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Manulife Financial Corp $13 Billion Reinsurance Deal- Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Manulife Conference Call.

I would now like to turn the meeting over to Mr. Ko. Please go ahead, Mr. Ko.

Hung Ko ***Manulife Financial Corporation - VP, Group Investor Relations***

Thank you. Welcome to Manulife's Conference Call to discuss our reinsurance agreement, including long-term care block with Global Atlantic. Material related to the announcement, including the webcast slides for today's call are available on the Investor Relations section of our website at manulife.com.

We will begin today's presentation with an overview and strategic benefits of the transaction by Roy Gori, our President and Chief Executive Officer. Following Roy's remarks, Marc Costantini, our Global Head of Inforce Management, will provide more details on the LTC component of the transaction. After the prepared remarks, we will move to the live Q&A portion of the call. (Operator Instructions)

Before we start, please refer to Slide 2 for a caution on forward-looking statements. Note that certain material factors or assumptions applied in making forward-looking statements and actual results may differ materially from what is stated. I would also refer you to Slide 14 for a note on the non-GAAP and other financial measures used in this presentation.

With that, I'd like to turn the call over to Roy Gori, our President and Chief Executive Officer. Roy?

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Thanks, Hung, and thank you, everyone, for joining us today. I'm very pleased to announce that Manulife has entered into an agreement with Global Atlantic to reinsure $13 billion of reserves relating to 4 legacy, low ROE blocks including $6 billion of long-term care reserves. This agreement represents the largest-ever LTC reinsurance transaction and is a major milestone in our strategy to reshape our portfolio by reducing risk, improving ROE, strengthening capital, growing high-return businesses and delivering value to shareholders.

Let me share with you a few key features and strategic benefits of this transaction. First, the reinsurance transaction is a full risk transfer with a strong, highly experienced counterparty with whom we have 2 existing reinsurance arrangements. We're significantly reducing our exposure to LTC by reinsuring $6 billion or 14% of LTC reserves. In addition to LTC, the transaction includes a block of legacy U.S. structured settlements and 2 low ROE Japan whole life products. We also expect to dispose of $1.7 billion of ALDA backing the transacted blocks.

Second, this deal unlocks significant value for our shareholders. We expect to release $1.2 billion of capital, which we will fully return to shareholders through share buybacks under a new normal course issuer bid program that is already approved by OSFI, which will allow us to repurchase up to 2.8% of outstanding common shares commencing in February 2024. After accounting for the share buybacks, the deal is expected to be accretive to both core earnings per share and core ROE.

Third, this transaction further validates our prudent LTC reserves and assumptions. The transaction was executed at book value, with modest negative ceding commissions on LTC and structured settlement blocks, offset by a positive ceding commission on the Japan blocks. The negative cede on LTC of $270 million was driven by different return expectations rather than differences in reserving assumptions, further validating the adequacy and prudence of reserves and assumptions on our LTC blocks.

Lastly, while this transaction is an important step in executing our strategy to reshape our portfolio, we are not stopping here. With this largest-ever LTC reinsurance deal, we believe it marks an important step in establishing an active LTC reinsurance market. We're very optimistic that we can create further shareholder value through additional organic and inorganic actions across our legacy and low ROE businesses.

Slide 5 shows how this transaction unlocks significant value for our shareholders. We are transacting on legacy and low ROE businesses at an attractive earnings multiple that is higher than where we currently trade, while reducing our LTC exposure. Although we will forgo $130 million of core earnings, the transaction will be accretive to both core EPS and core ROE once we complete the share buyback.

With that, I would like to turn the call over to Marc Costantini, our Global Head of Inforce Management, who will provide more details on the transaction. Marc?

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Thanks, Roy. This transaction covers 4 legacy/low ROE blocks, including $6 billion or 14% of total long-term care reserves. I will walk through the details on the LTC component of the deal over the next few slides. It is important to note that our in-force LTC business has multiple blocks with varying characteristics, and the business continues to mature as policyholders' age, and we gain more claims experience.

Slide 6 shows the key features of the transacted LTC block and our robust reserving practices. In this transaction, we are reinsuring 80% of the ceded LTC block, consisting of policies sold between 1987 and 2006, with an average issue date of 2001.

There are 2 important distinguishing features of this block. First, the block's policyholder benefits are more generous than our retained blocks, including a higher percentage of lifetime benefits and inflation protection, which create a wider range of outcomes for future claims. Second, it has a higher average attained age and therefore, a higher proportion of disabled life reserves, providing a narrow range of outcomes as an offset.

Looking at the remaining LTC blocks, there are still blocks with similar maturity. In fact, we have $3.8 billion of retained reserves with same vintage as the transacted block. And while our total retained blocks are less mature on average, they have less generous policyholder benefits. As we have mentioned in the past, our reserving process is very robust.

Under IFRS, we are required to regularly update our assumptions for emerging experience, meaning our reserves are up to date, and we currently hold a 19% buffer or risk adjustment, over our best estimate liability. Also unique as a Canadian company is that we have an independent peer reviewer provide opinions on our assumptions in keeping with Canadian regulatory requirements.

Our overall reserves are prudent and over the past decade and through 4 comprehensive triennial assumption reviews, we've only strengthened reserves once in 2016. And as Roy noted, our counterparty used reserving assumptions that are overall aligned with our actuarial assumptions, providing further validation of the adequacy of our reserves on our retained LTC business as we use the assumptions consistently across all LTC blocks. The negative ceding commission on the transacted LTC block of $270 million represents less than 5% of IFRS reserves, and was driven by different return expectations on deployed capital.

On to Slide 7. This transaction significantly reduces our risk. It reduces our LTC reserves by 14%, and it will also reduce our LTC morbidity sensitivities by 12%. In addition, we expect to dispose $1.7 billion of ALDA backing the various transacted blocks, which represents approximately 5% of the overall ALDA portfolio that is not supporting, participating or pass-through products.

Before we move on, it's important to reiterate that the morbidity sensitivity shown here is before potential benefits of raising premium rates if experience deteriorates. Also of note, under the quota share reinsurance, any premium increases beyond what are currently embedded in our reserves on the ceded block will be split 20% and 80% between Manulife and the counterparty, respectively.

Moving to Slide 8. We have several in-flight organic levers to improve LTC experience, reduce risk and bend the morbidity curve. First, we have now achieved over USD 10 billion of cumulative rate increases on a present value basis since 2008, demonstrating our strong track record of securing re-rate approvals. We have always been conservative on the premium rates embedded in our reserves, and in our third quarter of 2022 review of actuarial assumptions for LTC, we only embedded USD 2 billion of premium increases out of a total estimated ask of approximately USD 6.5 billion. To date, we have received approval for over USD 700 million of the USD 2 billion premium increases embedded in our reserves, on track with our assumptions. The remaining USD 1.3 billion represents less than 5% of total LTC reserves.

We also have been creative in our re-rate program, and were the first to offer landing spot option in 2010. In addition, we are now making cash buyout options a standard alternative to premium increases for policyholders. Any take-up on this offer will release us from the liability and reduce risk, while offering additional options to policyholders. We are also focused on wellness and empowering our customers to age on their own terms and live healthier, better lives, by digitally transforming the LTC experience. This includes evolving policy management and the claims initiation process into partnerships between the policyholder, their caregiver, and Manulife.

The transformation will also support our ability to deliver a best-in-class claims management experience, supporting policyholders through a challenging care moment and further improve our ability to detect and prevent fraud. We will also enable preferred provider networks, driving utilization of providers with discounted rates and high-quality service for policyholders. And, we will partner across industries to develop meaningful personalized solutions that extend independent living, which is beneficial for our customers, and eliminates or delays claims.

All these organic actions have great potential, and the results to date are encouraging, which also contributed to the successful transaction we announced today. I will reiterate that this reinsurance transaction is an important milestone in the marketability of LTC blocks, and we expect the reinsurance market to further develop.

With that, I will now pass it back to Roy for closing remarks. Roy?

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Thanks Marc. To close off our prepared remarks, I will remind you that in 2018, we made portfolio optimization 1 of our 5 strategic priorities, and we set ambitious targets to reduce risk, improve ROE, strengthen capital, and grow high-return businesses.

Since then, we have cumulatively released over $10 billion of capital from optimization actions, increased our core ROE by over 4 percentage points to 15.7% year-to-date 2023 from 11.3% in 2017, and reduced our pro forma core earnings contribution from LTC and variable annuities to 11% from 24% in 2017. While I'm delighted with the progress that we've made, I am very optimistic that there is significant additional shareholder value to be created through further organic and inorganic actions.

This concludes our prepared remarks. Operator, we will now open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Meny Grauman from Scotiabank.

Meny Grauman ***Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst***

Just a question on how this deal came together in terms of -- did you go to the market with this specific portfolio? Or did Global Atlantic come in and specifically choose what it wanted, especially on the LTC side, that's $6 billion. Is that what they wanted, and they explicitly didn't want any of the other LTC blocks? Or that was the package that was offered to the market? Just wanted to get a clarification on that.

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Roy here. It's a great question. As you know, we're always exploring opportunities to divest legacy and low ROE businesses. So for us, we're constantly in the market looking at these various blocks. And as you know, this combined block of businesses has an ROE of approximately 10%. So when we were discussing this with Global Atlantic and quite frankly other counterparties, we found a combination of blocks that made sense for them and clearly made sense for us as well. So really, this is a dynamic process that we have.

We're always looking at inorganic opportunities to create value for shareholders, and we were delighted that we were able to get a bundle across, which had a, such a significant share of LTC, the largest LTC transaction in history, but also other blocks that were low ROE and through transacting, we saw as a tremendous opportunity for us to create value for shareholders. But Marc, you might want to add a little bit more.

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Yes. Thank you, Roy, and thanks for your question. Maybe to expand a bit on what Roy was mentioning, we set out to do what we call the benchmark transaction, as Roy mentioned, which would basically changed the complexion of LTC in the eyes of our shareholders and investors, but at the same time, transact a meaningful block. And when you think about that, then that required, obviously, for us to transact at a price that was acceptable and we were seeking to validate, obviously, the reserving assumptions underpinning what we do.

And we've mentioned many times, and Steve has mentioned many times that we keep our assumptions very current, and we have found an opportunity here to, and that was one of our objectives. And as we looked at the blocks and we looked at the characteristics, and I mentioned it in my remarks, the characteristics of this block, we found that as we spoke to the market, as Roy was mentioning, that we converged toward this block and towards other lower ROE business to complement and augment what we are offering and traded the whole thing at book value and generating, obviously, a significant amount of capital release, which we're all returning to our shareholders. So we felt that this was achieving all the objectives we set out when we first were thinking about this.

Meny Grauman ***Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst***

Maybe just as a follow-up, just in terms of the structure of this transaction, the bundled nature, is it right to assume that it's bundled because -- well, you wouldn't be able to transact the stand-alone LTC transaction at the moment? Is that a fair sort of conclusion to draw from the fact that this transaction is a bundled one?

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

It's Marc here again, Meny. I would say we can't conclude that because as we approach the market, we approached it and we're trying to trade, I would say, our risks overall at book value. And as we talk to the various markets, as Roy mentioned, we saw some interest in other parts of our business. And low ROE businesses that had value for the potential markets, and we quickly pivoted to combining into a much larger transaction with even greater value for our shareholders.

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Yes Meny, I wouldn't say that we couldn't transact without those other pieces. This was just a combination of blocks that made sense for us and for the counterparty, and that's what facilitated this transaction as is. We also believe that this could be a catalyst for future LTC transactions. The first is often the most important, and we saw that in the VA market as well.

Operator

The next question is from Tom Gallagher from Evercore ISI.

Thomas Gallagher ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Apologize for the voice. Any sense if -- from a capacity standpoint, if you think there is more potential capacity from counterparties out there, like could you have done a bigger deal on the LTC side? Or you think this was the largest you could have gone? And as you surveyed the environment, were there other counterparties that you think also would have been willing to do -- to transact on LTC beyond the global range? And also can you mention who the global reinsurer is?

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Thanks, Tom. I hope you're doing okay. You sound a little bit croaky. Look, a couple of thoughts from mine and again, I'll pass it over to Marc. Delighted with the question, honestly, could we do a bigger transaction or more? Quite honestly, is exactly what we were hoping for as a question out of this call because a week ago, the question was, could we do an LTC transaction? So we think this is really an important evolution in the marketplace.

We did see a number of parties that were interested, and we have seen the bid-ask spread decrease quite significantly. We've obviously always been out in the market talking to interested parties about transacting on LTC. And we've said in the past that the bid-ask spread was too wide. We saw it narrow quite significantly and we were very encouraged by that.

And there's really 3 key factors that facilitated that narrowing of the bid-ask spread. The first was the maturing of the portfolio. We've got a lot more data. Just as a few data points, the policy count has decreased on our portfolio, 16% since 2018 and we now have less than 50% of policies originally sold still in-force. So we're seeing a maturity of our portfolio and the data is certainly supporting a narrowing of outcomes. The second factor for us was the portfolio experience itself. As Marc highlighted, we've only had 1 reserve strengthening in the last decade and our policyholder experience has generally been positive. The third factor that again helped facilitate this transaction was the effectiveness of our organic actions. And quite honestly, the future actions that we're planning to take also very interesting to this party and to other parties. So we really think that this is a milestone.

It's possibly the catalyst for future transactions. We don't want to speculate too much on that. But we were quite encouraged by that. And yes, there were several parties that were interested and that we were discussing these blocks with. But Marc, you might want to elaborate a little bit more.

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Yes. Thank you, Roy, and thanks for your question, Tom. I would say, in terms of balancing size of the transaction, we were seeking and have achieved the objective of making it the largest one. And we wanted to reset the marketplace and the perception of LTC with respect to our block. And I think a number of things that are important there that Roy mentioned, it's not only the block itself, it's how we manage it and all of these organic things that we felt, and the currency of our assumptions, as we've mentioned.

So -- and then the size, how big is -- as well, you got to counter that with execution certainty. So we wanted to do something in a certain time frame, execute, and go from there. And as Roy said, you're setting kind of the framework for future transactions. And we have another block that's the same vintage. It's about CAD 3.8 billion that looks very similar to the one we transacted. And we feel that the market hopefully opens up from this point on. So it was the combination of all these things gave us the confidence of striking the size at this point and looking for the future for other transactions. So thank you.

Thomas Gallagher ***Evercore ISI Institutional Equities, Research Division - Senior MD***

And just for my follow-up, the $300 million negative cede, was that on an IFRS accounting basis? And how did that look on a U.S. stat. basis because it looks like you're including an extra $600 million of reserves for U.S. statutory? Was there a larger loss on a U.S. stat. basis?

Steve Finch ***Manulife Financial Corporation - Chief Actuary***

Tom, it's Steve. I'll take that one. Yes, so the 5% negative cede on LTC, that's the IFRS basis. On the NAIC basis, that's a little bit larger, that's about a negative 8% cede. When you're looking at the reserves on a stat basis, as you know, but a reminder for all, but those are on a book value basis. So adjusting to a market value basis, consistent with IFRS you get -- the IFRS reserves continue to be somewhat higher than on the NAIC basis.

Thomas Gallagher ***Evercore ISI Institutional Equities, Research Division - Senior MD***

Thanks, and congrats.

Operator

The next question is from Gabriel Dechaine from National Bank Financial.

Gabriel Dechaine ***National Bank Financial, Inc., Research Division - Analyst***

Congrats on the deal. I'll just give a few rapid fire ones here. The difference between the core and reported impact, is that tied to the expected earnings on your investments? Just to clarify the quota share for the LTC specifically, that means 20% of the premium increases, as you mentioned, that would go to you but also the risk, you're retaining 20% of the risk rather? And then the capital release, is it -- just if I have to break down that capital release by individual block because there's 3 of them. Is it in proportion to the $6 billion of LTC reserves, is it roughly half of the capital benefit as well?

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Thanks for your question, Gabriel. I'm going to ask Colin to start with your financial questions, and then Marc will do the quota share and Steve probably best placed on the capital piece.

Colin Simpson ***Manulife Financial Corporation - CFO***

Yes. Thanks, Gabe. So core earnings go down as we know, the insurance service result goes to 0 as do the core investment earnings. So that's your $130 million reduction in core earnings. But what we do and as you know, IFRS 17 is on a gross basis, so we'll keep the liabilities on our balance sheet and raise our reinsurance recoverable -- reinsurance assets. This unwind of the reinsurance asset will go through noncore earnings. So the nuance here is that the yield on the reinsurance asset is higher than the book yield on the invested assets that we're disposing. So you get a little bit more of an offset in noncore earnings compared to the reduction in core investment earnings. So that explains the $15 million overall net impact versus the $130 million core earnings impact.

Gabriel Dechaine ***National Bank Financial, Inc., Research Division - Analyst***

I may have to revisit that one, offline.

Colin Simpson ***Manulife Financial Corporation - CFO***

Anytime. Please get in touch.

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Gabriel, it's Marc here. So your question about the quota share. So as of Q3 last year, I know we had USD 2.1 billion embedded in our reserves for future re-rates. The proportion of those re-rates that are attributed to the blocks that were transacted today are all ours. So we maintain and we will keep that as they come in. So any future rate increase that would be tied to future deterioration if that ever happens to this block would be shared along the quota share, which is 80% to the counterparty and 20% to us.

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

And retaining a share of the block is not an unusual feature. Gabriel, as you know, it aligns both parties to the same interest.

Gabriel Dechaine ***National Bank Financial, Inc., Research Division - Analyst***

I just wanted to clarify that. The benefit of premium increases above and beyond what's in your reserves, that would -- you'd get 20% of that. But if experience went in the other direction, you have -- there would be some share of that risk as well, right?

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Well, we want the 20% that we're retaining, obviously, we have the risk. And as we've said, we're obviously confident about our reserving assumptions. And as you know, we've been very prudent with the premium increases that we've gotten in our reserves. But I appreciate that.

Gabriel Dechaine ***National Bank Financial, Inc., Research Division - Analyst***

Just want to clarify.

Steve Finch ***Manulife Financial Corporation - Chief Actuary***

And thanks, Gabe. On the capital, roughly, you can think of a little over half coming from LTC, a smaller amount from the structured settlements and a meaningful amount from the Japan blocks as well.

Gabriel Dechaine ***National Bank Financial, Inc., Research Division - Analyst***

Great. Thanks. And again, congrats.

Operator

The next question is from Doug Young from Desjardins Bank Capital.

Doug Young ***Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst***

Yes, I don't know how much on the long-term care insurance quota share agreement, and I think this might have been asked before, but I don't think it came out in the answer, but you are reinsuring or doing the transaction with global GA and then you're turning around and reinsuring it with third party. Have you talked about -- and I don't think you're going to tell the name, but have you talked about the quality of that third-party like the ratings for that third party? Obviously, that's an important part of the total comfort with the risk transfer. Just I don't know if there's any more detail you can provide?

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Yes, it's Marc here. Thanks for your question, Doug. Our transaction is with Global Atlantic. And as you say, they have reinsured the LTC risk to another reinsurer. And as we mentioned in our disclosures, obviously, it's a highly rated third-party reinsurer that is involved in the transaction at the back end of Global Atlantic.

Doug Young ***Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst***

Okay. I didn't figure I'll get much more. Just in terms of regulatory approval for this, all of the blocks. I think you talked about close in the first half of '24. Can you just talk a bit about, is there -- are you confident -- obviously, you're quite confident in getting this. Like what approvals do you have so far? Like any more detail on that side?

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Yes. Thank you. So it's Marc here again. So we actually do not require any regulatory approval for Manulife to transact. However, we have obviously walked our main regulator here OSFI through the transaction and as well as the home regulators of the transacted blocks. So in the U.S. and in Japan. Global Atlantic requires 2 regulatory approvals to transact - 1 in the state of Massachusetts and another 1 in Bermuda. And those are the ones that we are waiting for, and we still expect to close in the first half of '24, as you mentioned.

Doug Young ***Desjardins Securities Inc., Research Division - Diversified Financials and Insurance Analyst***

Okay. Interesting. And then just lastly, maybe two kind of quick ones. But like -- post this deal, how much of Manulife's common equity is going to be backing legacy businesses? And I know the ROE on this business has been transacted at 10%. Can you talk about the ROEs for each of the 3 different businesses? I would assume LTC is lower. The others are higher, but maybe I'm wrong on that. I'm just curious if you can give more detail.

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Yes. Thanks, Doug. Look, a couple of data points I'll give you, and then I'll hand to Steve to maybe elaborate. At our Investor Day in '21, we shared that legacy equity was about $21 billion. And now with this transaction, we'll have a reduction by about 30%. So again, a big part of our strategy over the last 5 or 6 years has been to reduce legacy as a percentage of our total franchise, not just from a core earnings perspective, but from a reserving and from a capital perspective. And with this transaction, LTC represents approximately 12% of total equity. So we're really pleased with the progress we've made.

One of the big benchmark KPIs that we put out there was that we wanted our LTC VA earnings contribution to reduce significantly. We're at 24% in 2018, and we're now down to 11% with this transaction, well ahead of the 15% target that we set for 2025. But Steve, you might want to elaborate a little bit more on this?

Steve Finch ***Manulife Financial Corporation - Chief Actuary***

Yes. And Doug, you asked about the specific blocks. And the way you should think of it is, overall, roughly about 10% ROE for the transacted blocks. LTC a little bit higher than that. And then the structured settlements in Japan a little bit lower than that.

Operator

The next question is from Paul Holden from CIBC.

Paul Holden ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research***

I want to ask on the differential and return expectations on the long-term care block that drives the negative cede? Are there any additional details you can give us there? I'm a little bit surprised by it, just given you're transacting with KKR, who I think would have a higher return expectation.

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Paul, it's Marc here. Thanks for the question. I think as we went through this process, and we mentioned this earlier side, but it bears repeating is one of the objectives we had was to validate the underlying reserving assumptions we have on our LTC business, right? And we always felt that they were kept current and appropriate. And the objective here is to validate that. And we felt very comfortable when our teams got together with the counterpart that that actually was coming through their analysis and underwriting of the transaction, which means that the negative cede of $270 million is additional kind of margins for them to service higher expected return and warranted return for that block of business. And that's how we thought of it, and that's how it's obviously been portrayed in our communications here, which fills the gap you mentioned.

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

But you're absolutely right, Paul. That's exactly why we have a negative cede on the LTC block. It is the return expectation, as you would guess for a counterparty like this would be higher. So I think you're absolutely right there.

Paul Holden ***CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research***

Okay. Okay. Understood. And then second question is just related to that 80% quota share, so I understand how it works. I guess my question is, how does that factor into the estimated earnings impact that you provided here and sort of the implied PE?

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Again, it's Marc here. So the 80% would be -- everything would be cut 80% across. So the impact of that 80% versus the 20% we keep is reflected in all of the numbers that Roy and Colin shared earlier in our releases. It's already reflected there. It's in there. So the $6 billion is the 80% share just to clarify.

Operator

The next question is from Tom MacKinnon from BMO Capital.

Tom MacKinnon ***BMO Capital Markets Equity Research - MD & Analyst***

Question with respect to the LICAT impact. I think you said it was neutral. Is that before or after share buybacks?

Colin Simpson ***Manulife Financial Corporation - CFO***

That's after the impact of the share buybacks.

Tom MacKinnon ***BMO Capital Markets Equity Research - MD & Analyst***

Okay. That's net of that, too. And with respect -- and this actually takes the contribution to your core EPS on long-term care and variable annuity down from 12% to 11%. Is that correct? Is that right?

Colin Simpson ***Manulife Financial Corporation - CFO***

Yes, that's absolutely right, Tom.

Tom MacKinnon ***BMO Capital Markets Equity Research - MD & Analyst***

And that's after incorporating the share buyback impact as well, too?

Colin Simpson ***Manulife Financial Corporation - CFO***

Yes, absolutely. Everything is after the incorporation of the share buybacks.

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

And Tom, just to elaborate, the LICAT impact before the buybacks is the $1.2 billion capital release. And obviously, we're planning to deploy all of that back towards share repurchasing.

Tom MacKinnon ***BMO Capital Markets Equity Research - MD & Analyst***

Understood. And then just with respect to the different return assumptions on deployed capital, I assume the reduction of $1.7 billion in ALDA -- I assume those assets then are going over to the reinsurer? Is that the way we should be thinking of that? Or how should we be thinking of this reduction in ALDA assets? And then -- is there different return expectations on the ALDA assets that the reinsurers are expecting versus what you hold? I'm just a -- little bit more colour on that return expectations on deployed capital.

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Okay. Tom, it's Marc here. I'll start, and I'll pass it to Scott afterwards. And maybe I'll start with some context. When these transactions, if these are entertained, I would say, ALDA is never really part of the transaction. So we are keeping the ALDA and we're settling the transaction with other assets, and they are staying on our balance sheet, and I'll pass it on to Scott to discuss what we're going to do with them.

Scott Hartz ***Manulife Financial Corporation - Chief Investment Officer***

Yes. Thanks, Marc. So yes, as Marc suggested, the $1.7 billion, we're not selling that to a counterparty here for a number of reasons. One, transactions like this are typically settled with liquid assets because the counterparty typically may want to reposition the portfolio. And also because once you start negotiating on illiquid assets, it can drag out the due diligence significantly, and finally and most important from my perspective, I would rather take these assets to the market where I could have multiple buyers and put some competitive tension and ultimately get a better price on the assets.

Tom MacKinnon ***BMO Capital Markets Equity Research - MD & Analyst***

Okay. So you're actually going to then dispose of these assets. Is that right? Because you don't need those assets to back these anymore? Is that the way we think of it? Or is it just opportunistic time to dispose of these assets?

Scott Hartz ***Manulife Financial Corporation - Chief Investment Officer***

Well, I would say, one, there's -- we don't need to dispose of them immediately. Two, we've been aware of this transaction for a while. So we've been working on it with a number of different potential buyers. So we're fairly confident. And then finally, I would say conditions have really improved. Equity markets have been up. Interest rates have been down. So there is -- while there's no hurry, we can take our time if markets get disrupted from here, we're very confident in selling these assets at or around our carrying values over the next year.

Tom MacKinnon ***BMO Capital Markets Equity Research - MD & Analyst***

Okay. And is there any more colour you can give on the -- I know it's just only 5% of your ALDA portfolio, but the make up of the $1.7 billion? Is it sort of consistent with the make up of your ALDA portfolio? Or is it more heavily weighted in 1 category or another?

Scott Hartz ***Manulife Financial Corporation - Chief Investment Officer***

Yes. I think we're looking across all categories with a couple of objectives in mind. One, to move away from those assets, we think, are not going to be the best returners going forward. Two, to reposition the portfolio a bit. And I would say pretty much all the categories we will look at. Real estate currently is more disrupted, big bid offer spreads. I'm actually hopeful that will change in the coming year, and we will be able look at real estate, but if market conditions don't change, probably we won't do much in real estate but across all the other asset categories, we will look to transact.

Tom MacKinnon ***BMO Capital Markets Equity Research - MD & Analyst***

Okay. And then final question. I think it's net neutral to capital after the buyback. And I assume that's the case for remittances as well. So net neutral to remittances after buybacks?

Steve Finch ***Manulife Financial Corporation - Chief Actuary***

That's correct, Tom. We expect to achieve additional remittances coming both from the U.S. and the Japan blocks as part of this that will be sent to the parent to help fund the buyback.

Colin Simpson ***Manulife Financial Corporation - CFO***

If I could just jump in there as well with an add, I mean, go-forward remittances will be reduced in proportion to the reduction in core earnings, but the impact of this on dividend affordability is neutralized by the buyback, right?

Operator

The next question is from Lemar Persaud from Cormark.

Lemar Persaud ***Cormark Securities Inc., Research Division - Research Analyst***

I want to revisit some of that line of questioning from Tom. I just want to be clear, the net income and core EPS figures, the $130 million and the $15 million, that does not include any potential gains and losses on the sale of ALDA. Is that correct?

Colin Simpson ***Manulife Financial Corporation - CFO***

Yes, that's correct, Lemar, it's Colin.

Lemar Persaud ***Cormark Securities Inc., Research Division - Research Analyst***

Okay. And then if there was any gains and losses that would be reversed out of core?

Colin Simpson ***Manulife Financial Corporation - CFO***

So what happens is your gain and loss will go through noncore earnings. And actually, what we disclosed when you get to the transaction summary is that we will be disposing off fixed income, and we expect at current prices, it will generate $1 billion loss through noncore earnings.

Lemar Persaud ***Cormark Securities Inc., Research Division - Research Analyst***

Okay. And then just coming back to like the way you guys sort of answered some of the earlier questions here, would it be fair to suggest that you need to see some of the existing blocks mature before they're transactable. So outside of that $3.8 billion, you guys called out with the same maturity as a transacted block? Or yes, just leave it there.

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Yes. Lemar, Roy here. I'll start, and I'll ask Marc to chime in and it's sort of hard to speculate on future transactions. But as I said earlier, we're really encouraged to see the number of parties that were interested in this block of businesses and the bid-ask spread narrowing, and I sort of gave the reasons why that's narrowed. So we're encouraged by that.

We think that will create a catalyst and therefore, we'll start an evolution as it relates to this business. And I'd just remind you about the VA market. In 2016, most thought that the VA reinsurance market was untransactable. In 2017, we saw some market transactions at about a 5x earning multiple. In '22, we transacted our U.S. variable annuity block at a 10x multiple and at a gain. So we definitely feel that we are seeing a maturing of the portfolio. That's true for this block, but quite frankly, it's true for the entire block that we have. And as I mentioned earlier, the portfolio experience and the effectiveness of organic actions are really starting to give confidence that the assumptions that we have underpinning our reserving are more solid, and we saw that through the counterparty that we transacted with. But Marc, you might want to add to that?

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Yes. Thanks, Roy, and thanks for the question. I guess here's how we think about this. I would say that we transacted on the block. And as you mentioned, we have another block that's a similar vintage, $3.8 billion, and we have a younger block. And this is all talking about average age. And what really drives transactions is span of outcomes. And every organic thing we do, the way we manage our block, all of these organic activities I mentioned in terms of fraud, waste and abuse, in terms of wellness, in terms of digital connectivity to the client, in terms of delaying claims, reduces span of outcomes. So heretofore, I would say people have correlated the average age of the block with the span of outcomes.

We're changing that premise because we're putting programs in place that are going to reduce the span of outcomes on our what is called now our younger blocks much faster than the prior generations and that's all informed by the experience we've seen on these blocks that we're applying to these younger blocks. So it's all about reducing the span of outcomes, and we think it's going to happen way faster than just the average age of the block increasing.

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Just to add to that, Lemar, we've talked about our organic actions and premium increases, we had an alternative. I think we were the first to market with, which was a landing spot several years back. More recently, we've introduced an LTC cash buyout as an alternative to premium increases. Again, still early days, but it's another innovative example of creating value, quite frankly, for customers but also for us.

Steve Finch ***Manulife Financial Corporation - Chief Actuary***

And the younger blocks have less generous or less risky benefits, which also, to Marc's point, narrows that range of outcomes.

Lemar Persaud ***Cormark Securities Inc., Research Division - Research Analyst***

Okay. So we shouldn't just assume that, that $3.8 billion is the only real transactable block. It sounds like you guys are hopeful that the deal today and the narrowed range of outcomes, you could potentially transact on more than that $3.8 billion? That's kind of the bottom line here. Is that correct?

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Yes, that's right. That is correct, Lemar.

Operator

The next question is from Nigel D'Souza from Veritas Investment Research.

Nigel D'Souza ***Veritas Investment Research Corporation - Senior Investment Analyst***

Actually, I had a couple of follow-ups along the same line on the LTC maturity. And I appreciate that you're trying to reduce or working towards reducing the span of outcomes. That's from your perspective, I understand that you're more than adequately reserved for these LTC blocks. But from a market's perspective or potential buyers of these policy blocks, is the maturity of the policy blocks still in your view what the market might prioritize in terms of which blocks are most attractive to transact currently?

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

Yes. Nigel, it's Marc here. I'll start, and I'm sure maybe some of my colleagues may want to chime in as well. So every market is different. I would say one of the things I think we should emphasize here is that we talk about this older block. This older block still has over 65% of active life reserves. And I think if you look historically at blocks of business in the LTC space that have been traded, they've had a very high concentration of disabled life reserves. And I think this is the first time that there's such a high concentration of active life reserves that are being traded, which validates, obviously, the span of outcomes and for future projections. So -- and as you look at the other vintages, whether it's the $3.8 billion or the younger blocks that Steve was referring to as well just now, it's all going to be kind of optimizing the span of outcomes and what the various markets want and what kind of assets they want to deploy against those liabilities. And we think that there is a way to continue looking at this as we move forward.

Nigel D'Souza ***Veritas Investment Research Corporation - Senior Investment Analyst***

And if I could just maybe put a final point on that. When I look at the retained versus transaction block on the average retained life, for your active life reserves, there is a larger gap between the retained LTC blocks versus what you transacted, much smaller gap to the average retained age of the disabled life reserves. So I appreciate you're trying to reduce this kind of [gap], but could you maybe provide some colour on the differences between the average retained age for active life versus the disabled life reserve. And it's about a 11-year gap. So how quickly can you reduce that span of outcomes before that, I guess, gap and average retained age needs to close to make this more viable for transactions.

Steve Finch ***Manulife Financial Corporation - Chief Actuary***

Yes, sure. I'll comment on that. The younger block, I think a key thing to remember is that for the older block of business, there was no insured LTC data until these older blocks actually got to those ages. So what happens to people on claim in their late 80s, in their 90s. We now have that data. We have it and the industry has it. And we use -- that data informs how we set the assumptions, how we look at what will happen on that younger block. So that, combined with the fact that the benefit features are less generous on the younger block. That also informs range of outcomes. To me, it's these 2 points of the data and the lower risk benefits that narrows the range of outcomes on that younger retained block. So that's how I think about it.

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

And I'll add something to Steve's comments that talks about these organic activities. And what happens. If you look at, let's say, fraud, waste and abuse that happens at claim time, right? When someone is on claim, there's behaviour there that we got to weed out of the system. So that helps a lot say, the DLR. If you look at wellness, the wellness initiatives are trying to have people live longer, richer lives at home, which is what we all want as members of society and individuals. So if we -- and that happens typically around the age of 75 to 85. So the younger blocks are going to benefit immensely about these organic activities that are coming and the DLR benefits immensely from the fraud, waste and abuse. So we're trying to tackle all aspects of someone's journey through the product here. So...

Nigel D'Souza ***Veritas Investment Research Corporation - Senior Investment Analyst***

So I think it's fair to say that time is on your side here the more experience data you build, the more viable it is to transact.

Marc Costantini ***Manulife Financial Corporation - Global Head of Inforce Management***

And these were all big factors for our counterpart. They -- and it speaks to their comfort with transacting with Manulife.

Operator

The next question is from Darko Mihelic from RBC Capital Markets.

Darko Mihelic ***RBC Capital Markets, Research Division - MD & Equity Analyst***

Just a couple of questions, probably for Steve Finch, but I'll leave it to you guys' discretion who answers. But the first question is, when I look at Slide 7 in your deck, your stat. reserves and your IFRS reserves are awfully close now. And I remember them being significantly wider or far apart. Can you give me a hand or maybe just give me a bit of a lesson here on why it's closed the gap?

Steve Finch ***Manulife Financial Corporation - Chief Actuary***

Yes. Sure, Darko. It's Steve. I'll start with the IFRS basis continues to be more conservative than the NAIC basis for the LTC blocks. And the big thing to remember here is that in the Investor Day in 2021, that was when we provided some of the information, which showed IFRS higher than NAIC. NAIC reserves and assets are at book value, whereas IFRS 17 is on current interest rates or more market value basis. And 30-year treasuries as of Q3 of this year, rates have risen since that 2001 time by almost 300 basis points. So if you make that market value-based adjustment, the IFRS reserves are for the total LTC block, you can think of is about 15% higher than NAIC. And also recall that we have substantial margins in our IFRS reserves. Almost 20% over best estimate liability. So that's really the dynamic of what's going on between the 2 different reserving basis.

Darko Mihelic ***RBC Capital Markets, Research Division - MD & Equity Analyst***

Got it. And a question, I think maybe this one is for Colin. But maybe Roy as well. As much as we look at this transaction to validate your LTC reserves and assumptions, could we also look at this in another way and say that it does not validate your return assumptions because there are very different return assumptions on the capital, and maybe we need to revisit the return assumptions embedded in your core earnings. Or am I thinking about that incorrectly?

Roy Gori ***Manulife Financial Corporation - President, Chief Executive Officer, & Director***

Let me start, Darko, and hand it to Colin. Again, I think the biggest, I guess, challenge that we've experienced, specifically as it relates to LTC is just the uncertainty around the assumption. This is true for the entire industry, and there's been a concern. And without a transaction, it was really hard to get an independent validation. And this is despite the fact that, as you know, under Canadian accounting standards, we need to update our actuarial assumptions regularly. And we are also required by OSFI to have independent peer reviews and so on and so forth. So we've always felt very confident with our assumptions.

And as Steve just mentioned, we have reserves that are quite significantly in excess of the best estimate liability. So we do think this is a milestone transaction for validating our assumptions and our portfolio value, a very negative -- a very modest negative cede, which primarily relates to return expectations, we think is a tremendous outcome, and it was the largest LTC transaction that we've seen.

In terms of return expectations, you would expect that a counterparty like Global Atlantic would have a higher return expectation. So that for us is not unusual. And part of that is about their risk appetite from an investing perspective. We're a little bit more conservative with our investment appetite, but we also have a lot of confidence in our return expectations and assumptions. So we feel good about our return assumptions, and we feel it reflects our investment appetite. But there are counterparties clearly that would have different return expectations.

Colin Simpson ***Manulife Financial Corporation - CFO***

It's Colin here. So the beauty of this transaction is that we focus on the liabilities, yes, because we're not transferring any existing risky assets. So really, this is a comparison of liabilities and the assumptions that go into that and discounting there at a required return, which is where you get the differential. It's not about the assumed return on assets if that's where you're going.

Operator

There are no further questions registered at this time. I would now like to turn the meeting over to Hung Ko.

Hung Ko ***Manulife Financial Corporation - VP, Group Investor Relations***

Thank you, operator. We will be available after the call if there are any follow-up questions. Have a good day, everyone.