Symetra Financial Corporation

Management's Discussion and Analysis of Financial Condition and Results of Operations

December 31, 2020

All financial information in this document is unaudited

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SYMETRA FINANCIAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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Management's Discussion and Analysis reflects the consolidated results of operations and changes in financial position of Symetra Financial Corporation and its wholly-owned subsidiaries. Unless the context otherwise requires, references to "we," "our," "us," and "the Company" are to Symetra Financial Corporation together with its subsidiaries. References to "Symetra" refer to Symetra Financial Corporation on a stand-alone, non-consolidated basis.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are intended to enhance the reader’s ability to assess the Company’s future financial and business performance. Forward-looking statements include, but are not limited to, statements that represent the Company’s beliefs concerning future operations, strategies, financial results or other developments, and contain words and phrases such as “may,” “expects,” “should,” “believes,” “anticipates,” “estimates,” “intends,” or similar expressions.

These statements are based on estimates and assumptions made by the Company in light of information currently known to management and are subject to significant business, economic, and competitive uncertainties, many of which are beyond the Company’s control or are subject to change. Whether actual results and developments will conform to our expectations is subject to a number of risks, uncertainties, and contingencies that could cause actual results to differ materially from expectations, or that could cause management to deviate from currently expected or intended courses of actions, including, among others:

- continuation of the coronavirus disease 2019 (COVID-19) pandemic, or future outbreaks of COVID-19, and uncertainty surrounding the length and severity of future impacts on the economy, financial markets, and on our business, and results of operations and financial condition;
- competitive conditions, including pricing pressure, new product offerings, the emergence of new non-traditional competitors, changes in distribution partner relationships, advancements in digital and analytical capabilities, and other industry disruption;
- changes in laws or regulations, or their interpretation, including those that could increase our business costs, reserve levels, and required capital levels, or that could restrict the manner in which we do business and produce sales;
- our ability to prevent or timely detect and remediate any unauthorized access to or disclosure of customer information and other sensitive business data;
- effects of a prolonged low interest rate environment, fluctuations in interest rates, including a rapidly rising interest rate environment, or a flat or inverted yield curve, as well as management’s ability to anticipate and timely respond to any such fluctuations;
- general economic, market, or business conditions, including economic downturns or other adverse conditions in the global and domestic capital and credit markets;
- our ability to attract and retain talented and qualified personnel, including key employees;
- effects of catastrophic events, both natural and man-made, that could adversely affect our operations and results, including impacts to claims and mortality experience, investment portfolio performance, and business operations;
- effects of significant corporate refinance activity, including bond prepayments;
- performance of our investment portfolio and the continued availability of and our capacity to invest in suitable investments that align with our strategies and profitability targets, including quality commercial mortgage loans;
- our ability to successfully execute on our strategies, including impacts of technological advances in our business;
- accuracy and adequacy of recorded reserves, including the actuarial and other assumptions upon which those reserves are established, adjusted, and maintained;
- persistency of our in-force blocks of business;
- deviations from assumptions used in setting prices for insurance and annuity products or establishing cash flow testing reserves;
- significant changes in projected future cash flows underlying the value of our intangible assets, including projections of future sales and profitability;
- continued viability of certain products under various economic, regulatory, and other conditions;
- financial strength or credit ratings changes, particularly ours, but also of other companies in our industry sector;
- our ability to maintain adequate telecommunications, information technology, cybersecurity or other operational systems, and business continuity plans;
- impact of potential changes in accounting principles and related financial reporting requirements;
- availability and cost of capital and financing;

- ability of subsidiaries to pay dividends to Symetra;
- adequacy and collectibility of reinsurance that we have purchased, the continued availability and cost of reinsurance coverage, as well as the creditworthiness and ability of our reinsurance counterparties to perform;
- our ability to implement effective risk management policies, procedures, or models, including hedging strategies; and
- initiation of regulatory investigations or litigation against us and the results of any regulatory proceedings.

Further, we are a wholly-owned subsidiary of Sumitomo Life Insurance Company, which has the ability to make important decisions affecting our business.

The following discussion highlights significant factors influencing the results of operations and changes in financial position of Symetra Financial Corporation for the years ended December 31, 2020 and 2019, and as of December 31, 2020 and 2019.

This discussion should be read in conjunction with the December 31, 2020 audited consolidated financial statements, available on the Company's website at http://investors.symetra.com/.

Discussions related to net income are presented in conformity with U.S. generally accepted accounting principles (GAAP). Management also considers certain non-GAAP financial measures to be useful in evaluating the Company's financial performance and condition. For a definition and further discussion of these non-GAAP measures, see – "Use of non-GAAP Financial Measures." All dollar amounts are in millions unless otherwise stated.

OVERVIEW

We are a financial services company in the life insurance industry providing employment-based benefits, annuities, and life insurance. Our operations date back to 1957 and many of our distribution relationships have been in place for decades. We are a wholly-owned subsidiary of Sumitomo Life Insurance Company (the Parent), a mutual insurance company with over 100 years of operating history and one of the largest life insurance companies in Japan.

Our products are sold domestically in all states and the District of Columbia through a network of financial institutions, broker-dealers, financial professionals, independent agents, and benefits consultants. We manage our business through three divisions (Benefits, Retirement, and Individual Life).

Benefits Division

We are a multi-line carrier offering medical stop-loss insurance, and group life and disability income insurance. We also offer absence management, group voluntary benefits (accident, critical illness, hospital indemnity) and group fixed-payment medical insurance.

Medical Stop-Loss

We provide medical stop-loss insurance to employers that self-fund their employee health plans. Employers that self-fund pay all claims and administrative costs. Our product helps employers manage health plan expenses by reimbursing individual claim amounts above a certain dollar deductible and by reimbursing aggregate claims above total dollar thresholds.

Group Life and Disability Income

Our group life and disability income (DI) products and services include group term life, short-term disability (STD), and long-term disability (LTD) income insurance.

Our group term life insurance product provides benefits in the event of an insured employee's or dependent's death. The death benefit can be based on an individual's earnings or occupation, or can be a set dollar amount. We offer basic and supplemental benefits for group term life, including optional accidental death and dismemberment (AD&D) coverage. AD&D coverage provides benefits for an insured employee in the event of accidental death or injury.

Our group STD and LTD income insurance protects an employee against loss of income due to illness or injury. Our group STD income coverage generally provides benefits for up to 26 weeks following a short waiting period. Our group LTD income coverage provides benefits following a longer waiting period and throughout prolonged periods of disability. We also offer absence management services.

Retirement Division

We offer fixed deferred annuities, including fixed indexed annuities (FIA), and also offer registered index-linked annuities (RILA) to consumers who want to accumulate assets for retirement on a tax-deferred basis. We also offer single premium immediate annuities (SPIA) to customers seeking a reliable source of retirement income or protection against outliving their assets during retirement.

Fixed Annuities

We offer single premium fixed deferred annuities that require a premium payment at time of issue, provide an accumulation period and offer an annuity payout period beginning at some future date. Our fixed annuities include both traditional fixed-rate and FIA products.

Our primary traditional fixed-rate products are Custom and Select annuities. Our Custom products offer a five- or seven-year surrender charge period and a choice of three-, five-, or seven-year initial guaranteed interest rate periods. Our Select products have a three-, five- or seven year- surrender charge period and a guaranteed credited rate throughout the surrender charge period.

Our FIA products provide contract holders a choice of a traditional fixed-rate account and one or more indexed accounts. Indexed accounts provide crediting rates that are linked to the performance of an index. Contract holders may also select their crediting method, which can be based on the net change in the index for the interest term based on either a point-to-point or monthly average formula, and some also contain a participation rate strategy. Certain of our FIA products also provide guaranteed lifetime withdrawals, which provides a source of lifetime income.

Registered Index-linked Annuities

Our RILA product allows customers to receive higher growth potential through index-linked interest credits, with limited protection from market loss. Contract holders select the form of the limited protection, including an indexed interest buffer, where we bear the risk of loss up to a certain percentage, or an indexed interest floor, where the contract holder bears the risk of loss up to a certain percentage.

Income Annuities

Our SPIA products provide for contractually guaranteed payments that typically begin within one year of issue. In exchange for a single premium, SPIA products provide a fixed amount of income over a defined number of years, the annuitant's lifetime, or the longer of the two. Longevity annuities enable the customer to select a payment start date several years after contract purchase, which typically lowers the customer's cost of funding a future income stream.

Individual Life Division

We offer individual life insurance products, primarily universal life insurance (UL), including indexed universal life insurance (IUL), and term insurance. We also offer institutional products, including bank-owned life insurance (BOLI) and variable corporate owned life insurance (COLI).

Universal Life Insurance

Our UL products provide policyholders with death benefit coverage on a flexible premium, tax-favored basis and may include the ability to access the cash value of the policy through a policy loan, partial withdrawal, or full surrender. Our UL product carries a secondary guarantee in the form of a lapse protection benefit rider, offering guaranteed coverage while maintaining the potential for some cash accumulation value.

We offer an IUL product with flexible premiums and index-linked or fixed interest rate crediting options. Index-linked interest rate crediting is based on the performance of the index or indexes selected by the policyholder, related participation rates, and the product's index caps and floors. Caps and floors are the maximum and minimum index interest crediting rates set at the beginning of each index interest term.

Term Life Insurance

We offer term life products that provide a guaranteed benefit upon the death of the insured and do not have cash value buildup. These products have guaranteed level premiums for initial terms ranging from 10 to 30 years.

Institutional Products

Our institutional products include fixed-rate BOLI and variable COLI products, which are mainly used by banks and other corporations as a tax-advantaged asset.

Our BOLI product offers institutional customers a stable, low-risk investment with an attractive after-tax equivalent return. The majority of our BOLI policies have contractual provisions that adjust the interest crediting rate periodically, based on the portfolio yield and claims experience, subject to certain contractual minimums.

Our variable COLI product allows corporate customers to allocate premium to a separate account, a fixed account, or both. The separate account is divided into subaccounts that are each invested in shares of designated underlying funds and customers elect their investment allocations within these subaccounts.

Other

Other reflects our operations that are not directly related to our divisions. These include certain small, non-insurance businesses; unallocated investment results related to surplus invested assets; unallocated corporate expenses; interest expense on debt; and elimination entries. Beginning January 1, 2020, Other also includes our institutional spread business associated with our membership in the Federal Home Loan Bank of Des Moines (FHLB DM). Prior period results have been adjusted to reflect this change.

Closed Block

The Closed Block includes all of our long-term structured settlement annuities, which we discontinued selling in 2012, as well as a smaller amount of retail SPIA. Closed Block contracts are fully reinsured and the future economic impacts of the reinsured business were transferred to the reinsurer, including interest rate risk, mortality risk, and credit risk on invested assets. We continue to service the reinsured business and report the associated invested assets and policyholder liabilities on our consolidated balance sheets.

RESULTS OF OPERATIONS

This discussion should be read in conjunction with our audited consolidated financial statements.

The Coronavirus Disease 2019 (COVID-19) pandemic and related economic downturn have adversely impacted our results of operations in 2020 as we experienced increased claims, a historically low interest rate environment, and disruptions to our business model.

- We experienced increased claims directly and indirectly related to the COVID-19 pandemic, primarily in our Benefits division.
- In our spread-type businesses within our Retirement and Individual Life divisions, the historically low interest rates during the pandemic resulted in lower investment yields. This typically results in narrower margins on our business as we absorb a portion of the lower yields for the benefit of our customers and to retain competitive pricing on our products.
- We experienced increased losses in our investment portfolio as a result of the economic downturn associated with the COVID-19 pandemic.
- The low interest rate environment also contributed to increased prepayments in our investment portfolio. Although we receive prepayment fees when our investments prepay, we may need to reinvest the proceeds into investments with lower yields due to the lower interest rate environment.
- The COVID-19 pandemic also impacted sales levels due to disruption and challenges in our business model as we and our distributors navigated and adopted new electronic ways to conduct business and sell products to our customers.

We have implemented risk management and business continuity plans, and taken preventive measures and other precautions related to the COVID-19 pandemic.

Each year in the third quarter, we perform a comprehensive review of actuarial assumptions used for estimates of future gross profits underlying the amortization of deferred policy acquisition costs (DAC), value of business acquired (VOBA), and deferred sales inducements (DSI), and the measurement and amortization of certain reserves. Among other factors, these actuarial assumptions include future investment yields, interest spreads, mortality expense, and lapse assumptions. This process is referred to as "unlocking" our future assumptions. We may also implement actuarial modeling true-ups and other refinements as part of the unlocking process. Unlocking adjustments reflected in the Retirement and Individual Life division results discussed below can be either favorable or unfavorable.

Consolidated Results

The following table sets forth adjusted pre-tax income, by division:

	For the Year Ended December 31,	
	2020	2019
Adjusted pre-tax income (loss):		
Benefits	$ 12.9	$ 33.9
Retirement	128.8	137.8
Individual Life	8.7	24.6
Other	(20.0)	(24.0)
Adjusted pre-tax income	$ 130.4	$ 172.3
Add (deduct) the following:		
Excluded realized gains (losses)	$ (37.4)	$ (63.3)
Amortization of goodwill and intangible assets	(143.2)	(87.3)
Closed Block – net gains (losses)	(109.7)	(399.0)
Income (loss) from operations before income taxes	(159.9)	(377.3)
Total provision (benefit) for income taxes	(68.4)	(111.8)
Net income (loss)	$ (91.5)	$ (265.5)

Adjusted Pre-tax Income

Adjusted pre-tax income is a non-GAAP measure that we use to manage our business. For more information on the excluded items, see – "Use of non-GAAP Measures."

- We reported a decrease in adjusted pre-tax income of $41.9, to $130.4.
- Our Benefits division income declined $21.0, driven primarily by increased underwriting and operating expenses, combined with unfavorable claims experience related to the COVID-19 pandemic. Additionally, our medical stop-loss loss ratio improved compared to the prior year.
- Our Retirement division income decreased $9.0, mainly due to the impact of low interest rates and the competitive environment on base interest spreads, the impact of unlocking, and increased operating expenses.
- Our Individual Life division income decreased $15.9, due to unfavorable claims experience, an increase in operating expenses, and the impact of unlocking.
- Operating expenses for 2020 increased to support business growth for each of our divisions.

Adjusted pre-tax income (loss) by division is described in more detail in the respective sections that follow.

Income (Loss) from Operations before Income Taxes

Loss from operations before income taxes improved $217.4 from a loss of $377.3, primarily due to lower non-economic losses from the accounting associated with the Closed Block. See – "Closed Block" for additional information regarding Closed Block results. Partially offsetting this favorable impact, goodwill amortization expense was $56.3 in 2020. Beginning January 1, 2020, we elected the private company accounting alternative to prospectively amortize goodwill over a 10-year period on a straight-line basis.

Net Income (Loss)

The benefit for income taxes in both 2020 and 2019 was driven by our losses from operations and our investment tax credits. Net income (loss) in 2020 also included a tax benefit of $15.2 in provision for income taxes related to a net operating loss carryback from the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).

Operating Results

Benefits

The following table sets forth the results of operations for our Benefits division:

	For the Year Ended December 31,	
	2020	2019
Adjusted revenues:		
Premiums	$ 1,126.0	$ 1,141.0
Net investment income	38.2	37.8
Policy fees, contract charges, and other	11.2	12.0
Certain realized gains (losses)	—	(0.2)
Total adjusted revenues	1,175.4	1,190.6
Benefits and expenses:		
Policyholder benefits and claims	875.2	881.3
Other underwriting and operating expenses	276.0	265.6
Interest expense (1)	1.9	2.0
Amortization of DAC	9.4	7.8
Total benefits and expenses	1,162.5	1,156.7
Adjusted pre-tax income	$ 12.9	$ 33.9

(1) Interest expense represents statutory reinsurance financing fees for an agreement effective beginning in 2019.

The following table sets forth selected operating metrics for our Benefits division:

	For the Year Ended December 31,	
	2020	2019
Loss ratio (1)	77.7	77.2
Expense ratio (2)	24.9	23.5
Combined ratio	102.6 %	100.7 %
Profit ratio (3)	1.2 %	3.0 %
Total sales (4)	$ 302.6	$ 328.5

(1) Loss ratio is calculated as policyholder benefits and claims divided by premiums. Policyholder benefits and claims include expenses for claims incurred during the period and changes to reserves.
(2) Expense ratio measures insurance-related operating expenses in relation to premium revenue. It is calculated as the sum of other underwriting and operating expenses of our insurance operations and amortization of DAC divided by premiums earned.
(3) Profit ratio includes investment income and fee revenue, as well as premiums, and is calculated as adjusted pre-tax income divided by net premiums.
(4) Total sales represent annualized first-year premiums net of first year policy lapses.

Our Benefits division primarily generates profit from premium revenue in excess of claims and operating expenses. We also earn net investment income on our growing medical stop-loss and group life and DI businesses.

Our Benefits division income declined $21.0, driven primarily by increased underwriting and operating expenses, combined with unfavorable claims experience related to the COVID-19 pandemic. Additionally, our medical stop-loss loss ratio improved compared to the prior year.

- Our expense ratio was 24.9%, compared with 23.5% for 2019. The higher ratio was caused by higher operating expenses due to a growing workforce and continued investment in strategic initiatives to support our business growth, while premiums remained stable despite lower sales and economic pressures from the COVID-19 pandemic.
- Our loss ratio was 77.7%, compared with 77.2% for 2019. The loss ratio reflected a much improved medical stop-loss underwriting result that was more than offset by unfavorable group life and DI claims experience related to the COVID-19 pandemic.

Benefits division sales decreased $25.9. In 2020, we raised medical stop-loss pricing, to improve the loss ratio, but this also drove sales lower than the record high level of 2019. We continued to maintain our strong relationships with existing partners and expand our network of new distributors.

Retirement

The following table sets forth the results of operations for our Retirement division:

	For the Year Ended December 31,	
	2020	2019
Adjusted revenues:		
Net investment income	$ 938.8	$ 878.2
Policy fees, contract charges, and other	29.2	31.0
Certain realized gains (losses)	(5.5)	(4.1)
Total adjusted revenues	962.5	905.1
Benefits and expenses:		
Policyholder benefits and claims	16.8	6.9
Interest credited	574.9	544.4
Other underwriting and operating expenses	149.6	136.7
Amortization of DAC and VOBA	92.4	79.3
Total benefits and expenses	833.7	767.3
Adjusted pre-tax income	$ 128.8	$ 137.8

The following table sets forth selected operating metrics for our Retirement division:

	For the Year Ended December 31,	
	2020	2019
Fixed account values – excluding FIA, RILA, and SPIA	$ 13,585.9	$ 12,571.1
Interest spread (1)	1.08 %	1.23 %
Base interest spread (2)	0.92	1.11
Account values – FIA	$ 12,732.2	$ 12,571.8
FIA interest spread (3)	1.59 %	1.54 %
FIA base interest spread (4)	1.34	1.43
Account values – RILA	$ 341.3	$ 126.9
Total sales (5)	3,375.2	3,652.0

(1) Interest spread excludes FIA, RILA, and SPIA and is the difference between the net investment yield and the credited rate to policyholders. The net investment yield is the approximate yield on invested assets. The credited rate is the approximate rate credited on policyholders' fixed account values. Interest credited is subject to contractual terms, including minimum guarantees.

(2) Base interest spread is the interest spread adjusted to exclude items that can vary significantly from period to period due to a number of factors and may contribute to results that are not indicative of the underlying trends. This exclusion is primarily the impact of asset prepayments.

(3) FIA interest spread is the difference between the net investment yield and the incurred interest rate on the host contract and fixed funds. The net investment yield is the approximate yield on invested assets, excluding derivative assets. For fixed funds, the incurred interest equals the interest credited to the customer in the fixed account. For the host contract, incurred interest equals the interest required to fund the guaranteed benefits in the indexed account.

(4) FIA base interest spread excludes items that can vary significantly from period to period due to a number of factors and may contribute to results that are not indicative of the underlying trends. This exclusion is primarily the impact of asset prepayments and the impact of reserve adjustments on interest credited.

(5) Total sales represent deposits for new policies net of first year policy lapses and/or surrenders.

Our Retirement division primarily generates profit from net investment income less interest credited to the contract holders' accounts in excess of operating expenses.

Base interest margin represents the earnings generated by the base interest spread relative to average account value during the period. It is defined as net investment income, less interest credited, and adjusted mainly to exclude the impact of invested asset prepayment income.

Our Retirement division income decreased $9.0, mainly due to the impact of low interest rates and the competitive environment on base interest spreads, the impact of unlocking, and increased operating expenses.

- The favorable impact of growth in our fixed and FIA account values was offset by lower new business margins, reflecting a decline in base interest spread. Lower new business margins in 2020 were driven by the historically low interest rates experienced during the COVID-19 pandemic and are reflected as a decline in our spread metrics.
- FIA interest spread increased primarily due to $5.9 increased prepayment income.
- Annual unlocking decreased adjusted pre-tax income by $9.6 and was primarily driven in 2020 by updated surrender rate assumptions on our FIA business. Unlocking had a $3.7 favorable impact in 2019.

Retirement division sales decreased $276.8. Our FIA sales decreased due to continued challenges created by the historic low interest rates, competition, and sales disruptions associated with the COVID-19 pandemic. However, we experienced a strong shift in customer demand toward shorter term fixed deferred annuities, which partially offset this decrease.

Individual Life

The following table sets forth the results of operations for our Individual Life division:

	For the Year Ended December 31,	
	2020	2019
Adjusted revenues:		
Premiums	$ 39.3	$ 35.4
Net investment income	296.9	283.0
Policy fees, contract charges, and other	330.4	309.2
Certain realized gains (losses)	3.5	(2.5)
Total adjusted revenues	670.1	625.1
Benefits and expenses:		
Policyholder benefits and claims	266.9	161.6
Interest credited	298.5	292.7
Other underwriting and operating expenses	131.3	119.8
Interest expense	3.1	2.1
Amortization (accretion) of DAC and VOBA	(38.4)	24.3
Total benefits and expenses	661.4	600.5
Adjusted pre-tax income	$ 8.7	$ 24.6

The following table sets forth selected operating metrics for our Individual Life division:

	For the Year Ended December 31,	
	2020	2019
Individual insurance:		
Individual claims (1)	$ 96.7	$ 64.0
Total reserves – UL products (2)	2,426.5	1,954.8
Institutional markets:		
Account values	6,083.4	5,913.6
Base ROA (3)	0.50 %	0.69 %
Individual sales (4)	118.2	113.9

(1) Individual claims represents incurred claims, net of reinsurance, on our term and universal life policies.
(2) Primarily includes account value, and also includes other benefit reserves and the value of embedded derivatives.
(3) Base ROA excludes items that can vary significantly from period to period due to a number of factors and may contribute to yields that are not indicative of the underlying trends. These are primarily the impact of asset prepayments and reserve adjustments.
(4) Individual sales represents annualized first year premiums for recurring premium products and 10% of new single premium deposits, net of first year policy lapses and/or surrenders.

Our Individual Life division primarily generates profit from net investment income and policy fees in excess of claims expenses, interest credited to policyholder accounts, and operating expenses.

Base margin is defined as adjusted revenues, less policyholder benefits and claims (including changes to reserves), and interest credited, and is adjusted to exclude the impact of invested asset prepayment income, unlocking, and other items. For institutional products, it represents the earnings generated by the base ROA on average account values during the period.

Our Individual Life division income decreased $15.9, due to unfavorable claims experience, an increase in operating expenses, and the impact of unlocking.

- Base margin for our UL business increased $17.7, primarily driven by larger in-force blocks of business, partially offset by unfavorable UL claims experience.
- Base margin for our institutional and term business decreased by $14.1, primarily driven by unfavorable claims experience and lower reinvestment rates on our BOLI products.
- The accretion of DAC was primarily due to the impact of large UL claims in 2020, net of reinsurance.
- Annual unlocking decreased adjusted pre-tax income by $6.0 and was primarily driven by updated reinvestment rate assumptions on our institutional business driven by the historically low interest rate environment, as compared to a $0.9 unfavorable impact for 2019.

Sales of individual life products increased $4.3 primarily driven by growth in our IUL business, while guaranteed UL sales decreased. Our growth in IUL reflects an important diversification of our portfolio.

Other

The following table sets forth the results of operations for Other:

	For the Year Ended December 31,	
	2020	2019
Adjusted revenues:		
Net investment income	$ 66.1	$ 63.1
Policy fees, contract charges, and other	3.7	1.1
Certain realized gains (losses)	(36.1)	(36.6)
Total adjusted revenues	33.7	27.6
Benefits and expenses:		
Interest credited	23.8	21.6
Other underwriting and operating expenses	7.2	7.4
Interest expense	22.7	22.6
Total benefits and expenses	53.7	51.6
Adjusted pre-tax income (loss)	$ (20.0)	$ (24.0)

Our adjusted pre-tax loss was $20.0 in 2020, compared to $24.0 in 2019, the improvement was primarily driven by margin earned on increased FHLB DM funding agreements.

CLOSED BLOCK RESULTS

Current Period Results

The following summarizes the Closed Block's pre-tax impact:

	For the Year Ended December 31,	
	2020	2019
Closed Block – mark-to-market gains (losses)	$ (82.6)	$ (329.9)
Closed Block – other results	(27.1)	(69.1)
Closed Block results – net gains (losses)	$ (109.7)	$ (399.0)

The decrease in Closed Block mark-to-market losses was primarily due to smaller increases in fair value of available-for-sale (AFS) fixed maturities in 2020 compared to 2019. In 2020, the Closed Block increased the proportion of invested assets that record changes in fair value through earnings, which decreased the overall mark-to-market losses compared to 2019.

Beginning January 1, 2020, in connection with the adoption of ASU 2016-13 Financial Instruments – Credit Losses, we elected the fair value option for commercial mortgage loans held in the Closed Block. Under the fair value option, changes in fair value are now recorded in earnings, which mitigates commercial mortgage loan-related mark-to-market volatility associated with the valuation of the Closed Block embedded derivative.

Mark-to-Market Gains (Losses)

Mark-to-market gains (losses) represent changes in the value of the embedded derivative that are partially offset by changes in the fair value of the withheld invested assets that are recorded in income.

The economic activity associated with the Closed Block annuity contracts and invested assets has been reinsured and separated from our operating divisions. As described below, accounting requirements create significant non-economic income impacts associated with this business. We expect, and have experienced, significant volatility in Closed Block income (loss) related to non-economic impacts.

The accounting for the Closed Block annuity contracts and the withheld invested assets supporting those contracts creates an embedded derivative that represents the right to receive, or obligation to pay, the total return on the withheld invested assets.

The withheld invested assets primarily consist of AFS fixed maturities, trading fixed maturities, and commercial mortgage loans. The changes in fair value of the withheld invested assets are impacted by various factors, including fluctuations in interest rates, credit spreads, and other financial market conditions.

The change in the value of the embedded derivative, and the changes in fair value of trading securities and commercial mortgage loans flow through the income statement and are recorded as offsetting amounts. However, changes in fair value of AFS fixed maturities are not recorded in earnings. The difference in accounting treatment between the embedded derivative and AFS fixed maturities creates an accounting mismatch on our consolidated statements of income (loss).

Other Results

Investment earnings, annuity benefits, and realized gains (losses) are passed to the reinsurer on a statutory accounting-basis (referred to as ceded activity), which differs from GAAP-basis results. Therefore, we expect meaningful differences between GAAP- and statutory accounting-basis realized gains (losses) when invested assets are sold. In general, the ceded statutory accounting-basis gains are greater than the GAAP-basis gains, which results in non-economic losses in the Closed Block.

INVESTMENTS

Our investment portfolio is designed to support the expected cash flows of our liabilities and produce stable returns over the long term. The composition of our portfolio reflects our asset management philosophy of protecting principal and receiving appropriate reward for risk. As of December 31, 2020, our investment portfolio primarily consisted of high-quality fixed maturity securities and commercial mortgage loans we originated, as well as smaller allocations of high-yield fixed maturities, investments in limited partnerships (primarily tax credit investments and alternative investments, which include private equity and hedge funds), and derivatives.

Closed Block Invested Assets

As of December 31, 2020 and 2019, invested assets supporting the Closed Block had a carrying value of $6.1 billion and $6.2 billion, respectively, and consisted primarily of AFS and trading fixed maturities, as well as commercial mortgage loans. Although all risks and benefits of ownership are fully reinsured, these assets are legally owned by us and included in our consolidated balance sheets.

The assets and liabilities, and income (loss), related to the Closed Block are excluded from the profitability measures used by management as the economic activity associated with the Closed Block annuity contracts and invested assets has been reinsured and separated from our other businesses. The invested assets in the Closed Block are managed by the reinsurer, except for commercial mortgage loans that we manage on behalf of the reinsurer for a fee. The invested assets managed by the reinsurer may reflect a different investment allocation than our main investment portfolio.

We have removed or segregated Closed Block results from the metrics presented and discussion herein.

Investment Returns

Net Investment Income

Return on invested assets is an important element of our financial results. The following table sets forth the income yield and net investment income, excluding realized gains (losses), for each major investment category:

	For the Year Ended December 31,			
	2020		2019	
	Yield (1)	Amount	Yield (1)	Amount
Investment Type:				
Fixed maturities (2)	3.42 %	$ 1,052.8	3.53 %	$ 1,003.7
Commercial mortgage loans (2)	4.19	260.9	4.25	236.6
Marketable equity securities	7.67	8.2	6.95	8.1
Other income producing assets (3)	1.33	14.0	3.63	16.3
Income before expenses and prepayments	3.50	1,335.9	3.66	1,264.7
Prepayment-related income (4)	0.14	51.6	0.10	34.3
Investment expenses	(0.12)	(47.4)	(0.11)	(36.8)
Net investment income, excluding Closed Block	3.51 %	$ 1,340.1	3.65 %	$ 1,262.2
Closed Block net investment income (5)	*	(16.1)	*	(41.6)
Net investment income	3.47 %	$ 1,324.0	3.53 %	$ 1,220.6

* Yield is not meaningful
(1) Yields are determined based on monthly averages calculated using beginning and end-of-period balances. Yields for fixed maturities are based on amortized cost. Yields for all other asset types are based on carrying values.
(2) Excludes investment income related to prepayment activity.
(3) Other income producing assets include policy loans, other invested assets, and cash and cash equivalents.
(4) Prepayment-related income includes make-whole payments and consent fees on early calls or tenders of fixed maturities, prepayment speed adjustments on structured securities, and fees on commercial mortgage loan payments received prior to the stated maturity or outside a rate resetting window. Prepayments of our fixed maturities and commercial mortgage loans result in the write-off of the premium or discount associated with the investment, which is recorded in net realized gains (losses).
(5) Represents investment income associated with the Closed Block, net of amounts ceded to the reinsurer.

Net investment income, excluding Closed Block, increased by $77.9 compared to 2019, primarily driven by higher average invested assets, partially offset by lower yields on new invested assets in 2020.

- Average invested assets increased due to net cash inflows from sales outpacing withdrawals and from issuances of funding agreements.
- Yields before expense and prepayments decreased to 3.50%, from 3.66% in 2019, as earned rates on fixed maturity purchases in 2020 were lower than overall portfolio yields. Yields were negatively affected by the historically low interest rate environment during 2020.
- In an attempt to mitigate the impact of the low interest rate environment on our investment portfolio, we have pursued strategies that generally provide more attractive yields while retaining an appropriate risk profile. We continued to underwrite commercial mortgage loans as we believe yields on these investments can be more attractive than those available on fixed maturities. We also continue to purchase high-quality collateralized loan obligations and investment-grade corporate securities as opportunities for favorable yields and diversification arise.

The following tables set forth the 10-Year Treasury rates for the past five fiscal years, highlighting the historically low interest rate environment caused by the COVID-19 pandemic.

	For the Year Ended December 31,				
10-Year Treasury Rate	2020	2019	2018	2017	2016
Close	0.93 %	1.92 %	2.69 %	2.40 %	2.45 %
Average	0.89	2.14	2.91	2.33	1.84

Net Realized Gains (Losses)

The following table sets forth the detail of our net realized gains (losses) before taxes:

	For the Year Ended December 31,	
	2020	2019
Gains (losses) on sales of fixed maturities, net	$ 21.7	$ 1.6
Net impairments and expected credit losses (1)	(15.0)	(3.0)
Marketable equity securities	(46.8)	(0.5)
Net gains (losses) – Indexed products (2)	(147.5)	(102.7)
DAC and VOBA adjustment	24.3	23.9
Annual unlocking impact	61.6	13.2
Other (3)	64.3	4.2
Total net realized gains (losses) excluded from adjusted pre-tax income (4)	(37.4)	(63.3)
Prepayment-related losses	(9.8)	(11.2)
Tax credit investments	(35.6)	(36.6)
Other	7.3	4.4
Total net realized losses included in adjusted pre-tax income (4)	(38.1)	(43.4)
Total net realized gains (losses) excluding Closed Block	(75.5)	(106.7)
Closed Block – mark-to-market gains (losses)	(82.6)	(329.9)
Closed Block – other realized gains (losses)	(55.0)	(76.2)
Total net realized gains (losses)	$ (213.1)	$ (512.8)

(1) Includes expected credit losses on AFS fixed maturities and commercial mortgage loans.
(2) Includes net gains (losses) on changes in fair value of the FIA, RILA, and IUL embedded derivatives and related options and futures.
(3) Includes net gains (losses) related to certain derivatives not designated for hedge accounting and other instruments.
(4) Adjusted pre-tax income represents a non-GAAP measure. For further discussion, including a description of how this measure is calculated, see – "Use of non-GAAP Financial Measures."

Net realized losses, excluding Closed Block, were $75.5 in 2020 compared to $106.7 in 2019. This decrease was primarily due to changes in realized gains and losses excluded from adjusted pre-tax income, which includes the following:

- The net gains on our interest rate collars and swaps included in other increased $49.2 compared to 2019, primarily driven by the historically low interest rate environment caused by the COVID-19 pandemic.
- The net losses on marketable equity securities were primarily driven by losses on sales as we liquidated a portion of our holdings to rebalance our equity portfolio.
- For 2020, the changes in the fair value of our indexed products' embedded derivatives and related options and futures resulted in a net loss of $147.5, compared to a net loss of $102.7 in 2019. The increased loss was primarily driven by the higher expected crediting rates post surrender charge period and losses on futures due to market volatility in the first quarter of 2020.
- Annual unlocking resulted in a net gain of $61.6 for 2020 compared to a gain of $13.2 in 2019. This reflected the impact of updating assumptions associated with the value of our embedded derivatives for FIA products, and the related impact on DAC and VOBA.

Closed Block net realized losses are excluded from adjusted pre-tax income and are expected to be volatile from period to period due to changes in the interest rate environment. See – "Closed Block" for additional information regarding Closed Block accounting.

Fixed Maturity Securities

Fixed maturities represented 82.4% and 82.1% of invested assets as of December 31, 2020 and 2019, respectively. The majority of our fixed maturities are invested in publicly traded or highly marketable securities. A modest allocation of our portfolio is invested in privately placed fixed maturities to enhance yields. As of December 31, 2020 and 2019, privately placed fixed maturities represented 9.1% and 7.3%, respectively, of our total fixed maturity portfolio at fair value.

The majority of our fixed maturities are invested in securities with a National Association of Insurance Commissioners (NAIC) designation of "1" or "2", which is considered investment grade. As of December 31, 2020 and 2019, 97.1% and 97.8%, respectively, of our fixed maturities were investment grade. Our holdings are diversified across industries and security categories.

We hold investments in high-quality foreign corporate securities and continue to purchase investments as opportunities for favorable yields and diversification arise. The majority of these holdings are denominated in U.S. dollars. We utilize foreign currency swaps and forwards to hedge our exposure to the holdings denominated in foreign currencies. As of December 31, 2020 and 2019, fixed maturities with fair value of $888.7 and $888.4, respectively, were denominated in a foreign currency and reported in U.S. dollars based on period-end exchange rates. As of December 31, 2020 and 2019, the total fair value of our foreign holdings was $8,769.1 and $8,136.6, respectively.

As of December 31, 2020 and 2019, 9.3% and 9.8%, respectively, of total fixed maturities were invested in residential mortgage- and commercial mortgage-backed securities (RMBS and CMBS), of which less than 10% were originated prior to 2009. Additionally, as of December 31, 2020 and 2019, 95.2% and 92.7%, respectively, of our total RMBS portfolio was agency securities and we had no exposure to subprime RMBS.

Commercial Mortgage Loans

Commercial mortgage loans represented 15.4% and 15.6% of invested assets as of December 31, 2020 and 2019, respectively. We originate commercial mortgages and manage our existing commercial mortgage loan portfolio. We specialize in originating loans of $1.0 to $5.0, which are generally secured by first-mortgage liens on income-producing commercial real estate. As of December 31, 2020 and 2019, 72.6% and 73.1%, respectively, of our mortgage loans had an outstanding principal under $5.0. As of December 31, 2020 and 2019, our average loan balance was $2.3 and $2.4, respectively.

All loans are underwritten consistently to our standards based on loan-to-value (LTV) ratios and debt-service coverage ratios (DSCR). LTV ratios and DSCRs are based on income and detailed market, property, and borrower analyses using our experience in commercial mortgage lending. A large majority of our loans have personal guarantees and all loans are evaluated annually. We diversify our commercial mortgage loans by geographic region, loan size, and scheduled maturity.

As of December 31, 2020 and 2019, our portfolio weighted-average LTV ratio was 47.6% and 48.7%, respectively, and our weighted-average DSCR was 2.04 and 1.97, respectively.

We believe we have maintained our disciplined underwriting standards as we have grown our mortgage loan portfolio. The following table presents information about our mortgage loan originations. Generally, a lower LTV ratio and higher DSCR indicate a higher quality loan.

	For the Year Ended December 31,	
	2020	**2019**
Weighted average LTV ratio of loans originated	44.1 %	50.4 %
Weighted average DSCR of loans originated	2.22	1.90

The following table sets forth our investments in mortgage loans by contractual maturity date:

	As of December 31, 2020	
	Outstanding Principal	% of Total
Years to Maturity:		
Due in one year or less	$ 91.1	1.4 %
Due after one year through five years	748.6	11.6
Due after five years through ten years	1,476.7	22.9
Due after ten years	4,126.6	64.1
Total outstanding principal	$ 6,443.0	100.0 %

Our loan terms usually allow borrowers to prepay their mortgage loan prior to the stated maturity or outside specified rate resetting windows. Prepayments are driven by factors specific to the activities of our borrowers, as well as the interest rate environment. The majority of our mortgage loans contain yield maintenance and other provisions that we believe mitigate the impact on us of loan prepayments.

As a result of the economic disruption created by the COVID-19 pandemic in the first half of 2020, we experienced a large increase in the number of requests for temporary relief from our commercial mortgage loan borrowers. We worked with individual borrowers impacted by the COVID-19 pandemic to provide relief in the form of interest-only or deferred payments, for a specified period of time, as necessary. In accordance with the CARES Act, relief offered to commercial mortgage loan borrowers facing hardship due to the COVID-19 pandemic through December 31, 2020, including forbearance or debt modifications, is not considered an indicator of troubled debt restructuring under GAAP. The Consolidated Appropriations Act, enacted on December 27, 2020, provided an extension to this provision for an additional year. As of December 31, 2020, 2.1% of our total outstanding principal balance was related to borrowers receiving relief in the form of interest-only repayment.

LIQUIDITY AND CAPITAL RESOURCES

Symetra conducts its operations through its operating subsidiaries and its liquidity requirements have been and will continue to be met primarily by funds from such subsidiaries. Dividends from subsidiaries are Symetra’s principal source of cash to pay dividends to its stockholder and meet its obligations, including payments of principal and interest on notes payable. Payments of dividends from insurance subsidiaries are subject to restrictions under state insurance regulations.

We actively manage our liquidity in light of changing market, economic, and business conditions, and we believe that our liquidity levels are more than adequate to cover our exposures, as evidenced in the discussion below.

Closed Block

The Closed Block consists of $5.9 billion and $6.2 billion of in-force income annuities as of December 31, 2020 and 2019, respectively. We remain liable to our contract holders to the extent that the reinsurer does not meet its contractual obligations. In the event of the reinsurer's insolvency, we would reclaim the assets supporting the reserve liabilities. We have the ability to offset amounts due to the reinsurer with amounts owed from the reinsurer, as well as access to amounts held in trust, which materially reduces the risk of loss. The amounts included in the discussion below exclude assets and liabilities related to the Closed Block.

Liquidity

Symetra’s insurance company subsidiaries have investment strategies intended to provide adequate funds to pay benefits without forced sales of investments. We consider the characteristics of our product liabilities and aim to match them with investments of similar duration and liquidity profiles. In addition, Symetra's insurance subsidiaries hold sufficient levels of highly liquid, high quality assets to fund anticipated operating expenses, surrenders, and withdrawals.

We define liquid assets to include cash, cash equivalents, short-term investments, and publicly traded and highly-marketable fixed maturities and equity securities. As of December 31, 2020 and 2019, Symetra's insurance subsidiaries had liquid assets of $32.4 billion and $29.9 billion, respectively, and Symetra had liquid assets of $101.6 and $148.7, respectively. The portion of our total liquid assets consisting of cash and cash equivalents and short-term investments was $1,060.6 and $653.4 as of December 31, 2020 and 2019, respectively.

Liquidity Requirements

The liquidity requirements of Symetra's insurance subsidiaries primarily relate to obligations associated with insurance policies and investment contracts, operating expenses, the payment of dividends to Symetra, and the payment of income taxes. Obligations associated with insurance policies and investment contracts include the payment of benefits, as well as cash payments made in connection with policy and contract surrenders and withdrawals. Historically, Symetra's insurance company subsidiaries have used cash flows from operations and invested assets to fund their liquidity requirements.

In managing the liquidity of our insurance operations, we consider the risk of policyholder and contract holder withdrawals of funds occurring earlier than assumed when selecting assets to support these contractual obligations. We use surrender charges, market value adjustments (MVAs), and other contract provisions to mitigate the extent, timing, and profitability impact of such withdrawals. Certain policy lapses and surrenders occur in the normal course of business. If interest rates rise significantly, we will likely experience an increase in lapses.

Our asset-liability management process takes into account the expected cash flows on investments and expected policyholder payments, as well as the specific nature and risk profile of the liabilities. Considering the size and liquidity profile of our investment portfolio, we believe that we have appropriately mitigated the risks associated with policyholder behavior varying from our projections. We also consider attributes of the various categories of liquid assets, for example, type of asset and credit quality, in evaluating the adequacy of our insurance operations' liquidity under a variety of stress scenarios. We believe that the liquidity profile of our assets is sufficient to satisfy our liquidity requirements.

Capital Resources

Our primary sources of capital are through retained earnings from our operating subsidiaries, access to the credit facility discussed below, access to debt financing markets, and additional capital from our Parent. The following table summarizes our capital structure:

	As of December 31,	
	2020	2019
Notes payable, net	$ 989.1	$ 703.6
Stockholder's equity (includes AOCI of $1,820.4 and $954.1, respectively)	5,063.0	4,333.2
Total capital	$ 6,052.1	$ 5,036.8

Dividends

The payment of dividends and other distributions to Symetra by its insurance subsidiaries is subject to insurance laws and regulations. In general, dividends in excess of prescribed limits are deemed "extraordinary" and require regulatory approval. Symetra did not receive any dividend payments from its insurance subsidiaries during 2020. Additionally, during 2020, Symetra declared and paid a $45.0 dividend to our Parent.

Risk-Based Capital

The NAIC establishes risk-based capital (RBC) standards for life insurance companies. If an insurer's RBC falls below specified levels, the insurer would be subject to different degrees of regulatory action depending upon the level of deficiency. As of December 31, 2020, Symetra's insurance subsidiaries had RBC levels well above regulatory action levels.

Notes Payable and Credit Facilities

The following table summarizes our amounts outstanding and access to contractual sources of liquidity:

		Maximum Amount Available		Amount Outstanding	
		As of December 31,		As of December 31,	
	Maturity Date	2020	2019	2020	2019
Sumitomo Life Insurance Company loan	1/16/2021	$ —	$ 450.0	$ —	$ 450.0
Sumitomo Life Insurance Company loan	12/21/2027	300.0	—	300.0	—
Sumitomo Life Insurance Company loan	10/16/2030	450.0	—	450.0	—
Senior notes	7/15/2024	250.0	250.0	239.1	250.0
Revolving credit facility	6/28/2024	300.0	300.0	—	—
Surplus note	12/31/2039	100.4	99.7	—	—
Total		$ 1,400.4	$ 1,099.7	$ 989.1	$ 700.0

Sumitomo Life Insurance Company Loan Agreements

In October 2020, we entered into a new $450.0 senior unsecured loan agreement with our Parent. This loan was used to settle the previous loan that was set to mature in January 2021. The new loan bears interest at a fixed annual rate of 2.39%, payable quarterly, and is scheduled to mature in October 2030.

In December 2020, we borrowed $300.0 under a new senior unsecured loan agreement with our Parent. The loan bears interest at a fixed annual rate of 1.83%, payable quarterly, and is scheduled to mature in December 2027.

Senior Notes Due 2024

In August 2014, we issued $250.0 of 4.25% Senior Notes. Interest on the notes is payable semi-annually.

Revolving Credit Facility

In June 2019, we entered into a five-year, $300.0 senior unsecured revolving credit facility, with access to an additional $100.0 of financing through an expansion feature, for a total maximum principal amount of $400.0. We have not borrowed under this facility as of December 31, 2020.

Surplus Note

In December 2014, in association with a reserve financing transaction on certain universal life policies, one of Symetra's insurance subsidiaries issued a surplus note. The note had no initial principal balance and we have not borrowed under this note as of December 31, 2020.

SOURCES OF REVENUES AND EXPENSES

Our revenues generally come from our policyholders in the form of premiums and policy fees, as well as investment income earned on our investment portfolio. Our main expenses are benefits to policyholders, including interest credited, expenses for operations, and amortization. These items are discussed in further detail below.

Each of our divisions maintains its own portfolio of invested assets, which are managed in accordance with specific guidelines. The Closed Block invested assets, other than commercial mortgage loans, are managed by the reinsurer in accordance with specific guidelines. The net investment income and realized gains (losses) from investments are reported in the division in which they occur or in the Closed Block. We allocate net investment income generated by our surplus portfolio to the divisions using a risk-based capital formula. The unallocated portion of net investment income is reported in Other.

We also allocate shared services operating expenses to each division and Closed Block using multiple factors, including employee headcount and time study results.

Revenues

Premiums

Premiums consist primarily of premiums from our medical stop-loss; group life and DI; group fixed-payment medical, accident and critical illness; and individual term life insurance products, net of reinsurance premiums paid.

Net investment income

Net investment income represents the income earned on our investments, net of investment expenses, including prepayment-related income such as bond make-whole payments. For Closed Block, net investment income is reduced by amounts ceded to the reinsurer, which are based on statutory investment income.

Policy fees, contract charges, and other

Policy fees, contract charges, and other includes cost of insurance charges, primarily on our UL, COLI and BOLI policies, surrender and other administrative charges to policyholders, revenues from our non-insurance businesses, and reinsurance allowance fees.

Net realized gains (losses)

Net realized gains (losses) consists mainly of realized gains (losses) from sales of our investments, realized losses from investment impairments, prepayment-related gains (losses), changes in the fair value of our alternative investments, expense from pass-through activity of tax credit investments, and changes in fair value of our mark-to-market financial instruments, including embedded derivatives. It also includes the portion of DAC and VOBA amortization due to changes in estimated gross profits (EGPs) related to these items. For Closed Block, realized gains (losses) include changes in fair value of the embedded derivative and fixed maturities trading portfolio, and are reduced by amounts ceded to the reinsurer based on statutory realized gains (losses).

Benefits and Expenses

Policyholder benefits and claims

Policyholder benefits and claims consists of benefits paid, net of reinsurance recoveries, and reserve changes on group insurance, annuity products with death benefits, individual life, COLI, and BOLI products.

Interest credited

Interest credited represents interest credited to policyholder reserves and contract holder general account balances, and the impact of deferred sales inducements. For Closed Block, interest credited is reduced by reserve activity related to the reinsured policies, as well as amortization of the deposit asset.

Other underwriting and operating expenses

Other underwriting and operating expenses represent non-deferrable costs related to the acquisition and the ongoing maintenance of insurance and investment contracts, including non-deferrable commissions, policy issuance expenses and other business, and administrative operating costs.

Interest expense

Interest expense primarily includes interest on notes payable, including the amortization of any associated premiums or discounts and related debt issuance costs.

Amortization of DAC and VOBA

We defer and capitalize as assets certain commissions, distribution costs, new business processing costs, and other underwriting costs that are directly related to the successful acquisition of new and renewal business. Amortization of previously capitalized DAC and VOBA is recorded as an expense over the lives of the contracts or policies in proportion to the EGPs.

Amortization of goodwill and intangible assets

Goodwill and intangible assets were generated as a result of our acquisition by our Parent in 2016. Beginning January 1, 2020, we elected to apply the private company accounting alternative for goodwill. Goodwill is prospectively amortized on a straight-line basis over ten years and intangible assets are amortized on a straight-line basis over their estimated useful lives.

USE OF NON-GAAP FINANCIAL MEASURES

Certain tables and related disclosures in this report include non-GAAP financial measures. We believe these measures provide useful information for evaluating our financial performance or condition. Non-GAAP financial measures are not substitutes for their most directly comparable GAAP measures and should be read together with such measures. The adjustments made to derive non-GAAP measures are important to understanding our overall results of operations and financial position and, if evaluated without proper context, non-GAAP measures possess material limitations. These measures may be calculated differently from similarly titled measures of different companies.

We have provided reconciliations between non-GAAP financial measures and their most directly comparable GAAP financial measures in the – "Results of Operations" section of this report. In the following discussion, we provide the definitions of these non-GAAP measures.

Adjusted Pre-tax Income

Adjusted pre-tax income consists of income from operations before income taxes, excluding results from the Closed Block, goodwill and intangible asset amortization, and certain net realized gains (losses). Income from operations before income taxes is the most directly comparable GAAP measure to adjusted pre-tax income.

Excluded realized gains (losses) are associated with the following:

- investment impairment and changes in expected credit loss allowances, sales, or other disposals;
- changes in the fair value of mark-to-market investments and derivative investments;
- changes in the fair value of embedded derivatives related to our indexed products; and
- DAC, VOBA, and DSI impacts related to these items.

We do not consider many of the activities reported through net realized gains (losses) to be part of the results of our insurance operations. The timing and amount of these gains (losses) are driven by investment decisions and external economic developments unrelated to our management of the insurance and underwriting aspects of our business. The results of the Closed Block are excluded because the associated economic risks have been fully reinsured. Additionally, goodwill and intangible asset amortization is not meaningful when assessing the results of our core business.

Certain realized gains (losses) are included in adjusted pre-tax income. These include gains (losses) from prepayment activity, and pass-through activity and write-downs associated with tax credit investments. Management considers these meaningful when assessing the results of our core business operations.

We believe it is useful to review adjusted pre-tax income to focus on the results of our core business operations. This assists management in determining whether our insurance-related revenues have been sufficient to generate operating earnings after meeting our insurance-related obligations, underwriting, and other operating costs. In addition, our management and board of directors have other uses for this measure, including assessing achievement of our financial plan.