

Mutual of America Life Insurance Co. Outlook Revised To Stable From Negative; 'AA-' Ratings Affirmed

Overview

- Mutual of America Life Insurance Co.'s extremely strong capitalization, which has remained steady in the past 18 months, offsets its low operating income.
- As a result, we have revised our outlook on the company to stable from negative.
- We have also affirmed our 'AA-' counterparty credit and financial strength ratings on the company.

Rating Action

On Sept. 28, 2009, Standard & Poor's Ratings Services revised its outlook on Mutual of America Life Insurance Co. (MoA) to stable from negative. At the same time, Standard & Poor's affirmed its 'AA-' counterparty credit and financial strength ratings on MoA.

Rationale

The revised outlook recognizes the company's continued excess (redundant at 'AAA') capital under Standard & Poor's stress model, conservative investment management, and continued new business growth. The ratings on MoA are based largely on the company's extremely strong capitalization, which provides enormous stability to its financial position.

Given this current capital strength, the company is executing a strategy for market-share growth that relies on product subsidization and capital investment, which minimizes income. This strategy drives sales growth in a relatively narrow niche and enhances its competitive position, as few competitors are equipped to handle the large volume and administer the small groups that MoA targets. MoA's competitive position clearly benefits from being a service-focused company.

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The company's operating earnings are well below the 'AA-' ratings level, and we expect this to continue, as this is a result of its stated growth strategy. We believe that the subsidized pricing strategy and low earnings are not sustainable over the longer term, as the company will need to grow earnings to contribute to capital or it will deplete its excess capital over time.

The company resolved the uncertainty related to a tax dispute involving substantial tax deductions with a settlement reached with the IRS in April 2009 following its audits of the company's tax returns for 1998 through 2005. MoA's existing tax loss carry-forward of \$351 million is expected to be fully utilized within the carry-forward period over the next decade.

On the expense front, MoA has incurred significant expenses in the past few years to support new business growth and service existing business, which we believe will bolster its competitive position. However, these higher-than-average expenses have contributed to low operating income. Standard & Poor's believes that MoA's low profitability could be somewhat difficult to reverse and that given its growth strategies, MoA might not be able to return to the earnings level of companies with 'AA-' ratings.

Offsetting the weak operating performance are the company's extremely strong capitalization, strong niche competitive position as a small group pension product provider, consistent strong growth in its target market, and strong financial flexibility. The company is continuing its strategy of investing in its growth through subsidized crediting rates and fees supported by its substantial excess capital. MoA has broadened its product array and services within its niche based on a prior strategic review that was designed to drive new sales and improve asset retention.

MoA reported a net operating gain of \$1.2 million in 2008 following a net loss from operations of \$14.8 million in 2007. Its statutory return on assets has averaged less than 1 basis point (bp) over the past three years. We expect that the company will have net returns of less than 20 bps for each of the next two years. Annual sales growth since 2005 has notably improved in the company's growth products, with thrift plans and IRAs increasing more than 15% each year.

Outlook

MoA will continue to produce lower-than-industry-average operating earnings for the foreseeable future. We expect that MoA will maintain extremely strong capital, stable liquidity, conservative investment strategies, and a growing competitive position. Double-digit sales growth in its target market of thrift plans and IRAs to non-profits and small to mid-sized for-profit organizations will likely continue, with flat to declining annual growth in its noncore mature lines of business.

Related Research

- "Interactive Ratings Methodology," April 22, 2009.

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Mutual of America Life Insurance Co.		
Counterparty Credit Rating		
Local Currency	AA-/Stable/—	AA-/Negative/—
Financial Strength Rating		

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Local Currency

AA-/Stable/—

AA-/Negative/—

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