Symetra Financial Corporation

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

December 31, 2019

All financial information in this document is unaudited

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:

- 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 fluctuations in interest rates, including a prolonged low interest rate environment, 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, 2019 and 2018, and as of December 31, 2019 and 2018.

This discussion should be read in conjunction with the December 31, 2019 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).

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

Benefits Division

We are a multi-line carrier offering medical stop-loss; group life and disability income (DI); and group fixed-payment medical, accident, and critical illness insurance products and services to employers.

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 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), 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. In 2019, we introduced a new registered index-linked annuities (RILA) product.

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 our 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 a point-to-point or a monthly average formula. 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, together with limited protection from market loss. Contract holders select the form of the limited protection from market loss. Options include 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 risk of loss up to a certain percentage.

Immediate 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. In 2019, we introduced an IUL product with a guaranteed death benefit protection feature (PIUL).

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 a designated underlying mutual fund 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.

Closed Block

In September 2018, we entered into an agreement with Resolution Re Ltd. to fully reinsure our block of in-force income annuity contracts issued prior to October 1, 2017 (the Reinsurance Transaction). Under the terms of the agreement, future economic impacts of the reinsured business were transferred to the reinsurer, including interest rate risk, mortality risk, and credit risk on invested assets.

The reinsured business includes all of our long-term structured settlement annuities, which we discontinued selling in 2012, as well as a smaller amount of retail SPIA. This transaction reduces our exposure to the long-term interest rate risk associated with the long-tail nature of the reinsured business. 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.

Consolidated Results

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

	For the Year Ended December 31,	
	2019	2018
Adjusted pre-tax income (loss):		
Benefits	$ 33.9	$ 54.7
Retirement	143.9	113.9
Individual Life	24.6	16.0
Other	(30.1)	(35.7)
Adjusted pre-tax income	$ 172.3	$ 148.9
Add (deduct) the following:		
Excluded realized gains (losses)	$ (63.3)	$ (75.2)
Amortization of intangible assets	(87.3)	(85.2)
Closed Block – mark-to-market gains (losses)	(329.9)	45.6
Closed Block – other results	(69.1)	(177.4)
Income (loss) from operations before income taxes	(377.3)	(143.3)
Total provision (benefit) for income taxes	(111.8)	(81.5)
Net income (loss)	$ (265.5)	$ (61.8)

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 an increase in adjusted pre-tax income of $23.4, to $172.3.
- Our Benefits division income declined $20.8, driven by higher claims experience related to medical stop-loss business, which more than offset the positive impact of strong premium growth.
- Our Retirement division income increased $30.0, primarily driven by growth in our FIA business.
- Our Individual Life division income increased $8.6, primarily driven by the impact of annual unlocking in 2019 compared to 2018. The favorable impact of growth in UL and term life business was partially offset by the related increase in DAC amortization and an increase in operating expenses to fund our growth.

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 was $377.3 in 2019 compared to $143.3 in 2018.

- The loss in both 2019 and 2018 was driven by non-economic losses from the accounting associated with the Closed Block. See – "Closed Block" for additional information regarding Closed Block results.
- Excluded realized losses decreased $11.9. See – "Investment Returns" for further discussion.

The benefit for income taxes in both 2019 and 2018 were driven by our losses from operations and our investment tax credits.

Operating Results

Benefits

Our Benefits division primarily generates profit from premium revenue in excess of claims and operating expenses. Our 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. Our 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. The combined ratio is the sum of the loss ratio and the expense ratio. We also earn net investment income on our growing stop-loss and LAD businesses.

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

	For the Year Ended December 31,	
	2019	2018
Adjusted revenues:		
Premiums	$ 1,141.0	$ 979.8
Net investment income	37.8	30.3
Policy fees, contract charges, and other	12.0	15.6
Certain realized gains (losses)	(0.2)	(0.3)
Total adjusted revenues	1,190.6	1,025.4
Benefits and expenses:		
Policyholder benefits and claims	881.3	719.8
Other underwriting and operating expenses	265.6	245.3
Interest expense (1)	2.0	—
Amortization of DAC	7.8	5.6
Total benefits and expenses	1,156.7	970.7
Adjusted pre-tax income	$ 33.9	$ 54.7

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

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

	For the Year Ended December 31,	
	2019	2018
Loss ratio	77.2%	73.5%
Expense ratio	23.5	24.7
Combined ratio	100.7%	98.2%
Total sales (1)	$ 328.5	$ 236.3

(1) Total sales represent annualized first-year premiums net of first year policy lapses.

Results

Our Benefits division income declined $20.8, driven by higher claims experience related to medical stop-loss business, which more than offset the positive impact of strong premium growth.

- Premium growth was achieved primarily by strong medical stop-loss sales in January 2019, combined with premium rate increases and solid persistency on our 2018 blocks of business.
- Our loss ratio was 77.2%, compared with 73.5% for 2018. Unfavorable claims experience in medical stop-loss was partially mitigated by favorable experience in group life and DI.
- Our expense ratio improved to 23.5% from 24.7% in 2018, as we benefited from economies of scale with our business growth.

We achieved record sales in 2019 of $328.5, an increase of $92.2 compared to 2018. We continued to expand our network of new distributors.

Retirement

Our Retirement division primarily generates profit from net investment income in excess of interest credited to the contract holders' accounts, which is represented using spread and margin metrics.

Base interest margin represents the earnings generated by the base interest spread relative to average account values 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.

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

	For the Year Ended December 31,	
	2019	2018
Adjusted revenues:		
Net investment income	$ 906.6	$ 762.2
Policy fees, contract charges, and other	31.0	30.5
Certain realized gains (losses)	(4.1)	(7.0)
Total adjusted revenues	933.5	785.7
Benefits and expenses:		
Policyholder benefits and claims	6.9	8.3
Interest credited	566.7	461.8
Other underwriting and operating expenses	136.7	125.4
Amortization of DAC and VOBA	79.3	76.3
Total benefits and expenses	789.6	671.8
Adjusted pre-tax income	$ 143.9	$ 113.9

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

	For the Year Ended December 31,	
	2019	2018
Fixed account values – excluding FIA and SPIA	$ 12,571.1	$ 11,918.0
Interest spread (1)	1.20%	1.23%
Base interest spread (2)	1.12	1.13
Account values – FIA	$ 12,571.8	$ 11,230.2
FIA interest spread (3)	1.54%	1.50%
FIA base interest spread (4)	1.43	1.43
Total sales (5)	$ 3,652.0	$ 3,852.5
FHLB DM funding agreements outstanding	1,488.7	105.7

(1) Interest spread excludes FIA 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, excluding FHLB DM funding agreements, 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.

Results

Our Retirement division income increased $30.0, primarily driven by growth in our FIA business.

- Growth in account values and stable base interest spreads drove a $27.8 increase in total base interest margin compared to 2018, which was primarily driven by our FIA business.
- Other underwriting and operating expenses increased due to increased workforce and strategic initiatives to support our business growth.
- In late 2018, we became a member of the Federal Home Loan Bank of Des Moines (FHLB DM). During 2019, we issued $1,383.0 of funding agreements, net of same year repayments, to support an institutional spread program that contributed to our interest margin.

Sales decreased $200.5 compared to 2018. We continue to experience heightened competition as industry sales shift away from traditional variable annuities towards fixed annuities, FIA, and RILA. This has drawn in new competitors including traditional variable annuity writers and carriers funded by private equity. As interest rates declined during 2019, we maintained our focus on achieving profitable growth. Following its launch in early 2019, RILA contributed sales of $121.4.

Individual Life

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

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.

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

	For the Year Ended December 31,	
	2019	2018
Adjusted revenues:		
Premiums	$ 35.4	$ 33.5
Net investment income	283.0	261.7
Policy fees, contract charges, and other	309.2	277.4
Certain realized gains (losses)	(2.5)	(3.3)
Total adjusted revenues	625.1	569.3
Benefits and expenses:		
Policyholder benefits and claims	161.6	148.3
Interest credited	292.7	286.7
Other underwriting and operating expenses	119.8	108.4
Interest expense	2.1	1.5
Amortization of DAC and VOBA	24.3	8.4
Total benefits and expenses	600.5	553.3
Adjusted pre-tax income	$ 24.6	$ 16.0

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

	For the Year Ended December 31,	
	2019	2018
Individual insurance:		
Individual claims (1)	$ 64.0	$ 75.6
UL account values	1,605.6	1,341.3
Individual sales (2)	113.9	92.4
Institutional markets:		
BOLI:		
Account values	$ 5,418.3	$ 5,354.1
Base ROA (3)	0.70%	0.76%
COLI:		
Account values	$ 495.3	$ 330.8
Base ROA (3)	0.40%	1.13%
Sales (4)	$ 61.0	$ 38.7

(1) Individual claims represents incurred claims, net of reinsurance, on our term and universal life policies.

(2) 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.

(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) COLI sales represent deposits for new policies. COLI sales typically occur in uneven patterns.

Results

Our Individual Life division income increased $8.6, primarily driven by the impact of annual unlocking in 2019 compared to 2018. The favorable impact of growth in UL and term life business was partially offset by the related increase in DAC amortization and an increase in operating expenses to fund our growth.

- Base margin for our UL and term life business increased $21.2, driven by larger in-force blocks of business and favorable claims experience.
- The increase in base margin drove increases in DAC and VOBA amortization in 2019, reflecting increased revenue on guaranteed UL and IUL policies.
- The impact of annual unlocking improved by $11.5. In 2019, unlocking resulted in a $0.9 unfavorable impact, while in 2018, updated lapse assumptions and model refinements on universal life reserves drove a $12.4 unfavorable impact.

  Annually in third quarter, we review and update actuarial assumptions used for estimates of future gross profits underlying the amortization of deferred acquisition costs, value of business acquired, and deferred sales inducements, and the measurement and amortization of certain reserves. 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.
- Other underwriting and operating expenses increased due to increased workforce and initiatives to support our business growth.

Sales of individual life products were $113.9 for 2019, an increase of $21.5 compared to 2018. IUL sales increased by $38.7, while guaranteed UL sales decreased by $19.1. 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, 2019	2018
Adjusted revenues:		
Net investment income	$ 34.7	$ 34.6
Policy fees, contract charges, and other	1.1	1.5
Certain realized gains (losses)	(36.6)	(45.3)
Total adjusted revenues	(0.8)	(9.2)
Benefits and expenses:		
Interest credited	(0.7)	(0.8)
Other underwriting and operating expenses	7.4	4.2
Interest expense	22.6	23.1
Total benefits and expenses	29.3	26.5
Adjusted pre-tax loss	$ (30.1)	$ (35.7)

Results

Our adjusted pre-tax loss was $30.1 and $35.7, respectively, for 2019 and 2018.

- Certain realized losses decreased $8.7 primarily related to tax credit investments.
- Other underwriting and operating expenses increased primarily due to additional investments in our brand development.

Closed Block Results

The economic activity associated with the Closed Block annuity contracts and invested assets has been reinsured and separated from our operating divisions. Due to accounting requirements, there are 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.

Mark-to-Market Gains (Losses)

Fluctuations in interest rates cause significant non-economic gains (losses) in net income, as explained further below. Generally, rising rates result in Closed Block realized gains, while falling rates result in Closed Block realized losses.

The accounting for the Reinsurance Transaction creates an embedded derivative that represents the right to receive, or obligation to pay, the total return on the withheld invested assets. The value of this embedded derivative fluctuates based on the fair value of the withheld invested assets supporting the Closed Block annuity contracts. Interest rates impact the fair value of the invested assets.

The majority of these Closed Block invested assets are fixed maturities classified as available-for-sale (AFS) and commercial mortgage loans, which do not record changes in fair value through net income. As a result, this creates a mismatch because changes in fair value of the embedded derivative are recorded as a realized gain (loss) in net income. This mismatch results in non-economic income statement volatility.

A portion of Closed Block invested assets are classified as trading securities, which are carried at fair value with changes in fair value recorded in net income; therefore, changes in fair value of these assets and changes in the related fair value of the embedded derivative are recorded as offsetting amounts in realized gain (loss), with no impact on net income.

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. This causes variances in Closed Block results reflected on the consolidated statements of income (loss).

We expect meaningful differences between GAAP- and statutory-basis realized gains (losses) when invested assets are sold. In general, the ceded statutory-basis gains are greater than the GAAP-basis gains, which results in non-economic losses in the Closed Block.

Current Period Results

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

	For the Year Ended December 31,	
	2019	2018
Closed Block – mark-to-market gains (losses)	$ (329.9)	$ 45.6
Closed Block – other results	(69.1)	(177.4)
Closed Block results – net losses	$ (399.0)	$ (131.8)

Significantly declining interest rates in 2019 drove large increases in the fair value of the Closed Block invested assets and the Closed Block embedded derivative liability. As noted above, the changes in these balances are recorded in different parts of the financial statements, resulting in non-economic income statement volatility.

Closed Block – other results reflected ceded statutory-basis gains, which were greater than the GAAP-basis gains. Results for 2018 reflected realized gains (losses) from investment sales as the portfolio was rebalanced after the close of the Reinsurance Transaction.

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, 2019, our investment portfolio consisted of high quality fixed maturity securities and commercial mortgage loans we originated, and 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), derivatives, and other investments including marketable equity securities.

Closed Block Invested Assets

As of December 31, 2019 and 2018, invested assets supporting the Closed Block had a carrying value of $6.2 billion and $6.0 billion, respectively, and consisted primarily of AFS and trading fixed maturity securities, as well as commercial mortgage loans. These assets are legally owned by the Company 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 the Company's 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 tables set forth the income yield and net investment income, excluding realized gains (losses), for each major investment category:

	For the Year Ended December 31,			
	2019		2018	
	Yield (1)	Amount	Yield (1)	Amount
Investment Type:				
Fixed maturities (2)	3.53%	$ 1,003.7	3.40%	$ 876.3
Marketable equity securities	6.95	8.1	6.80	6.3
Mortgage loans (2)	4.25	236.6	4.07	203.6
Other income producing assets (3)	3.63	16.3	3.92	10.6
Income before expenses and prepayments	3.66	1,264.7	3.52	1,096.8
Prepayment-related income (4)	0.10	34.3	0.09	26.4
Investment expenses	(0.11)	(36.8)	(0.11)	(32.6)
Net investment income, excluding Closed Block	3.65%	$ 1,262.2	3.50%	$ 1,090.6
Closed Block net investment income (5)	*	(41.6)	*	121.6
Net investment income	3.53%	$ 1,220.6	3.90%	$ 1,212.2

* 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 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 $171.6 compared to 2018, driven by higher average invested assets and higher portfolio yields.

- Average invested assets increased due to net cash inflows from sales outpacing withdrawals and from issuances of funding agreements.
- Yields before expense and prepayments increased to 3.66%, from 3.52% in 2018 as earned rates on fixed maturity purchases over the past year were higher than overall portfolio yields. 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 continued to purchase high-quality foreign corporate securities and asset-backed securities as opportunities for favorable yields and diversification arise.

Closed Block net investment income decreased due to amounts ceded to the reinsurer in 2019, while investment income for the first six months of 2018 was not affected by the Reinsurance Transaction, which closed during third quarter 2018.

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,	
	2019	2018
Prepayment-related losses	$ (11.2)	$ (12.5)
Tax credit investments	(36.6)	(42.7)
Other	4.4	(0.7)
Total net realized losses included in adjusted pre-tax income (1)	(43.4)	(55.9)
Gains (losses) on sales of fixed maturities, net	1.6	(10.1)
Net impairment losses on fixed maturities	(3.0)	(4.5)
Marketable equity securities	(0.5)	(11.9)
Net gains (losses) – Indexed products	(102.7)	(7.5)
DAC and VOBA adjustment	23.9	(3.0)
Annual unlocking impact	13.2	(39.2)
Other	4.2	1.0
Total net realized gains (losses) excluded from adjusted pre-tax income (1)	(63.3)	(75.2)
Closed Block – mark-to-market gains (losses)	(329.9)	45.6
Closed Block – other realized gains (losses)	(76.2)	(169.7)
Total net realized gains (losses)	$ (512.8)	$ (255.2)

(1) 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, increased by $11.9 compared to 2018. This was primarily driven by net losses on indexed products, partially offset by the results of annual unlocking and adjustments to DAC and VOBA.

- The net loss on indexed products in 2019 was primarily driven by lower discount rates used to value the embedded derivative for our FIA products, compared to higher rates used in 2018. The loss was partially mitigated by the related impact on DAC and VOBA amortization.
- Unlocking impact was $13.2 favorable in 2019 compared to $39.2 unfavorable in 2018. This is primarily related to net gains (losses) on indexed products in our Retirement business.

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 82.1% and 82.2% of invested assets as of December 31, 2019 and 2018, 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, 2019 and 2018, privately placed fixed maturities represented 7.3% and 5.4%, 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, 2019 and 2018, 97.8% and 98.1%, 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. Fixed maturities with fair values of $888.4 and $709.4, as of December 31, 2019 and 2018, respectively, were denominated in a foreign currency and reported in U.S. dollars based on period-end exchange rates. The total fair value of our foreign holdings was $8,136.6 and $5,502.5 as of December 31, 2019 and 2018, respectively.

As of December 31, 2019 and 2018, 9.8% and 11.4%, respectively, of total fixed maturities were invested in residential mortgage- and commercial mortgage-backed securities, of which less than 15% were originated prior to 2009. Additionally, as of December 31, 2019 and 2018, 92.7% and 91.9%, respectively, of our total RMBS portfolio was agency securities and we had no exposure to subprime RMBS.

Mortgage Loans

Commercial mortgage loans represented 13.7% and 14.1% of invested assets as of December 31, 2019 and 2018, respectively. Our mortgage loan department originates commercial mortgages and manages 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, 2019 and 2018, 73.1% and 75.1%, respectively, of our mortgage loans had an outstanding principal under $5.0. Our average loan balance was $2.4 as of both December 31, 2019 and 2018.

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 mortgage loans by geographic region, loan size, and scheduled maturity.

As of December 31, 2019 and 2018, our portfolio weighted-average LTV ratio was 48.7% and 49.1%, respectively, and our weighted-average DSCR was 1.97 and 1.94, 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:

	For the Year Ended December 31,	
	2019	2018
Weighted average LTV ratio of loans originated	50.4%	48.3%
Weighted average DSCR of loans originated	1.90	1.93

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

	As of December 31, 2019	
	Outstanding Principal	% of Total
Years to Maturity:		
Due in one year or less	$ 53.5	0.9%
Due after one year through five years	717.8	12.1
Due after five years through ten years	1,456.0	24.6
Due after ten years	3,700.6	62.4
Total	$ 5,927.9	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.

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.

Reinsurance Transaction

In September 2018, we entered into the Reinsurance Transaction related to the Closed Block for $6.8 billion of our in-force income annuities. 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, our 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, 2019 and 2018, our insurance company subsidiaries had liquid assets of $29.9 billion and $25.4 billion, respectively, and Symetra had liquid assets of $148.7 and $154.6, respectively. The portion of our total liquid assets consisting of cash and cash equivalents and short-term investments was $653.4 and $256.0 as of December 31, 2019 and 2018, respectively.

Liquidity Requirements

The liquidity requirements of Symetra's insurance company 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,	
	2019	2018
Notes payable, net	$ 703.6	$ 705.7
Stockholder’s equity (includes AOCI of $954.1 and $(321.3), respectively)	4,333.2	3,322.7
Total capital	$ 5,036.8	$ 4,028.4

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 2019. Additionally, during 2019, Symetra did not declare or pay dividends to its 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, 2019, Symetra Life Insurance Company, our primary insurance company subsidiary, had an RBC ratio of 420% of Company Action Level RBC, which is well above regulatory action levels. Symetra Life Insurance Company's statutory capital and surplus, including the asset valuation reserve, was $2,508.0 as of December 31, 2019.

During 2019, we entered into a coinsurance with funds withheld transaction for a portion of our stop-loss policies and a combined coinsurance with funds withheld and yearly renewable term basis for a portion of our UL insurance policies with secondary guarantees. Both agreements positively impacted our RBC ratio. These agreements do not qualify for reinsurance accounting on a GAAP-basis.

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	2019	2018	2019	2018
Sumitomo Life Insurance Company loan	1/16/2021	$ 450.0	$ 450.0	$ 450.0	$ 450.0
Senior notes	7/15/2024	250.0	250.0	250.0	250.0
Revolving credit facility	6/28/2024	300.0	400.0	—	—
Surplus note	12/31/2039	99.7	100.7	—	—
Total		$ 1,099.7	$ 1,200.7	$ 700.0	$ 700.0

Sumitomo Life Insurance Company Loan

In January 2018, we borrowed $450.0. The loan bears interest at a fixed annual rate of 2.68%, payable quarterly, and matures in January 2021.

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. Concurrently, we terminated our prior five-year revolving credit facility that would have expired in August 2019. We have not borrowed under this facility as of December 31, 2019.

Surplus Note

In December 2014, in association with a reserve financing transaction on certain universal life policies, one of our 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, 2019.

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 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. Investment expenses, which are recorded as a reduction of net investment income, are allocated to each division based on its portfolio of invested assets.

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 marked-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 our fixed maturities trading portfolio, and is 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 corporate debt, 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 estimated future gross profits.

Amortization of intangible assets

Intangible assets include value of distribution acquired (VODA), value of customer relationships acquired (VOCRA), trade names, and technology. These intangible assets have finite lives and 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, 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, 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 fully excluded because the associated economic risks have been fully reinsured through the Reinsurance Transaction. Additionally, intangible 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 this 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 retained business operations. This assists management in determining whether our insurance-related revenues from our ongoing businesses 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.