Q3, 2023 Globe Life Inc. Earnings Call

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PRESENTATION

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

Thank you. Good morning everyone. Joining the call today, Frank Svoboda and Matt Darden, our Co-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 third quarter, net income was $257 million or $2.68 per share, compared to $191 million or $1.94 per share a year ago. Net operating income for the quarter was $260 million or $2.71 per share, an increase of 24% from a year ago. The strong growth in net income and net operating income is due in part to the remeasurement loss taken in the year-ago quarter due to the unlocking of assumptions under LDTI. Tom will discuss this further in his comments.

On a GAAP reported basis, return on equity through September 30 is 22.6% and book value per share is $48.51. Excluding accumulated other comprehensive income, or AOCI, return on equity is 14.7% and book value per share as of September 30 is $74.31, up 11% from a year ago. In our life insurance operations, premium revenue for the third quarter increased 4% from the year-ago quarter to $788 million. For the year, we expect life premium revenue to grow between 3.5% to 4%. Life underwriting margin was $300 million, up 21% from a year ago. The increase in life underwriting margin was due in part to a remeasurement gain recognized this quarter due to improved claims experience versus a remeasurement loss taken in the year ago quarter.

At the midpoint of our guidance, we expect life underwriting margin for the full year to grow a little over 5% and as a percent of premium to be approximately 38%. In health insurance, premium grew 3% to $331 million and health underwriting margin was down 4% to $97 million, due in part to a remeasurement gain recognized in the third quarter of 2022 that was greater than what was recognized in the current quarter. 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 around 29%.

Administrative expenses were $75 million for the quarter, down 1% from a year ago, primarily due to a decrease in pension and other employee-related costs. As a percentage of premium, administrative expenses were 6.7% compared to 7.0% a year ago. For the full year 2023, we expect administrative expenses to be approximately 6.8% of premium, in line with our previous expectations.

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

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

Thank you, Frank.

First, I am going to start with American Income Life. Here, life premiums were up 6% over the year-ago quarter to $400 million and the life underwriting margin was up 8% to $181 million. In the third quarter of 2023, net life sales were $81 million, which is up 6% from the year-ago quarter, primarily due to growth in agent count.

The average producing agent count for the third quarter was 10,993, up 16% from the year-ago quarter and up 5% from the second quarter. I am encouraged to see the growth in agent count and sales. We are seeing positive results from the recruiting and sales initiatives put in place at the end of last year.

At Liberty National**,** life premiums were up 7% over the year-ago quarter to $88 million and life underwriting margin was up 39% to $27 million. Net life sales increased 31% to $24 million and net health sales were $9 million, which is up 19% from the year-ago quarter due primarily to an increase in agent count. The average producing agent count for the third quarter was 3,339, up 20% from the year-ago quarter.

Liberty continues to generate positive momentum through strong recruiting and agency leadership growth. Ongoing implementation of new technology over the past few years has enabled agency leadership to more effectively monitor and manage agent activity.

Now Family Heritage, here the health premiums increased 8% over the year-ago quarter to $100 million, while the health underwriting margin declined 3% to $36 million. Net health sales were up 15% to $25 million due to increased agent count and productivity.

The average producing agent count for the third quarter was 1,323, up 7% from the year-ago quarter. Moving forward, this agency will continue to focus on recruiting with additional initiatives to incentivize agency middle management growth, which will lead to growth in new offices and agent count.

In our Direct to Consumer Division at Globe Life, life premiums increased 1% over the year-ago quarter to $248 million, and life underwriting margin increased 86% to $63 million due to lower policy obligations. Net life sales were $26 million, down 8% from the year-ago quarter, primarily due to declines in direct mail and insert media activity.

While we will continue our efforts to grow Direct to Consumer sales activity, our primary focus will be maximizing the underwriting margin dollars on new sales by managing the rising advertising and distribution costs associated with acquiring this new business. In addition to the ability to produce new business at a healthy margin, the Direct to Consumer Division provides significant support in the form of brand impressions and sales leads to our agencies that is critical to the strong growth they are seeing.

At United American General Agency, here the health premiums increased 2% over the year-ago quarter to $137 million. Health underwriting margin of $15 million or 11% of premium is flat from the year-ago quarter. Net health sales were $16 million, up 20% over the year-ago quarter due to a 6% increase in individual Medicare supplement sales and increased activity at Globe Life Benefits.

On to projections.

Now 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, an increase of around 12%; at Liberty National, an increase of around 18%; at Family Heritage, an increase of around 11%.

Net life sales for the full year 2023 are expected to be as follows: American Income Life, we anticipate approximately 15% growth in the fourth quarter which will result in full year growth of approximately 4%. Liberty National, an increase of around 23% and Direct to Consumer, a decrease of around 5%.

Net health sales for the full year 2023 are expected to be as follows: Liberty National, an increase of around 17%; Family Heritage, an increase of around 18%; and United American General Agency, an increase of around 20%.

Now for 2024, at the midpoint of our 2024 guidance, we expect sales growth for the full year of 2024 to be as follows: for life sales, American Income, high single digit; Liberty National, mid-teens growth; and Direct to Consumer, relatively flat as we continue to focus on profitability.

For health sales, we expect Liberty National to have mid-teens growth; Family Heritage, low double-digit growth, and United American General Agency, low 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 we define as net investment income less required interest was $34 million, up $10 million from the year-ago quarter. Net investment income was $267 million, up 8% or $20 million from the year-ago quarter due to higher yields 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.

Required interest is up 5% 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 7% due to the combination of the favorable rate environment and steady growth in our invested assets, and expect excess investment income to grow approximately $25 million.

Now regarding our investment yield.

In the third quarter, we invested $427 million in investment grade fixed maturities primarily in the municipal and financial sectors. We invested at an average yield of 6.15%, an average rating of A+ and an average life of 27 years, taking advantage of opportunities in the municipal sector to obtain higher yield as well as higher quality. We also invested approximately $100 million in commercial mortgage loans and limited partnerships that have debt-like characteristics. These investments are expected to produce additional yield and are in line with our conservative investment philosophy.

For the entire fixed maturity portfolio, the third quarter yield was 5.19%, up 2 basis points from the third quarter of 2022 and up 1 basis point from the second quarter. As of September 30, the portfolio yield was 5.23%.

Now regarding the investment portfolio.

Invested assets are $20.7 billion, including $18.9 billion of fixed maturities at amortized cost. Of the fixed maturities, $18.4 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 loan investments.

Our fixed maturity investment portfolio had a net unrealized loss position of approximately $2.6 billion due to the 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 mostly interest rate driven. We have the intent and, more importantly, the ability to hold our investments to maturity. Bonds rated BBB are 48% of the fixed maturity portfolio compared to 52% from the year-ago quarter. While this ratio was the lowest it has been in over 10 years, 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 held by our peers.

Additionally, unlike many other insurance companies, we do not have any exposure to direct real estate investments or private equities. We believe that the BBB securities that we acquire generally 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 $493 million compared to $543 million a year ago.

The percentage of below investment grade bonds to total fixed maturities is only 2.6%. At the midpoint of our guidance for the full year 2023, we expect to invest approximately $1.1 billion in fixed maturities at an average yield of 5.9% and approximately $310 million in commercial mortgage loans and limited partnership investments with debt-like characteristics, at an average yield of approximately 8.3%. Also, at the midpoint of our guidance, we expect the average yield earned on the fixed maturity portfolio to be around 5.19% for the full year 2023 and slightly higher at approximately 5.23% for the full year 2024.

We expect -- with respect to our commercial mortgage loans and limited partnerships, we anticipate the yield impacting net investment income to be in the range of 7.1% to 7.2% for both 2023 and 2024. 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, let me 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 third quarter with liquid assets of approximately $69 million.

In the third quarter, the Company repurchased approximately 755,000 shares of Globe Life Inc. common stock for a total cost of $84 million. The average share price for these repurchases was $111.52. To date in the fourth quarter, we have purchased 165,000 shares for a total cost of $18 million at an average share price of $108.36, resulting in repurchases year-to-date of 2.9 million shares for a total cost of $321 million at an average share price of $111.63.

In addition to the liquid assets held by the Parent, the Parent Company generated excess cash flows during the third quarter and will continue to do so for the remainder of 2023. The Parent Company's excess cash flow, as we define it, results primarily from the 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 $425 million and available to return to its shareholders in the form of dividends and through share repurchases.

As previously noted, we had approximately $69 million of liquid assets at the end of the quarter, slightly above the $50 million to $60 million of liquid assets we have historically targeted. In addition to the $69 million of liquid assets, we expect to generate $35 million to $40 million of excess cash flows in the fourth quarter of 2023, providing us with approximately $90 million of assets available to the Parent for the remainder of 2023 after taking into consideration the approximately $18 million of share repurchases to date in the fourth quarter.

We anticipate distributing approximately $21 million to our shareholders in the form of dividend payments for the remainder of 2023. As mentioned on 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 the Parent's excess cash flows after the payment of shareholder dividends.

It should be noted that the 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 long-duration assets to fund their future cash needs.

The remaining amount is sufficient to support the targeted capital levels within our insurance operations and maintain the share repurchase program for 2023.

In our earnings guidance, we anticipate approximately $465 million will be returned to shareholders in 2023, including approximately $380 million through share repurchases.

Now with regards 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%. As discussed on previous calls, our consolidated RBC ratio was 321% at the end of 2022.

In light of credit losses incurred to date, we anticipate our overall year-end RBC ratio to be at the midpoint of our range or approximately 310%. At this point, we do not anticipate any significant credit losses or downgrades for the remainder of the year, but to the extent any do occur, we are well positioned to address any capital needed by our insurance subsidiaries to maintain RBC levels at the midpoint of our range.

Now with regards to policy obligations for the current 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 with -- within the Supplemental Financial Information available on our website.

In addition, we included an exhibit that details the remeasurement gain or loss by distribution channel. The total remeasurement gain of $19 million for the quarter reflects both current period fluctuations in experience from expected and the impact of assumption changes made in the quarter.

Also, as noted on prior calls, life and health assumption changes were made in the third quarter of 2022 with an expectation of higher mortality in the life segment and more favorable claim trends in the health segment.

In the third quarter of 2023, we again updated those -- both our life and health assumptions, lapse, mortality, and morbidity. And as we expected, the overall impact on third quarter results was not significant with a combined decrease in total life and health obligations of approximately $3 million. The life assumption changes increased life obligations by approximately $2 million in the quarter, while health assumption changes decreased health obligations by approximately $5 million.

In addition to the assumption changes, the remeasurement gain or loss also indicates experience fluctuations. For the third quarter, life policy obligations were favorable when compared to our assumptions of mortality and persistency. The remeasurement gain related to experience fluctuations for the life segment resulted in $13 million of lower life policy obligations and $3 million of lower health policy obligations, primarily as a result of favorable claims experience versus expected.

Now with regards to earnings guidance for 2023,

We are projecting net operating income per diluted share will be in the range of $10.49 to $10.65 for the year ending December 31, 2023. The $10.57 midpoint of our guidance is $0.10 higher than what we had indicated last quarter, largely due to favorable policy obligations in the third quarter.

Our guidance anticipated -- our guidance anticipates the continuation of recent favorable short-term trends, although at a lower level than the third quarter. For the full year 2023, we anticipate life underwriting margins to be approximately 38% of premium and health underwriting margins to be approximately 29% of premium. Total acquisition cost, including the amortization of deferred acquisition costs as well as non-deferred acquisition costs and commissions are expected to be 21% of premium, which is consistent with the third quarter.

Now with regards to 2024 guidance, for the full year 2024,

We estimate net operating earnings per diluted share will be in the range of $11.00 to $11.60, representing 7% growth at the midpoint of the range. We anticipate life and health underwriting income to grow consistent with premium growth with life and health underwriting margins as a percentage of premium to fall within the same ranges as 2023 or about 37% to 39% for life and 28% to 30% for health. At the midpoint of our guidance, we anticipate life premiums growing at approximately 5% and health premiums growing at around 7%.

In addition, higher interest rates are expected to favorably impact excess investment income as we anticipate it to increase 7% to 9% at the midpoint of our guidance. Although 2023 results are not final for the year, at this time, we anticipate Parent excess cash flows available to return to shareholders in 2024 will be a little over $400 million, slightly lower than 2023 due in part to the impact of 2023 statutory income from realized losses and the cost of agency sales growth offsetting the benefits from favorable mortality trends and higher investment yields.

Finally, let me comment on the merger announcement of Evry Health.

Earlier in the month, we announced entering into a merger agreement with Evry Health, a small regional health care company locally focused in the major urban areas of Texas. Evry is a start-up with a technology focus to provide outstanding customer experience and results in positive health outcomes.

We previously had made a small investment in Evry and recently had the opportunity to acquire the whole company. We believe full ownership will allow Evry to grow, but more importantly, allow us to directly assess how we can utilize Evry's technology to enhance Globe's customer experience and service offerings. We do not expect Evry to have a significant impact on 2023 or 2024 results.

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

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

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

QUESTIONS AND ANSWERS

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

Hey good morning, I just had a question on mortality trends and what you are seeing. So, for 2024, it sounded like the life underwriting margin is expected to be kind of the same as 2023. But I think when 2023 guidance came out, you had some expectation for COVID-related mortality. So just wondering what you are seeing in terms of your expectation for excess...

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

Sure. So, we are continuing to see excess mortality even in the third quarter. What I would say is the third quarter was quite favorable and favorable at Direct to Consumer. So, I think really, we just want to see those trends continue before we would make any adjustment to our excess mortality assumptions. And if you recall, I did indicate on an earlier call that we do expect excess mortality to drop in 2024. So that is reflected in our guidance.

Operator

(Operator Instructions) Please go ahead with your question and answer.

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

I am sorry, is there a question?

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

Wes, did you get your question answered?

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

Hey, Maybe before I ask the question, I just wanted to clarify on your assumption embedded -- assumption for mortality embedded in your 2024 guidance? I think you mentioned that you are assuming an improvement in excess mortality, but are you -- I am assuming you are still assuming some level of excess that is beyond what used to be the case pre-pandemic? Or are you not?

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

Yes, that is correct. I mean we still expect some excess mortality in 2024. And that is all reflected in our assumptions that are included in guidance.

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

Okay. And then I had a couple of other questions. On sales and direct response, I would have -- and you have been clear that you are reducing marketing spending, and that is actually holding back your sales. Are you continuing to increase -- reduce marketing spending more and more incrementally because sales are now going to be down like 3 years in a row, and I would have thought that at some point they would have stabilized, they might not grow, but they would not keep declining. So, what is driving the ongoing decline off fairly easy comps.

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

Yes. I would say one of the things you would have to look at is we had significant increases in sales during the pandemic years. So, in last half of 2020 and 2021. And so, part of the sales declines in the last year or so have been really getting back to pre-pandemic levels off of those unusual highs during the pandemic.

So, our sales are really anticipated to be relatively back to where we were from a pre-pandemic perspective. And as I have mentioned in the prepared remarks, we are reducing that marketing spend to make sure that it meets our profit targets and margin objectives on the new business that we are selling.

And we just -- as we have talked about on the prior calls, have that inflationary pressure particularly related to postage and paper costs.

We have had significant increases in postage. We had over 10% increase in postage costs during 2023. That was following 2022 -- in the summer, there was a 7% increase. And so just really trying to pare back to make sure that those sales are consistent with what our profit expectations are.

And then as I have mentioned, from a 2024 perspective, we are anticipating essentially flat sales and focused on profit margin. So, we anticipate that leveling out here over the next year or so.

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

Okay. And then if I think about lapses on a year-over-year basis, direct response is increasing a little bit or increased a little bit this quarter. The agency channels actually improved. So, do you have any thoughts on what is driving that? And are you seeing any sort of affordability issues or is inflation affecting disposable income and intention of people to hold on to the policies that they might have bought.

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

Jimmy, at DTC, I mean I think we just feel like lapse rates for the quarter there are really just fluctuations. We do have some seasonality. There is generally, an uptick in lapses in the third quarter. But at this point, nothing to indicate anything else. So really, we just believe it is fluctuations at this point.

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

And we are also seeing, I would say, just from an inflationary pressure perspective, we are seeing our premium per policy actually increasing, which is kind of an offset of – we are not seeing that inflationary pressure from a sales side. Our productivity for the most part, on a per agent per sale basis is also up across the board. So again, we are just really not seeing that inflationary pressure from a sales side, and I agree with Tom. I think some of the lapse experience is really just a fluctuation not a trend.

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

I think the good thing about DTC renewal lapses, they are very stable, right? And so, we are pleased to see that stability in those lapse rates.

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

Okay thank you.

Wilma Carter Jackson Burdis - Raymond James & Associates, Inc., Research Division - Research Analyst

Oh, hey good morning. You guys have been talking to us here about how a key driver of strong agent count growth across the 3 channels has been the focus on growing the middle management -- could you quantify or provide more details on the middle management growth in each of the channels?

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

Sure. At American Income, year-to-date, our middle management count is up 20%, that is accelerated here over the last half of the year. We anticipate ending around 10% to 15% in middle management count growth for the full year 2023.

Liberty National has also had strong middle management count growth. It is up 9% on a year-to-date basis and anticipate ending the year around 9% or 10% as well.

Family Heritage is about flat from a middle management count growth, but they had acceleration in that middle management growth in 2022 with 9% growth. And we anticipate ending the year around 2% to 4% middle management count growth. And we take those assumptions and really the trends that we are seeing, as a reminder, strong recruiting is that first level agent, and then it takes a period of time to get into the middle management. So that is in our assumptions for the sales guidance that we issued for 2024 of just looking at that agent count growth and how that translates into middle management count growth over a period of time.

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

Hey, thanks good morning. I had a couple of questions on the 2024 guidance. Just I think a couple of items you had not provided were admin expense expectations as well as the buyback expectation in your 2024 guidance?

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

Yes, Ryan. With respect to admin expenses, we do see this probably ticking up just a little bit as a percentage of premium, maybe getting closer to 7% for the year. We are seeing continued investments in our IT operations, plus we have some additional depreciation from some projects that were in place. And then we are seeing probably a higher -- expectations around some postage increases for the year that are probably driving as a percentage up a little faster than what we are seeing in premium growth with respect to that.

Tom do you have…

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

So, with the lower excess cash flow as well as lower excess liquid assets at the Parent because we are just slightly above that $50 million to $60 million that we target. We would expect the amount available to shareholders will be lower in 2024 than what was in 2023. And the year is not final, so we do not have our final statutory for the year, but we would expect repurchases to be in the range of $325 million to $350 million.

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

Thanks, and then just how much is the $400 million of free cash flow, how much is that being depressed by things like credit losses and excess mortality that has occurred in 2024. Just trying to think about what that would be I guess, when you roll forward a year to a more normalized level?

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

Yes. It is not the only thing -- but it is about $50 million for the credit losses. And then we have had quite strong sales growth in the year, and that adds a little bit of strain as well. So, it is really kind of those 2 factors.

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

Okay. Great thanks and then just if I could sneak in 1 last one. I just wanted to clarify on mortality. I guess, am I reading this correctly that you -- you are still seeing some level of excess mortality, but it is better than the excess mortality that you had assumed in your projections this year.

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

It is better than -- so yes, on both accounts. We are still seeing excess mortality -- good thing is we have seen deaths from cancer and heart and circulatory disorders come down a bit. Those are still higher than where we had seen them historically. So, they are still elevated. And the second part of your question was on the -- what was the second part there?

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

I was just saying that you have already assumed excess mortality in the near term in your cash flow assumptions. So, you are seeing excess mortality, but it is not as bad as what you had already assumed. Is that right?

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

Yes, that is correct. And you can see that in the remeasurement gains to the extent that we have lower obligations due to fluctuations. That is indicative of favorable mortality or lapse experience. And so, you can see that kind of historically. And then if you backed out the assumption changes that were made in the third quarter, 2022 and 2023, you can see that we are coming in a little bit favorable from what our underlying assumptions are.

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

Yes. One of the things I would just add to that, Ryan, is that like Tom said, so we are seeing the actual experience coming in a little bit lower than those expectations. They are still running a little bit elevated, as Tom indicated, but we are seeing some positive trends in like -- in that, just like what we thought, but I kind of think about those fluctuations the way we have always had fluctuations. It is just that difference between assumptions and that actual experience really has not had a change so far in our long-term expectations. And that is what is really driving the assumption changes.

So even though we are seeing some positive in the near term, we really want to -- and I think Tom mentioned this, we really want to see some of that stick around for a while longer before we start to think is there really anything different that we need to think about with respect to long-term assumptions.

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

Got it, that is helpful, thank you.

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

Hi, good morning. The question was asked last quarter, but I just wanted to get your updated broad outlook on recruiting with agent count being up in all channels and the labor market still being tight.

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

Yes. What we historically have seen and continue to see with this economic cycle is that we are able to recruit strongly in these type of environments, and I think that is shown in 2023. And we anticipate that momentum carrying forward in 2024, as a reminder, we are not recruiting individuals that are unemployed. We are really recruiting people that are looking for a different and better opportunity, particularly an entrepreneurial opportunity.

And inflation actually can be a help to us in fact -- is that we provide an opportunity where folks are more in control of their income based on their activity and output. And so, they have an opportunity to make more money than maybe a fixed income job that they are currently in.

So, we see strong recruiting growth associated with that. The other thing that we see is people want an opportunity to have flexibility. And as you see more and more companies announcing return to the office and some of those types of scenarios, we are seeing more people being attracted to the flexible opportunity that we provide in that more entrepreneurial opportunity.

And I would just point to -- we go back and look at how have we performed during other economic cycles, American Income as an example, had double-digit growth in 2002, 2008 and 2009 also had double-digit growth. And so, during those economic cycles, we typically see very strong recruiting growth, which translates into strong sales growth. So, we anticipate that moving forward into 2024 as well.

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

Thank you, and sorry if I missed it, but did you guide to a full year 2024 agent count number?

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

No, we typically do not do that on this particular call. We will -- we really want to see how the fourth quarter comes out because that agent count trend and the momentum that we have in the fourth quarter really determines how the rest of the year shakes up. So, we generally discuss that on our next call.

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

Okay, that is all I have thank you very much.

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

Good morning, I wanted to circle back on the experience gains in life insurance. I must be doing something wrong when I am calculating this because at least the way I am trying to understand this. It looks to me like your mortality experience is favorable, probably as good, if not better, than pre-pandemic levels. But just so if you could help correct the math here or at least explain the proper way to think about it. If I followed the logic on the experience gains in mortality for the quarter, I would have gotten $3 million negative for the assumption review for life, which would mean the $11 million gain would have been $14 million of experience gains. Is that -- am I thinking about that part of it correctly?

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

Yes. It was $2 million for life. So, it would be $13 million of favorable experience in the third quarter for life.

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

Okay. And then is the way -- is the $13 million representative of around 30% of the experience and then 70% gets capitalized and amortized. Is that still a proper way to think about the smoothing aspect to this or no?

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

No, that is a smooth number. So that is a 1.7% impact on -- of a percent of premium to the obligation ratio. And what I would say is third quarter was very favorable from a mortality perspective. across each of the distribution channels. So that is something we are keeping an eye on to see if that continues or not or whether it was just some timing. But -- but yes, it was a favorable quarter from a mortality perspective.

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

Okay. So, I am not misunderstanding that if I just isolated Q3 and I looked at the claims experience. This to me looks like the best quarter you have -- I do not know, in 3 or 4 years. Is that fair?

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

Yes, If you look back to -- I mean it is relative to the assumptions that we have underlying it. But if you look back to like second quarter, the remeasurement gain on life was favorable by $2.4 million. That seems more normal to me. So that is why the third quarter was particularly favorable. And in the first quarter of 2023, it was $2.6 million. So again, really indicative of a third quarter that is quite favorable.

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

Okay. And then -- and again, not to get too in the weeds on this, but am I thinking about it correctly? If I was to say what was the actual experience?

Would I -- would it be around $45 million of favorability on the total claims but the majority of that gets smooth? Or like is that the gross claims number that would be favorable that I should be thinking about here?

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

You know, that is along the lines of our rule of thumb, right, which is we said 25% of volatility comes through. But there is quite a bit of -- really it depends on where that experience emerges as far as what the impact is in the quarter. So that is a rule of thumb, but I think there is a devil in the details as we dig deeper into that. So, I would not jump to that conclusion.

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

Okay. All right. Yes. So, suffice to say, though, if you had a repeat of this quarter for a while, then there would be probably some consideration given to changing future assumptions.

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

Agreed.

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

That is right. Especially you want to look and say what is that long-term trend --- if you are seeing that many quarters in a row, and that would really be more indicative of something in the -- that the assumptions are not quite in line.

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

Okay thanks for the help.

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

Hey good morning, sorry I got disconnected earlier. I wanted to kind of still follow up on the mortality trend question. And I am curious. And to Tom's point, it was a good quarter, favorable. But what are you thinking for 2024 in terms of assuming excess mortality? Is that just --formed by the pandemic? Or are you expecting COVID deaths going forward or any other cause of death that you might be able to help us with in your expectations?

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

The excess death assumption that we have that underlies our assumptions grades off over time over the next few years. So, in 2024, we expect excess mortality to grade off -- be lower than this was in 2023 to be lower in 2024. And then again, we would expect to be a little bit lower in 2025 as well.

So, we -- our kind of underlying thought here is that it is just going to take some time to go back to more normal mortality levels.

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

And then Wes-- so that if our -- if actual experience ends up being, as Tom said, that you have that basic assumption that is underlying our 2024 projections. And if actual experience does continue to be more favorable than that, then that is what will pop out in those future quarters in revaluation gains.

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

And again, to keep it in a little bit of perspective, keep in mind that our life obligations are between $300 million and $400 million on a quarterly basis. So, you are looking at -- if you were looking at $2 million, $3 million of fluctuation in a particular quarter, that is not a real high level of difference between those expectations.

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

Understood. And then a different question, but to the extent -- and I know you do not really expect this, but to the extent you see any additional credit losses or ratings drift. Would you let the RBC ratio fall below your 300% low end? Or would you expect to kind of temper the buyback program to kind of maintain the capital.

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

We would not let it drop below 300%. That would not be our plan. We would probably use some short-term financing to shore up capital levels at the subsidiaries.

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

Yes. I would say that when you think of it at that point in time, if we are -- we would make the commitment to maintaining that minimum level of RBC, but then we would think of it as a financing transaction at that point in time, how do we finance that? What is our best way of doing that. We would look to alternative sources more cheaper sources, if you would, rather than the buyback and those would be our first-line sourcing. And only if we were not able to find alternative sources, we then do know that we have the buybacks available to us. So, we are not concerned on our ability to do so. But we would seek to use other sources of financing before using the buyback.

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

Got it. And maybe on the financing topic, any update to your expectation for issuing debt? I think you said previously, you might do $300 million or maybe a little bit more in 2024.

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

Yes. I have not really solidified around an amount, but again, we would confirm we would probably do at least $300 million to be index eligible, and we just continue to look at market environments and what the best time to do that is.

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

Thank you.

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

Hey thanks, morning. So, just going back to last quarter, I think you guys talked about a stress test of $25 million to $50 million of potential credit losses. I do not recall hearing an update there, so I just wanted to see if there was one. And then somewhat related to, I think Wes' question, what are you building in for potential investment losses as we think about 2024?

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

So, I would say, well, both of those -- with respect to the stress testing, no real material changes to our thoughts around that. We have updated that.

We always do kind of a bottom-up approach with respect to what we think potential downgrades would be. Overall, we feel really good about where the portfolio is. We have had 7 straight quarters of net upgrades in the portfolio, and we have positioned it pretty well to where, of course, we have potentials for downgrades and would expect if, in fact, there is some economic downturns, some downgrades and at least the potential for some default.

But right now, in our base case for 2024, we do not anticipate any defaults with respect to that. Now if we have any -- anticipate that there could be some overall net downgrades, but those would be in our expectations around capital and capital requirements and feel comfortable with our ability to manage that. It does not really have an impact, if you will, on the earnings guidance for 2024.

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

Got it. Okay. And then just -- you may have mentioned this, and I may have missed it. What are you assuming for just interest rates for next year?

Obviously, you have an investment income assumption built into your guidance. But are you assuming kind of current forward curve? Or what sort of -- if you could just unpack that a little bit?

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

Yes. For 2024, we basically take a look at the Bloomberg survey of economists and where they are projecting both bench and overall index rates for -- we tend to look at that, BBB, BBB+, space if you will, and around looking at 30-year figure that our overall maturities are probably in that 20 to 25 to 30-year range. We do see that, they generally are predicting it to decrease over the course of 2024, most of that in the second half of the year. And on average, we are anticipating our expectation on average about 5.7% for the year.

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

That is your new money rate?

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

Yes.

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

Yes. Got it. And then just 1 last one, if I could. Just given the strong recruiting that you guys have done, do you have a rule of thumb around what percentage of life sales and health sales come from new recruits? I think you may have said that in the past, but I just wanted to ask.

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

Yes. It is a significant portion. It depends on -- there is fluctuations in this. So, you are right, it is kind of a rule of thumb. But it can generally be 30% or 40% or more of our new sales come from those agents that have been recruited in the first year. And if you remember, our business model is recruit agents, and then they start moving into those middle management ranks.

And then their time is split between sales and recruiting, training, and onboarding new agents. And so that is why a lot of our sales are driven from those first year agents because the middle management count or the middle management growth is driving more of activity around recruiting, training, and development of those new agents.

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

Got it, okay thank you.

Operator

There are no further questions, so I will hand you back to Stephen Mota to conclude today's conference.

Stephen Mota- Globe Life Inc – Senior 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.