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Insurers Pull Back From Muni-Bond Market as Tax Rates Fall.

- **Progressive, Travelers, Chubb reduce holdings, filings show**
- **Filings confirm speculation that tax overhaul would cut demand**

Some of the biggest U.S. insurers reduced their holdings of state and local government bonds after the corporate tax cut took effect this year, marking a retreat by a key buyer in the $3.9 trillion municipal-securities market.

The disclosures, made in filings by companies including Progressive Corp. and Chubb Ltd., confirm the speculation among analysts that the lower tax rate would weaken demand for municipal debt, which offers lower yields because the income is tax-free. The pullback, if sustained, could create headwinds for a market that's already contending with periodic selloffs as investors brace for the Federal Reserve to raise interest rates further.

Progressive, Travelers Cos. and Chubb have collectively decreased their holdings of municipal bonds by $2.37 billion, according to their most recent quarterly reports. Progressive cut its holdings by 24 percent, the steepest drop among the largest publicly-traded property and casualty insurers. Chubb cut its investments by 4.6 percent, while Travelers reduced its stake by 2.9 percent.

"The new corporate tax rate we use to value our tax-exempt holdings rendered these bonds less attractive relative to alternative taxable investments," Mayfield Village, Ohio-based Progressive said in its filing.

The cutbacks came as municipal bonds posted their biggest drop during the first quarter since late 2016, when President Donald Trump's surprise victory raised concerns that his tax and spending plans will accelerate the pace of inflation. While individual investors and mutual funds are bigger owners of state and local government securities, insurers remain a large source of demand. According to the most recent Fed statistics, the companies held about 14 percent of all outstanding municipal bonds, nearly almost as much as banks.

"It's not a great signal when an industry that has represented a significant percentage of your investors doesn't see it as attractive, on an absolute or relative basis, as they used to," Meyer Shields, an insurance analyst at Keefe, Bruyette & Woods, said in a phone interview.

Not every part of the industry is retreating, and some of the pullback may have been driven as much by the market's rocky performance or routine portfolio-adjustments as by changes to the tax code.

Life insurer Principal Financial Group Inc., which decreased its holdings by 3 percent to $6.25 billion, still views the asset class as "important," according to a statement by James Welch, a portfolio manager with Principal Global Investors, the company's asset management arm.

"The first quarter was certainly difficult for all asset classes and any adjustments in allocation amounts should not be construed as a material shift in long-term strategy," he said in the statement, which the company provided in response to questions.

Life insurers have historically been less active buyers of state and local bonds because of limits on how much they could benefit from the tax advantages, though the tax overhaul tweaked the law to give them more incentive to hold the securities. Several of the largest life insurers added to their muni portfolios this year. MetLife Inc., Prudential Financial Inc. and Lincoln National Corp. added a total of $146 million to their holdings in the first quarter, the filings show.

MetLife, the largest U.S. life insurer by market share, upped its holdings by 0.09 percent to $10.76 billion. That increase included a pickup in taxable munis, a decision driven by many factors including tax code changes, according to James Murphy, a MetLife Investment Management spokesman.

The approach was also mixed at Allstate Corp. and American International Group Inc., both of which have substantial property and casualty operations as well as life insurance businesses. Allstate's muni holdings increased by 4 percent to $8.4 billion, while AIG's declined by 2.5 percent to $16.94 billion.

Allstate said that "shifts in asset allocation reflect purposeful decisions intended to balance risk and return considering current and expected market conditions."

Progressive spokesman Jeff Sibel didn't return calls and emails requesting comment. Lincoln spokeswoman Holly Fair said the increase was not a result of tax changes. Chubb, Prudential, AIG and Travelers declined to comment.

Bloomberg

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May 17, 2018

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