CONVERSATIONS WITH MIKE MILKEN

Roger Crandall

Chairman, President & CEO, Massachusetts Mutual Life Insurance Company

May 7, 2020

Mike Milken: Roger, thank you for joining us.

Roger Crandall: Happy to be here. Good day.

Many of our listeners are obviously familiar with what an insurance company does, but maybe not as knowledgeable about the difference between a mutual insurance company and a stock insurance company. How is the company structured and how has that structure helped you navigate this coronavirus?

Yeah, it's a fascinating way to organize a company. We were founded in 1851. Thirty-one people pooled a hundred thousand dollars with the simple idea that we could start protecting each other with a mutual insurance company. Instead of having public stockholders, we have members of the company who are the effective owners. The members are the insureds that own policies that give them an interest in what the lawyers call undivisible surplus. What's kind of amazing is that a hundred thousand dollars back in 1851 with 31 people has grown to over $25 billion dollars of capital.

Today we have over 5 million members in the U.S., and the key thing that's great about being a mutual is we get to think about a long-term business in a long-term way. Most

---

This interview has been lightly edited for clarity and readability.

people don't wake up in the morning thinking about life insurance, but our oldest policyholder today is 104 years old, and he's had his policy with MassMutual for over 90 years. So we have a lot of policyholders that have been with us 40, 50, 60, 70 years. And that ability to think about that business that way and not have to worry about what's happening in the short term has been a very powerful feature for the company for almost 170 years now.

"This is American business and American 'can-do-ism' at its finest, in my opinion. … I'm actually very optimistic that this can remind everybody of the ability of the public and private side to work together to get us to a better place."

Well, Roger I couldn't be happier because – for full disclosure – many of my family members have policies with you, and some of our grandchildren got policies as young as age one. So we hope they'll be able to set a new record for you on length of policies.

I'm so happy to hear that members of your family are members of the company. I also have a policy with the issue age of one. Full disclosure: my dad was a group medical rep for MassMutual his whole career, so one of us has worked at MassMutual now since 1964, the year I was born. My policy was issued in January of 1965. We're going to have our first a 100-year policyholder at some point. If it's not my generation, it'll my kids or your grandkids. It's a really neat thing.

So Roger, we've known each other a long time. We've seen a lot of volatility in financial markets in the world during that period of time. Financial advisors play an extremely important role in individuals' lives, their retirement planning, their long-term views of investing. What have you been hearing from your financial advisors? How many do you have? What have been the most pressing questions your policyholders have been asking over the past few months during this COVID-19 crisis?

Michael, we have over 8,500 financial advisors, and they do more than just talk about life insurance. We think protection products – both life insurance and also disability income insurance, retirement income products like lifetime income annuities – are a key component of financial plan, but it's an overall financial plan. So the first thing advisors do in times like this is talk to clients and remind them of what their objectives are. Let's talk about whether their objectives may have changed because of what's happened. There's an important part of giving someone a chance to talk, to understand what's going on, and if we need to make changes, we make changes. But people really desire and enjoy talking to a real person about important events. The application of technology is critical, but we firmly believe real face-to-face, even if that face-to-face is through Zoom or Microsoft Teams these days, is a critical way for us to help people.

How is MassMutual operating differently today than it might have been operating in January?

It's remarkable. We had the advantage of having operations in China and in Hong Kong. So we saw what was happening there and that caused us to begin preparing. So we've got about 98% of our folks working remotely right now. We've effectively built a digital insurance company to replace ourselves, and we have almost half of our applications running through that platform today (up significantly – we were less than 15% in January), and that's great from an efficiency standpoint and it's using that technology to enable our advisors to spend their time where it's most important, which is really talking to clients.

As you thought of the enormous financial volatility that occurred in March and even the rebound in April, how do you look at that as it relates to the life insurance company assets versus Barings's responsibility to manage money for many of the leading foundations in the world – the pension funds, family offices, endowments, and so on. Were those focuses the same, different? How did you view them?

Well, you know, our simple idea going way back to the 1990s was that investments that could make sense for MassMutual could make sense for other clients as well, particularly if we had the capacity to source and manage more of those investments than could fit on the MassMutual balance sheet. You know, insurance companies' assets are highly regulated. The vast bulk of them are effectively investment-grade fixed income assets. And as that capacity grew, we began growing outside business and actually ultimately spun the investment department of MassMutual out into a predecessor company of Barings, called David L Babson. So there's always been that overlap. That long-term focus, particularly looking to get value from less liquid assets, has aligned well with other pools of capital that have a very long-term focus.

"We've got about 98% of our folks working remotely right now. We've effectively built a digital insurance company to replace ourselves, and we have almost half of our applications running through that platform today."

We look at what's happening today, and we were fortunate to be well-prepared. We'd taken risk down in our portfolios pretty dramatically, built a significant amount of capital and cash, and we think this is a fairly long-term problem. I'm very pleased to see the Fed and the Treasury and other central banks around the world be as active in supporting market functionality. But we think this is going to be a long recession, a long downturn, and we need to be thoughtful about deploying the cash and capital that we have for our policyholders over the next several years here.

So we've had a major shift in America in pension plans. As we saw in the General Motors bankruptcy, as time evolved, General Motors was not necessarily working for its customers, for its employees, for its creditors, for shareholders, but much of the operations fund flow was going to pay for retiree health benefits or pension benefits. And financial markets had a hard time dealing because they had no idea what the future costs would be of health benefits for a person's lifetime or pension benefits for their lifetime. And they moved to 401k's or defined-contribution plans. Are those 401ks in your opinion working for the workers today?

It's a great question. If you step back, the public policy issues here are really the three-legged stool of: (1) Social Security benefits for retirement from the government and certainly Medicare on the healthcare side; (2) company-provided benefits, whether it was a defined-benefit plan or defined-contribution plan, today the 401k; and then (3) personal savings.

I think the 401k has done a good job of giving more folks access and particularly putting it in a way that it can take care of itself – the target-date fund option. Most people really are not interested in thinking every day about their retirement. It can be sometimes very tempting to pull money out of a 401k. On the one hand, it's very important that people have access to their savings when they need it. However, if you pull money out in your 20s or 30s or 40s and don't put it in, it doesn't let the miracle of compounding work for you. I think that issue is going to be a potential challenge down the road, and that's where education is so important. We spend a lot of time with the plan sponsors, the companies that sponsor the 401k's, working with their employees to just remind them that they're paying their future selves. They're setting themselves up for being able to retire with dignity in the way they want to retire. Don't think of the 401k as something to get pulled upon unless it's absolutely necessary for folks along the way.

"I'm very pleased to see the Fed and the Treasury and other central banks around the world be as active in supporting market functionality. But we think this is going to be a long recession, a long downturn, and we need to be thoughtful."

The other option people have, without canceling their life insurance, is borrowing against their life insurance policies. In unusual periods that have occurred in the past – financial liquidity, the financial crisis of 2008/2009, that '74 to '76 period, when the stock market went down in 2001 – what have you seen in terms of your policyholders using loans against their policies?

Yeah, it's, it's a very important feature. One of the reasons it's called a "whole life" policy is it's there for your whole life, meaning that if you pass away prematurely, it provides a death benefit to your family. It accumulates cash value. Importantly, with a book value guarantee, the cash value can never go down, and that cash value can then be borrowed against, as you indicate, for a variety of things. Certainly people will borrow against it for sending a child to college or they may borrow against it and use it to supplement their 401k in retirement. But critically, small business owners use the whole life policy cash value to help their businesses in times of stress.

"We've recently rolled out a program we call HealthBridge, where we're offering $3 billion of free life insurance for frontline healthcare workers."

There are some great stories of, at the time *small* American companies – Walt Disney is my favorite, I think – where borrowing against the cash value life insurance policy kept the company going in tough times. Obviously it's worked out pretty well for Disney over the years. We have not seen an uptick in borrowing yet. We fully anticipate that we will in every down cycle. All the ones you mentioned we did. Those loans are a valuable way for our policyholders to access the cash in the policies and also frankly then they're a good asset for the company because they're backed by our own policies. So we haven't seen the uptick yet, but we fully anticipate we will over the next six to 18 months.

Do you believe Americans are prepared today for a recession?

You're never as prepared as you'd like to be, but I think MassMutual policyholders in general are better prepared. Unfortunately, more broadly across America, we know lots of folks have limited savings. In fact, life insurance ownership is near an all-time low. There's over 40 million American families with no life insurance coverage. And it's one of the reasons we've recently rolled out a program we call HealthBridge, where we're offering $3 billion of free life insurance for frontline healthcare workers right now in the States of Massachusetts and Connecticut, our domiciliary states. But we certainly are hoping to be able to expand that more broadly shortly, just to remind people first to protect them and their families if something were to happen to them as they're out on the front lines fighting COVID, but also as a reminder to folks about the role life insurance can play. We really want to get more people covered and provide more protection for more families. I think financial preparedness on a nationwide basis is frankly abysmal. There's some policy issues with that. But I feel pretty good about how many MassMutual advisors have worked with their clients to make sure they're as prepared as they can be.

I think one of the things MassMutual has done and defines itself by is its support for communities. What has been the response to your HealthBridge program?

First, I'm super excited. This builds on a program called LifeBridge, where we gave away $700 million of free insurance to low-income Americans. We actually moved that program onto our new digital platform, which made it incredibly more efficient to administer when we did that. The idea came up when the crisis hit that we could change the program and begin offering these $25,000 policies to healthcare workers. And in a period of just a weeks, our team was able to build a new product. We had great cooperation from regulators to get the product approved because insurance has to be approved by insurance regulators in every state where it's sold.

"Unfortunately, more broadly across America, we know lots of folks have limited savings. In fact, life insurance ownership is near an all-time low. There's over 40 million American families with no life insurance coverage."

So we've just launched it. We've had over a thousand policies issued. You can go to MassMutual.com and sign up right there. It is a guaranteed issue product, meaning even if you're a frontline healthcare worker right now who's been diagnosed with the virus, you're eligible for the policy. So we're excited about it and one of the ways we're able to support our communities beyond the kind of more typical philanthropy.

I'm a firm believer, you start by taking care of your people. Your people then can take care of their families and loved ones, and that's how communities get taken care of. So we've been very proud that MassMutual has been able to make sure all of our people have the time to take care of themselves and their families. We recently added a full week of paid time off – we're calling it "COVID time" – for employees to use however they may need to use it in this time. Because you know the situation: If you're caring for elderly parents or if you've got young kids that are now at home and you're trying to effectively homeschool online and work from home online, it's challenging. So we're very proud that we've been able to do things to help our people on a day-to-day basis. And again that lets them help their families and then that lets them help their communities. And that's kind of the building blocks that we see as being critical here.

The CARES Act that the government has offered – what has been MassMutual's role in ensuring its success? We think of banks but don't necessarily think about the role that an insurance company could play.

Certainly under the Cares Act, one of the things it allows is people to have access to loans without fees that would normally be associated with it, or penalty interest in 401k plans. So we've made adjustments to make sure that people can get those loans. Again, one thing we're very pleased about is the speed with which the government, both fiscal and monetary, has attacked this crisis. In my opinion, it took way too long to begin back in 2008. So this has been helpful. We've been working hard to do that.

The other thing we've done, working with state regulators, is to make sure if people aren't able to pay their premiums on their life insurance policies that we've extended grace periods. Again, we really want to make sure that people continue to have the coverage they have. We've seen a pickup in requests for missing some of the premium payments. Again, that's very much in-tune with how we approach the business.

One of the things that we have been very focused on at the Milken Institute and our other foundations has been the cooperation between government and business. What do you see in financial markets on the interaction and collaboration between government and business today, and how can they cooperate in reopening the economy?

We're very optimistic that the focus of entrepreneurial American science, backed by government – and you've been right in the middle of all of this – is going to get us therapeutics that can limit the effect of the disease and will ultimately get us a vaccine that will enable us to control it. But those things are going to take time. And in the meantime, the control of the virus is going to come down to how we "reopen." I just recorded a short message to all of our employees and said, we're not going to rush to put everybody back in the office, putting people on subways and the T and commuter trains, if they're not comfortable because our business can operate remotely. But there's lots of businesses that can't.

So this collaborative approach, to me a data-driven approach, is absolutely critical: testing both for the virus itself and for antibodies, the use of temperature checks, the wearing of masks, continuing good physical distancing practices. These are all going to be integral to getting things up and running again. But as you've done a good job of covering and helping spur on, it's really this entrepreneurial approach to just getting stuff done, moving quickly, being willing to do things on a nonprofit basis, sharing patents, investing in multiple manufacturing capabilities for vaccines before we know which one is going to win.

> ***"I just recorded a short message to all of our employees and said, we're not going to rush to put everybody back in the office, putting people on subways and the T and commuter trains, if they're not comfortable because our business can operate remotely."***

This is American business and American "can-do-ism" at its finest, in my opinion. And in financial markets that's true as well. The approach of the Fed here with all of the lending facilities, the main street lending facility in particular, to get capital to small and midsize businesses; how quickly the PPP was rolled out. And you know, there's always headlines about companies that maybe didn't need the money or shouldn't take in the money. But boy, I've talked to hundreds of small business owners for whom the PPP has been a lifeline and made sure they could keep paying their people to get us to the other side of this phase of the lockdown. So I'm actually very optimistic that this can remind everybody of the ability of the public and private side to work together to get us to a better place. And we need that. And I think this is actually a great reminder to us of how business can be part of the solution.

Roger, not everyone thinks of a mutual company as a growth company, but when I look at your goals for your 175th anniversary in 2026, you are attempting to go from 5-million-plus policyholders to 25 million. So that's a 30%-plus growth rate. And I know you substantially tripled your number of financial advisors after the financial crisis in 2008. Are those goals still achievable?

These are some of the things we started talking about internally that fall into – I'm not sure which consultant coined the term – "big, hairy, audacious goals." I look at it on the one hand and say it seems crazy to have a five-fold increase in policyholders in just five or six years. On the other hand I say, there are 330 million Americans, and there's no reason in the world 10% of them couldn't be MassMutual policyholders.

So I intentionally threw some what appear to be crazy numbers at our team and our employees just to get people thinking about doing things differently to cover more folks. We'll see. I know that back in 2008, when I had the great fortune to become president of the company and we were in the midst of the financial downturn, it looked pretty bleak to talk about tripling the size of our insurance business, tripling the number of advisors that we had. But we've now tripled the number of advisors. We've tripled the amount of insurance. We've tripled our capital. So if you don't set big objectives and be willing to take some risks and do things differently to try to get there, you never know if you will or not. So we'll check back in on our 175th birthday and see how we did.

Well, Roger, I've been impressed by many things that you've done and your leadership taking over at the beginning of the crisis and shepherding MassMutual through that period of time. I think we all are impressed by your efforts in HealthBridge. And to me it's more than just providing frontline workers and others with an insurance policy. It's also providing them with the concept of savings through life insurance, something that not everyone really thinks about from that standpoint. So I want to thank you for joining us today. We look forward to your leadership as we reopen in this country and rebuild from this COVID-19 crisis.

Mike, thank you very much for the opportunity to be on your show today, and thank you for your leadership and everything the Institute is doing. It is absolutely critical that the private sector push this, and you're right at the forefront there. So thank you very much.