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Q4 2018 American Equity Investment Life Holding Co Earnings Call

EVENT DATE/TIME: FEBRUARY 07, 2019 / 2:00PM GMT

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PRESENTATION

Operator

Hello and welcome to American Equity Investment Life Holding Company's Fourth Quarter 2018 Conference Call. At this time for opening remarks and introductions, I would like to turn the call over to Julie LaFollette, coordinator of Investor Relations.

Julie L. LaFollette ***American Equity Investment Life Holding Company - Director of IR***

Good morning and welcome to American Equity Investment Life Holding Company's conference call to discuss Fourth Quarter 2018 earnings. Our earnings release and financial supplement can be found on our website at www.american-equity.com. Non-GAAP financial measures discussed on today's call and reconciliations of non-GAAP financial measures to the most comparable GAAP measures can be found in those documents.

Presenting on today's call are John Matovina, Chief Executive Officer, Ted Johnson, Chief Financial Officer, and Ron Grensteiner, President of American Equity Investment Life Insurance Company.

Some of the comments made during this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. There are a number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Factors that could cause those actual results to differ materially are discussed in detail in our most recent filings with the SEC. An audio replay will be made available on our website shortly after today's call.

It is now my pleasure to introduce John Matovina.

John Michael Matovina ***American Equity Investment Life Holding Company - Chairman, CEO & President***

Good morning and thank you, Julie. Thank you everyone for joining us on the call this morning. Our fourth quarter financial results remained strong helping us close out a record year. Non-GAAP operating income for the quarter was $90 million or $0.99 per share. And while that was flat with the third quarter exclusive of the benefit from actuarial reviews, I would note that the third quarter results had a larger benefit from non-trendable investment spread items. So sequentially we should -- we did show some improvement.

As a reminder, the three key metrics that drive our financial performance are growing our invested assets and policyholder funds under management, generating a high level of operating earnings on the growing asset base through investment spread and then minimizing impairment losses in our investment portfolio.

For the fourth quarter of 2018, we delivered 1% sequential growth and 5% trailing 12 month growth -- growth in policyholder funds under management. On a full year basis, we generated a 15.4% non-GAAP operating return on average equity excluding the impact of the actuarial assumption reviews. And then, excluding interest related losses from the investment realignment program, our investment impairment losses after the effects of deferred acquisition costs and income taxes were 0.4% of average equity.

The growth in policyholder funds under management for the quarter was driven by $1.1 billion of gross sales. The launch of the AssetShield series on October 9 was successful and it now joins the IncomeShield series that was launched in the first quarter of 2018 as one of our top two selling products. You'll hear more about the sales environment and competition from Ron.

We reported a sequential decrease in investment spread in the fourth quarter, primarily reflecting a lower benefit from non-trendable investment income items and over hedging. The cost of money continued to increase, but the cost of option purchases declined throughout the fourth quarter and the cost of purchases in -- thus far in 2019 has remained below the average cost of fourth quarter purchases. So those factors bode well for spread in 2019. Ted will have more details on investment spread in his remarks.

While our credit impairments were greater than in recent quarters, in part due to the write-down of one of our bond investments in PG&E, investment impairments remain relatively low, once again reflecting our continuing commitment to a high quality investment portfolio.

I'll be back at the end of the call for some closing remarks. Now, I'd like to turn it over to Ted for some additional comments on fourth quarter financial results.

Ted Morris Johnson ***American Equity Investment Life Holding Company - CFO & Treasurer***

Thank you, John. As we reported yesterday afternoon, we had non-GAAP operating income of $90 million or $0.99 per share for the fourth quarter of 2018 compared to non-GAAP operating income of $74.5 million or $0.82 per share for the fourth quarter of 2017. Investment spread for the fourth quarter was 256 basis points, down 11 basis points from the third quarter as a result of a three basis point decline in the average yield on invested assets and an 8 basis point increase in the cost of money.

Trendable spread in the fourth quarter was 246 basis points compared to 249 basis points in the third quarter. Average yield on invested assets was 4.51% in the fourth quarter compared to 4.54% in the third quarter. The decrease in the average yield in the quarter reflected a decline in the benefit from non-trendable investment income items from 11 basis points in the third quarter to 7 basis points in the fourth quarter.

Yield in the fourth quarter included 9 basis points from fee income from bond transactions and prepayment income, partially offset by 2 basis points of miscellaneous negative items. The average yield on fixed income securities purchased and commercial mortgage loans funded in the fourth quarter was 5.02% compared to 4.97% in the third quarter. The yield on investments purchased or funded in January was 4.61%. The lower yield in January reflects a higher allocation to purchases of corporate bonds than we for the full year. The structured securities market is typically slow in January, but it has begun to pick up and we expect our new money investment yield to move higher in the coming months.

In 2018, we opportunistically replaced approximately $2.1 billion of book value of lower yielding fixed income securities for a yield pickup of roughly 170 basis points on these investments. While we anticipate pursuing additional portfolio realignment opportunities in 2019, we would not expect the size to be as large as in 2018.

As we have stated in the past, our new money yield benefited throughout 2018 from the deployment of money into certain asset classes not traditionally in our portfolio. Throughout 2018, we had higher allocations to asset-backed securities such as collateralized loan obligations. We have not taken on any material increase in credit risk with this allocation strategy. NAIC 3 investments were 3.1% of fixed maturities at December 31 compared to 2.5% at the end of 2017.

We do not believe, even in a severe stress scenario like the financial crisis, that our CLO or CMBS portfolios would suffer significant default losses. For the CLOs, the subordination levels required by the rating agencies at each ratings level are significantly higher today than in 2007. Applying loss or ratings migration rates incurred during the financial crisis, today's -- to today's market does not seem realistic.

The addition of collateralized loan obligations in certain commercial mortgage loans to our portfolio during the year has positioned us to have a portion of the portfolio benefit from increases in short-term rates. At December 31, we had $4.6 billion or 10% of our investment securities portfolio in floating rate instruments. The increase in the 3 month LIBOR during the fourth quarter generated a 1 basis point increase in our average yield on invested assets.

The aggregate cost of money for annuity liabilities was 195 basis points up 8 basis points from the third quarter of 2018. The benefit from over hedging of index-linked interest obligations was 3 basis points in the fourth quarter compared to 7 basis points in the third quarter. The 4 basis point increase in the cost of money excluding over hedging benefits primarily reflects the escalation of option costs for certain index strategies in the last several quarters that is recognized ratably over the 12-month option period. While too late to affect the cost of money for the fourth quarter, we saw option cost come down significantly in December, and January option costs were lower than the average cost of fourth quarter option purchases. This outcome was contrary to expectations that higher volatility such as was experienced in December produces higher option costs.

On many previous calls, we have pointed out that higher volatility is expected to have the opposite impact on the cost of monthly point-to-point options, which account for roughly 30% of policyholder funds under management. And that was the outcome in December. In addition, the cost of annual point-to-point call spreads was relatively unaffected given the current low levels of caps. The cost of annual point-to-point participation rate options did go up significantly, but that is a relatively small, but growing percentage of our in-force.

Further in October, we began reducing rates, caps and participation rates on annual point-to-point and monthly average strategies on $35 billion of policyholder funds under management. As we have stated on our third quarter earnings conference call. We expected this reduction to produce annual savings in the cost of money of nearly 7 basis points on the $35 billion and almost 5 basis points on our entire in-force once they are fully implemented over the next several quarters.

Continuing the trend of the last few quarters. The change in product mix from bonus products to non-bonus products accounted for 1 basis point of the increase in the cost of money compared to the third quarter. Non-bonus products, which include the American Equity AssetShield and Choice and Eagle Select series, have a lower spread requirement compared to bonus products as a bonus needs to be recouped through a higher investment spread.

We continue to have flexibility to reduce our crediting rates if necessary and could decrease our cost of money by roughly 63 basis points, if we reduce current rates to guaranteed minimum. This is down from 65 basis points at the end of September.

Credit impairments in the fourth quarter were higher than in recent periods, in part due to a $5.5 million impairment of one of our holdings in PG&E. Risk-based capital at year end was 360%, compared to an estimated 386% at September 30th and 378% as of December 31, 2017. The change to a lower tax rate, and interim changes to the NAIC asset risk charges, negatively affected our risk-based capital ratio by 15 points.

The remaining decrease from the September 30th, estimated risk-based capital ratio reflected lower statutory net income partly due to the lower index credits combined with a [5 point] negative effect from the PG&E credit downgrade and impairment.

Low index credits negatively affected statutory income in two ways. First, the statutory integrated reserve, which includes LIBR is the expected present value of future benefits to be paid using statutory guidelines. When indexed credits are low, less of the increase in the guaranteed reserve is funded with policy growth.

Second, for the statutory income statement, gains on option expiration are recognized as both revenues, and an increase in the statutory reserve. However, the increase in the reserve is less than the actual gain because the reserve increase is generally net of the applicable surrender charge. So with less credits, we have less income.

Now, I will turn the call over to Ron to discuss sales, marketing and competition.

Ronald James Grensteiner ***American Equity Investment Life Holding Company - EVP***

Thank you, Ted. Good morning, everyone. As we reported yesterday, gross sales for the fourth quarter of 2018 were $1.1 billion, an 8% sequential increase compared to the third quarter of 2018, and a 12% increase from the fourth quarter of 2017.

Fixed indexed annuity sales increased 11% sequentially, reflecting a 14% increase at American Equity life, and a 1% decrease at Eagle Life. Consolidated net sales for the quarter increased 18% year-over-year, and 12% sequentially.

The competitive environment in the quarter remain challenging, a major competitor raised participation rates on its best-selling hybrid index product in early October, while another raised income in late December. There were a number of rate increases in November, but mostly from smaller competitors trying to raise their profiles. The actions that we took in the third quarter and early in the fourth quarter, which we spoke about on our last conference call, clearly enhanced our competitiveness in both the accumulation, and the retirement income spaces.

Accumulation products accounted for 38% of sales in the quarter, up from 35% of sales in the third quarter. If you'll recall, we enhanced our competitive position in accumulation products with the introduction of the AssetShield series on October 9. While relatively similar to the Choice series, our other product line for accumulation in the independent agent channel, the AssetShield is designed for more pure accumulation since a lifetime income benefit rider is not available. AssetShield 10 has the same 54% annual participation rate on the S&P 500, as the Choice 10 but in addition offers an annual participation rate of 120% on a S&P 500 Dividend Aristocrats volatility controlled index and 175% participation rate on the same index strategy if a policyholder chooses a 2 year strategy term. These participation rates are very competitive in today's marketplace and we believe the AssetShield offers compelling value. In the fourth quarter, combined sales for AssetShield and the Choice series were greater than total sales of the choice in the third quarter.

Guaranteed lifetime income remains a significant focus for us. IncomeShield accounted for 33% of sales in the fourth quarter and was the third best-selling lifetime income product in the independent agent channel in the third quarter without the benefit of the payout factor increase we made early in the fourth quarter.

Turning to pending, pending business at American Equity Life averaged 2,568 applications during the fourth quarter and was 2,772 at the end of December, compared to 2,547 applications, when we reported third quarter earnings. Pending application stands at 2,793 this morning and have been building following the typical early January slowdown. One year ago, pending was 2,343.

The number of weekly submitted applications was consistently at the 800 level or above through most of December before falling off during the holiday weeks in early January. Submitted applications have begun to rebuild again. Last week, we received 812 applications.

The slight decline in Eagle Life sales reflected the continued hyper competitive environment in the bank and broker-dealer channels. Pending applications today stand at 224 compared to 205 a year ago and a revised number for the third quarter earnings call of 245.

On our last conference call, we mentioned that Eagle Life had added one of the country's 15th largest banks based on assets as a distributor. We have begun to see meaningful sales and continue to expect this to be a key account for Eagle in 2019. We're also continuing to build out our employee wholesaling model, which will be a key initiative for Eagle in 2019. Our employee wholesalers will work with those accounts not willing to work with third party wholesalers and could also assist our third party wholesalers with some expertise and additional boots on the ground.

We also added two new broker dealers and launched the Select Focus 7 fixed-indexed annuity in the fourth quarter. The Select Focus 7 has the same features as the Select Focus 5 except the participation rates and caps are higher with a 7 year surrender term.

And with that, I'll turn the call back over to John.

John Michael Matovina ***American Equity Investment Life Holding Company - Chairman, CEO & President***

Thank you, Ted and Ron. We are pleased with our fourth quarter operating results. Our non-GAAP operating income exclusive of unlocking and non-trendable spread items increased and our sales rebounded. Although, we have yet to see industry sales results. It seems likely that we have regained some of the market share we lost in the third quarter. Our current product offerings are competitive and momentum is rebuilding after the holiday lull. And while adjusted spread was down from the third quarter, this mostly reflects investment income items that are not likely to have much effect in the future. And, as we said, renewal option costs have come down since we reported third quarter earnings. Hopefully, this continues and we'll see the benefit in our investment spread in 2019.

And looking back over, over the year, we had some very important accomplishments during 2018. Total sales did increase 5% for the year with a 6% increase in fixed-indexed annuity sales. Our policyholder funds under management also increased by 5%. And we had record non-GAAP operating earnings of $426 million or $4.66 a share. If you exclude the effect of unlocking of actuarial assumptions, our operating earnings would have been $345 million or $3.78 per share and that far surpasses the previous records of $262 million and $2.89 per share set in 2017. And even when you factor in the benefit in 2018 from a lower corporate income tax rate, 2018 would have been a record year ahead of 2017.

During the second quarter, we initiated a realignment of our investment portfolio to support more competitive product offerings without significantly altering our credit risk profile. By the end of December, we had repositioned approximately $2.1 billion of invested assets for net yield pickup of roughly 170 basis points, while taking some credit risk off the table.

We introduced two highly successful products during the year and three new participation rate strategies. We accomplished this while staying true to our view that transparent, easily understandable products focused on the S&P 500 Index, are best for consumers and our industry.

We are a better company today than a year ago and our balance sheet is as strong as it has ever been. While we expect the competitive environment to remain challenging. We look forward to a successful 2019. Our long-term outlook remains favorable due to the growing number of Americans, who need attractive fixed-indexed annuity products that offer principal protection with guaranteed lifetime income.

Now, consistent with the statement we made in our press release, last May, that we would not be making any further press releases or announcements regarding a potential transaction unless and until a definitive agreement has been reached. We will not be commenting on or answering any questions about a potential transaction on this call.

In summary, one constant in American Equity's 20 plus years history has been the extraordinary commitment and dedication to providing superior customer service, our employees demonstrate each and every day. On behalf of the entire American Equity team. Thank you for your time and attention this morning. I will now turn the call back for the operator for questions.

QUESTIONS AND ANSWERS

Operator

Thank you, ladies and gentlemen. (Operator Instructions) And our first question comes from the line of Randy Binner with B Riley. Your line is now open.

Randolph Binner ***B. Riley FBR, Inc., Research Division - Analyst***

Hey, good morning. I just had a couple on the distribution side. The first is, I just want to confirm that the end of quarter pending count was 2,772, Ron, is that what you said?

Ronald James Grensteiner ***American Equity Investment Life Holding Company - EVP***

For American Equity life, the end of the quarter was 2,793 -- excuse me, that's today. The end of the quarter, you were right, Randy was 2,772.

Randolph Binner ***B. Riley FBR, Inc., Research Division - Analyst***

Okay, perfect. And then, I guess the question I have is just, you know that piece of the business is doing better, and I think that was well explained, but it seems like some larger carriers like Pac Life and others are just getting bigger in the BD channel and I think that there's similar movement in bank, the bank channel. And so -- Eagle Life has done I think well and is signing up new bank relationships, but I mean, how sustainable can you be from a competitive perspective there since that area seems to be a lot more popular with some very big institutions versus the way it was in the past.

Ronald James Grensteiner ***American Equity Investment Life Holding Company - EVP***

Yeah, Randy. It's -- you raised a good point, one of the things that we are, that's a challenge for us is, some of those bigger companies that we're competing with that are already in the financial institution, probably because they were marketing variable annuities in a lot of cases. Anyway, so they already have those relationships in there in the system. So our mission has always been once you get into these financial institutions. When the competitors are already there, you have to have a compelling story to get on their platform, you can't get on those platforms with just a me-too product. So our strategy has been and we've been pretty successful at it today but there's obviously way more room for growth is to use our participation rate strategy what not -- which not many other companies in the financial institution market have. So really, I think, continuing to tell our story with that participation rate strategy and more boots on the ground are going to really be the keys to our success going forward.

Our third party wholesalers have done a great job and helped us get to where we are, but we need to continue to build our -- out our own employee wholesalers to get those boots on -- on and get some of those institutions that [don't allow to] -- third-party market -- third party marketing companies and you know, and that's basically more concentration on getting into those accounts and more boots on the ground is going to be vital for us.

Randolph Binner ***B. Riley FBR, Inc., Research Division - Analyst***

How many -- how many people -- how many wholesalers, would that be for you nationwide? Like 10 more or 20 more.

Ronald James Grensteiner ***American Equity Investment Life Holding Company - EVP***

We started last April with three and we saw significant improvement in a financial institution in the South that let those wholesalers talk to their reps and had great improvement. We -- they have since added four and we hope to have a total of 12 by mid-year and we have hired an Acquisition Account Manager in the first quarter to -- all that person is going to do is get the word on Eagle Life out into those financial institutions.

Randolph Binner ***B. Riley FBR, Inc., Research Division - Analyst***

All right, I'll leave it there. Thank you.

Operator

Thank you. And our next question comes from the line of Pablo Singzon with JPMorgan. Your line is now open.

Pablo Augusto Serrano Singzon ***JP Morgan Chase & Co, Research Division - Analyst***

Hi, good morning. My question is for either Ted or Jeff. So I appreciate the commentary and how see -- CLO structures are more conservative today, but I was wondering, if that conservatism is partly or mostly offset by less restrictive conditions in the underlying collateral. So just appreciate your perspective there?

Jeffrey David Lorenzen ***American Equity Investment Life Holding Company - Executive VP & CIO***

Yes, this is Jeff, Pablo. I think those are some of the concerns that are being raised in more current structures is that underwriting standards are getting a little lax. You're looking at more cov-light transactions and those are all obviously all things that as a -- as an investor in CLO, you need to be very much aware of as well as manager selection, overall structure. But when you look at the true underlying subordination of what we have today versus what you saw pre-crisis, the break points for a -- for a double A now what are -- now where they are for single A. So you're actually seeing the old double As are where the single As are today. So we're actually getting lot more subordination and if you look historically through the default patterns and things like that for collateral that backs these CLOs. At this point in time where they're structured. I don't think, you'll see any double Bs, at least in the current subordination if they went through that structure would break the dollar, at least in the third party analysis that we've seen. So as I say, it's not impossible but the structures are much more clean, they're much more reliable than they were pre-crisis and you're getting paid for for that risk in much wider spreads than what you saw pre-crisis as well.

Pablo Augusto Serrano Singzon ***JP Morgan Chase & Co, Research Division - Analyst***

Okay. And just as a follow-up to that, Jeff. And I'm not sure if you can give any numbers on this, but as you look at your overall CLO portfolio, would you be able to give us a rough sense of what sort of default grades would -- we need to see for CLO [obviously] to reach a [traction] where you've invested in -- at least, I see model them off that your CLO managers. Thanks.

Jeffrey David Lorenzen ***American Equity Investment Life Holding Company - Executive VP & CIO***

Well we -- what we do is run them through pre-crisis. So we took our portfolio and ran it through what we wouldn experience in ['07, '08, '09 and '10] and running it through those types of defaults scenarios, we did not see any losses, or meaningful losses in any of our CLOs.

Pablo Augusto Serrano Singzon ***JP Morgan Chase & Co, Research Division - Analyst***

Okay, thanks.

Jeffrey David Lorenzen ***American Equity Investment Life Holding Company - Executive VP & CIO***

So you can use that as your benchmark for stressing -- stressing the portfolio.

Operator

All right. And our next question comes from the line of Kenneth Lee with RBC Capital Markets. Your line is now open.

Kenneth S. Lee ***RBC Capital Markets, LLC, Research Division - Analyst***

Hi, thanks for taking my question. Just a quick follow-up on the question on the CLOs. Anyway, you could just give us a rough breakdown as to which tranches that you're typically invested in?

Jeffrey David Lorenzen ***American Equity Investment Life Holding Company - Executive VP & CIO***

Yeah, typically we're invested in. Let me see if I can pull out my sheet here. Double As, single As, triple Bs and we have an allocation to some double Bs. I would say, a little over half of it is in double -- or in triple B. Third of it would be in single As and then the remainder is split between double As and double Bs. As we look at how we bifurcate the portfolio. When you look at the double Bs, we have what we call manager tiers. So to our highest quality managers, we're going to allocate to the lower quality tranches. There is a direct correlation because these are not static pools. They are active pools and the managers can add and remove collateral. The manager selection is very important. So when we -- when we do go down in credit quality, we're going very up and the managers that have a long tenure have a large exposure to this asset class and they have been very successful in previous cycles and managing through those cycles.

Kenneth S. Lee ***RBC Capital Markets, LLC, Research Division - Analyst***

Got you. Very helpful. And just one follow-up around the comments around the January activity, the momentum you're seeing, what's some -- what could be the key factors driving that momentum? Is this something you're seeing across the industry and could it be due to like market volatility driving some incremental demand. Just want to get a better sense of that. Thanks.

Ronald James Grensteiner ***American Equity Investment Life Holding Company - EVP***

Well, that -- I think the fact that our products are competitively positioned right now is certainly helping us. We feel like we picked up some, although we haven't seen any official numbers yet, we feel like we picked up some market share in the fourth quarter and January is perhaps one of the stronger Januaries and we've had by January standards for a while and I think volatility in the marketplace is certainly [playing] a factor in that too.

Kenneth S. Lee ***RBC Capital Markets, LLC, Research Division - Analyst***

Great, thank you very much.

Operator

Thank you. And our next question comes from the line of Dan Bergman with Citi. Your line is now open.

Dan Bergman

Thanks, good morning. Just given that there's been somewhat of a pullback recently in risk free interest rates. I just wanted to see if you view the roughly 5% new money yield in the fourth quarter sustainable if current conditions continue and once the structured security market gets more active. And just related to that, I wanted to see, where you're seeing opportunities to put money to work and how much more capacity and appetite you have to add structured securities to the portfolio?

Jeffrey David Lorenzen ***American Equity Investment Life Holding Company - Executive VP & CIO***

Yes, Jeff Lorenzen, again. Regard to new money yields, clearly with the ten year at a 270 range, it does become more challenging to breach a 5% new money, I don't think that's a number that we've targeted for the long term. That was a strong quarter. High fours is something we think we can achieve with the mix of assets that we're looking to put into the portfolio as we go forward. So I think -- I think there's still a lot of potential lift that we're going to have, potential lift on book yield that we can have as we go forward. In terms of structured assets, we look at our peers, we remain significantly underweight our peers in terms of relative allocations to structured assets. We're not looking to -- to go over the top but we think we do have enough room here to continue to add some structured assets. Our focus is not going to be necessarily in CLOs. There is going to be other asset backed securities of investment grade quality that we're focused on and certain of these types of securities are going to offer the yields that we need typically coming off the front end of the curve. Since it is fairly flat, we're able to see some of the yields that we need to get with diversification of structure -- in that structured product area.

Dan Bergman

Got it, thanks. And then just in terms of the RBC ratio coming in at 360% following the new tax factors. I just wanted to see if you had any thoughts based on your initial discussions with the rating agencies around the target RBC you'll be looking to hold going forward? And should we expect the lift will be lower than the prior [375%] to bonded level given the impact of those tax factors?

Ted Morris Johnson ***American Equity Investment Life Holding Company - CFO & Treasurer***

We haven't had any direct discussion with the rating agencies on that for some -- quite some time and since we had our last annual review. We're in the process of re-updating our capital models and looking at that and we'll establish our range once we've completed that process. But once again, I think, we've said in the past, that decrease in the RBC ratio because of the tax factor change affects RBC and that isn't -- that doesn't necessarily affect what capital we need to hold for our rating with the various rating agencies.

John Michael Matovina ***American Equity Investment Life Holding Company - Chairman, CEO & President***

Yeah, the rating agencies don't have target RBC levels for us that I'm aware of, Ted. Certainly AM Best and S&P. I know, don't. So we -- we express the RBC is kind of a proxy for where we view the capital needs for the rating agency capital models.

Dan Bergman

Very helpful, thank you.

Operator

And our next question comes from the line of Marcos Holanda with Raymond James, your line is now open.

Marcos Holanda

Hey guys, actually thought, I had unqueued. You guys got most of my questions, well, I guess, I'll just throw one quickly on the PG&E impairment, what recovery rate assumptions you guys using and do you guys think those securities could be impaired further so?

Jeffrey David Lorenzen ***American Equity Investment Life Holding Company - Executive VP & CIO***

Yeah. At this point in time. You know the impairment we took was on the premium that we had, we had a bond. We had the 605s. They carried a multiple point premium, but we went ahead and impaired that premium to par. At this point in time, we don't think that we'll see an impairment in the par value of those securities and that's, that's how we've impaired that. We've also taken the coupon, the accrued interest on that bond as well, and taken that as an OTTI and wrote that down as well.

So that's the breakout of the impairments on PG&E. But as we see it today in our analysis, we don't see a structure, an outcome that would cause us to have $1 value loss in the actual principals of those securities.

Ted Morris Johnson ***American Equity Investment Life Holding Company - CFO & Treasurer***

So we wrote it down $5.4 million. As Jeff said too, there was interest income that was accrued on that bond. We did reverse that interest income and so when we talk, when I talked about the 2 basis points of miscellaneous negative items in investment income, half of that or about a point of that is related to the reversal of interest -- accrued interest on PG&E.

Marcos Holanda

Got it, so -- so worst-case scenario breakeven investment, right?

Jeffrey David Lorenzen ***American Equity Investment Life Holding Company - Executive VP & CIO***

Correct.

Marcos Holanda

Okay, thanks guys.

Operator

(Operator Instructions). And our next question comes from the line of Tom Shimp with Sandler O'Neill. Your line is now open.

Tom Shimp ***Sandler O'Neill - Analyst***

Good morning, guys. I know you guys weren't going to comment on the sale. But I was hoping, you could comment on how you think the sales process has been disruptive to the selling process, if it has or not. If you guys are getting asked about it from customers and if competitors are using against AEL?

Ted Morris Johnson ***American Equity Investment Life Holding Company - CFO & Treasurer***

I'm not aware that we're necessarily getting any questions from policyholders on that press release that we put out last year. In regards to agents, I think occasionally, we've had comment from agents. But based upon our sales performance that we've seen in the fourth quarter. Really -- what really drives sales right now is being competitive in the marketplace and we believe we've got competitive products out there and we are seeing our -- we're seeing that impact with our sales. So we do really don't believe that there is a significant drag that is going on right now, because of our previous announcement.

Tom Shimp ***Sandler O'Neill - Analyst***

Okay. And then on that same vein, I was wondering if you've had conversations with the distribution partners that have changed due to the government shutdown and recent volatility?

John Michael Matovina ***American Equity Investment Life Holding Company - Chairman, CEO & President***

No, that hasn't come up in our conversations with them.

Tom Shimp ***Sandler O'Neill - Analyst***

Okay, great. Thank you.

Operator

Your next question comes from the line of Pablo Singzon with JPMorgan. Your line is now open.

Pablo Augusto Serrano Singzon ***JP Morgan Chase & Co, Research Division - Analyst***

Hi, thanks for taking up my follow-up question. So Ron, I just wanted to follow up an earlier question about Eagle Life. So clearly, competition is more intense in banks and brokers. Is your strategy here to go head-to-head with other companies in terms of products or to provide products that'll have more differentiated benefits and if it's the latter isn't that an advantage. It can be quickly overcome by competitors?

Ronald James Grensteiner ***American Equity Investment Life Holding Company - EVP***

Well, for us, the latter is our current approach with that participation rate, and you're right. Other competitors can develop participation rate strategy, but they've been pretty slow to do it. So we are still one of the very few companies that have that strategy and battling with those bigger companies, we feel that with our reputation for being fixed-indexed annuity experts and our excellent customer service culture and getting more boots on the ground is going to be the difference maker for us.

Pablo Augusto Serrano Singzon ***JP Morgan Chase & Co, Research Division - Analyst***

Okay. And just a follow-up to that, some of your competitors have relied on reinsurance to grow and banks and brokers. Do you think that's the strategy that you potentially have to lean on again, thank you.

John Michael Matovina ***American Equity Investment Life Holding Company - Chairman, CEO & President***

Certainly reinsurance is always an option, we're choosing not to rely upon it, these days. But we've never -- we never rule it out as a possibility.

Pablo Augusto Serrano Singzon ***JP Morgan Chase & Co, Research Division - Analyst***

Okay, thank you.

Operator

Thank you. And I'm showing no further questions. So with that, I'll turn the call back over to Ms. Julie LaFollette for closing remarks.

Julie L. LaFollette ***American Equity Investment Life Holding Company - Director of IR***

Thank you for your interest in American Equity and for participating in today's call. Should you have any follow-up questions, please feel free to contact us.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone, have a wonderful day.