Q1 2025 Globe Life Inc Earnings Call

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C O R P O R A T E P A R T I C I P A N T S

Frank Svoboda Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

J. Matthew Darden Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Thomas Kalmbach Globe Life Inc - EVP, Chief Financial Officer

Brian Mitchell Globe Life Inc. EVP, General Counsel and Chief Risk Officer

Mike Majors Globe Life Inc. EVP, Chief Strategic Officer

Stephen Mota Globe Life Inc - Senior Director of Investor Relations

C O N F E R E N C E C A L L P A R T I C I P A N T S

Jack Matten BMO Capital Markets - Analyst

Jimmy Bhullar JPMorgan Chase & Co. Inc - Analyst

Elyse Greenspan Wells Fargo Securities LLC - Analyst

Andrew Kligerman TD Cowen - Analyst

Wilma Burdis Raymond James Financial, Inc - Analyst

John Barnidge Piper Sandler Companies - Analyst

Tom Gallagher Evercore ISI - Analyst

Ryan Krueger Keefe, Bruyette & Woods, Inc. - Analyst

Wes Carmichael Autonomous Research LLP - Analyst

Suneet Kamath Kamath Jefferies Financial Group, Inc - Analyst

P R E S E N T A T I O N

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

Thank you. Good morning everyone. Joining the call today are 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 and 2024 10-K 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 Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Thank you Stephen, and good morning everyone. In the first quarter, net income was $255 million or $3.01 per share compared, to $254 million or $2.67 per share a year ago. Net operating income for the quarter was $259 million or $3.07 per share, an increase of 10% from a year ago and slightly higher than our internal projections.

On a GAAP reported basis, return on equity through March 31 is 19% and book value per share is $64.50. Excluding accumulated other comprehensive income, or AOCI, return on equity is 14.1% and book value per share as of March 31 is $87.92, up 11% from a year ago.

In our life insurance operations, premium revenue for the first quarter increased 3% from the year-ago quarter to $830 million. Life underwriting margin was $337 million, up 9% from a year ago, driven by premium growth and lower overall policy obligations.

For the year, we expect life premium revenue to grow around 4%. As a percent of premium, we anticipate life underwriting margin to be between 42% and 44%. In health insurance, premium revenue grew 8% to $370 million, while health underwriting margin was down 10% to $85 million due primarily to higher claim costs at United American resulting from higher utilization.

For the year, we expect health premium revenue to grow in the range of 7.5% to 8.5% and anticipate health underwriting margin as a percent of premium to be between 24% and 26%. Administrative expenses were $88 million for the quarter. The increase over the year-ago quarter is primarily due to higher information technology, employee, and legal costs. For the year we expect administrative expenses to be approximately 7.4% of premium.

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

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Thank you Frank. At American Income Life, life premiums were up 6% over the year-ago quarter to $438 million, and the life underwriting margin was up 5% to $196 million. In the first quarter of 2025 net life sales were $99 million up 1% from a year ago. And as a reminder, we had a difficult comparable this quarter as American Income had a 17% increase in life sales in the year-ago quarter. The average producing agent count for the first quarter was 11,510, up 3% from a year ago.

The average agent count declined from the fourth quarter, but I would attribute this to the tremendous agency growth produced over the last couple of years. From the fourth quarter of 2022 to the fourth quarter of 2024, average agent count grew 29%, and it is typical for our agencies to see some contraction after periods of significant recruiting success. We are pleased to see productivity has increased as more agents are submitting weekly, and I am confident we will see continued growth in this agency going forward.

Now at Liberty National, here the life premiums grew 6% over the year-ago quarter to $96 million, and life underwriting margin was up 3% to $32 million. Net life sales increased 4% to $22 million, while net health sales were $7 million, down 5% from the year-ago quarter. The average producing agent count for the first quarter was 3,688 and this is up 8% from a year ago.

I continue to be excited by the agent count growth at Liberty National which is primarily driven by recruiting activity and growth in agency middle management and is a good leading indicator for continued sales growth at this division.

At Family Heritage, health premiums increased 9% over the year-ago quarter to $112 million, and health underwriting margin increased 10% to $39 million. Net health sales were up 7% to $27 million, and this is due primarily to an increase in agent count. The average producing agent count for the first quarter was 1,417, up 9% from a year ago. And this is three consecutive quarters of strong agent count growth for this division and is driven by this agency's focus on recruiting and middle management development.

In our Direct to Consumer Division, the life premiums were down 1% over the year-ago quarter to $246 million, while life underwriting margin increased 10% to $64 million.

Net life sales were $25 million, down 12% from the year-ago quarter. And as we have previously mentioned, the continued decline in sales is primarily due to lower customer inquiries as we have reduced marketing spend on certain campaigns that did not meet our profit objectives as a result of higher distribution costs.

Our focus in this area is having a positive impact on our overall margin as we will continue to focus on maximizing the underwriting margin dollars on new sales by managing the rising advertising and distribution costs associated with acquiring new business. And the value of our Direct to Consumer business is not only those sales directly attributable to this channel, but the significant support that is provided to our agency business through brand impressions and sales leads. And as we mentioned last year, we expect this division to generate over 750,000 leads during 2025, which will be provided to our exclusive agencies.

Now on to United American General Agency. Here the health premiums increased 13% over the year-ago quarter to $160 million, driven by strong prior year sales growth. Health underwriting margin was $2 million, down approximately $10 million from the year-ago quarter due to higher claim costs resulting primarily from higher utilization.

For the year, we anticipate mid-single-digit growth in underwriting margin due to strong sales and premium rate actions. And as a reminder, the majority of the premium rate increases for 2025 on individual Medicare supplement business will take effect starting in the second quarter. Net health sales were $28 million, and this was up $11 million from the year-ago quarter.

Now I would like to discuss projections.

And based on recent trends we are seeing and our experience with our business, we expect the average producing agent count trends for the full year 2025 to be as follows: At American Income, mid-single-digit growth; at Liberty National, high single-digit growth; and at Family Heritage Life low double-digit growth; and we are reaffirming the life and health sales guidance we gave on last earnings call.

And as a reminder, net life sales for 2025 are expected to be as follows: American Income, high single-digit growth; Liberty National, low double-digit growth; Direct to Consumer, low to mid-single-digit growth. And for health sales, we expect Liberty National, Family Heritage, and United

American General Agency to all have low double-digit growth.

Now before I turn the call back over to Frank for investment operations,

I want to note that with respect to the inquiries made by the SEC and the DOJ discussed on previous calls, there have been no material developments to disclose at this time. To the extent there is further information to share on any of these items, we will update you accordingly.

I will now turn the call back to Frank.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Thanks, Matt.

Now turning to the investment operations.

Excess investment income, which we define as net investment income less only required interest was $36 million, down approximately $8 million from the year-ago quarter.

Net investment income was $281 million, down 1% from the year-ago quarter as compared to a 1.3% growth in invested assets. Required interest is up a little more than 2% over the year-ago quarter, consistent with growth in average policy liabilities.

The growth in average invested assets and average policy liabilities are lower than normal due to the impact of the annuity reinsurance transaction in the fourth quarter, which involved approximately $460 million of annuity reserves being transferred to a third party along with supporting assets.

Net investment income was also negatively impacted by lower short-term interest rates. For the full year 2025, we expect net investment income to be fairly flat and required interest to grow around 2.5%, resulting in excess investment income to be down 7% to 15% for the year.

With regard to investment yield,

In the first quarter, we invested $245 million in investment-grade fixed maturities, primarily in the industrial and financial sectors. These investments were at an average yield of 6.4%, an average rating of A-, and an average life of 43 years. We also invested approximately $51 million in commercial mortgage loans and limited partnerships with debt-like characteristics at an average expected cash return of approximately 8.5%.

None of our direct investments in commercial mortgage loans involved office properties. These non-fixed maturity investments are expected to produce an additional cash yield over our fixed maturity investments while still being in line with our conservative investment philosophy.

For the entire fixed maturity portfolio, the first quarter yield was 5.25%, up 1 basis point from the first quarter of 2024. As of March 31, the portfolio yield was 5.26%. Including the investment income from our commercial mortgage loans and limited partnerships, the first quarter earned yield was 5.4%.

Now regarding the investment portfolio.

Invested assets are $21.4 billion, including $19 billion of fixed maturities at amortized cost.

Of the fixed maturities, $18.5 billion are investment grade with an average rating of A-. Overall, the total fixed maturity portfolio is rated A-, same as a year ago. Our fixed maturity investment portfolio had a net unrealized loss position of approximately $1.5 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 and currently relates entirely to bonds with maturities that extend beyond 10 years. We have the intent and more importantly, the ability to hold our investments to maturity.

Bonds rated BBB comprise 45% of the fixed maturity portfolio compared to 47% from the year-ago quarter. This percentage is at its lowest level since 2007, as we have discussed on prior calls, we believe the BBB securities 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.

While the percentage of our invested assets comprised of BBB bonds might be a little higher than some of our peers, remember that we have little or no exposure to other higher risk assets such as derivatives, equities, residential mortgages, CLOs, and other asset-backed securities.

Below investment grade bonds remain at historical lows at $506 million, compared to $542 million a year ago. The percentage of below investment grade bonds to total fixed maturities is just 2.7%. Our below investment grade bonds as a percent of equity, excluding AOCI, are at their lowest level in over 30 years. While there are clearly uncertainties as to where the US economy is headed in the upcoming months. We are well positioned to withstand a significant economic downturn.

Due to the long duration of our fixed policy liabilities, we invest in long-dated assets. As such, a critical and foundational part of our investment philosophy is to invest in entities that can survive through multiple economic cycles.

In addition, we have very strong underwriting profits and long-dated liabilities. So we will not be forced to sell any of our bonds in order to pay claims. With respect to our anticipated investment acquisitions for the year, at the midpoint of our full year guidance, we assume investment of approximately $600 million to $700 million in fixed maturities at an average yield of 6.0% to 6.2% and approximately $300 million to $500 million in commercial mortgage loans and limited partnership investments with debt-like characteristics at an average expected cash return of 7% to 9%.

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

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

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

The Parent began the year and ended the quarter with liquid assets of approximately $90 million. We anticipate concluding the year with liquid assets at the higher end of our targeted range of $50 million to $60 million.

During the first quarter, the Company repurchased approximately 1.5 million shares of Globe Life common stock for a total cost of approximately $177 million at an average share price of $121.70. Thus, including shareholder dividend payments of $20 million for the quarter, the Company returned approximately $197 million to shareholders during the first quarter of 2025.

The Parent's liquid asset at the end of the quarter, along with the excess cash flows expected to be generated over the last three quarters of the year, will provide the Parent with $375 million to $725 million to meet the -- sorry, $675 million to $725 million to meet the needs of the Parent or that can be returned to shareholders in the form of dividends or share repurchases.

In April, we used approximately $47 million to repurchase Globe Life common stock, and for the remainder of 2025, we anticipate using approximately $65 million for shareholder dividends. The total amount of excess cash flows in 2025 is higher than in 2024 primarily because of higher statutory earnings in 2024 than in 2023 and due to the inclusion of an extraordinary dividend of approximately $190 million approved late in 2024.

The Parent Company's excess cash flow, as we define it, primarily results from the dividends received by the Parent from its subsidiaries, less the interest paid on debt, and is available to return to its shareholders in the form of dividends and through share repurchases.

We will continue to 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 flow, after the payment of shareholder dividends. However, we also intend to reduce outstanding commercial paper balances over the course of the year to be more in line with historical levels.

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 new -- to issue new insurance policies, implement new technologies and enhance operational capabilities, and modernize existing information technology, as well as to acquire new long-duration assets to fund their future cash needs.

The remaining amount is sufficient to support our targeted capital levels at our insurance operations and maintain the share repurchase program in 2025. In our earnings guidance, we anticipate between $600 million to $650 million of share repurchases will occur over the full year.

Our goal is to maintain capital at 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 of year-end 2024, our consolidated RBC ratio was 316%, which provides approximately $100 million of capital in excess of that needed to meet our minimum target capital of 300%.

As we do every quarter, we have performed stress tests in our investment portfolio under multiple economic scenarios, anticipating various levels of downgrades and defaults. If the estimated losses under our stress -- stress tests were to occur before year-end, we have concluded that we have sufficient capital to maintain our target RBC ratios, given the current excess capital at our subsidiaries and capital resources of the Parent, while maintaining our share repurchases as planned. For 2025, we intend to maintain our consolidated RBC within the targeted range of 300% to 320%.

In addition, as mentioned on previous calls, we continue to evaluate the opportunity to manage capital under an economic framework available in Bermuda. We expect to conclude this work in 2025 and intend to provide an update on the strategic decisions made on the next call.

Now with regards to policy obligations for the current quarter.

As we discussed on prior calls, we have included within the supplemental financial information available on our website an exhibit that details the remeasurement gain or loss by distribution channel.

For the quarter, life remeasurement gain was $8.5 million. This was favorable to management's estimates and resulted in lower life policy obligations than anticipated. The health remeasurement gain was about $400,000.

In other life distribution, during the quarter, we completed the recapture of a reinsurance agreement that involved a small block of business associated with our military life business. This resulted in a onetime favorable impact to life margins of approximately $14 million.

There have been no changes to our long-term assumptions this quarter as we will update life and health assumptions in the third quarter of 2025. Due to the continued favorable mortality we are experiencing, we anticipate a favorable margin impact in the third quarter for life assumption updates as recent mortality and lapse experience are incorporated into these new assumptions.

At this time, our guidance anticipates a remeasurement gain in the third quarter related to life assumption updates in the range of $60 million to $100 million similar to third quarter's life remeasurement gain last year.

As Frank mentioned, we anticipate life margins as a percent of premium to be in the range of 42% to 44% for the full year. However, for the first half of the year, we expect life margins as a percent of premium to be in the range of 40% to 41% and 43% to 46% in the second half of the year, given the anticipated favorable impact from third quarter life assumption updates.

For the health segment, we anticipate health obligations will continue to be elevated given recent claim trends outpacing premium rate increases on individual and group Medicare supplement business. This appears to be largely impacted by an increase in a select set of procedures taking place in doctor’s offices.

In addition, although a portion of the premium rate increases for 2025 were effective late in the first quarter, the majority are effective in April, and we will reflect -- in addition, we will reflect recent claim trends in our 2025 premium rate filings, which will be effective in 2026.

So finally, with respect to earnings guidance for 2025. For the full year 2025, we reaffirm our previous guidance and estimated net operating earnings per diluted share will be in the range of $13.45 to $14.05, representing 11% growth at the midpoint of our range. Those are my comments. I will now turn the call back to Matt.

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

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

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

Jack Matten - BMO Capital Markets - Analyst

Hi, good morning. Just a question for you on health margins. How much of a lag usually between kind of the rate actions you have taken and when do you usually see the benefit flow into your results? I think you mentioned some of the rate increases took effect on April 1. So should we see significant step-up in margin starting in the second quarter? Or is there a bit of a timing impact that we should be thinking about?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes. No, almost all the rate increases will be effective or in place in the beginning of the second quarter. So we will see the full benefit of those rate increases. We would expect margins for UAGA to be in the 5% to 7% range. So about 6% overall for the year.

Jack Matten - BMO Capital Markets - Analyst

Got it. Okay. And then, I mean, in the health business, you recorded a smaller measurement gain even though, I guess, reported margins for the segment were a little bit weaker, year-over-year basis. So I am just curious what was driving like that outcome in the quarter?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

There is just -- in the current GAAP accounting framework under LDTI, there is just a little bit of volatility that is related to the way that operates for Medicare supplement business where rate increases are an aggregate rate increase for the entire block. And so there is some cohorts of business where that rate increase is not enough and there is some cohorts of business where that rate increase is more than sufficient. So it creates a little bit of volatility on a quarter-to-quarter basis.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. I would just add that if you look at United American, they had a slight negative remeasurement gain, whereas with respect to Liberty, American Income, and Family Heritage, they all had small remeasurement gains and the net of those was about the $400 million or $400 thousand that Tom had mentioned.

Jack Matten - BMO Capital Markets - Analyst

Thank you

Jimmy Bhullar - JPMorgan Chase & Co. Inc - Analyst

Hi. I had a question first on your EPS guidance for the year. And you grew sort of in line with your guidance this quarter, but the third quarter is obviously very tough comps. So just wondering what gives you the confidence that you can achieve maybe the middle end of the range? Or should we assume, given the results this quarter that you are much more comfortable with the lower end, but decided not to change the range as a result of that?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Jimmy, we are very comfortable with the range. I think one of the things we have been wanting to see is actually the continued trends of favorable mortality, which would lead to a life mortality assumption update. And we have seen really good mortality results in the third quarter and the fourth quarter and now in the first quarter, which gives us a bit more confidence in -- and as we reflect that experience in our assumption updates, we will see some favorable remeasurement gains due to those updates.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. Then I would just say in addition to that, Jimmy, that I mean we are reflecting some of the negative utilization trends that we are seeing from the UAGA side. So we are expecting that to be a little lower over the course of the year, and you kind of see the range of underwriting margin percentage coming down on that a little bit. And that is being offset, the negatives of that are being offset -- with some of the positive views that we have with respect to the underwriting margins. Maybe I will let Matt talk just a little bit about, I think, some of the views on sales and why there is some confidence there.

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Sure. And Jimmy, just to your point, I was going to also mention that the third quarter, the remeasurement gain would be probably in the range of magnitude of what we had last year. So that also kind of gives us some confidence as Tom had mentioned. Our positive mortality experience over the last three quarters that we are seeing -- so that is really why we are reaffirming our guidance back to the midpoint, not at the lower end of the range. And on the sales side, we are seeing good positive trends there. We normally do not discuss kind of current -- we are a month through the second quarter here. And so we have got -- what we are seeing is very strong recruiting and agent count growth as well as sales are in line with our expectations. And so reaffirming our sales guidance for the year based on what we saw in Q1 with our expectations and then what we are seeing here early through the month of April in Q2. But our average agent count just in the month of April is up 3% over where we were ending March, and it is also higher than where we ended at the end of last year.

So not uncommon for us to see a little bit of seasonality at the beginning of the year. And that is what we saw a little bit of weakness, frankly, in January and then that ramped up toward the latter half of Q1, and that is continuing -- that trend is continuing on here through the month of April.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. And Jimmy, one last thing I will add on to that. I think with some of the better trends that we anticipate for sales for the remainder of the year, some of the -- the drag in life premium growth around 3% here for the first quarter, a little lower than we would like to see. But-- so we see that-- really the effects of some of the new sales, and as I -- we think, we anticipate, lapses at least stabilizing here over the course of the year, and so as we kind of get to the latter half of the year, still able to -- seeing that premium growth pick up a little bit in the second half of the year being more in that 4.5% to 5% range and getting that premium -- life premium growth for the full year to be closer to that 4%.

Jimmy Bhullar - JPMorgan Chase & Co. Inc - Analyst

Okay. And then on your life business, if we look at the non-deferrable commissions and policy acquisition expenses, for the life division. It has been running up over the past couple of years and it was higher in Q1 than it has been in the previous several quarters. So wondering how much of that is economic in terms of you having to spend more money to originate sales versus maybe the result of LDTI or accounting-related items.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

You know a lot of that Jimmy, is really just due to some of the higher investments that we have been making in information technology. And as those systems come on, the depreciation from those as well as the software from the service and what we are paying for that, and the data and analytics is being allocated to the investor-- to the acquisition side. None of that is deferrable. So we are just seeing a little bit of that tick up just because of some of that higher-- largely because of some of the higher technology spend.

Jimmy Bhullar - JPMorgan Chase & Co. Inc - Analyst

Okay. And just the last one on your health margin. It seems like for the MedSup product for you guys and many of the other companies, usage has gone up, so you guys have been raising prices, but it is sort of a constant catch-up where usage continues and claims continue to go up, and you are having to catch up to that.

Do you feel that with the higher prices earning in, in 2Q and beyond, are margins going to be at normal levels? Or is it more you are probably going to need to raise prices more as you get into 2026 season given just claims usage and inflation?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

I think we need to see exactly what happens. But I think one of the things that gives me confidence is, I think this is a very manageable issue when we see short-term increases in health trends is that we can, in fact, manage that through rate increases. It may take us a year or two to effectively get those caught up. So it may be a little bit longer than a year. But we have been very successful in the past, getting those rate increases approved by regulators. And so I would expect improvement in 2026 and if we continue to see trends that might be a little -- we always have a little bit of a timing delay. So we may actually see a little bit of a delay in actually getting back to kind of normal margins. But I think the other thing to think about is this is largely around Medicare supplement business, right.

And so for our other health lines, we are not seeing the same level of claim costs. And Medicare supplement really from a total underwriting margin perspective is really in that 3% to 4% range of total underwriting margin. So it is a fairly small set of just the core underwriting margins that we see from the business.

Jimmy Bhullar - JPMorgan Chase & Co. Inc - Analyst

Thank you.

Elyse Greenspan - Wells Fargo Securities LLC - Analyst

Hi, thanks. Good morning. My first question, I guess, is on some of the capital stuff. So you guys -- the Q1 buyback, right, was I guess, a bit elevated relative to what the annual guide would imply on a quarterly basis. But I know you guys also said right there is some -- going to pay down some commercial paper, so how do we think about, I guess, capital returns over the last three quarters? Are you thinking it is just even, relative to hitting the guide? Or would you potentially, depending upon your stock price, look to front run some of the buyback to earlier Q2, Q3, et cetera?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Generally, we think normally ratable throughout the year, but we will take advantage of kind of market opportunities. So I could see us buying a little bit more in the first half of the year relative to the second half of the year.

Elyse Greenspan - Wells Fargo Securities LLC - Analyst

Thanks. And then my follow-up, you guys were talking about, I guess, Bermuda, which you were also talking about a bit last quarter. Just any updates there, relative to what is going on this quarter? And I know you guys have been talking about that -- more being something that is beneficial in 2026 and into 2027.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes, we are still working through it. And so we will plan to update you on the next call.

Elyse Greenspan - Wells Fargo Securities LLC - Analyst

Okay, thank you.

Andrew Kligerman - TD Cowen - Analyst

Hi, good morning everyone, actually good afternoon. So going back to the health margins, you had been guiding to -- you are guiding now 24% to 26% versus 25% to 27%. And I am thinking you kind of gave a time frame where you start to see improvement in 2026, but you really do not get to where you need to be or would like to normally be until 2027, if I understand it correctly.

Could you give us a sense of what historically have been normal margins and maybe work through the timeline, when you are actually going to get the price increases, is it going to be gradual? Maybe just walk through the timeline a little more granularly where a normal historic ratio has been?

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes, Andrew, I will start on that and then let Tom or Matt add. But you do look at kind of the post LDTI, the margins on that business on the UAGA side have been a little bit on the side that 10% to 11%. And I think from an overall health somewhere more in the upper 20s overall as a margin percent of premium income.

I think with respect to UAGA, and the MedSup specifically, we would be looking into taking -- getting the cost and the higher utilization that we are seeing here in the last couple of quarters and at least here early in 2025 and working those into our third quarter premium rate adjustments that we would be filing that would be effective in 2026.

Depending upon where the utilization trends kind of take -- how those emerge over the remainder of the year will really kind of inform whether or not -- can we really capture all of the increase that we need in the third quarter rate filings or not or is there some of that, that will be -- that we are chasing a little bit into 2027 as well.

We do anticipate getting the full margins for that UAGA to be closer to that 5% to 7% range. So second half of the year being a little bit north of that because the -- at least the utilization that we are seeing here in the first quarter clearly outran the impacts of the premium increases that we had put into place. We do think with the premium, the majority of our premium increase is coming into play here in the second quarter, that will help over the course of--over the remainder of the year.

Andrew Kligerman - TD Cowen - Analyst

That was very helpful. Maybe shifting over to the life insurance premium. You have been guiding to that, and you mentioned it on this call, you have been guiding to 4.5%, 5%, and now you are looking at 4% for the year. Could you give a little more color on lapsation, why you may be seeing a little higher, more elevated lapsation and how to think about that going forward?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

I think from a lapse perspective, at American Income, we have seen a little bit higher lapses in the first year. And a question for us is whether that is fluctuation or trend and are virtual sales kind of just driving a more normal higher lapse level in the first year. But I would say that the renewal rates for AIL have been fairly consistent over the past four quarters.

So those seem to have stabilized. I think DTC lapse rates are consistent with prior quarters and maybe slightly improved in the first year, which is a good sign, and renewal lapse rates are fairly consistent with historical levels as well.

So those seem to be all going very well. I think it is kind of a testament to the resiliency of our customers even in times of economic stress, our lapse rates move just a little bit plus or minus depending upon what the economic environment is. And then for Liberty, that is first – overall lapse rates that -- that have been relatively stable as well. So I think we are feeling okay about lapses, we will certainly keep an eye on it.

And then I do think that sales that emerge over the course of the second half of the year will actually add to premium growth above first quarter sales growth. And so that is kind of where we are looking at around 4% premium growth -- life premium growth for the year.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. Andrew, the one thing I will add to that is that we did start seeing some of the lapse especially in the first year at AIL and maybe a little bit on DTC tick up towards the latter half of last year. So obviously, that just kind of-- look at it period-over-period as those increases in lapse rates year-over-year take effect that has a drag on premium growth on the same year-over-year period.

As we kind of look out over the latter half of the year, we kind of see some of this stabilizing even though they are maybe running a little bit higher than long-term averages, just because of some of the economic uncertainty.

But when we look back at other periods of some economic stress the rates that we are seeing even at -- especially at American Income on their first year are not out of line at all but as we think -- look at the comparable then in the latter half of the year, we see that as really being -- stabilizing. And so that will help with the period-over-period premium growth as well.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes. Maybe just one other comment is we do not see dramatic changes in lapse rates even in periods of economic stress. They are relatively narrow changes. And kind of as we have looked at this for AIL and DTC under where there has been more economic stress, the lapse rates of renewal years have moved less than 1% to a little bit over 1% depending upon the policy duration. So again, I think it is really a testament of the resiliency of our in-force book of business.

Andrew Kligerman - TD Cowen - Analyst

And then just -- and that was very helpful. One last quick one. I saw a line item for legal proceedings, $4.8 million. Maybe this is not an answerable question, but would that be an indication that maybe you are coming towards the tail end of the back and forth with the regulators? Is this an indication that there can be more of these type expenses? I do not know. I was just kind of throwing it out there to see if there is some kind of read through on that number, which I had not seen before.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes, I do not know if there is anything to read through that, Andrew, I think from time to time, we are subject to litigation and it is common in the industry -- the insurance industry, so the uptick in litigation claims expenses over the past several quarters, they have really been stemming from claims made by recent short sellers. So some of that hopefully subsides-- this quarter the legal proceedings include an estimate for settlements related to an outstanding litigation, not related to the DOJ, SEC matters as well as certain other legal expenses as well. So there is a number of items that can come through there, but they are usually not related to the normal operations of the business and not indicative of past performance or future prospects of insurance operations, and that is why we put them below the line.

Andrew Kligerman - TD Cowen - Analyst

Thanks very much.

Wilma Burdis - Raymond James Financial, Inc - Analyst

Hey, good morning-- does the higher life margin in the second half of 2025 imply a more favorable run rate in 2026 and beyond? Or how should we think about that? Thanks.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. I think after you end up making the assumption changes, I think from a policy obligations perspective, you would expect it to be a little bit higher of run rate going forward. Then keep in mind we are continuing to still see over the next couple of years, at least probably into 2026.

Some of the increases in amortization expense just because of the transition to LDTI that we talked about in the prior calls as well as kind of the renewal commissions. So there is probably a little bit of a tick up in the amortization that we are still going to see over the next couple of years. So I think looking forward, it is probably somewhat--

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

probably in the range,

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

yes.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

So probably similar range what we see in the first half of -- what we stated in the first half of 2025.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes, yes.

Wilma Burdis - Raymond James Financial, Inc - Analyst

Okay. And then life sales were below full year, 2025 guides in the first quarter, but you maintained the full year outlook. Could you just talk about some of the dynamics in the quarter and what you are seeing over the balance of the year? Thanks.

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Sure. Really, January was softer than we anticipated. And as we have talked before, a little bit of recruiting and sales on the agency side is kind of a momentum game as they would say. And so with the holidays both Christmas and New Year's falling in the middle of two weeks running, kind of really started all of our agencies off to a little bit of a slow start in January that ticked up through the remainder of the quarter. And so as I mentioned to an answer of an earlier question, we also looked at what was going on in April. And April sales are consistent with our expectations as well as our agent count growth in April as compared to March or as compared to the prior year-end is higher. It is about a 3% higher just in the month of April, our agent count across all three agencies. And so that trend that we were seeing in the last half of Q1 is continuing now here in the first part of Q2.

Now I will have the caveat of one quarter -- I mean, one month does not a quarter make, but the trends continue to be positive. And so that gave us the confidence to reaffirm our sales guidance for the year for all of our various distributions because we are really not seeing anything significantly different than what our expectations were.

Wilma Burdis - Raymond James Financial, Inc - Analyst

Thank you.

John Barnidge - Piper Sandler Companies - Analyst

Thank you for the opportunity. You talked about intention to have an opportunity to reduce commercial paper this year. Where do you intend to get it to? Thank you.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes, the -- our commercial paper balance is-- historically has been in that $300 million range. And so we are kind of looking to bring it down from where we are today, right around $410 million closer to that $300 million, $325 million range.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. And John, if you kind of look back at a few years back 2022, 2023, we were probably in about 3% of our total capitalization, including the short-term debt, it is about 3%. Last year, it got -- we ran that up a little bit more, and it is closer to 4%. So probably we are going to bring it back closer to that level, that 3% level.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

And John, we are looking at a debt to capital ratio at the end of the year, right around 25%, which is kind of in the midpoint of kind of our operating range for our normal operating range for debt to capital ratios.

John Barnidge - Piper Sandler Companies - Analyst

Thank you for that. That is helpful. My follow-up question. Is the increase in health usage more frequency or severity driven, I was reading about some human bandage fraud article recently. So curious about that, thanks.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

It is a great question, John. It is -- utilization is the big driver. But one of the causes of utilization increase is related to claims related to bandages, these specialty bandages, which does have a higher claim cost to it. So it is adding a little bit to the average claim cost as well. And that is something that we are taking action on to mitigate the impact of any fraud that is apparent from those billings. So we are taking action there to help manage those costs.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. I think one of the challenges on that, John, is that given that some of those new procedures, and I think the article that was out there, kind of talked about that is that they can be higher cost until they really get worked through and then they become kind of more of a standard Medicare reimbursement rates and then that would tend to bring the rates down overtime. But at least, that is at least one of the drivers, and we are seeing a few other procedures that are being done in the doctor's office that are also giving rise at least to some of higher -- higher cost.

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. I was going to say, I think that is some of the things that give us confidence that we can manage through this like we have done for the decades that we have been writing this business is that a lot of our trend is associated with a few specific procedures in the office.

And so as we work through that, as Frank mentioned, the adjustments that most likely will happen on the allowables -- as these new procedures get into the CMS allowables. Then going forward, coupled with continued rate action, I think we will be able to manage through that. It just might take us one more cycle.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. As Tom mentioned, this is actually one of the areas that we are really trying to spend some time and looking at how do we use some artificial intelligence, use our data to really try to identify areas of potentially fraudulent claims that are coming through, working with CMS to try to stem some of that, but really taking a look where we might have some of that, not always can we get it done before we end up paying a claim because of the way we are connected with CMS, but we continue to make advances on where we can reduce some of that fraud cost on our side.

Mike Majors - Globe Life Inc - EVP, Chief Strategic Officer

All those trends are industry trends, they are not unique to United American.

John Barnidge - Piper Sandler Companies - Analyst

Thank you.

Tom Gallagher - Evercore ISI - Analyst

Good afternoon. My first question is just in your guidance for 2025 on health margins, are you assuming that this claims frequency issue stabilizes at current level, gets better, gets worse? What is the trend assumption you are using? It sounds like you got your arms around the rate increase earn in. But what about the -- on the claims side? What are you assuming?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes. We are assuming that it stays elevated, at least through the second quarter and then expected to moderate just a little bit in the second half of the year, which it tends to moderate generally as deductibles are used up that we are able to -- the trend will tend to moderate a little bit in the second half of the year.

Tom Gallagher - Evercore ISI - Analyst

So when you say it remains elevated, so at a comparable level to Q1?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes

Tom Gallagher - Evercore ISI - Analyst

Gotcha and then --

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

But again, just to be clear, the level of Q1 from an obligation perspective does not reflect the premium rate increases that are coming into play for the remaining three quarters of the year.

Tom Gallagher - Evercore ISI - Analyst

Understood. The -- my follow-up is how do we think about what all of this means for 2025 statutory earnings? Because the reserve release that you -- the $60 million to $100 million, is that GAAP only? Or is there any statutory impact for that? Because I presume the STAT earnings on the health side are going to be consistent with GAAP, meaning they will be weaker. But life, I am a little less clear on whether you will see some kind of benefit? Or is that a GAAP only in meaning long-winded way of asking, is 2025 STAT earnings likely to be weaker than 2024.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

That is a great question. The $60 million to $100 million is a GAAP assumption unlocking. So it is GAAP only. But when we see favorable claims trends, 100% of those-- that benefit comes through on the statutory side. Where generally, there is a smoothing mechanism that spreads good claims or bad claims over the future. So we should -- favorable mortality will impact statutory results in a favorable way as well.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. The one --

Tom Gallagher - Evercore ISI - Analyst

Got it So -- sorry, go ahead.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Well, as we think about 2025 statutory earnings versus 2024 statutory earnings, I think I just wanted to make clear while I agree with Tom that the favorable experience that we are seeing will work its way through statutory income as well.

Remember that we did have the reserve revaluation adjustment in 2024 and as Tom has talked about on the last call, while we still anticipate some continuing benefits from that in 2025, we do not anticipate seeing them at the same level that we had in 2024. So there will be a little less statutory generated from that reserve valuation adjustment probably to the tune of roughly $75 million or so.

Tom Gallagher - Evercore ISI - Analyst

Great. Thank you.

Ryan Krueger - Keefe, Bruyette & Woods, Inc. - Analyst

Hey thanks good morning. I had a related follow-up. I think you gave the free cash flow for the rest of the year. I was trying to back into, I think, the first quarter, but I figured I would just ask -- you just have the full year free cash flow expectation for this year?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes, excess cash flow is expected to be $785 million to $835 million for the full year, unchanged from where left.

Ryan Krueger - Keefe, Bruyette & Woods, Inc. - Analyst

And then I guess, just kind of coming back to what you were just talking about, so that when thinking about the moving pieces next year, are the -- you will get -- you would not have the reinsurance benefit and then you will have less of the valuation manual benefit. Are those the two key moving pieces we should think about?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes. The reinsurance benefit we would not have and then less of an impact on the valuation manual changes but also a favorable impact to just growth in the business and the favorable mortality trends that we are seeing. Kind of in my estimation, run rates for excess cash flows would be in the $500 to $600 range kind of going forward, I think more midpoint of that range.

Ryan Krueger - Keefe, Bruyette & Woods, Inc. - Analyst

Okay, perfect. Thank you.

Wes Carmichael - Autonomous Research LLP - Analyst

Hey, thank you. Good afternoon. On the remeasurement gains and assuming $60 million to $100 million with the 3Q review, are those pretty much baked in your view? Or could there be some deviation? And I guess it is not that small of a range at $40 million. So maybe what might drive that higher or lower in the next couple of quarters? And-- really what -- is that determinate of where you come in on your EPS guide do you think.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

It is definitely included in our guidance range, right. So that is part of what's incorporated in there. On the pluses and minuses, it really is -- it is a very detailed process to go through setting the assumptions. And so we -- the assumptions are very, I am going to say, detailed with regards to issue years, issue ages, attained ages, genders, so there is a lot of pluses and minuses that go across. And so until we actually put those into our valuation systems that will kind of determine exactly what that result will be.

So I think until we do that. That is why we have a bit of a wider range as far as where we think that estimate will be. So it is really kind of the implementation of changes and the final determination and judgment around what changes are made.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. The one thing I would just add to that is that, I mean, that is kind of what we have seen here through the first quarter, as Tom kind of mentioned before, we really like to see, again, how does mortality and lapses really prove out in the second quarter because that will have some influence on it. It is not a final determination on it. But it is the ability to kind of test those final assumptions and where they kind of land.

So just -- and because the reserves are as big as they are, minor changes on some of those assumptions can move that number around a little bit. So while there is some pretty good confidence within that range, it definitely can move just a little bit of what we see here in the second quarter and how that kind of influences those final decisions.

Wes Carmichael - Autonomous Research LLP - Analyst

Great. That is helpful, and I guess just a quick follow-up. But the rate increases that you are going to have in health and MedSup, do you expect some elevated lapses as policyholders receive those rate increases?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

We definitely see a bit of drop off when we do rate increases. But in general, I think they value the coverage that they have, and they are fairly persistent.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

I think it goes back to the comment that was made earlier that what we are seeing really is not unusual as far as -- I do not think it is limited to just United American. And so it is an industry situation, so we would anticipate that other carriers would be raising rates as well.

And then that is where maybe the MedSup -- or excuse me, the Medicare Advantage dynamic comes into play a little bit. There is still some issues out there, we are seeing with acceptance with Medicare Advantage and where that coverage is going and dropping doctors in networks and things like that.

So where that has been-- perhaps a little bit of a tailwind this past year, and we will have to see where that kind of -- it is a little bit of a wild card where that goes. But that is why-- we do not really anticipate that there would be a large scale drop off or lapse if, in fact, we were to -- as we put in our rate increases.

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

I think the industry is seeing a trend and everybody's pricing for it accordingly so.

Wes Carmichael - Autonomous Research LLP - Analyst

Great, thank you.

Suneet Kamath Kamath - Jefferies Financial Group, Inc - Analyst

Great. Thanks. It sounds like some of the confidence you have in terms of maintaining the guidance for sales and such is April results. But I am just wondering given how things so quickly things changed in April -- normally, when you see these shocks, is there a little bit of a lag between kind of the environment changing and then when it impacts your customer behavior? Or does it sort of catch up? Or does it kind of show through pretty quickly there?

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. Let me start with -- it is not just April. It was the trend that we were seeing throughout Q1. As I mentioned, January was softer than we anticipated but looked at how February and particularly March performed and then we have seen that trend continue through April.

So it is really the results of multiple months and how we think about that is we look at the momentum in our agent count with recruiting and growing our overall agents that are producing and submitting business. And so that is really a precursor, a leading indicator to ultimate sales growth.

So we are also seeing -- we -- as I've mentioned before, we track our agent onboarding recruiting pipeline before they ever start producing business. And so people that are in the early stages of that pipeline before they get a license and start selling, we are seeing double-digit growth in what we call our hires, the people that are starting in that process. And so that bodes well for future growth as well. And on the consumer side, we generally do not -- we have talked about this before, see significant impacts based on economic factors to our customers. And I think that really gets back to our customers value our products. They have a need for that. And more than 50% of our demographic does not have our coverage and the affordability of our policies, where it is $30 or $50 or $60 a month, still makes that affordable. And what we really see is that as long as our customers have jobs or are employed, that they still find value in the products that we are offering as well as the cost of what they are trying to cover from an experience perspective. As those costs go up, we see them taking out more coverage. And so what I continue to be encouraged about is if I look at the trends of just the premium on a per policy basis, those trends are up in Q1 compared to last year.

And so people are paying a little bit more to take out a little bit more coverage for their needs. So we are really not seeing any weakness there. And I would say that is consistent, we go back to the 2008 through 2010 time frame, 2020, 2021. We had double-digit growth in our agent count. We had double-digit growth in sales across those time frames. And so I think that it bodes well.

One last comment I was going to make and kind of circle back to -- I realized that I did not completely answer Wilma's comment, which I think will also -- or question, which I think will also get to part of your question as well. Is that I failed to mention our Direct to Consumer channel. I will say that we anticipate on our annual sales guidance that would kick in, in the latter half of this year, and so Q1 results are not dissimilar from what our expectations were, and that is why you see we reaffirmed our overall sales guidance for our Direct to Consumer channel.

And a lot of that is based on some of the things that we have been working on for quite some time related to underwriting automation and some other tools and data that we are using in that organization. We have been testing that for quite some time and anticipate that coming more fully online in the latter half of the year. And that will really help with our issue rates and really help us increase there.

And so that is why our guide is low single digits overall for an annual basis for DTC as some of the good things that we are doing there, and it relates to some of that technology spend. We have been talking about it for quite some time seeing that come into fruition.

Suneet Kamath Kamath - Jefferies Financial Group, Inc - Analyst

Okay. That makes sense. And then I just have one more, and thanks for going over a little bit. Just on the reviews. I mean, I know you said that there is nothing new to update us on, and I get that is fine. But is your expectation still that at some point, we will get sort of all clear? And any sense of how close we are to something like that?

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

We do anticipate, and that is what we are working through these processes of having a finalization that we can communicate. So that is definitely our goal in that area. It is hard to handicap the time frame, just you are dealing with -- as we have mentioned before, governmental agencies that do not have a lot of transparency and where they are in the process.

I would venture to say that there has been a little bit of distraction in the government system, so to speak, over the last several months, and that may bode well from a long-term perspective for us from a lower regulatory burden. But in the near term, it might cause a little bit of slowdown in some processes. So hard to handicap time but we definitely anticipate having the opportunity to be able to report out conclusions on those matters.

Suneet Kamath Kamath - Jefferies Financial Group, Inc - Analyst

Okay. Thank you.

Operator

There are no further questions on the line, so I will now hand you back to your host for closing remarks.

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

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