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Top Lincoln Exec to Lead Group Benefits 'Powerhouse' Following Liberty Buyout

By Warren S. Hersch January 22, 2018

Lincoln Financial Group offices

A top executive with a track record overhauling troubled insurance blocks will be taking ownership of the group benefits business **Lincoln Financial** acquired from **Liberty Mutual** in a blockbuster $3.3 billion deal that has catapulted Lincoln to the top-tier of group insurers.

Richard (Dick) Mucci, president of the group protection business at the Radnor, Pa.-based carrier, will be overseeing efforts to strengthen Lincoln's now dominant presence in the group insurance market. Among them: premium rate increases designed to reverse the "temporary dip" in group business earnings of the acquired unit, **Liberty Life Assurance Company of Boston**; securing $100 million in cost savings by eliminating duplicative technologies, reducing overhead and restructuring back-office processes; and expanding relations with national brokerage firms in the large group market, where Liberty Life has a sizable footprint.

The "pricing and profit remediation," which Lincoln executives shared with analysts during a Friday conference call to discuss the deal, is an initiative Mucci had earlier successfully spearheaded — and on a larger scale — with Lincoln's existing group business. That experience factored into analysts' positive assessments of the transaction.

"With [Lincoln] having demonstrated an ability to reprice and remediate its smaller case Group Benefits business and with the head of Group Protection, Dick Mucci, having previously helped turn around a larger group business in a prior role, we think paying a reasonable price for a block that needs some work makes sense for [Lincoln], instead of acquiring a better performing block at a higher price," write **Evercore ISI** analysts **Andy Lee**, **Kosta Kasidakos** and **Thomas Gallagher** in a new report.

Richard (Dick) Mucci, president of Lincoln's group protection business.

The acquisition comes at a decisive moment in the life space where, according to **LIMRA**, group life sales recently surpassed individual life sales for the first time. The buyout additionally highlights the growing role of third-parties in complex transactions with a reinsurance component: **Protective Life Corp.**, a U.S. subsidiary of **Dai-ichi Life Holdings** of Japan, will receive a $410 million ceding commission to reinsure Liberty Life's individual life and annuity business (assets that Lincoln will not be retaining), including $13 billion for "traditional life and annuity liabilities." According to a Protective press release, the pact calls for a $1.17 billion capital investment by its main subsidiary, Protective Life Insurance Co.

As reported in *Life Annuity Specialist*, Athene acquired through a $19 billion reinsurance agreement fixed and fixed indexed annuities from **Voya Financial**. Private equity firm **Apollo Global Management** separately bought in the three-party deal a closed block of variable annuities, valued at $35 billion, that will transferred to **Venerable Holdings**, a new investor consortium. Similarly, in **The Hartford**'s $2.05 billion deal with an investor consortium led by **Cornell Capital** to sell its legacy life and annuity businesses, **Global Atlantic** participated in a multi-party agreement to reinsure a closed block of fixed annuities.

Patience Rewarded

The Liberty Life acquisition, which Lincoln President and CEO **Dennis Glass** labeled "one of the premier large case platforms in the industry," establishes Lincoln as a major player in the fast-burgeoning group insurance market. The pact is also a diversification play, expanding Lincoln's footprint beyond less profitable, more capital-intensive individual life and annuity products with which major insurers have been struggling in recent years.

"We had talked about acquiring a group business for several years, but always noted that we would be patient and wait for the right opportunity," said Glass during the January 19 conference. "Our strong, positive momentum in group protection over the last couple of years, combined with a long-term track record of growth and profitability across the group benefits industry supports this significant, strategic investment."

Lincoln President and CEO Dennis Glass

"This acquisition creates significant strategic benefits for our group protection business and provides us with a competitive advantage in the marketplace," added Mucci. "By combining forces, we immediately increase our scale, further broaden our customer base and distribution channels and expand our capabilities."

“Scale” is the operative term. Like Lincoln, Liberty Mutual was already a top 10 provider in the group benefits space. The acquisition of Liberty Life’s group business elevates Lincoln to the number one spot for group disability income insurance benefits, with 14.4% market share. And, according to year-end 2016 data from **A.M. Best**, it puts Lincoln in third place among the top four for sales of group insurance benefits, an exclusive club that also includes **The Hartford**, **MetLife** and **Unum**; and in the 6th spot from a premiums perspective.

The company’s annual group premiums, said Mucci, will nearly double to $3.7 billion, and its market share for in-force group insurance premiums is due to increase to 7.4% of the market. Significantly, the deal also brings to Lincoln a substantial footprint in the large case market (5,000 lives-plus), complementing Lincoln’s presence in the small and midsize space (under 1,000 lives), which currently accounts for about two-thirds of its group business.

The combined group business will have access to 10 million insureds and, noted Glass, will enable Lincoln to “accelerate” its push to voluntary, employee-paid benefits, an increasing focus of the company. In this effort, Lincoln will gain access to large national brokerage partners of Liberty Mutual that serve the employee benefits space.

Randal Freitag, executive VP, CFO and head of individual life at Lincoln.

Liberty’s large case business, added Mucci, will also provide Lincoln with a “tremendous opportunity” to cross-sell group products. Among them: term life, accident, dental, vision, short- and long-term disability income and critical illness insurance. Likewise, he added, Lincoln plans to employ Liberty’s expertise in consulting, absence management and claims management services.

Lincoln's expansion into the group benefits space comes at a pivotal time, as other life-annuity carriers are also moving aggressively to expand their presence at the worksite. Among them: MetLife, which since March has debuted a small business insurance suite, credit monitoring services and (in partnership with **IBM**) a cloud-based platform for serving small businesses. **Prudential Financial** now offers Prudential Pathways, a financial wellness program encompassing financial planning and financial education seminars for employees.

Combined Insurance, the supplemental insurance arm of **Chubb**, has been on a hiring spree since mid-year 2017. The company plans to recruit by mid-year 2019 some 1,600 sales agents and 2,000 military veterans to sell the carrier's voluntary benefits — a market space that raked in $7.6 billion in 2016, up 7% from 2015, according to **Eastbridge Consulting Group**. Mirroring the Lincoln-Liberty deal, The Hartford purchased **Aetna**'s group life and disability income business last October for $1.45 billion, a transaction that positioned The Hartford as the second largest group life and DI insurer.

Other benefits of the buyout

How much will these competitor initiatives weigh on Lincoln's strategic focus and direction? In response to an analyst's question, CEO Glass said "I do not expect an arms race in the group business," adding that it's a "very good...short-duration business," and that Liberty's complementary group platform is "absolutely terrific."

Lincoln’s Mucci said the acquisition will also enable Lincoln to direct substantially more investments into digital technologies that can yield productivity gains. And the deal will yield cost reductions: an estimated $100 million in pre-tax dollars by 2020, the savings tabulated based on new corporates tax rates available under the recently enacted tax reform law.

Lincoln's executives also touted expected improvements to profit margins, yielding earnings of from 5% to 7% between now and 2020. Over the same period, the company anticipates "modest premium growth," the rise fueled in part by repricing of products that Liberty spearheaded in 2017 and, said Mucci, is now showing "progress."

As reported in *Life Annuity Specialist*, the $3.3 billion acquisition, expected to be finalized in the second quarter of 2018, calls for Lincoln to invest $1.446 billion in its group benefits business, the amount including the purchase price of $1.021 billion, plus "required capital" totaling $425 million. The $1.446 billion investment includes the $410 million ceding commission to **Protective Life.** The pact will additionally generate about $1.2 billion in excess capital, plus $211 million in tax benefits for Lincoln.

Randal Freitag, an executive VP, CFO and head of individual life at Lincoln, said that ratings agencies consulted in advance about the acquisition are "comfortable" with its financing structure and strategic rationale.

Indeed. **Keith Behrmann**, a senior financial analyst at **A.M. Best**, supports the buyout, noting that the acquired products will aid in expanding Lincoln's portfolio beyond less profitable and more mature individual life and annuity markets. **Rosemarie Mirabella**, a director at A.M. Best, echoes this assessment.

Rosemarie Mirabella, a director at A.M. Best.

"The group market benefits space has been viewed for the last couple of years as a very attractive market for life and annuity companies," she says. "It provides diversification, which is important. A lot of companies — Lincoln among them — have been trying to reduce their interest-sensitive business lines and their equity risk."

Adds **Peggy Poon**, an associate director at **S&P Global Insurance Ratings:** "Players are increasingly focused on growing scale and capabilities in order to be competitive. It is an attractive market because of low capital requirements; and, in addition, given the life insurance penetration trends in the US many insurers view the group market as a potential channel to expand their reach into the middle class through voluntary products."

In the wake of the announcement, **Moody's** affirmed Lincoln's Baa1 senior unsecured debt rating and the A1 insurance financial strength (IFS) ratings of its insurance subsidiaries, **First Penn-Pacific Life Insurance Company**, **Lincoln Life & Annuity Company of NY** and **Lincoln National Life Insurance Company**.