Ed to share a bit more colour on why we're confident in Empower's growth trajectory. Ed?

Edmund Murphy:
Great. Thanks, Paul. Good morning, everybody.

Please turn to Slide 12. This page illustrates why we remain confident in our double-digit growth outlook for Empower, despite industry-wide net outflows driven by current demographic trends. Although the U.S. retirement market has been experiencing net outflows for some time, the overall market has continued to grow at more than 6% a year for the last 10 years, driven by growth in asset values. We expect it to continue to grow at similar or better rates, driven by market performance, supported by a strong U.S. economy, as well as policies that promote access to the retirement system to more Americans. More importantly, Empower has built a model that has outperformed this growth, and we are confident in our ability to do so going forward.

Looking at the left-hand chart on Slide 12, we have grown assets at twice the pace of the industry over the last five years. This is a testament to the strength of our scaled defined contribution platform, which has positioned us as the clear number two player in the market, with more than 18 million participants and nearly $1.7 trillion of assets under administration. Our Retirement business has captured three points of market share organically over the past five years. In other words, net plan sales have been a significant contributor to Empower's defined contribution asset growth over the years.

As Paul mentioned during his remarks, plan flows can be lumpy from one period to the next. This year, we have seen higher outflows, mainly due to one large plan de-conversion that we mentioned in our Q1 Earnings Call. We have a long track record of positive net plan flows, which has driven this share gain, and we remain confident in continuing this trend going forward, despite lumpiness we will see due to larger case wins and losses.

For example, in the core segment, which consists of smaller plans, we consistently see higher win rates than our competitors. This is a market segment where the plan economics are more favourable, and the one that is growing the fastest. Beyond the core segment, we are also consistently winning new business from competitors, with win rates well in excess of 60% for government, large corporate plans, and our Taft-Hartley plan business. Equally important is our ability to retain plans on our platform. Our client retention rate is currently 97%, which is exceptional in a market like this. Putting this all together, we are confident that net plan sales should continue to be a significant contributor to organic assets under administration growth in the years ahead.

Moving now to the middle chart on this page, as I mentioned at the outset, demographic trends have weighed on net participant flows for some time. The number of Americans reaching retirement age has been increasing steadily and is expected to peak this year, with the last of the large Baby Boomer cohort reaching retirement age by 2030. As a result, withdrawals by retirees will outpace new contributions for the next several years, resulting in continued net participant outflows. As you can see from our expanded SIP disclosure this quarter, net participant outflows have been generally less than 1% of total assets under administration, which is largely in line with the industry.

The recent increase in participant outflows is almost entirely attributable to higher account balances, driven by strong equity market returns over the past two years. In fact, the average account balance for a participant on the Empower platform has increased 21% since the beginning of 2023. The number of participants drawing from their account has only increased 3% this year, which is consistent with the overall growth in participants that Empower has experienced.

More importantly, higher participant account balances have a far greater positive impact on assets under administration and earnings power than on participant outflows. Over the last two years, the market impact on our assets under administration has exceeded net participant outflows by a factor of 16.

Turning now to the third chart on the right of the slide, you will see why we are confident in the growth outlook for Empower. Not only do we expect asset levels to continue rising through positive net plan win rates and normal market performance, there are other factors that will support our double-digit earnings growth expectations, notably continued diversification of revenue sources and operating leverage.

The business continues to benefit from economies of scale, including significant cost synergies from acquisitions and operational efficiencies through automation. This has been a significant driver of the 16% growth this year in base earnings from Empower's defined contribution and Personal Wealth businesses, with revenue growth outpacing operating expenses by 4% during this period. Going forward, we expect the contribution from revenue diversification to also increase. This includes increasing the number of customers that also access our suite of in-plan advice-based solutions.

In addition, we are adding new capabilities that can drive stronger asset inflows and generate incremental fees. For example, the acquisition in late September of OptionTrax has enhanced our ability to both win new retirement plans and attract more Personal Wealth customers. In the near-term, however, the biggest opportunity remains increasing the capture rate of asset rollovers from defined contribution retirement plans to IRAs held within our Personal Wealth platform. Given approximately $115 billion of IRA rollovers within our Retirement platform each year, there is significant upside to the net flows within Empower Personal Wealth, which are approaching $10 billion a year.

Looking ahead, we are confident in this diversified set of growth drivers at Empower that far outweigh the modest impact that participant flows driven by demographics. Our growth opportunity is significant, and our platform remains well-positioned to capture.

With that, I will turn the call over to Jon for his remarks.

Jon Nielsen:
Thank you, Ed.

Please turn to Slide 14. We delivered strong financial results this quarter on the back of strength in global financial markets, supported by favourable yield curve movement and strong equity market returns. Equity market performance contributed to growth in assets under administration within our Wealth and Retirement businesses, with average assets up 4% from the second quarter and 17% versus last year. Rising markets and asset levels have driven higher account balances for our Wealth and Retirement customers in all markets, while supporting growth in fee and investment income across our businesses.

Interest rates decreased in the third quarter, as both the U.S. Federal Reserve and the Bank of Canada lowered rates by 50 basis points in the quarter, with the latter cutting its policy rate by another 50 basis points in October. Against this backdrop, we continue to ensure that our fixed income holdings remain optimized for any changes in rates.

Currency movements also provided a tailwind this quarter, with the U.S. dollar, euro, and British pound all appreciating against the Canadian dollar year-over-year. This alone drove year-over-year growth of 2% in Lifeco base earnings.

Turning to Slide 15, we delivered another quarter of record base earnings, of $1.1 billion. Base earnings increased 12% year-over-year and 10% in constant currency, driven by strong underlying growth in all segments. Excluding tax impacts, base earnings grew 14% year-over-year in constant currency. The effective tax rate on base earnings of 16% included a 3% impact related to global minimum tax. The effective tax rate also reflected a nonrecurring tax benefit in the U.S. segment. We continue to expect an overall effective tax rate for Lifeco to be in the high teens, similar to the year-to-date figure.

Our base return on equity of 17.3% continues to be at the upper end of our medium-term objective of 16% to 17%. This reflects strong growth in base earnings and a continued focus on growing our capital-light businesses.

Turning to Slide 16, all segments delivered strong underlying earnings growth. In Canada, base earnings grew 7%, with higher fee income driven by markets, and the acquisitions of IPC and Value Partners, as well as strong investment results. Insurance results were solid, despite lower CSM recognized, due to the impact of assumption changes and lower experience gains than the previous quarter.

In the U.S., Empower maintained strong momentum, with base earnings up 36% year-over-year in constant currency. These results reflected higher fee income, driven by markets, the benefit of acquisition-related synergies, and cost reduction initiatives in our Workplace business, as well as growth in Personal Wealth. On a pre-tax basis, excluding the favourable tax item in the quarter, base earnings growth was still very healthy at 31%. The return on equity for the U.S. business has increased by nearly 300 basis points to 14.5% over the past year.

In Europe, base earnings decreased 7% year-over-year in constant currency, primarily reflecting the release of a tax provision in Germany during the prior year, and the impact of global minimum tax. On a pre-tax basis, Europe's base earnings were up 10%, despite being dampened by unfavourable group mortality experience in the U.K.

Within Capital and Risk Solutions, results were adversely impacted by the global minimum tax. On a pre-tax basis, base earnings increased 20% year-over-year in constant currency, driven by continued growth in structured business, and the impact of assumption changes. As Paul mentioned, we did not incur any losses in our P&C catastrophe business related to Hurricane Helene, and we do not currently anticipate any losses for Hurricane Milton. This reflects an active reduction in P&C catastrophe risk over the past two years, with our focus firmly on continuing to generate attractive risk-adjusted returns. We expect, vis-à-vis, to continue to support constructive pricing in this segment of our Capital and Risk Solutions business.

Turning to Slide 17, Insurance Service results were down year-over-year, reflecting lower experience gains in Canada and unfavourable group mortality experience in the U.K., partially offset by higher expected insurance earnings from growth in our Group businesses across all markets and improved U.S. mortality experience in the CRS segment. The net investment result was up significantly year-over-year, driven by higher earnings on surplus, the addition of the Franklin Templeton dividend, and higher trading gains in Europe.

Turning to Slide 18, net fee and spread income was up meaningfully year-over-year, primarily due to growth at Empower, reflecting higher equity markets and the Prudential expense synergies, and business growth in Canada and Europe. Non-directly attributable expenses at $322 million were modestly higher year-over-year, and largely in line with the expected quarterly run rate we communicated previously.

Turning to Slide 19. Within the quarter, net earnings were lower than base earnings due to the impact from our annual review of actuarial assumptions. However, actuarial assumption changes also drove an increase in CSM, as I will discuss in further detail on the next slide.

Favourable market experience of $41 million was driven primarily by interest rate movements, as well as strong public equity returns, partially offset by lower-than-expected returns in our property portfolios. The impact of interest rate movements arose from the yield curve becoming less inverted in Canada during the quarter, which is a positive for net earnings and capital.

Turning to Slide 20. As I mentioned on the previous slide, assumption changes had a positive net economic impact overall, with the unfavourable impact on net earnings more than offset by an increase in CSM. Updated assumptions to reflect longevity experience had a favourable impact on our Europe and CRS segments, and were partially offset by the updated assumptions for policy renewal trends in our term life insurance business in Canada.

Given the resulting movement in CSM, the assumption changes will positively impact run rate base earnings through improved insurance experience gains and losses, and over time, through the amount of CSM recognized each quarter. This quarter's earnings already reflect this impact, as IFRS 17 required recognition of these changes for the beginning of the quarter. The assumption changes also had a positive impact of two points on the LICAT ratio, principally through a reduction in required capital on our insurance risks.

Turning to Slide 21. We continue to maintain a strong balance sheet to ensure we are resilient through market cycles and can deploy capital as opportunities emerge. In the quarter, our LICAT ratio increased to 134%, up four points from the prior quarter, with half coming from organic capital generation, and half from the assumption changes. Our leverage ratio of 29% is two points lower than a year ago, but remains on a downward trajectory given strong earnings growth.

Our cash balances continue to grow on strong earnings and capital generation within our businesses. Looking ahead to the fourth quarter, given strong capital levels well above regulatory minimums, and reflecting the strong capital we have generated, we expect to end the year at a LICAT ratio around 130%, as we plan to increase the dividend to Lifeco. This will enhance our financial flexibility to deploy capital for the right opportunity.

With that, I'll turn the call back over to you, Paul.

Paul Mahon:
Thanks, John.

Please turn to Slide 23. As we close, I would summarize that our business is strong and exceptionally well-positioned for the future. We're pleased with the growth we've achieved, including surpassing $3 trillion in assets under administration for the first time, which is a significant milestone, and we're seeing strong momentum across all parts of our business, which has supported double-digit base earnings growth for Lifeco overall.

This strong foundation enables us to invest confidently in our long-term strategies and take further actions to solidify our market leadership positions. Looking ahead, we feel well-prepared to meet, or even exceed our medium-term objectives. With our strong track record of growth, we're anticipating a successful close to '24 and look forward to achieving further milestones in the years ahead.

With that, I'll turn it over to Shubha to start the Q&A portion of the call. Shubha?

Shubha Khan:
Thank you, Paul.

In order to give everyone a chance to participate in the Q&A, we would ask that you limit yourselves to two questions per person, and you can certainly requeue for follow-ups and we will do our best to accommodate if there's time at the end.

Operator, we are ready to take questions now.

Operator:
We will now begin the analyst question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

Our first question will come from Meny Grauman of Scotiabank. Please go ahead.

Meny Grauman:
Hi, good morning. Paul, you kicked the call off by talking about how Great-West is exceeding its financial objectives quite consistently. I guess the question is just, what has changed since you set out those base case expectations? How do we understand this good news here? The follow-up question is, how sustainable is it, in your view?

Paul Mahon:
It's a good question, Meny. I would characterize that we set out a set of objectives that was fundamental to the prevailing market conditions at the time, and one of the underlying drivers of growth, obviously, would be the strong market performance we've seen. But I wouldn't tie all of the extra growth to that; I think part of it is also execution. If you think about the acquisitions we did at Empower, and you think about the goals we had set for ourselves in terms of client retention, we saw outperformance there. When you think about the growth we're seeing in our Personal Wealth business, we're getting a strong sense of momentum and outperformance there.

I would say that's the combination of a strong market, and we like that. As you know, Meny, we've got a very diversified business. We have good exposure to equity markets. We've got insurance businesses that are strong and contributing, like our CRS, and we've also got our Group Benefits and Retirement businesses that have diversified earnings beyond fee income. If you think about that, the combination of diversification, market performance, and then what I would say is strategic outperformance, are the drivers of growth.

I remain confident in us continuing to be able to drive growth in that medium-term financial objective range. Obviously, if markets continued at this level, we could continue to be at the top end of that range.

Meny Grauman:
Thanks for that. Maybe just another question on Empower specifically. I think you highlighted greater regulatory uncertainty as a positive coming out of the U.S. election. I was just hoping you could go into

more detail on that, in terms of how that will impact Empower. If you could explain that in some more detail?

Paul Mahon:

Yes. Yes, just to clarify, my comment was greater regulatory certainty, because what you've got—obviously when you've got a bit of a gridlock in a government, it's hard to get things moving, and one of the points that I talked about was there's good bipartisan support for regulation around retirement. I think that is a positive for us. But I'll let Ed add a little bit more colour on that. Ed?

Edmund Murphy:

Sure. Thank you, Paul. Yes, I agree with Paul's comments. I would say that, from a regulatory policy standpoint, and just public policy, I think the election results will be very constructive for our industry. As Paul noted, there historically has been very strong bipartisan support. This is one of the few issues in the United States where Democrats and Republicans tend to agree on, in terms of advancing the private retirement system in the United States. I'm very confident that the Trump administration will continue to advance some of the public policy agendas that support growth in the industry: tax incentives, tax credits for small businesses to set up retirement plans, continuing to maintain the tax-favourable status of contributions to retirement plans. I think all of those remain very, very positive. I think from our standpoint, it's a very positive development.

Meny Grauman:

Is that something we're likely to see in the flow numbers, in terms of plan memberships, or how would we be able to see that play out in terms of Empower results? Obviously, it will take time, but where would we look to see that.

Edmund Murphy:

Yes, you'd see it in flows. I think I may have noted on a prior call that it took the industry over 40 years to have 700,000 private voluntary retirement plans in the country, and we expect that to grow by over 300,000 by 2028, 2029.

You're going to see a lot more in the way of new plan formation and the public policy that both the Biden administration and now the Trump administration has taken, supports that, in terms of offering fiduciary relief, offering tax credits to small businesses to set these plans up. You'll see it play out in terms of net new participants, and then the contributions associated with those individuals as they pursue payroll deduction.

Meny Grauman:
All right. Thank you very much.

Operator:
The next question comes from Paul Holden of CIBC. Please go ahead.

Paul Holden:
Thanks, good morning. Paul, you made a comment at the end of your remarks regarding the flow-up of dividends to the holding company, to Lifeco as you call it, and looking at potential deployment opportunities. Maybe you can flag what top priorities might look like for Great-West in terms of deployment opportunities? Thank you.

Paul Mahon:
Thanks, Paul. I'm going to say priority order, but everything is relative because as good opportunities come along, you can often be a little bit flexible. I would say, first and foremost, we're always focused on maintaining a strong balance sheet. A strong balance sheet gives us the strength and flexibility, obviously, to take advantage of opportunities.

Next in line would obviously be investing in both organic and inorganic growth. We continue to invest in the business, making sure that we have market-leading franchises in terms of our ability to serve customers, but at the same time, inorganic growth. If you think about, in this quarter, the OptionTrax transaction that we announced, while small in relative scale, provides a new opportunity. When you think about that, that's kind of a unique capability that will allow us to both strengthen the existing in-force book and the potential economics there, but also win new customers.

Then, we also continue to look at growth opportunities on a broader scale from the standpoint of further consolidation of the retirement market in the U.S., growing out that Wealth platform. You saw us grow out our Wealth platform in Canada. Obviously, M&A will continue to feature, and as always, we will continue to focus on growing our dividends in line with our medium-term objectives. We always have the option as well to repurchase shares. From our perspective, if we are seeing an opportunity that could be a little bit further in the offering, well, we will consider repurchase of shares also as a tool. Those would be the tools we have.

Paul Holden:

That's good, thank you. Second question is with respect to the Capital and Risk Solutions business, I guess kind of two questions in one, if you will. You commented no expected losses on recent hurricanes, which is good, and you've decreased the amount of risk outstanding, I guess, on the P&C retro session by recognizing better rate conditions now. Does your risk appetite change at all in P&C retrocession? Then also, just wondering with respect to appetite on mortality reinsurance? Heard one of your competitors earlier today updated its assumptions for reinsurance mortality risk, which could be a benefit for GWO. If you could comment on those two, please.

Paul Mahon:

Yes. Maybe I'll start off and I'm going to hand it over to Jeff Poulin to provide a bit more colour.

In the context of our overall business, I think you actually just kind of outlined, we really like the diversification of the business. I would say our strength has been expertise, being able to find really strong risk-adjusted returns, so we'll call it expertise with an overlay of really strong discipline. If you take that as a starting point, and then say it's a diversified business as well, we participate in structured, we participate in P&C, and we also participate in mortality and longevity. We like that diversification.

I would say, generally speaking when we see a bit of a hardening in markets where there's opportunities, we don't always say we want to grow share. Sometimes what we want to do is we want to use the capital that we have in place to really strengthen our confidence in the long-term returns. But I'll let Jeff speak a little bit to that, and to views on mortality reinsurance.

Jeff Poulin:

Yes. Thanks, Paul. Yes, you said it, and I think Jon addressed it the last call. We said that if we were to look at our portfolio today, we've gone away from the risk, and if Ian happened again, we wouldn't have a loss. I think this quarter, Milton happened, and it's very, very similar to Ian, really bad path that hit both Tampa Bay and Orlando, and we don't believe we're going to have a loss from this. We have managed the portfolio and recalibrated the portfolio to be in a really good position.

I think these two storms are going to mean for us that the conditions are going to remain really good. I think the market's going to be affected by them, so we expect to see very good condition. As far as risk appetite is concerned, I think we're going to keep it at the same level. I think we're expecting to have similar results next year, and work towards making the portfolio even safer if we can.

Your second question was related to mortality reinsurance. It's been a difficult market for us. We've adjusted our reserve assumption this quarter. I think we feel better about the way the earnings should look on the book of business going forward, but it's remained a difficult market. We're mostly in the U.S., and in the U.S., more and more they want guaranteed rate. The underwriting has been automated. It makes the results less predictable. We're going to continue to look at that market, but it's been a difficult market for us to compete in. We'll wait until we see the right rates for us to continue to work on that.

Having said that, I think the rest of our business looks really good. Fourth quarter for us is always a busy quarter, and this year is no exception. We think we're looking at a lot of good transactions, a good pipeline on the structured side, so we feel confident we're going to have a good outlook for next year.

Paul Holden:
Okay.

Jeff Poulin:
I think this is where we are on reinsurance.

Paul Holden:
Okay. Perfect, thanks for that.

Paul Mahon:
Thanks, Paul.

Operator:
The next question comes from Alex Scott of Barclays. Please go ahead.

Alex Scott:

Hi. First question I have is on Empower. The margins there look like they got a lot better, quarter-over-quarter, when you consider the one-time fee that I think was part of it all last quarter. I just wanted to understand how sustainable that new level of margin is? I hear you on the operating leverage, and you guys have driven for a long time, but this was a much more material step up. I'm just interested in the sustainability of it as I think through the next several quarters.

Paul Mahon:
Okay. Alex, I'm going to turn that one over to Ed. Ed?

Edmund Murphy:
Thank you. Sorry, I was on mute.

Yes, I would say that we feel really positive about our ability to continue to drive operating leverage, particularly in the Workplace business. If you look at our ability to bend the cost curve on our cost per participant, we expect to continue to make meaningful inroads there as we continue to modernize the business, leverage automation, continue to expand our offshoring capabilities.

Obviously, the Personal Wealth business will continue to be an investment business for us. We're investing in distribution, we're investing in technology, we're investing in product, and we're seeing really good results there. But from a cost management, cost discipline standpoint, you're going to see the synergy benefits that we had in Q3 continue to carry forward into Q4 and into next year. But more importantly is the emphasis that we continue to place on driving unit costs lower.

The short answer to your question is, it is sustainable. I feel very confident about our ability to execute there.

Paul Mahon:
Yes, and Ed, great response. The other point that I spoke about earlier, Alex, was the fact that we have really strong revenue diversification. When you combine that with that ability to manage costs and drive efficiency, we really like the profile of the business. Diversification of revenues, and then that opportunity to leverage your cost position.

Alex Scott:

That's really helpful. As a follow-up, I wanted to ask about interest rate sensitivity, particularly to the shorter end of the curve, with the U.S. Fed funds coming down a bit. Can you talk about your exposure to that, whether it's in Wealth Management and some of the income you collect there, or elsewhere in your business?

Paul Mahon:

That is a question for Jon. Jon, do you want to take that?

Jon Nielsen:

Yes. Just to give you a sense, and following up, I think, similar question last quarter. It's about a million per basis point on the short end of the curve for annual earnings impact. Obviously, that's in addition to the non-base impact that we disclosed of $175 million, from a parallel shift in the curve. Half of that impact would come through the earnings on surplus as the assets roll over and their duration, and our duration of surplus ranges, but that's principally shorter in the Canadian segment. The other half would come through other various lines. First in terms of insurance service results, there's some impact on our Group Disability business.

You mention fee and spread income. Obviously, lower rates have some element of a positive on our assets under administration, fair value and so forth, so some offset there in terms of the fee income impacts. Then obviously, the residual and the spread, a smaller part of our revenues and our Retirement market trends, which is spread-based. We feel really good about how we're positioned for the interest rate market, and I'd also call out, obviously as you see those impacts, we're also accumulating surplus that we earn spreads on. There's some offsetting impact as our surplus is thrown off our debt book.

Alex Scott:

Thank you.

Paul Mahon:

Thanks, Alex.

Operator:

The next question comes from Gabriel Dechaine of National Bank Financial. Please go ahead.

Gabriel Dechaine:
Good morning. A couple questions here. You talked about a dividend to the holding company. Is that about a billion dollars, based on where you expect the LICAT to end up? Can you remind me of the RBC ratio and how much excess capital you have in the U.S. sub? Then, I'll throw in the M&A question here. I default to thinking that Empower type business is what you're targeting, but is there anything in Europe, some gaps that you might want to fill, or are you busy with the turnaround of that platform at the moment?

Paul Mahon:
I'll start off with the M&A one, and then I'll turn it over to Jon to speak to the dividend and capital ratios. We are looking for value-creating opportunities, and I referenced the U.S. market because of the consolidation opportunity there because of our belief that we're in the early innings of building out that Wealth business, so it's an obvious place. But if you look back, you saw us doing transactions in Canada last year that were centred on a growing stake in a Wealth market where we think we've got a lot of growth opportunity.

Then, it's kind of quiet and tends to be on a smaller scale, but we've done multiple transactions in Ireland as an example, building out the Wealth platform. I would never say that our appetite is limited to a single geography. We're looking for value-creating transactions. But if you look clear and present, the opportunities that appear more likely would be in the U.S., but we would never turn our mind away from opportunities where we really think there's good value creation that is really centred on creating leadership strengths for us in the markets where we operate. The U.S., yes, but we don't have blinders on to other opportunities.

Jon, over to you on the dividends and the like?

Jon Nielsen:
Yes. Gabe, we'd anticipate being around $2 billion of cash at Lifeco at the end of the year, and this is part of the enhancement around transparency and the strong capital generation that our businesses have. We've obviously given you more detailed disclosures and continue to see that trend increasing as we look forward. We have a very strong business mix that generates substantial excess capital across the portfolio. I just want to highlight a couple things in transparency for you. Typically, our capital

deployment is higher in the fourth and first quarter, there's some seasonality principally in the Reinsurance business. Part of that is driven by the shape of how the capital—the renewal of the policy happens; it comes back quite quickly. But you can think of fourth and first quarter having seasonality in the Reinsurance business, just to remind you of that.

In terms of capital generation, we're really pleased also that the U.S. is now a very strong capital generator for us. I think this is maybe a bit underappreciated, how much that business changes the profile of our cash and capital composition.

In terms of the RBC, we're still very strong in the U.S. at 500%, and we look forward to seeing the U.S. becoming a much more meaningful cash contributor over time as earnings grow from that business. It's a very high capital generation as a percentage of base earnings type of business, and we look forward to sharing more about that success over the upcoming calls, and at our Investor Day in April.

Gabriel Dechaine:
All right, great. Have a good day.

Paul Mahon:
Thanks, Gabe.

Operator:
The next question comes from Tom MacKinnon of BMO Capital Markets. Please go ahead.

Tom MacKinnon:
Yes, thanks very much. Good morning. Just a couple questions. The first is just a clarification; the tax benefit that you did get, that was primarily in the U.S. and Empower, right, is that correct?

Paul Mahon:
That's correct. I'd look at the tax rate for Empower on a year-to-date basis, and that gives you a sense of looking forward. As I shared, Tom, the year-to-date for the Group also gives a good sense of where we expect the Group to be, despite some of the noise coming in from last year and also the implementation of global minimum tax. I think you'll see more stability in that line as we move forward.

Tom MacKinnon:

Okay. Second, if we have a higher interest rate environment, you've had some lower spread income at Empower, you've got higher crediting rates then. Maybe if you just talk about the outlook there, because it looks like you still had some lower spread income than anticipated at Empower, but should we concerned? Thanks.

Paul Mahon:

Jon?

Jon Nielsen:

Yes, so generally for our business, higher rate environment and a less inverted yield curve should be positive. That's an industry-wide phenomenon, nothing that were not similar in terms of the overall perspective. Higher rates generally will be positive for the Group. Obviously, that means higher reinvestment yields across the portfolios. We did make another small crediting rate adjustment in the U.S. on July 1. We don't anticipate, in the current environment, or the prospective environment as we see it today, to have any crediting rate increases in the fourth quarter or even into the New Year, other than contractual ones that are tied to the actual yield. We feel really good about how that business is positioned.

Coming back, Tom, remember the diversity of revenues, 50% is really AUM based, and the residual split, kind of equally between spread-based income and other fee-based income, which includes fee per participant, transactional fees, the earnings that we get on the timing of cash flows. The other thing that Ed shared is obviously the focus on growing in-plan, advisory-based type of relationships with our in-plan customers. Then obviously, the capture rates are obviously a big focus for Ed and the team as we grow out that Personal Wealth platform.

Very comfortable with the interest rate outlook in terms of where it sits, and in line with the industry in terms of how the yield curve should impact our overall business.

Tom MacKinnon:

Okay. Then, a final one just with respect to the U.K. and Ireland; just maybe the outlook with respect to bulk annuity sales, as the interest rate environment has remained relatively buoyant, as well as any impact on the equity release mortgage sales, where I think there's been some slowdown? Thanks.

Paul Mahon:
Yes, thanks, Tom. I'm going to refer that one over to David Harney. David?

David Harney:
Yes, interest rates are positive for the individual annuity markets, not so much the bulks, because there's just strong demand from pension schemes to de-risk, and that tends to be independent of interest rates. But overall, the market has been very good for annuities this year.

We've taken a lot of action in the U.K. as well, capital actions just to support the annuity business, so that helps the capital generation of the business, but it also means the returns we've got on annuities that we've written this year have been really good. That's all true into CSM rather than the base earnings, but you're seeing very strong growth in CSM in Europe, and that can flow through into future earnings.

The higher interest rates mean less demand for equity release for that market as well, and really, we wouldn't be comfortable writing too much business in a higher interest rate environment in that market. That's not an area we're targeting for growth at the moment. I think there will be demand in the future, maybe as interest rates come back down, but for now it's not a target market for us.
I think the other area we've performed well this year at that as well is the Wealth market in Ireland, so we have made investments there, as Paul has mentioned. That's driven strong growth in base earnings year-on-year. The 10% growth that Jon mentioned, that's all come through on the Wealth side in Ireland, so that's performing very well for us also.

Paul Mahon:
Yes, it's interesting, David, and just wanted to underline, Tom, it really speaks to diversification. We often think of the Canadian book as being really diversified, and as it is, the European business in and of itself is diversified across all those different pools of liabilities and risks and value drivers. One of the features we actually like about the U.K. business is having that two-sided business of the payout annuity and the equity release mortgage, because in a low interest rate environment those equity release mortgages become far more attractive and favourable. In a high interest rate environment, the payout annuities are more attractive. At the end of the day, what we're trying to do is help clients

manage their retirement income security, and that's why having that broader array of products is really powerful for us in terms of it being an important business.

Tom MacKinnon:

There was some release in longevity, and that's why the CSM kind of went up in Europe. Is that…

David Harney:

Yes, there's two factors. Yes.

Tom MacKinnon:

How is that impacting the pricing in the market, too, then? Or was that in bulk, or is that individual? Maybe that's the question. Was that in bulk stuff or in individual?

David Harney:

Assumption changes are across both, so they're for bulk and individual. The growth in CSM is coming from two things, so there are the assumption changes this quarter, and that adds to future earnings really, into CSM. But every quarter you're seeing growth in our CSM, just from the contribution in new business. That's been a constant for us this year. The assumption changes are a one-off this quarter, but you will continue to see growth in the CSM in Europe from annuity business that we're writing every quarter.

Paul Mahon:

Yes. As you know, Tom, we tend to a more conservative posture as we think about setting up the right reserve basis and strength for our business, so we took a long, hard look at longevity. We've taken this action now, but we remain confident with the strength in our underlying balance sheet and what we've set up for the future.

Tom MacKinnon:

Okay, thanks.

Operator:

The next question comes from Doug Young of Desjardins Capital Markets. Please go ahead.

Doug Young:
Good morning. I'll try to keep this relatively quick. How much capital do you want to retain at the holdco, can you remind me?

Paul Mahon:
Yes, Jon?

Jon Nielsen:
Yes, usually $500 million's a fairly comfortable level for us to maintain financial flexibility at the holdco. It's not unusual for us to go above that level as we accumulate capital and look at opportunities to deploy it. You may see that, in absence of an M&A transaction, increase temporarily. Obviously, Paul went through our capital allocation priorities. Those include making sure that we look at our cost of capital and find the best use of that capital with different options.

Doug Young:
Okay. Then, on that longevity assumption update, and specifically at 592, can you just, at a very high level, what drove that?

Paul Mahon:
Over to you, Linda?

Linda Kerrigan:
Sure. With all our assumption reviews, we review all our material assumptions every year, and we're looking at both our own relevance and experience, industry experience, and emerging trends. This is really looking at medium to long-term trends in longevity in Europe, on both our CRS and our European portfolio. Really, what we're seeing is sustained sort of move in those trends, in terms of long-term mortality improvements, so a three-year review of the medium to long-term trends on the longevity side.

Doug Young:
Okay, so the expectation is people living shorter? Is that generally what I'm thinking here?

Linda Kerrigan:

Yes, that's right, and it's very much reflecting the experience we've seen really over the last 15 years in Europe, and really not leaning into post-pandemic experience, which is still elevated. We're really looking at trends that really have been emerging right though the 2010s.

Paul Mahon:

Yes. Linda, I might clarify people living shorter. We're not viewing people would live shorter, we're reviewing that the rate of a mortality improvement will not stay at the level at which it's been over that period in time. It's not shorter living. We saw quite significant improvements in mortality and longevity, and it's just to view this as a slowdown in a rate that had existed for quite a while in Europe.

Linda Kerrigan:

Yes. I think that's very good clarification, Paul. What we're really saying is, our liabilities allow for future mortality improvements, allow for future medical advancements and treatments. What we're really saying is, based on the trends that we're seeing, we're just pulling that back a little bit, but still, we have very material allowances for future mortality improvements with our liability.

Doug Young:

Okay. Then, just lastly, maybe Ed, and you can tell me if this doesn't make sense, but that $14 billion of net outflows on the Retirement side, do you have any splits of what that would be for between those that are retired and those that aren't retired? I'm just trying to get a sense of segmentation, based upon what's driving the net outflows, and looking at it maybe differently by segment.

Paul Mahon:

Maybe Jon…

Edmund Murphy:

Sure.

Paul Mahon:

… can start with that.

Jon Nielsen:

I'll start…

Paul Mahon:
Why don't you start, Jon, and then you can turn it over to Ed?

Jon Nielsen:
Yes, yes. It is principally in people in the retirement age, in terms of the outflows. We've looked at it across all age segments. We haven't seen a material change in the outflows by age segment. Obviously, we're also looking at hardship and other withdrawals in response to the economic environment in the U.S., and while there's been small movements, nothing of materiality. That's why we gave you a sense that it really is growing in line with the number of participants we see, and principally largely driven by the average account balance going up 21% over the last two years and people hitting that point when they retire when they move to an advisor. Our opportunity really is to capture a greater share of that into our Personal Wealth business.

Ed, anything you'd like to add?

Edmund Murphy:
You referenced $14 billion; $2 billion of that is obviously on the plan side. If you look at net plan activity has been positive for the last three years. We expect it to be positive going forward. That's how I would characterize the plan side of it. Then on the individual side, the preponderance of the distributions are coming from those that are over the age of 60. Yes, in many instances, it has to do with someone that's either changing jobs and terminating, or they're retiring.

Doug Young:
Maybe I'll just ask it differently. The net flows for those under the age of 60, is that positive?

Jon Nielsen:
Yes, it would be. Just to give you a sense as you think forward, the contributions from the plans, the contribution levels are growing at a rate of around 7% per annum. In terms of as you move forward, our contributions are growing at that level. Obviously, the market impacts, in a normalized year without the outsized positive equity markets we've had the last couple years, would be a similar level. To the extent that equity markets grow faster than that 7%, by definition, you end up with higher withdrawals, and that's what we've tried to get across in this call by providing you this expanded disclosure in the SIP.

Edmund Murphy:
Yes, I would just add…

Paul Mahon:
Doug, I just want to underline… Yes, go ahead, Ed.

Edmund Murphy:
I was just going to add that we have over a million participants that are using our advice-based solutions, in-plan advice-based solutions. That continues to grow. We're the second largest player in that space.

If you look at the savings rates for those individuals, they tend to be 15% to 20% higher than those that are not part of that plan. Particularly when the economy's strong, we see good, steady payroll deductions and contribution rates among those that are not within the advice-based solutions, but particularly pronounced and much higher when they're part of the advice-based solutions, which is something that's a real focus for us. It's an important element of our value proposition, given the fact that one of the challenges that we have in the United States is, in some instances, people just aren't saving enough for retirement. We're actually pretty optimistic about our ability to move the needle, so to speak, on getting people to save more, and helping them save more through some of the services that we're offering.

Paul Mahon:
Yes. Doug, just to add a little more colour, just a reminder, and I think Ed had this in his comments. This is a demographic trend we see. It's elevated a bit because of equity markets, but the context that Ed provided was that, over the last two years, the market impact of that lift in AUA, the positive impact for us, for our fee income, was a factor of 16 to the impact of those flows. We're focused on growing this business.

One of the dynamics, and Ed could speak to this more eloquently than me, but the dynamic of the business is, because it is a market that is relatively mature, we'll say because of this Boomer dynamic, it is a market therefore that has consolidated and will continue to consolidate, and it is a market where those who have scale and who can automate and who can get at this rollover and this wealth management opportunity have very, very strong hands relative to the future. Those that are sub-scale, those that can't invest to achieve what we're achieving are going to be challenged.

That's why we like the business. That's why we've been able to do what we've done over the last—well, frankly, since 2014, but to a large extent, over the last five years, because of the conditions that we're seeing today. We actually think these conditions are ones that we will continue to lean into and take advantage of. That's why this is a growth engine for us.

Jon Nielsen:
Let me just add one more in terms of the type of plan. The size of the plan and the industry that the plan is also has a particular determinant upon whether it's in inflows or outflows, so particular strengths are smaller, obviously smaller plans where we have a really strong market position in the core market. You see employment growth, you have plan formation, and you have a younger employment base with relatively higher contribution levels.

It also depends on the size of the plan and what industry they're in, in terms of the overall flows. Some of those plans may have outflows at a plan level, but they're still attractive for us to bring into our platform and add to the scale of our overall portfolio.

Doug Young:
I appreciate the colour. Thank you.

Operator:
This concludes the question-and-answer session. I would like to turn the conference back over to Mr. Khan for any closing remarks.

Shubha Khan:
Thanks everyone for joining us today.

Following the call, a telephone replay will be available for one month, and the webcast will be archived on our website for one year. Our 2024 fourth quarter results are scheduled to be released after market close on Wednesday, February 5, with the Earnings Call starting at 8:00 AM Eastern Time the following day.

We would also like to announce the date of our next Investor Day, which will take place on April 2 in Toronto. Further details will be provided in due course. We very much look forward to providing a comprehensive overview of all of our businesses at this event.

Thank you again, and this concludes our call for today.

Operator:
The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.