Q2 2023 Globe Life Inc Earnings Call

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PRESENTATION

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Thank you, good morning everyone. Joining the call today are Frank Svoboda and Matt Darden, our Chief Executive Officers, Tom Kalmbach, our Chief Financial Officer, Mike Majors, our Chief Strategy Officer, and Brian Mitchell, our General Counsel.

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our earnings release 2022 10-K and any subsequent Forms 10-Q on file with the SEC. Some of our comments may also contain non-GAAP measures. Please see our earnings release and website for discussion of these terms and reconciliations to GAAP measures.

I will now turn the call over to Frank.

Frank M. Svoboda - Globe Life Inc. - Co-Chairman & Co-CEO

Thank you Stephen, and good morning everyone. In the second quarter, net income was $215 million or $2.24 per share, compared to $224 million or $2.26 per share a year ago. Net operating income for the quarter was $251 million or $2.61 per share an increase of 3% from a year ago.

On a GAAP reported basis, return on equity was 22.4%, and book value per share is $41.44. Excluding Accumulated Other Comprehensive Income, or AOCI, return on equity was 14.6% and book value per share is $72.09, up 10% from a year ago.

In our life insurance operations, premium revenue for the second quarter increased 3% from the year-ago quarter to $782 million. For the year, we expect life premium revenue to grow around 4%. Life underwriting margin was $296 million in the second quarter, down 1% from a year ago. At the midpoint of our guidance, we expect life underwriting margin for the full year to grow around 5% and, as a percent of premium, to be in the range of 37% to 39%.

In health insurance, premium grew 3% to $329 million, and health underwriting margin was up 1% to $92 million. For the year, we expect health premium revenue to grow around 3%. At the midpoint of our guidance, we expect health underwriting margin to be relatively flat and as a percent of premium to be in the range of 28% to 30%.

Administrative expenses were $75 million for the quarter, up 2% from a year ago. As a percentage of premium, administrative expenses were 6.8%, same as the year-ago quarter. For the full year, we expect administrative expenses to be up approximately 3% and be around 6.9% of premium. Higher labor and IT costs are expected to be largely offset by a decline in pension-related employee benefit costs.

I will now turn the call over to Matt for his comments on the second quarter marketing operations.

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

Thank you Frank. First, American Income Life, where life premiums were up 5% over the year-ago quarter to $395 million, and life underwriting margin was up 2% to $180 million. In the second quarter of 2023, net life sales were $82 million, down 4% from a year-ago quarter. However, as a reminder, we produced very strong sales in the first half of 2022 and with AIL posting sales growth of 16% for the second quarter of 2022. This makes for a tough quarter-over-quarter comparable, however, I see good momentum with this division, and I anticipate strong sales growth in the latter half of this year.

The average producing count for the second quarter was 10,488, up 8% from the year-ago quarter, and up 8% from the first quarter. While sales declined from the year-ago quarter, we have seen sequential growth in average producing agent count over the past 2 quarters, and I am excited to see the continued momentum in recruiting as agent count growth is a driver of future sales growth.

At Liberty National, life premiums were up 7% over the year-ago quarter to $87 million, and life underwriting margin was up 2% to $28 million. Net life sales increased 21% to $23 million, and net health sales were up $8 million, which is up 18% from the year-ago quarter due primarily to increased agent count.

The average producing agent count for the second quarter was 3,180, which is up 17% from the year-ago quarter. Liberty National continues to produce strong sales and recruiting activities.

At Family Heritage, health premiums increased 8% over the year-ago quarter to $98 million, and health underwriting margin increased 14% to $33 million. The increase in underwriting margin is primarily due to higher premiums and improved claim experience. Net health sales were up 19% to $23 million, primarily due to increased agent count.

The average producing agent count for the second quarter was 1,345, up 15% from the year-ago quarter. The ongoing emphasis on recruiting continues to generate strong growth in this division.

In our Direct to Consumer Division at Globe Life, life premiums increased 1% over the year-ago quarter to $249 million, while life underwriting margin declined 8% to $56 million. The decrease in underwriting margin is primarily due to higher policy obligations and acquisition expenses.

Net life sales were $32 million, down 3% from the year-ago quarter, primarily due to declines in direct mail and insert media activity. However, electronic sales grew over 4% from the year-ago quarter. Electronic sales continue to be an important part of our Direct to Consumer Division as the electronic channel currently represents approximately 70% of new sales and this channel has grown at an approximate 6% compound annual growth rate since 2019.

On to United American General Agency, where health premiums increased 1% over the year-ago quarter to $137 million. Health underwriting margin was $15 million, or 11% of premium, down from 12% from the year-ago quarter. Net health sales were $13 million, up 4% compared to the year-ago quarter.

Now on to projections.

Based on the trends that we are seeing and our experience with our business, we expect the average producing agent count trends for the full year 2023 to be as follows: at American Income Life, low double-digit growth; at Liberty National, mid-teens growth; at Family Heritage, low double-digit growth. Net life sales for the full year 2023 are expected to be as follows: American Income Life, low single-digit growth; Liberty National, mid-teens growth; Direct to Consumer, slightly down to relatively flat. Net health sales for the full year 2023 are expected to be as follows: Liberty National, mid-teens growth; Family Heritage, low double-digit growth; and United American General Agency, mid-single-digit growth.

I will now turn the call back to Frank.

Frank M. Svoboda - Globe Life Inc. - Co-Chairman & Co-CEO

Thanks Matt.

We will now turn to the investment operations.

Excess investment income, which for 2023, we define as net investment income less only required interest on policy liabilities was $31 million, up $7 million from the year-ago quarter. Net investment income was $261 million, up 7% or $16 million from the year-ago quarter due to higher yield on fixed maturities and short-term investments and an increase in floating interest rates on our commercial mortgage loans, including those held in limited partnerships.

I would point out here that while we benefit from the higher floating rates on the commercial loans, these investments do have rate floors that mitigate the impact of a decline in rates. Required interest, as adjusted to reflect the impact from the adoption of LDTI, is up 4% over the year-ago quarter, in line with the increase in net policy liabilities.

For the full year, we expect net investment income to grow approximately 6% as a result of the favorable rate environment and steady growth in our invested assets and expect excess investment income to grow in the range of $11 million to $12 million.

Now regarding our investment yield.

In the second quarter, we invested $359 million in investment-grade fixed maturities, primarily in the municipal and industrial sectors. We invested at an average yield of 5.75% and an average rating of AA-, and an average life of 24 years, taking advantage of opportunities in the municipal sector to obtain higher yield as well as higher quality. We also invested $39 million in commercial mortgage loans and limited partnerships that have debt-like characteristics.

These investments are expected to produce additional yields and are in line with our conservative investment philosophy. For the entire fixed maturity portfolio, the second quarter yield was 5.18%, up 2 basis points from the second quarter of 2022 and flat from the first quarter. As of June 30, the portfolio yield was 5.21%.

Now regarding the investment portfolio.

Invested assets are $20.3 billion, including $18.6 billion of fixed maturities at amortized cost. Of the fixed maturities, $18.1 billion are investment grade with an average rating of A-. Overall, the total portfolio is rated A-, same as a year ago.

As a reminder, we have information on our website regarding our banking and commercial mortgage loan investments. As we mentioned previously during our first quarter earnings call, we took a $30 million after-tax provision for credit loss early in the second quarter as a result of the default of First Republic Bank.

Our fixed maturity investment portfolio has a net unrealized loss position of approximately $1.6 billion due to current market rates being higher than the book yield on our holdings. As we have historically noted, we are not concerned by the unrealized loss position as it is primarily interest rate driven. We have the intent and, more importantly, the ability to hold our investments to maturity.

Bonds rated BBB are 49% of the fixed maturity portfolio compared to 53% from the year-ago quarter. This is the lowest this ratio has been in over 10 years. While this ratio is in line with the overall bond market, it is high relative to our peers. However, keep in mind that we have little or no exposure to higher risk assets such as derivatives, common equities, residential mortgages, CLOs, and other asset-backed securities.

Additionally, unlike many other insurance companies, we do not have any exposure to direct real estate equity investments or private equities.

We believe that the BBB securities that we acquire provide the best risk-adjusted, capital-adjusted returns due in part to our ability to hold securities to maturity regardless of fluctuations in interest rates or equity markets. Below investment grade bonds are $496 million compared to $585 million a year ago.

The percentage of below investment grade bonds to fixed maturities is 2.7%. This is as low as this ratio has been in more than 20 years. In addition, below investment grade bonds plus bonds rated BBB are 52% of fixed maturities, the lowest ratio it has been in over 15 years.

Overall, we believe we are well positioned not only to withstand a market downturn, but also to be opportunistic and purchase higher-yielding securities in such a scenario. Because we primarily invest long, a key criterion utilized in our investment process is that an issuer must have the ability to survive multiple cycles. We have performed stress tests under multiple scenarios on both our fixed maturity portfolio and our commercial mortgages held directly and through limited partnerships. Tom will address the potential capital implications of these stress tests in his comments.

At the midpoint of our guidance, for the full year, we expect to invest approximately $1.1 billion in fixed maturities at an average yield of 5.7% and approximately $325 million in commercial mortgage loans and limited partnership investments with debt-like characteristics at an average yield of 7.5% to 8.5%. As we have said before, we are pleased to see higher interest rates as this has a positive impact on operating income by driving up net investment income with no impact to our future policy benefits since they are not interest sensitive.

Now I will turn the call over to Tom for his comments on capital and liquidity.

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Thanks Frank.

First, I want to spend a few minutes discussing our share repurchase program, available liquidity and capital position.

The Parent began the year with liquid assets of $91 million and ended the second quarter with liquid assets of approximately $74 million. In the second quarter, the Company repurchased approximately 780,000 shares of Globe Life Inc. common stock for a total cost of $84 million. The average share price for these repurchases was $107.26 and to date, in the third quarter, we have purchased 133,000 shares for a total cost of $15 million at an average share price of $111.01, resulting in repurchases year-to-date of 2.1 million shares for a total cost of $234 million at an average share price of $111.88.

In addition to the liquid assets held by the Parent, the Parent Company generated excess cash flows during the second quarter and will continue to do so through the second half of 2023. Parent Company's excess cash flow, as we define it, primarily results from dividends received by the Parent from its subsidiaries less the interest paid on debt. We anticipate the Parent Company's excess cash flow for the full year will be approximately $420 million to $440 million and will be available to return to its shareholders in the form of dividends and through share repurchases.

As noted in previous calls, this amount is higher than 2022. As previously noted, we had approximately $74 million of liquid assets at the end of the quarter as compared to the $50 million to $60 million of liquid assets we have historically targeted. In addition to the $74 million of liquid assets, we expect to generate $140 million to $160 million of excess cash flows for the second half of 2023, providing us with approximately $200 million to $220 million of assets available to the Parent for the remainder of 2023, and this is after taking into consideration the approximately $15 million of share repurchases to-date in the third quarter.

We anticipate distributing approximately $40 million to $45 million to our shareholders in the form of dividend payments for the remainder of 2023. As noted in previous calls, we will use our cash as efficiently as possible. We still believe that share repurchases provide the best return or yield to our shareholders over other available alternatives. Thus, we anticipate share repurchases will continue to be the primary use of Parent's excess cash flows after the payment of shareholder dividends.

It should be noted that cash received by the Parent Company from our insurance operations is after our subsidiaries have made substantial investments during the year to generate new sales, expand and modernize our information technology and other operational capabilities as well as to acquire new longduration assets to fund future cash needs. The remaining amount is sufficient to support the targeted capital levels within our insurance operations and maintain the share repurchase program in 2023. In our earnings guidance, we anticipate between $370 million and $390 million of share repurchases will occur during the year.

With regard to capital levels at our insurance subsidiaries.

Our goal is to maintain our capital levels necessary to support our current ratings. Globe Life targets a consolidated company action level RBC ratio in the range of 300% to 320%. At the end of 2022, our consolidated RBC ratio was 321%.

At this RBC ratio, our subsidiaries had at that time, approximately $125 million of capital over the amount required to meet the low end of our consolidated RBC target of 300%.

When adjusted for credit losses on fixed maturities incurred in the first half of the year, the RBC ratio has reduced slightly below the midpoint of our targeted RBC range of 300% to 320%. We are well positioned to address any additional capital needed by our insurance subsidiaries due to potential downgrades and additional defaults that may occur due to the recession or other economic factors.

As Frank mentioned, we routinely perform stress tests on our investment portfolio under multiple scenarios. Under these stress tests, we anticipate various levels of downgrades and defaults in our fixed maturity portfolio and include a provision for losses in our CML portfolio that reflect loss ratios in excess of those of the Federal Reserve's severely adverse scenario. Under our scenarios, we do not anticipate that all of the downgrades, defaults and losses in our investment portfolio would occur in 2023, but rather anticipate they would emerge over an extended period of time, which could be as long as 24 months.

Even if these losses under our internal stresses occurred before the end of the year, we estimate only $25 million to $50 million of additional capital would be needed to maintain the low end of our consolidated RBC target of 300%. The Parent Company has sufficient sources of liquidity to fund this capital if it is needed to maintain our consolidated RBC ratio within our target range while continuing our dividend and share repurchase program as planned.

With regards to policy obligations in the second quarter.

As we have discussed on prior calls, we have included the historical operating summary results under LDTI for each of the quarters in 2022 within the Supplemental Financial Information available on our website. In the third quarter of 2022, we updated both our life and health assumptions, lapse, mortality, and morbidity. The life assumption updates reflected our current estimates of continued excess mortality, particularly in the near term.

For the second quarter, life obligations were slightly favorable when compared to our assumptions of mortality and persistency. This resulted in a life remeasurement gain for the quarter. The Supplemental Financial Information available on our website provides an exhibit, which shows the remeasurement gain or loss by distribution channel. The remeasurement gain or loss shows the current period fluctuations in experience from those expected and the impact of assumption changes, if any, which are allocated to the current quarter and past periods. In the absence of assumption changes, the remeasurement gain or loss is indicative of experience fluctuations. The remeasurement gain for the life segment resulted in $24 million lower life policy obligations and $2.6 million lower health policy obligations.

Michael C. Majors - Globe Life Inc. - Executive VP of Policy Acquisition & Chief Strategy Officer

$2.4 million.

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Sorry, $2.4 million lower life policy obligations and $2.6 million lower health policy obligations on slightly lower claims than anticipated. And in the second quarter, we had no changes to long-term assumptions. We are currently in the process of finalizing our review of long-term assumptions, and we will make updates if needed in the third quarter. We do not expect these updates to be significant overall.

Finally, with respect to our earnings guidance for 2023.

We are projecting net operating income per share will be in the range of $10.37 to $10.57 per diluted common share for the year ending December 31, 2023. The $10.47, midpoint of our guidance, is higher than what we had indicated last quarter and is largely due to higher investment income from our commercial mortgage loans and limited partnership investments.

For the full year 2023, we anticipate life underwriting margins to be in the range of 37% to 39%, slightly higher than the 2022 life underwriting margin percentage when restated for the full year. Life underwriting margins -- health underwriting margins to be in the range of 28% to 30%. The life and health anticipated underwriting margins are unchanged from last quarter's guidance. We believe the year-to-date obligation ratios are indicative of emerging policy obligations over the remainder of the year.

As previously noted, we will be reviewing assumptions and anticipate making updates next quarter. Again, we do not expect these updates to be significant overall. Total acquisition costs in the second quarter as a percent of premium are 21%, including both amortization and non-deferred acquisition costs and commissions. We expect the full year to be consistent with this 21%.

Those are my comments. I will now turn it over to Matt.

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

Thank you Tom. Those are our comments, and we will now open the call up for questions.

Q U E S T I O N S A N D A N S W E R S

Wesley Collin Carmichael - Wells Fargo Securities, LLC, Research Division - VP & Equity Analyst

Hey, good morning or good afternoon. I had a clarification question on your comments on the investment portfolio. In the fixed maturity portfolio, I think the allowance for credit losses went up about $40 million in the quarter. Is that related to the losses on First Republic? I just want to make sure that that's not being driven by something else?

Frank M. Svoboda - Globe Life Inc. - Co-Chairman & Co-CEO

Yes. That is exactly what that is. It was about on a gross basis, about $39.6 million worth of loss on First Republic.

Wesley Collin Carmichael - Wells Fargo Securities, LLC, Research Division - VP & Equity Analyst

Got it thanks, and just a follow-up. Do you have any updated plans regarding issuing new long-term senior debt to pay off the term loan for April? I am just wondering what you are thinking kind of in terms of size of new debt issuance.

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Yes. We had actually consider doing that -- our thoughts right now are to consider doing that in 2024.

Frank M. Svoboda - Globe Life Inc. - Co-Chairman & Co-CEO

Yes. And I think, Wesley, we do take a look at that. Clearly, we have the term loan out there for the $170 million, and we will have to consider what the size of that might be, and we will definitely consider whether that needs to be $300 million issue or something larger to just make it index eligible, but we will see what kind of the needs are at that point in time.

Wesley Collin Carmichael - Wells Fargo Securities, LLC, Research Division - VP & Equity Analyst

Great thanks.

Jamminder Singh Bhullar - JPMorgan Chase & Co, Research Division - Senior Analyst

Hi, I had a question first on the direct channel. So, I guess your comments on sales for the agency channels are fairly optimistic, given the growth in the agent count. But in the direct channel, should we assume that as long as inflation is high that sales are going to be weak because I think you have cited sort of reduced marketing spending and also just lower disposable income and a high inflationary environment as reasons for why sales have been weak there?

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

Yes. On the Direct to Consumer channel, it is subject to inflationary pressures, particularly on the marketing and distribution side. As we have noted in the past, and we continue to note the reduction in our, I will call it, traditional channels from mail and print media perspective, we are continuing to reduce that circulation based upon the cost that we are incurring to market in that channel. And that is being offset by growth in our digital channel. As I noted in the comments, our growth in the digital channel is up 4%. So, we have got a couple of competing factors going on there.

But that is really -- we are focused on just making sure that we maintain our target margins in that distribution and to the extent that certain marketing campaigns, particularly on the print side, don't meet those profit objectives then we are scaling back in that area.

I would say just to add on to that related to just inflationary pressure from a consumer perspective, the sales are actually up on a per policy basis.

So, the premium per policy is actually up-- so we are really not seeing a deterioration from consumer demand perspective related to inflationary pressure, it's really on the marketing side.

Jamminder Singh Bhullar - JPMorgan Chase & Co, Research Division - Senior Analyst

Okay. And then you saw a significant increase in the agent count across all of your channels. I would have assumed that with the sort of tight labor market, it would be a tougher recruiting environment because you had an easy time recruiting when things were bad, but what is really driving that? And what is your outlook if conditions remain the way they are for the next year?

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

Yes. What is really driving that is just some things that we have put in place, really focused on growing our middle management count, putting more tools in the hands of our agent managers and agency owners to be able to get better line of sight into activity -- and so there is just been a strong growth as we have grown that middle management count who are responsible in many ways for that new agent recruiting, onboarding, and training.

So the growth is, as you have noted, we are very pleased with that in all 3 channels and think that will continue. Do not really see headwinds at this point. It depends on which economists you believe, but it looks like there's predictions for the labor market potentially cooling a little bit. If that is the case, that has generally been an additional tailwind for us in the recruiting area. So, we are very pleased with the things that we have put in place and believe the growth is driven more by our activity than the overall economy or market. And I think indicative of that is if you look at just some of the industry trends from an agent count growth that we believe we are outpacing that. So we are very pleased with the results that we are getting.

Frank M. Svoboda - Globe Life Inc. - Co-Chairman & Co-CEO

Jimmy, just one thing I would add on to that really quick, just to remember that we recruit to a new opportunity, a better opportunity. So we have never really been one that's trying to take advantage of those in the unemployment markets and that type of thing. And while loosening of the labor market might be a little bit of a tailwind, we're able to recruit in all markets because again, we have really recruited to a better opportunity, and there is still plenty of folks out there looking for a better opportunity.

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

And one thing I would add to that is; some of the feedback that we are hearing from the field is one of the dynamics that is going on out there is the return to work from an office perspective. Our opportunity is a flexible opportunity. It is much more entrepreneurial in nature, and we seem to be attracting additional individuals that are looking for that ability to manage their own schedule and have an opportunistic approach to grow their income in an entrepreneurial manner. So, I think that is a dynamic that is going on out there that is more influential of our particular experience than really the labor market or that being tight.

Jamminder Singh Bhullar - JPMorgan Chase & Co, Research Division - Senior Analyst

Okay. And just lastly on, you have had elevated investment losses through the first couple of quarters. Should we assume that there's going to be a commensurate impact of that on free cash flow next year? Or are there any offsets there that stat income won't be impacted to the same extent as GAAP.

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Yes. It is a little early right now for us to give clear guidance on what we believe excess cash flow to be next year. But just as we think about it, we think it would be kind of in a similar range of where excess cash flow was this year, just given some of those realized losses.

Jamminder Singh Bhullar - JPMorgan Chase & Co, Research Division - Senior Analyst

Okay thank you.

John Bakewell Barnidge - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Thank you very much for the opportunity. Given the cost of direct mailings and less effectiveness along with electronic sales growing, are there newer DTC distribution channels or methods that really have not been pursued previously that are now being pursued more with more gusto.

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

Well, I would say that we are always looking for additional channels. You know there is a lot of opportunities on the electronic media side, different methods of distribution from an online perspective as well as that's supported by our agent call center. So, we are always looking at new and different platforms, and there is a lot of testing that goes on in that area as we test into it.

So, as you can see, as I mentioned, 70% plus of our sales these days are from an electronic source. And you just go back very few years ago, it was about 50%. So, we are definitely growing that piece as we continue to scale back on the traditional print media side. But there -- to the extent that we are getting profitable sales in the print media side, we will continue to do that. But obviously, the growth engine is going to be more on the electronics side.

John Bakewell Barnidge - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Great thank you. My follow-up question. Oftentimes, I believe competition for Globe Life sales can often be discretionary income. How do you think through student loan payments restarting potentially impacting demand for products? Thank you.

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

Sure. Really, what we look at is just kind of, as you had mentioned, the share of the wallet. Obviously, that from a macro perspective is going to have potentially some impact to tightening of that. I do not see that impacting our particular demographic too much. What we are continuing to see is an increase in all of our distribution channels, including our Direct to Consumer channel, which is generally a lower income demographic. Our sale -- a premium per sale is still going up.

And as a reminder, we charge -- the policies have a low premium per month perspective. So, it is not a big share of the wallet that we are talking about. In our DTC channel, it may be $20 or $40 a month as an example. And so really, I do not think that is going to have too much of an impact on our particular segment of the market as we think about our future sales.

John Bakewell Barnidge - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Thank you.

Erik James Bass - Autonomous Research US LP - Senior Analyst of US Life Insurance

Hi, thank you. Some of the health insurers have talked about seeing increased benefit utilization as more seniors are undergoing elective procedures that were put off either due to the pandemic or a lack of capacity. So, I am curious if that is something that you are seeing in your MedSup block at all?

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Yes thank you. We did see United Healthcare reported that, and they have a large block of Medicare Advantage coverage. I would not necessarily expect those trends to carry over to our Medicare Supplement business. We are seeing a little bit higher than anticipated health cost trends in our Medicare Supplement business that are impacting margins slightly. But the good thing is the seasonality that we saw in the first quarter has subsided a bit, and also where we have seen some increased utilization has really been isolated to our group retiree health business, so more on the group side than on the individual side. If that does occur, continues to occur, those higher cost trends, we take into account in setting our renewal rates for 2024. And so, we would fully expect to be able to offset any of those in the future.

Erik James Bass - Autonomous Research US LP - Senior Analyst of US Life Insurance

Got it. And is there something different between Medicare Advantage block and MedSup that would account for why you would not expect to see the same thing? Or just differences in your client base or...

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Yes. Medicare Advantage is covering kind of the full medical costs where Medicare Supplement is a different clientele but also we are covering more of the deductibles and items above what Medicare would not cover.

Erik James Bass - Autonomous Research US LP - Senior Analyst of US Life Insurance

Got it thank you, and then maybe if we could just pivot talking a little bit more about mortality experience. It sounds like it was a little bit favorable to your assumptions this quarter. And is that a change at all in terms of what you are seeing in terms of the level of excess population mortality starting to normalize? Or anything else, I guess, just any color you have there?

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

No, you are right. We did see mortality slightly favorable from our expectations in our assumptions. You can see that coming through the remeasurement gain on the life business. What I would say is we have seen improvement in excess deaths where we are still seeing some elevated excess deaths from what we did experience in 2019.

So it is getting better, but it still seems a little bit elevated for some particular causes. Particularly health and -- heart and circulatory causes and cancer are lower than 2021 and 2022, which is a really good sign because those are some of the bigger causes of death. And then I want to say, last quarter, it is nice to see COVID deaths in the U.S. decline and we are probably seeing some benefit from those declines in COVID deaths as well.

Erik James Bass - Autonomous Research US LP - Senior Analyst of US Life Insurance

Got it thank you. So, it is basically you were more conservative in your assumptions. So there is still some level of excess mortality within the population, but just less than you had assumed?

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Yes. We are definitely seeing some continued excess mortality. We probably expect that to continue for you know at least for the remainder of this year and probably into the next couple of years.

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

And our current experience is a little bit less than our anticipated elevated amount.

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Exactly Matt.

Erik James Bass - Autonomous Research US LP - Senior Analyst of US Life Insurance

Perfect thank you very much.

Maxwell Fritscher - Truist Securities, Inc., Research Division - Research Analyst

Thanks, good afternoon. I am calling in today for Mark Hughes. I was wondering if you could provide some color on the driver of the growth in life sales for Liberty National. Was this just a function of agent growth?

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

It is primarily a function of agent growth. We have had significant double-digit agent growth. Our growth in the agent count for Liberty really started accelerating in 2022 in the latter half. And so, as that's kind of a leading -- that agent count is a leading indicator, those new agents come on board, become more productive. So as those agents get onboarded and get more experience, then it drives the sales. We have a little bit of agent productivity gains, just the amount of premium that we are selling on a per-agent basis, but a vast majority of it is really just coming from that agent count increase.

Maxwell Fritscher - Truist Securities, Inc., Research Division - Research Analyst

Okay thank you, and you might have mentioned this, but I must have missed it. What was the driver of excess investment income growth? Was this just higher yield in the quarter?

Frank M. Svoboda - Globe Life Inc. - Co-Chairman & Co-CEO

Yes, it is really predominantly the increase in the short-term rates, which are really hitting our -- the floating rates impacting our commercial mortgage loans as well as the commercial mortgage loans that are in our limited partnership investments. About 2/3 of our limited partnerships are in commercial mortgage loans as well.

So, we are seeing increases in those rates as well as a little bit on the short-term investments that we have, which is not as significant. But overall, so we just saw very good growth in our net investment income and the income grew at a faster pace than the invested assets. And then also, when you think of the excess investment income, it's -- you take required interest into account. So, you had investment at -- the net investment income growing at a faster rate than our net investment income. So, we ended up with a good increase in the excess investment income.

Maxwell Fritscher - Truist Securities, Inc., Research Division - Research Analyst

Great thank you.

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

Good morning, sorry good afternoon. Just had a follow-up question on the excess mortality to make sure I am understanding the way this is going to flow through accounting, the new accounting. So, if I remember correctly, the total COVID and non-COVID excess plan for 2023 was around $45 million a year. So, let's call that a little over $10 million quarterly drag, is it as simple as just taking that remeasurement gain of $2.4 million and deducting that from the $11 million-ish quarterly drag you would expect from excess and then you end up with $8 million or $9 million for this quarter would be the elevated, still elevated ongoing COVID? Is that -- does that make sense to you? Like -- or is there some element of smoothing that's going on with the new accounting that doesn't make that exactly comparable?

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Yes. There is definitely an element of smoothing. So, it’s not as kind of easy as you had indicated. I think that again, the remeasuring gains are reflecting fluctuations from our underlying assumptions. So, the life business is performing better than those assumptions. What I would say about our excess mortality assumptions is yes, they are consistent with kind of that overall excess mortality that we talked about, the $45 million. But we also expect that to kind of wear off over time, and so that's kind of underlying those assumptions as well. So, it is difficult to kind of pinpoint exactly how that will come through.

What I would say is when we see fluctuations. So if we had -- it is generally in the current year, we see probably about 1/4 of that come through into the current quarter results.

And then the other thing to remember is we are going to look at updating our assumptions again coming up in this third quarter. We do not expect them to have a significant impact, but we will kind of be revisiting our excess mortality assumption going forward as well.

Frank M. Svoboda - Globe Life Inc. - Co-Chairman & Co-CEO

Yes. I think just 1 thing to add to that, just as an example, and what Tom is saying is that if you had $45 million and it turned out to be $35 million of excess that you actually kind of incurred, but the way that this new LDTI impacts that, and as Tom said, roughly 1/4 of that, we would probably only see roughly a $2 million to $2.5 million of that actually flow through and actually hit current year earnings. So it is spread out, if you will, the expectation for those under the new accounting got spread out over a whole bunch of years, and so the impact on the current year is much less.

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

That is really helpful. So I am sorry, just a follow-up. So the $2.4 -- just so I am clear on this, the $2.4 million remeasurement gain, if it was on the old GAAP, that would have been a bigger – we will call it favorable impact on the quarter by -- so that would have been larger by 3x or something like that?

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO.

Yes, correct. It would have been larger. Yes.

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

Okay that is helpful. That is all I had.

Suneet Laxman L. Kamath - Jefferies LLC, Research Division - Equity Analyst

Hi, I do not know if you disclosed this or talked about it in your prepared remarks, but do you have the year-to-date statutory operating income and statutory net income?

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

We do not have those yet. We are finalizing the second quarter statutory results right now. So not at this time.

Suneet Laxman L. Kamath - Jefferies LLC, Research Division - Equity Analyst

Okay. And then the comment about the capital under your stress test, I think you had said $25 million to $50 million, is that comparable to the $30 million to $55 million that you guys talked about last quarter? Or was that a different calculation?

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

No, very comparable. Yes, similar.

Suneet Laxman L. Kamath - Jefferies LLC, Research Division - Equity Analyst

So, it actually got better sequentially?

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Yes. Yes, just slightly. Yes.

Suneet Laxman L. Kamath - Jefferies LLC, Research Division - Equity Analyst

Got it. Okay. And then the only other one I had is, again, I do not know if this is going to affect you, but obviously, over the past couple of weeks, we have learned about the FDA approving some of these new Alzheimer's drug and whether or not Medicare is going to cover that. I think it is still an open issue. Is that something that ultimately could affect you guys? Or is it not that material for you?

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

Yes. We have actually -- it depends on whether it is covered by Medicare or not. So Medicare covers drugs administered in office and these are drugs that are currently administered in the office. We did anticipate some of that coming through in our Medicare Supplement rates. So, it actually will be one of those considerations as we look for rate increases for 2024 and medical expense trend is -- will incorporate estimates for what we think that will run.

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

And I think -- I was going to add to that. I think part of it, too, is just understanding what utilization may look like in the future. There is a lot of risks that are currently disclosed related to those drugs as well. But as Tom said, we can price for that based upon what ultimate utilization may look like.

Thomas P. Kalmbach - Globe Life Inc. - Executive VP & CFO

And what we -- as we thought about our 23 rates that are in effect right now, we've actually, like I said, compensated some of that, and we think those costs are pretty much in line with what we would expect.

Suneet Laxman L. Kamath - Jefferies LLC, Research Division - Equity Analyst

Got it, okay thanks.

Operator

As there are no further questions, I will hand the call back over to your host for any closing remarks.

Stephen Mota - Globe Life Inc. - Sr. Director Investor Relations

All right. Thank you for joining us this morning. Those are our comments, and we will talk to you again next quarter.