STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Research Update:

Ameritas Insurance Group 'A+' Ratings Affirmed After Insurance Criteria Change; The Outlook Is Stable

Primary Credit Analyst:
Marilyn Castro, New York (1) 212-438-3610; marilyn.castro@standardandpoors.com

Secondary Contact:
Robert A Hafner, FSA, New York (1) 646-334-5749; robert.hafner@standardandpoors.com

Table Of Contents

Research Update:

Ameritas Insurance Group 'A+' Ratings Affirmed After Insurance Criteria Change; The Outlook Is Stable

Overview

- Following a review under our revised insurance criteria, we are affirming our 'A+' ratings on Ameritas Insurance Group and its core insurance subsidiaries.
- The rating reflects Ameritas' strong business profile and very strong financial profile, based on its extremely strong capital and earnings and solid market presence in the U.S. life and annuity markets.
- The stable outlook reflects our expectation that the group will maintain its very strong capitalization and sustain its strong competitive position.

Rating Action

On July 11, 2013, Standard & Poor's Ratings Services affirmed its 'A+' long-term financial strength and counterparty credit ratings on Ameritas Insurance Group (Ameritas) and its insurance subsidiaries Ameritas Life Insurance Corp. (Ameritas Life), Ameritas Life Insurance Corp. of New York (Ameritas New York), Acacia Life Insurance Co. (Acacia Life), and Union Central Life Insurance Co. (UCL). The outlook is stable.

Rationale

The ratings on Ameritas reflect our view of the group's strong business risk profile (BRP) and very strong financial risk profile (FRP). Under our criteria, these factors lead to anchors of either 'a' or 'a+'. We assigned the latter based upon our view of the company's extremely strong capitalization.

Our assessment of Ameritas' industry and country risk as low stems from our view of the low country and industry risks in its life insurance operations. Our view of the company's low country risk arises from the stable economic growth prospects, relatively effective and stable political institutions, sophisticated financial systems, and strong payment culture in the U.S. In our view, the company's life insurance operations are exposed to low industry risks due to moderate product risk, as demonstrated by its strong track record of maintaining asset-liability management mismatch to within one year. The availability of fixed-income instruments of sufficient duration to match insurance liabilities in the capital markets greatly supports this capability. But we see sensitivity to interest rates and equity-market volatility as offsetting this strength somewhat and burdening long-term operating returns. We believe a weak global economy, persistent low interest rates, and intense competition will limit the sector's growth prospects and potential for higher operating margins.

The strong business profile assessment incorporates our view that Ameritas has a strong competitive position based on its strong geographic diversity within the U.S. The company maintains a broad product suite in order to capture all shifts in customer trends and actively manages relationships with general agents and independent advisors. Ameritas maintains a top-25 position in indexed annuity sales and a top-five position in group dental, enhancing its competitive position through strategic acquisitions. In 2011, the company acquired Brokers National Life Assurance Co. (BNL), a Texas-based company that offers group dental, vision, and hearing care products, generating about $39 million in premium annually.

Ameritas benefits from extremely strong capital and earnings. Its capital remained redundant at the 'AAA' level as of year-end 2012, according to our capital-adequacy model. We expect the group's capital adequacy to remain in the extremely strong range during the next two or three years, supported by stable operating results and limited dividend activity. Year-end 2012 pretax generally accepted accounting principles (GAAP) adjusted operating income (excluding realized gains) was $130.2 million--a $15.9 million decline from the year before--primarily due to lower asset-related revenues reflecting a decrease in the level of assets managed. For 2013, we expect $115 million-$135 million of GAAP pretax adjusted operating income, return on revenue (ROR) of 5%-7%, and return on equity (ROE) of 3%-4%, reflecting market effects on investment income and annuity contract charges. We also expect Ameritas to maintain its strong capital adequacy at the 'AAA' confidence level.

We view the company's risk position as intermediate primarily because its gross employee benefits as a percentage of total adjusted capital (TAC) totals 28% and high-risk assets as a percentage of TAC is 49%. This is partly offset by the lack of foreign exchange risk and no significant single obligor or sector concentrations. In our view, Ameritas' extremely strong capital redundancy counterbalances its risk position.

Ameritas has adequate financial flexibility, in our opinion, given its low debt leverage and access to the Federal Home Loan Bank, through which it can borrow up to $350 million. The company has one surplus note outstanding of $50 million.

We regard the company's enterprise risk management (ERM) and management and governance practices as consistent with the ratings. Our ERM assessment of adequate reflects our view of the company's risk-management culture, risk controls, and strategic risk management actions as appropriate for a company with this scale and product profile.

We view Ameritas' management and governance as fair, reflecting our overall neutral view of its strategic positioning, operational effectiveness, financial management, and governance. We consider management to be of sufficient depth, without key-man risk, and with sufficient expertise in operating its major business lines.

Ameritas' liquidity position is exceptional. The company's 2012 liquidity ratio as measured by our model was 231%. The lack of confidence-sensitive liabilities or contingent collateral posting exposure supports this view.

Outlook

The stable outlook reflects our expectation that Ameritas will sustain its strong business profile and very strong financial risk profile. We expect Ameritas to maintain its strong capital adequacy at the 'AAA' level. We expect $115 million-$135 million of GAAP pretax operating income, ROR of 5%-7%, and ROE of 3%-4%.

We consider an upgrade unlikely over the next 18-24 months. Ameritas' operating performance would need to increase to levels similar to higher-rated peers in order for us to consider assigning a positive outlook.

We could lower the rating if capital adequacy dropped below 'AAA' level targets or if the company boosted its allocation to higher-risk assets, signaling an increased risk position tolerance. We could also lower the rating if Ameritas' competitive position weakens.

Ratings Score Snapshot

Financial Strength Rating	A+/Stable
BRP/FRP Anchor	a+
Business Risk Profile	Strong
IICRA	Low Risk
Competitive Position	Strong
Financial Risk Profile	Extremely Strong
Capital & Earnings	Extremely Strong
Risk Position	Intermediate Risk
Financial Flexibility	Adequate
Modifiers	0
ERM and Management	0
Enterprise Risk Management	Adequate
Management & Governance	Fair
Holistic Analysis	0
Liquidity	Exceptional

Support	0
Group Support	0
Government Support	0

Related Criteria And Research

- Insurance Rating Methodology, May 7, 2013
- Enterprise Risk Management, May 7, 2013
- Group Rating Methodology, May 7, 2013
- Methodology For Linking Short-Term And Long-Term Ratings For Corporate, Insurance, And Sovereign Issuers, May 7, 2013
- Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Principles Of Credit Ratings, Feb. 16, 2011
- Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

Ratings Affirmed

Ameritas Life Insurance Corp.	
Union Central Life Insurance Co.	
Ameritas Life Insurance Corp of New York	
Acacia Life Insurance Co.	
Counterparty Credit Rating	
Local Currency	A+/Stable/--
Financial Strength Rating	
Local Currency	A+/Stable/--
Union Central Life Insurance Co.	
Subordinated	A-

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com and at www.spcapitaliq.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.