Second Quarter 2021 Conference Call

July 22, 2021

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

Gary L. Coleman Globe Life Inc. - Co-Chairman & CEO

Larry M. Hutchison Globe Life Inc. - Co-Chairman & CEO

Frank M. Svoboda Globe Life Inc. - EVP & CFO

Michael C. Majors Globe Life Inc. - EVP of Administration & IR

Brian Mitchell- Globe Life Inc. –EVP & General Counsel

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

Andrew Scott Kligerman Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Erik James Bass Autonomous Research LLP - Partner of US Life Insurance

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

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

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

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

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

Michael C. Majors - Globe Life Inc. - EVP of Administration & IR

Thank you, good morning everyone. Joining the call today are Gary Coleman and Larry Hutchison, our co-Chief Executive Officers, Frank Svoboda, our Chief Financial 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 2020 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 Gary Coleman.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Thank you Mike, and good morning everyone. In the second quarter, net income was $200 million or $1.92 per share, compared to $173 million or $1.62 per share a year ago. Net operating income for the quarter was $193 million or $1.85 per share, an increase of 12% per share from a year ago.

On a GAAP reported basis, return on equity as of June 30 was 9.0% for the first half of the year and 9.7% for the second quarter. Book value per share was $83.59. Excluding unrealized gains and losses on fixed maturities, return on equity was 12.4% for the first half of the year and 13.5% for the second quarter. In addition, book value per share grew 9% to $55.66.

In our life insurance operations, premium revenue increased 9% from the year-ago quarter to $728 million. As noted before, we

have seen improved persistency and premium collections since the onset of the pandemic. Life underwriting margin was $179 million, up 11% from a year ago. The increase in margin is due primarily to the higher premium and lower amortization related to the improved persistency. For the year, we expect life premium revenue to grow between 8% to 9% and underwriting margin to grow 5% to 6%.

In health insurance, premium revenue grew 4% to $296 million, and health underwriting margin was up 16% to $74 million. The increase in underwriting margin was primarily due to improved claims experience and persistency. For the year, we expect health premium revenue to grow between 4% to 5% and underwriting margin to grow around 9%.

Administrative expenses were $68 million for the quarter, up 10% from a year ago. As a percentage of premium, administrative expenses were 6.6%, compared to 6.5% a year ago. For the full year, we expect administrative expenses to grow 8% to 9% and be around 6.7% of premium due primarily to increased IT and information security costs, higher pension expense and a gradual increase in travel and facility costs.

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

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Thank you Gary. We experienced strong sales growth during the second quarter, and we continue to make progress on agent recruiting. I will now discuss current trends at each distribution channel.

At American Income Life, life premiums were up 13% over the year-ago quarter to $348 million, and life underwriting margin was up 16% to $108 million. The higher underwriting margin is primarily due to improved persistency and higher sales in recent quarters.

In the second quarter of 2020, sales were limited due to the onset of COVID. In the second quarter of 2021, net life sales were $73 million, up 42%. The increase in net life sales is primarily due to increased agent count and productivity. The average producing agent count for the second quarter was 10,478, up 25% from the year-ago quarter, and up 6% from the first quarter. The producing agent count at the end of the second quarter was 10,406. The American Income Agency continues to generate positive momentum.

At Liberty National, life premiums were up 6% over the year-ago quarter to $78 million, while life underwriting margin was down 16% to $16 million. The decline in underwriting margin is due primarily to higher policy obligations. Net life sales increased 67% to $18 million, and net health sales were $6 million, up 52% from the year-ago quarter, due primarily to increased agent count and increased agent productivity. The average producing agent count for the second quarter was 2,700, up 13% from the year-ago quarter, while down 1% from the first quarter. The producing agent count at Liberty National ended the quarter at 2,700. We continue to be encouraged by Liberty National's progress.

At Family Heritage, health premiums increased 9% over the year-ago quarter to $85 million, and health underwriting margin increased 18% to $22 million. The increase in underwriting margin is due primarily to improved claims experience and improved persistency. Net health sales were up 41% to $19 million due to increased agent productivity. The average producing agent count for the second quarter was 1,220, down 2% from the year-ago quarter and down 5% from the first quarter. The

producing agent count at the end of the quarter was 1,171. The agency emphasized agent productivity during the first half of the year. The focus is shifting more towards recruiting for the remainder of the year.

In our Direct to Consumer division at Globe Life, life premiums were up 6% over the year-ago quarter to $249 million, and life underwriting margin increased 22% to $34 million. The increase in margin is due primarily to improved persistency. Net life sales were $42 million, down 14% from the year-ago quarter. This decline was expected due to the extraordinary level of sales activity seen in the second quarter of last year during the onset of COVID. While sales declined from a year ago, we are pleased with this quarter's sales activity, as it was 23% higher than the second quarter of 2019.

At United American General Agency, health premiums increased 3% over the year-ago quarter to $116 million, and health underwriting margin increased 16% to $18 million. The increase in margin was due to improved loss ratios and the lower amortization. Net health sales were $12 million, up 1% compared to the year-ago quarter. It is still somewhat difficult to predict sales activity in this uncertain environment, but I will now provide projections based on trends we are seeing and knowledge of our business.

We expect for producing agent count for each agency at the end of 2021 to be in the following ranges: American Income Life, 3% to 6% growth; Liberty National, 1% to 8% growth; Family Heritage, a decline of 1% to 9%.

Net life sales for the full year 2021 are expected to be as follows: American Income Life, an increase of 13% to 17%; Liberty National, an increase of 26% to 32%; direct to consumer, a decrease of 10% to flat.

Net health sales for the full year 2021 are expected to be as follows: Liberty National, an increase of 12% to 18%; Family Heritage, an increase of 4% to 8%; United American Individual Medicare Supplement, a decrease of 1% to an increase of 6% -- to an increase of 9%.

I will now turn the call back to Gary.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Thanks, Larry.

We will now turn to the investment operations.

Excess investment income, which we define as net investment income less required interest on net policy liabilities and debt, was $60 million, a 2% decline from the year-ago quarter. On a per share basis, reflecting the impact of our share repurchase program, excess investment income grew 2%. For the full year, we expect excess investment income to decline 1% to 2%, but to grow around 2% on a per share basis.

In the second quarter, we invested $116 million in investment-grade fixed maturities, primarily in the financial, municipal and industrial sectors. We invested at an average yield of 3.69%, an average rating of A and an average life of 35 years. We also invested $72 million in limited partnerships that invest in credit instruments. These investments are expected to produce incremental yield and are in line with our conservative investment philosophy. For the entire fixed maturity portfolio, the second quarter yield was 5.24%, down 14 basis points from the second quarter of 2020. As of June 30, the portfolio yield was 5.23%.

Invested assets are $19.1 billion, including $17.5 billion of fixed maturities at amortized cost. Of the fixed maturities, $16.7 billion are investment grade with an average rating of A-, and below investment grade bonds

are $764 million, compared to $802 million at the end of the first quarter. The percentage of below investment grade bonds to fixed maturities is 4.4%. Excluding net unrealized gains in the fixed maturity portfolio, below investment grade bonds as a percentage of equity are 13%.

Overall, the total portfolio is rated A- compared, to BBB+ a year ago. Consistent with recent years, bonds rated BBB are 55% of the fixed maturity portfolio. While this ratio is in line with the overall bond market, it is high relative to our peers. However, we have little or no exposure to higher risk assets such as derivatives, equities, residential mortgages, CLOs, and other asset backed securities.

Because we invest long, a key criterion utilized in our investment process is that an issuer must have the ability to survive multiple cycles. We believe that the BBB securities that we acquire provide the best risk-adjusted, capital-adjusted returns due in large part to our unique ability to hold securities to maturity regardless of fluctuations in interest rates or equity markets. Low interest rates continue to pressure investment income. At the midpoint of our guidance, we are assuming an average new money rate of around 3.45% for fixed maturities for the remainder of 2021. While we would like to see higher interest rates going forward, Globe Life can thrive in a longer -- lower for longer interest rate environment. Extended low interest rates will not impact the GAAP or statutory balance sheets under current accounting rules since we sell non-interest sensitive protection products. Fortunately, the impact of lower new money rates on our investment income is somewhat limited, as we expect to have an average turnover of less than 2% per year in our investment portfolio over the next 5 years.

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

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Thanks, Gary.

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

The Parent ended the second quarter with liquid assets of approximately $545 million. This amount is higher than last quarter, because in June, the Company issued a 40-year $325 million junior subordinated note with a coupon rate of 4.15%. Net proceeds were $317 million. On July 15, the Company utilized the proceeds to call our $300 million 6.125% junior subordinated notes due 2056. The remaining proceeds will be used for general purposes.

In addition to these liquid assets, the Parent Company will generate excess cash flows during the remainder of 2021. 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 and the dividends paid to Globe Life's shareholders. We anticipate the Parent Company's excess cash flow for the full year to be approximately $365 million. Of which, approximately $185 million will be generated in the second half of 2021.

In the second quarter, the Company repurchased 1.2 million shares of Globe Life Inc. common stock at a total cost of $123 million at an average share price of $101.05. The total spend was higher than anticipated as we took advantage of the sharp drop in share price at the end of the quarter and accelerated approximately $30 million of purchases from the second half of the year to repurchase shares at an average price of $95.62. So far in July, we have spent $32 million to repurchase 343,000 shares at an average price of $93.81. Thus, for the full year through today, we have spent

approximately $246 million to purchase 2.5 million shares at an average price of $97.96.

Taking into account the liquid assets of $545 million at the end of the second quarter, plus approximately $185 million of excess cash flows that we are expected to generate in the second half of the year, less than $32 million spent on share repurchases in July and the $300 million to call our junior subordinated note, we will have approximately $400 million of assets available to the Parent for the remainder of the year.

As I will discuss in more detail in just a few moments, we believe this amount is more than necessary to support the targeted capital levels within our insurance operations and maintain the share repurchase program for the remainder of the year.

As noted on previous calls, we will use our cash as efficiently as possible. We still believe that share purchases provide the best return or yield to our shareholders over other available alternatives. Thus, we anticipate share repurchases will continue to be a primary use of the Parent's excess cash flows. It should be noted that the cash received by the Parent Company from our insurance subsidiaries is after they have made substantial investments during the year to issue new insurance policies, expand our information technology and other operational capabilities as well as acquire new long-duration assets to fund future cash needs.

As we progress through the remainder of the year, we will continue to evaluate our available liquidity. If more liquidity is available than needed, some portion of the excess could be returned to shareholders before the end of the year. However, at this time, the midpoint of our earnings guidance only reflects approximately $120 million of share repurchases over the remainder of the year.

Our goal is to maintain our capital at levels necessary to support our current rating. As noted on previous calls, Globe Life has targeted a consolidated Company action level RBC ratio in the range of 300% to 320%. At December 31, 2020, our consolidated RBC ratio was 309%. At this RBC ratio, our insurance subsidiaries have approximately $50 million of capital over the amount required at the low end of our consolidated RBC target of 300%. This excess capital, along with the roughly $400 million of liquid assets we expect to be available at the Parent, provide sufficient liquidity to fund future capital needs.

As we discussed on previous calls, the primary drivers of potential additional capital needs from the Parent Company in 2021 relate to investment downgrades and changes to the NAIC RBC factors related to investments, commonly referred to as C1 factors. To estimate the potential impact on capital due to changes in our investment portfolio, we continue to model several scenarios and stress tests. In our base case, we anticipate approximately $370 million of additional NAIC 1 notch downgrades. In addition, we anticipate full adoption by the NAIC of the new Moody's NAIC C1 factors for 2021. Combined, our base case assumes approximately $105 million of additional capital will be needed at our insurance subsidiaries to offset the adverse impact of the new factors and additional downgrades in order to maintain the midpoint of our consolidated RBC targets.

Bottom line, the Parent Company has ample liquidity to cover any additional capital that may be required and still have cash available to make our normal level of share repurchases. As previously noted, we will continue to evaluate the best use of any excess cash that could remain, and we will consider returning a portion of any excess to shareholders before the end of the year. We should be able to provide more guidance on that in our call next quarter.

At this time, I would like to provide a few comments relating to the impact of COVID-19 on second quarter results.

In the first half of 2021, the Company has incurred approximately $49 million of COVID death claims, including $11 million in the second quarter. The $11 million incurred is $10 million less than incurred in the year-ago quarter and is in line with our expectations for the quarter. The total COVID death benefits in the second quarter included $4.6 million incurred in our Direct to Consumer Division, or 2% of its second quarter premium income; $1.5 million incurred at Liberty National, or 2% of its premium for the quarter; and $3.5 million at American Income, or 1% of its second quarter premium.

At the midpoint of our guidance, we anticipate approximately 20,000 to 30,000 additional COVID deaths to occur over the remainder of 2021. As in prior quarters, we continue to estimate that we will incur COVID life claims of roughly $2 million for every 10,000 U.S. deaths. We are estimating a range of COVID death claims of $53 million to $55 million for the year, substantially unchanged from our previous guidance.

Finally, with respect to our earnings guidance for 2021.

In the second quarter, our premium persistency continued to be very favorable and was better than we anticipated, leading to greater premium, higher policy obligations and lower amortization as a percent of premium. At this time, we now expect lapse rates to continue at lower than pre-pandemic levels throughout the remainder of 2021, leading to higher premium and underwriting income growth in our life segment. We also increased the underwriting income in our health segment to reflect the favorable health claims experience we saw in the second quarter.

Finally, the impact of our lower share price results in a greater impact from our share repurchases and results in fewer diluted shares. As such, we have increased the midpoint of our guidance from $7.36 to $7.44 with an overall range of $7.34 to $7.54 for the year ended December 31, 2021.

Those are my comments. I will now turn the call back to Larry.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Thank you Frank. Those are our comments. We will now open the call up for questions.

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

Andrew Scott Kligerman - Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Hey, good morning everyone. Maybe you could quantify the indirect COVID-19 claims during 2Q '21. Do you still anticipate total indirect claims of $25 million from 2Q '21 through the year-end? Or has your outlook improved?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Sure, Andrew. With respect to the second quarter, we had anticipated around $15 million for the quarter, down from the $25 million that we saw in the first quarter. We now estimate that they were closer to actually $22 million of excess obligations or around 3% of premium in the second quarter. So this was about $7 million higher than what we thought.

The increase was mostly due to the better persistency we are seeing. Remember, the better persistency requires us to keep more reserves on the books. So in fact, out of the $22 million of these excess obligations that we had in the quarter, about 60%, or around $14 million is from the lower lapses. And then the other, around $8 million, relates to other higher non-COVID claim activity. The actual claims around the medical and nonmedical was largely in line with what we anticipated. So again, the higher -- the $7 million is higher than what we kind of thought really related to the better persistency. For the full year, we now anticipate that these excess policy obligations will probably be around $70 million, which is around 2.4% of premium, and that is up from roughly the $50 million that we kind of talked about last quarter. Of the 2.4% of premium, it does look like about 1.5% of that will relate to higher reserves due to the lower lapses and about 0.9% will relate to higher non-COVID claim activity. And again, most -- again, the increase of that $20 million from what we had talked about last quarter relates to the impact of the lower lapses and the reserve that we are required to retain on the policies that really did not lapse as we had anticipated.

Andrew Scott Kligerman - Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

That makes a lot of sense. Thank you, and then just my follow-up is, in the direct to consumer channel, curious about internet and inbound phone calls, which were previously cited to be growing more quickly. Is this still the case this quarter? Is Globe Life exploring any new direct to consumer channel partners for growth as well?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

There are no new channels. We continue to have the same marketing strategy basically. We have 4 channels in direct to consumer. We have the internet, we have the inbound phone calls, then the insert media, plus the mail. I think we are seeing a gradual shift, a very gradual shift, the electronic channel is growing the most quickly, particularly the internet, but still the 4 channels are interrelated. And so the real growth will come as we use analytics and testing to increase our circulation in our mail volumes and our traffic on the internet.

Andrew Scott Kligerman - Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Thank you.

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

Great, thank you. Can you maybe talk about how you think through the strength in life sales? Does it seem to be more based on the strong agent growth over the last year with maybe those agents that are new, selling to their closest networks or more around pandemic awareness? I am really just trying to dimension whether the strength that we have seen is a pull forward or not? Thank you.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Our life sales are related to growth in our distribution. So our agent count is a very important component of that, however, if we look at American Income, I think the primary driver of the life sales growth will continue to be

the agent growth, and we had a 25% average agent growth quarter-over-quarter.

Liberty National is a little different story. There, in Q2, our worksite sales were up 75% compared to the second quarter of 2020. As worksite sales actually were up 12% sequentially. What we are seeing there is that the return of not just virtual enrollments or the addition of virtual enrollments, but the return of on-site sales for worksite is really helping Liberty National, I think at Liberty National and Family Heritage both. In fact this year, the growth will come more from productivity as we see a greater percentage of agents submitting business. And of course, in all 3 agencies as those agents have more experience. You will see the average premium written for agents will also increase. So there are really different drivers at different points of time for our distribution.

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

Okay. And then my follow-up question, this isn't really related to the indirect COVID question. But last quarter, you talked about increased deaths of despair from like overdoses, suicides being 20%, 80% being delays in cares like Alzheimer's and cardiac. Can you maybe talk about what you are seeing there a little bit and your expectations going forward? Thank you.

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. When you do look at the total kind of the mix of that, about 80% still is really relates to the medical side versus some of the nonmedical causes. Again, I think for the year, we probably anticipate that we will continue to see those at elevated levels even though we do anticipate those to be trending down over the course of the year as access to health care and all that tend to improve. I think for the full year, we still anticipate that we will probably see excess claims, if you will, of around $28 million roughly 0.9% or 1% of premium.

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

Thank you for your answer.

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

Hi, good morning. I guess first, I had a follow-up on the persistency impact. So you talked about the 1.5% increase to your policy benefit ratio from higher reserves. Can you comment on how much of a positive impact would be occurring within the amortization line as an offset to that?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes. The from the amortization side, it is a little bit less than 1%. So it does not fully offset the increase in policy obligations, but it largely does.

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

Got it. And then, I guess, in regards to the agent recruiting, I think your -- some of your guidance for year-end agent count at American income suggests -- I think, some decline in agents from where we are at now. I guess -- can you give a little more color on that? Are you seeing any

negative impact from labor market conditions on your ability to recruit new agents?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Sure, I will be glad to do that. I think the decline is only in Family Heritage. I think in the script, I referenced the actual growth...

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

Yes. I was referring to -- I think American Income, you had up 3% to 6%, but that's...

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

American Income is in range of 3% to 6%, Liberty National with range of 1% to 8%. At Family Heritage, we think it will be down from 9% to negative 1%. Just to explain our recruiting a little better, I do think growing agent count is going to be a challenge through the end of 2021. Let's remember a year ago, there were many unemployed, more importantly, underemployed recruits. Many businesses were shut down, hours reduced for many workers and layoffs were occurring everywhere. Today, we see just the opposite. We see help wanted signs on most businesses, and we see a dramatic increase in work opportunities on the job boards. So I think our producing agent growth will slow in the short run. However, as the economy returns to normal growth levels, we believe we will see a continued growth in our agent count in line with our historical levels.

I think the best indicator of future agent growth is always growth in middle management. When we look at that at American Income, year-to-date, we have had a 7% increase in middle management. In Q2, Liberty National had a 6% increase in middle management. Family Heritage had a 13% increase in middle management. That is important because middle managers do much of the recruiting and the training within the Company. I will also state that agent count growth is always a stair step process. And we do not expect to see constant growth quarter-to-quarter, or even year-over-year. Over the past 4 years, producing agent count, at each agency has grown at a compound rate.

At American Income, it is approximately 9%, and 12% at Family Heritage and Liberty National. However, when you go back as an example, at Liberty National from 2016 to '17, we had 19% agency growth. The next year -- the next 2-year period which is '17 to '18, we had 2.5% growth, followed by 23% growth in the next year. And the reason that it stair steps is; it takes time to develop middle management, and you want your productivity to go up over time, so you keep those agents. That's kind of a long explanation, but we have every confidence we will grow agents -- our agents growth rate -- producing agents will continue to grow, it is always going to be a stair step process.

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

Understood, thank you for your comments.

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

Good morning, the -- just a question on persistency. I think I heard you say you now think the better persistency is more likely to be permanent. And if that is true, that would bode well for future premium growth in life insurance

clearly. And with the 8% to 9% you are doing this year, assuming you continue to have good persistency and sales trends remain within a reasonable range. Do you think for 2022, we'd be looking at continued growth above your historic ranges for premium growth for life insurance, maybe closer to 6% or 7% at least, even if it's down a bit? Or how do you see that -- those dynamics playing out?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Tom I think you are -- I do not know about what the percentage is going to be. We will -- in the next call, we will give some guidance on 2022. But yes, I would anticipate we continue to have growth rates that are higher than the pre-pandemic levels.

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

The one thing I would like to add on that is, Tom, we did not want to infer that we think that the better persistency is permanent. We do think that it is going to last throughout the end of 2021. So we do see it continuing at the favorable levels. We will be able to give a little bit more insight, I think, next call when we really kind of dig into 2022, where we really think the persistency levels are going to go. So I think we will be able to get some better views on where we think that persistency will go in 2022. But we are definitely encouraged with the continued high levels of persistency this year, and that should help, as you say, to buoy that premium growth, at least in the foreseeable future.

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

Okay. And the -- just on the COVID mortality impacts, I guess, the direct ones you are forecasting 20,000 to 30,000 mortality over the rest of the year. I think the IHME forecasts are showing about double that amount. So just curious how you are deriving your estimates there?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. We do take into account several different sources that are out there. IHME is one of those. It is probably—you know looking at what they were having probably a good week ago, just as we kind of need to apply some of the forecasts they have got out, look at those trends, look at what they are looking at by state, apply that to our in force, we do quite a bit of work there to come up with our estimates of what that impact is. I do understand that in some of the last few days, you know they may have increased their estimates now. And clearly, if that higher number of U.S. deaths is in fact realized, we would end up being more at the lower end of our range. I kind of looked at it-- you know, If we ended up averaging, let's just say, 250,000 death -- or 250 deaths a day for the -- over the course of the remainder of the year, you end up at around 45,000 deaths, around roughly 2x of what we have put in our midpoint. That would be about an extra $0.03 impact, overall. So that would still be within our range.

And so I think that's a little wider range than we have kind of normally, if you will, help to take into consideration some of those changes on where that might go. So it is pretty hard to tell right now exactly what the death levels are going to be.

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

Got you. And then just one last, if I could fit it in. The -- so the $105 million of the combined impacts from C1 RBC factor changes plus expected ratings downgrades. Can you isolate how much of the $105 million is specifically from the C1 factor changes?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

About $75 million is from C1. We are probably – absent the C1, probably about a 15 point reduction, if you will, in our RBC ratio just in and of itself. So that is around $75 million.

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

Got you, thank you.

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Hi, thank you. I guess maybe to start a follow-up on Tom's question on sort of COVID mortality. Are you seeing any changes at all in terms of your sensitivities as you are getting more vaccinated population? Do you have a sense of how -- kind of your exposure differs between -- kind of the insured population versus the general population on vaccination rates? And is vaccination status something you're able to ask about on new policy applications?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes, right now, we are not seeing as we look, and I think the sensitivity generally around $2 million of claims still per 10,000 deaths. That's really seemed to be holding pretty well. Clearly, with the higher vaccinations especially the older ages that is continuing to help lower, if you will, some of overall death rates. So we do -- as we look at our overall in force, we don't have any great exposure to any one particular age. It is pretty well spread out from really age 10 through age 50 roughly, if you look at any 10-year period time, and it's roughly the same percentage of our overall portfolio. And then it kind of really goes down as you get to over age 60, but over age 50 in fact. So we do not feel like we are overexposed into any one particular area, even if there ends up being a vaccinated or unvaccinated condition.

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Got it. And then maybe moving to the health side. You mentioned the favorable claims this quarter. Was that just a continuation of lower benefits utilization? And if that is the case, how are you thinking about that trend into the second half of the year for Med Supp and other health products?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. On the Med Supp, it is largely more utilization. And what we are really seeing there is we are seeing higher utilization than we had in 2020 and really even higher utilization than 2019, but it is lower than what you would expect from a trend perspective. So it is still running a little bit favorable if you kind of look at where '19 levels were and what we'd expect from a normal

trend perspective. On the accidents and in our cancer blocks that we really have is, let's say, Liberty and American Income, those are – it is more incurral. It is not so much of a utilization of services as it is just incurral claims. And that is where we are just seeing more -- some favorable incurral rates at this point in time that has really helped with some of the lower policy obligations in those particular lines as well as to some degree at Family Heritage.

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Thank you, and then one last follow-up just on Med Supp. Do you have any exposure to potential cost pressures from the new Alzheimer's treatment, which I believe is covered under Medicare Part B.? Would any of that fall under Med Supp or wouldn't it?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes, the -- there would be potentially some exposure, but ultimately, we do have that included in our guidance.

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Okay, thank you.

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

Hi, so first just a question on your direct response margins. Obviously, they are pretty weak last quarter. They improved this quarter. Other than just the impact of COVID, do you feel that this was a normal quarter overall? Or were there any sort of positive or negative puts and takes as you are thinking about long-term margins in the direct response business on the life side.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes, Jimmy, as far as other changes what -- as you can see that we had lower amortization for the quarter. And we -- during the second quarter, we had adjusted our amortization rates throughout for all of our distribution systems. And we have seen a bigger impact on the direct response side, lowering that amortization rate that was 22% -- a little over 22% versus 25% in the second quarter of last year, and that is going to continue through the year. We should be at around 23% of premium for amortization in direct response versus over 25% last year. The reason for that reduced amortization is 2 things. One is the increased sales and also the improved persistency, both first year and renewal. In addition to direct response, the high sales that we had last year were -- the acquisition costs we had they were fixed. So the acquisition cost per policy last year was lower than it has been. So there is less DAC than we were putting on the books.

So the combination of higher sales, lower acquisition cost per policy plus the improved persistency generating more premium revenue since we amortize our DAC over the premium revenue over the life of the policies. Having that higher premium revenue has resulted in a lower amortization percentage. We should again see that through the remainder of this year.

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

And then next year, would it reset based on what your views on persistency are for 2022?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes.

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

Okay, and then on agent retention, I guess, given the improved labor market, especially in the services industry, it probably will affect your ability to recruit people. But how do you think about how it affects your ability to retain the agents that you have hired over the past year because you have added a lot of agents? And do you see any sort of impacts on your agent retention trends as the economy continues to improve?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

So if we you look at agent retention, at American Income agent retention has increased over the last 2 years, and it is a little early in 2021, to measure obviously, 6 months, and 9 months, and 12 month retention. But based on the trend of American Income, we are seeing better agent retention. Liberty National and Family Heritage, the retention is largely unchanged. I look at 2019 and '20, and again, it is a little early to talk about retention. I think there are more job opportunities, obviously, right now. So I think terminations may be a little higher through the end of the year. At the same time, we expect our recruiting to increase as the economy returns to normal. So I think we will have normal retention, normal recruiting rates through the end of -- particularly end of '21 going into '22.

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

And then typically, as agents get tenured, do you see a pickup in their productivity? Should -- any reason to assume that the increase in agents over the past year or so would not translate to sort of continued momentum on sales, regardless of what happens with new recruiting? Or are there other factors that might slow down sales?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Jimmy, can you repeat that question? Your connection's is not that clear and we are having a bit of difficulty hearing.

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

You have added a lot of agents over the past year. And regardless of what happens with recruiting, I would assume that the higher number of agents would result in strong sales. Obviously, the growth rates vary with comps and stuff, but the absolute level of sales should be higher than they used to be pre-pandemic, just given the increased number of agents and especially as those agents get more and more tenured and their productivity increases. But is that the correct assumption? Or are there other factors that you are thinking about as you are looking at sales over the next year to 2 years?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Thank you for repeating the question. Yes, that is our assumption. Obviously, the biggest driver of sales is going to be the increase in number of agents and producing agent count

is going to grow to the guidance we have given. The other driver is productivity. Actually productivity is a little bit lower at American Income Q2 '21 versus Q2 '20. That is because of the increase in agents, and new agents were a little less productive. So as our agent growth from '19 and '20 translates into '21 all 3 agencies, as those agents receive better training and as they become more veteran agents, you will see that increase, particularly we saw at Family Heritage.

Q2 while the recruiting is off, we had our best quarter ever for productivity, we have had a 30% increase in health sales per agent Q1 of '21 from sequentially and also we had a 45% increase in health sales per agent over the year ago quarter. That is because while recruiting was down as the agents had less recruiting -- we had more veteran agents, the productivity went up. We also saw the productivity increase at Liberty National that -- as we have more and more veteran agents, they are much more productive.

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

Okay thank you.

Operator

And that concludes today's question-and-answer session. I will now turn the call back to Mike Majors for closing remarks.

Michael C. Majors - Globe Life Inc. - EVP of Administration & IR

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