



Q2 2025 Globe Life Inc Earnings Call

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PRESENTATION

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 2024 10-K and any subsequent Forms 10-Q on file with the SEC. Some of our comments may also contain non-GAAP measures. Please see our earnings release and website for discussion of

these terms and reconciliations to GAAP measures.

I will now turn the call over to Frank.

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

Thank you Stephen, and good morning everyone.

In the second quarter, net income was \$253 million or \$3.05 per share, compared to \$258 million or \$2.83 per share a year ago. Net operating income for the quarter was \$271 million or \$3.27 per share, an increase of 10% over the \$2.97 per share from a year ago.

On a GAAP reported basis, return on equity through June 30 is 18.8%, and book value per share is \$66.07. Excluding accumulated other comprehensive income, or AOCI, return on equity is 14.4% and book value per share as of June 30 is \$90.26, up 10% from a year ago.

In our life insurance operations, premium revenue for the second quarter increased 3% from the year-ago quarter to \$840 million. Life underwriting margin was \$340 million, up 6% from a year ago, driven by premium growth and lower overall policy obligations. For the year, we expect life premium revenue to grow around 3.5%. As a percent of premium, we anticipate life underwriting margin to be between 43% and 45%, which is higher than our previous

estimate due to continued favorable mortality.

In health insurance, premium revenue grew 8% to \$378 million while health underwriting margin was down 2% to \$98 million, due primarily to higher obligations than the year-ago period at United American. Tom will talk more about the Medicare supplement business in his comments, but I would like to point out here that we saw a slight reduction in utilization from the first quarter to the second quarter, resulting in an underwriting margin at United American, as a percent of premium, at the high end of our expectations.

For the year, we expect health premium revenue to grow in the range of 8% to 9% and anticipate health underwriting margin as a percent of premium to be between 25% and 27%.

Administrative expenses were \$86 million for the quarter, an increase of approximately 5% over the second quarter of 2024. As a percent of premium, administrative expenses were 7.1%. For the year we expect administrative expenses to increase by about 4% over 2024, and be approximately 7.3% of premium, lower than noted on the last call.

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

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

Thank you, Frank.

I would like to start by addressing recent agent count trends. Each of the exclusive agencies increased average agent count from the first quarter to the second quarter for a combined sequential growth rate of 6%, resulting in an average total agent count of 17,621 for the second quarter.

We have seen strong results over the past several months in agent recruiting and onboarding. While rapid increases in new agents can have an impact on productivity in the short term, this bodes well for sustainable future growth. The exclusive agencies are the strength of Globe Life, and the ability to maintain and grow an exclusive agency force is a core competency of our Company. While we frequently see short-term fluctuations, there is a very close correlation between sales and agent count over the long term.

Now, I will discuss each of the distribution channels.

At American Income Life, life premiums were up 5% over the year-ago quarter to \$446 million, and the life underwriting margin was up 6% to \$205 million. In the second quarter of 2025, net life sales were \$96 million, up 2% from a year ago.

And as a reminder, we had a difficult comparable this quarter as American

Income had a 16% increase in life sales in the year-ago quarter.

The average producing agent count for the second quarter was 12,241, up 3% from a year ago. I am confident we will continue to see growth in this agency as we move forward.

At Liberty National, the life premiums were up 5% over the year-ago quarter to \$97 million, and the life underwriting margin was up 8% to \$33 million. Net life sales decreased 5% to \$25 million, and net health sales were \$8 million, down 2% from the year-ago quarter. The decreases were primarily due to lower agent productivity. Additionally, we had a higher comparable this quarter as Liberty National had an 11% increase in life sales in the year-ago quarter.

The average producing agent count for the second quarter was 3,882, up 5% from a year ago. Liberty National continues to have positive agent count growth, which is a good leading indicator for continued sales growth.

At Family Heritage, the health premiums increased 9% over the year-ago quarter to \$116 million, and the health underwriting margin increased 12% to \$41 million. Net health sales were up 20% to \$30 million, due to an increase in agent count and productivity.

The average producing agent count for the second quarter was 1,498, up 10% from a year ago, and I am excited to see this

continued growth, as this is four consecutive quarters of strong agent count growth for Family Heritage.

Now in our Direct Consumer Division,

Here the life premiums were down 1% over the year-ago quarter to \$246 million, while life underwriting margin increased 8% to \$69 million. Net life sales were \$31 million, and this is up 2% from the year-ago quarter and up 24% from the first quarter.

I am very pleased to see these results as this is a turnaround of a declining trend in recent years.

As we mentioned on the last call, we have been working on implementing new technology to enhance our underwriting automation. This technology is helping improve the conversion of inquiries into sales. The resulting improvement in return on marketing investment could allow us to reinstate some of the marketing campaigns that were discontinued in the past due to high marketing cost.

And as a reminder, 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. We expect this division to generate approximately 1 million leads during 2025, which will be provided to our three exclusive agencies. Improved conversion of our Direct to Consumer leads across the enterprise will allow us to increase our marketing spend

and increase future lead volume and marketing campaigns.

Now on to United American General Agency.

Here the health premiums increased 10% over the year-ago quarter to \$164 million, and this is driven by strong prior year sales growth and premium rate increases. Health underwriting margin was \$12 million, down \$4 million from the year-ago quarter due to higher claim costs. Net health sales were \$25 million, up approximately \$7 million over the year-ago quarter. We continue to see strong individual Medicare supplement sales activity.

Now I would like to discuss projections based on these recent trends and our experience with our business.

We expect the average producing agent count trends for the full-year 2025 to be as follows: at both American Income and Liberty National, mid-single digit growth; at Family Heritage, high-single to low-double-digit growth.

Net life sales for 2025 are expected to be as follows: at American Income and Liberty National, both mid-single digit growth; Direct to Consumer, low single-digit growth.

Net health sales for 2025 are expected to be as follows: Liberty National, mid-single-digit growth; Family Heritage, low double to mid-teens growth; and at United American, double-digit growth.

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.

We will now turn to the investment operations.

Excess investment income, which we define as net investment income less only required interest, was \$35 million, down approximately \$8 million from a year-ago quarter.

Net investment income was \$282 million, down 1%, and average invested assets were relatively flat. Required interest is up approximately 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, primarily due to the impact of the annuity reinsurance transaction in the fourth quarter of last year, which involved approximately \$460 million of annuity reserves being transferred to a third party along with supporting invested assets.

Net investment income was also negatively impacted by lower average earnings rates on our commercial mortgage loans and limited partnership investments in the current quarter as compared to a year ago. For the full year 2025, we expect net investment income to

be up about 1%, and required interest to grow around 2.5%, resulting in a decline in excess investment income of around 10% to 15% for the year.

While the growth in average invested assets will be lower than normal for the full year due to the impact of the annuity reinsurance transaction last year, as well as higher dividend distribution from the insurance companies, we do anticipate sequential growth in the third and fourth quarters, which should set us up well for more normalized growth in 2026.

Now regarding our investment yield.

In the second quarter, we invested \$263 million in investment-grade fixed maturities, primarily in the industrial and financial sectors. These investments were at an average yield of 6.44%, an average rating of A, and an average life of 34 years. We also invested \$68 million in commercial mortgage loans and limited partnerships with debt-like characteristics, at an average expected cash return of approximately 9.7%.

None of our direct investments in commercial mortgage loans involve office properties. These non-fixed maturity investments are expected to produce 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 second quarter yield was 5.29%, up 3

basis points from the second quarter of 2024. As of June 30, the portfolio yield was 5.26%. Including the investment income from our commercial mortgage loans and limited partnerships, the second quarter earned yield was 5.38%.

Now regarding the investment portfolio.

Invested assets are \$21.5 billion, including \$18.9 billion of fixed maturities at amortized cost. Of the fixed maturities, \$18.4 billion are investment grade with an average rating of A-. Overall, the total fixed maturity portfolio is rated A-, the same as a year ago.

Our fixed maturity investment portfolio has a net unrealized loss position of approximately \$1.6 billion due to the current market rates being higher than the book yield on our holdings. As we have historically noted, we are not concerned by the unrealized loss position as it is mostly interest rate driven 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 44% of the fixed maturity portfolio, compared to 46% from the year-ago quarter. This percentage is at its lowest level since 2006. 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 percent 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 \$503 million, compared to \$564 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 U.S. economy is headed, 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 full year, at the midpoint of our full year guidance, we assume investment of approximately \$900

million to \$1 billion in fixed maturities at an average yield of around 6.2%, and approximately \$200 million to \$300 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

Thanks, Frank.

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

The Parent began the quarter with liquid assets of approximately \$90 million and ended the quarter with approximately \$105 million of liquid assets. We anticipate concluding the year with liquid assets in the range of \$50 million to \$60 million.

For the second quarter, the company repurchased approximately 1.9 million shares of Globe Life common stock for a total cost of approximately \$226 million at an average share price of \$121.13. Thus, including shareholder dividend payments of \$22 million for the quarter, the company returned almost \$250 million to shareholders during the second quarter of 2025. This amount is greater than what we indicated on the prior call, as we took advantage of declines in the price of our

stock, which created market conditions more favorable for repurchases during the quarter.

The Parent's liquid assets at the end of the quarter, along with excess cash flow expected to be generated for the second half of the year, will provide the Parent with \$240 million to \$290 million that we expect to return to shareholders in the form of dividends or share repurchases after meeting the anticipated needs of the Parent.

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.

We also intend to reduce the outstanding commercial paper balances over the course of the year to be more in line with historical levels.

For the full year, we anticipate share repurchases will total \$600 million to \$650 million, and we intend to distribute \$80 million to \$90 million to our shareholders in the form of dividends. Remaining share repurchases will be spread over the remainder of the year with approximately \$100 million to \$125 million expected in the third quarter.

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 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.

At the beginning of the third quarter, we strengthened our financial preparedness through the issuance of a 30-year \$500 million contingent capital funding arrangement. This arrangement complements our existing capital resources and enhances our financial flexibility by providing an additional source of committed long-term capital, regardless of capital market and economic conditions. This transaction has no impact on the company's debt and has financing costs of just under \$9 million pretax per full year.

Overall, we believe that financial strength is paramount to our company's success, and this arrangement will simply add to our already strong capital generation capabilities that exist within our insurance companies.

With regards to the capital levels at our insurance subsidiaries.

Our goal is to maintain capital within our insurance operations 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 more than what is needed to meet our minimum target capital of 300%.

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

As I said on prior calls, I would like to share an update with our progress towards establishing a Bermuda reinsurance affiliate. During the quarter, we submitted a preliminary business plan to the Bermuda Monetary Authority or BMA, to establish an affiliate reinsurer in Bermuda for the purpose of reinsuring a portion of new business and in-force life insurance policies issued by Globe Life affiliates.

An updated business plan, along with the formal licensing application, will be submitted in the third quarter. We anticipate establishing our Bermuda

reinsurance entity and executing the first reinsurance transaction by the end of the year.

During the finalization of the application and licensing process, we will continue to have dialogue with regulators as well as rating agencies; and we will continue to provide additional information as warranted on future calls.

This initial reinsurance transaction is currently intended to reinsure a relatively small block of life reserves to get the company up and running. However, we anticipate that over time, approximately one-quarter of total statutory life reserves may be ceded to our Bermuda subsidiary as a portion of new business and additional in-force business is reinsured. Of course, we have not completed our evaluation, and our final business plan has not been approved, so this may change over time.

At this time, we are not contemplating any changes to our overall investment strategy will be needed.

Our decision to pursue this new Bermuda captive reinsurer is for the following strategic reasons.

First, Bermuda's economic capital framework will better support Globe Life's continued sales and premium growth rates, which are generally above industry average. We are also very comfortable with Bermuda's statutory framework as it is consistent with U.S. GAAP and capital is

determined under an economic framework. This supports earnings emergence consist with GAAP earnings, which, over time, will provide additional dividend capacity to the Parent, enhancing the Parent's overall financial strength and flexibility.

In addition, Bermuda is an established and stable regulatory environment with international insurance industry experience. The Bermuda regulators have been actively engaged in discussions with us and have developed a good understanding of our business and the insurance products we intend to reinsure with the new entity.

Following approval of reciprocal jurisdiction, which we will seek to obtain as soon as possible, we currently estimate Parent excess cash flow will increase from incremental earnings from our US and Bermuda subsidiaries over time as the reinsurance block grows. This additional excess cash flow will enhance our financial strength of the Company and provide additional flexibility for the Company to meet various capital and liquidity needs of the Parent.

There is still a lot of work in front of us as we work with regulators and rating agencies to finalize plans. While we do not anticipate any additional Parent excess cash flows until 2027, we do see the potential for additional distributable earnings from our subsidiaries to the Parent trending over time towards \$200

million annually as earnings emerge from reinsuring additional in-force and new business. This will provide additional financial flexibility for the Parent to support our growth.

Now with regards to policy obligations for the current quarter.

As we discussed on prior calls, we have included within our supplemental financial information available on our website an exhibit that details remeasurement gains and losses by distribution channel.

For the quarter, we continue to experience favorable mortality results, resulting in life remeasurement gains. The life remeasurement gain was \$16.7 million, reflecting mortality and lapse experience for the quarter. This was favorable to management's estimates and resulted in lower life policy obligations than anticipated. The health remeasurement gain of about \$3.9 million was favorable to management's estimates and attributed to favorable obligation trends at Family Heritage and experience fluctuations for other health lines, including Medicare supplement.

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 are increasing our estimate on the margin impact for the third

quarter life assumption updates as recent mortality and lapse experiences are incorporated into these assumptions.

Although we have not finalized our assumption updates, we have updated and revised our estimates for the anticipated impacts. At this time, our guidance anticipates a total remeasurement gain in the third quarter related to both life and health assumption updates to be in the range of \$110 million to \$160 million.

At this time, our current estimates for life assumption updates reflect future mortality levels generally in-line with pre-pandemic levels. It should be noted that recent mortality experience is favorable to pre-pandemic levels overall, and to the extent this continues, we would expect continued quarterly remeasurement gains even after updating long-term assumptions.

For the health segment, as expected, health margins as a percent of premium increased from the first quarter. This was largely driven by anticipated margin increases from the Medicare supplement business as 2025 premium rate changes became fully effective. In addition, we saw some improvement in Medicare supplement claims, which were favorable to our expectations.

The claim cost trends continue to run higher than those reflected in our recent

rate filings. We intend to reflect these higher trends in our 2026 rate filings to improve long-term profitability consistent with those needed to achieve historical margins as a percent of premium. Our estimate for total remeasurement gains related to assumption updates include an estimate of \$5 million to \$15 million related to the health segment.

Finally, with respect to our earnings guidance for 2025.

For the full-year 2025, we estimate net operating earnings per diluted share will be in the range of \$14.25 to \$14.65, representing 17% growth at the midpoint of our range, and 10% growth when excluding the impact of remeasurement gains from assumption updates in both 2024 and 2025.

The midpoint is higher than our previous guidance due to the anticipation of continued favorable mortality experience and the updated anticipated impact of third quarter assumption updates. In addition, we anticipate health margins will improve slightly relative to our prior expectations.

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

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

Thank you, Tom.

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

QUESTIONS AND ANSWERS

Jack Matten - BMO Capital Markets - Analyst

Hi, good morning, Just the first one, the higher earnings guidance for this year. I guess, how should we think about that translating to stat earnings and cash flows looking ahead to next year. I guess there is a significant portion that is related to the actual experience issue that we would see come through immediately or is more of that benefit kind of lag over time since it seems like there is a big remeasurement gain you are expecting in the life business that include some favorable assumptions on a forward-looking basis.

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

Yeah. So yeah, the -- what I would say is that the mortality experience that we are seeing, which has generally been favorable -- continues to be favorable trends, that translates into additional statutory income. So we will see that come through statutory income.

The assumption changes, which are really only GAAP related, so those are updates to

GAAP assumption changes is really not an impact to statutory income levels overall. And then also, I think given the slightly favorable trends that we saw in the second quarter and then a little bit of favorable experience that we think in the remainder of the year for the health segment that will come through statutory earnings as well.

Jack Matten - BMO Capital Markets - Analyst

That is helpful. Thank you, and then a follow up on the Bermuda affiliate, I appreciate the details you gave. On the \$200 million, I think, potential incremental benefits to your cash over time. I guess just any thoughts on like the timeline towards getting to that run rate? And I guess, does that assume you move -- I think you mentioned a quarter of your life reserves over to that entity. And then, I guess, just lastly then just curious how you got to the like one quarter target. And I guess how are you thinking about that and could it be revised over time?

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

Yeah. We still -- I mean, as I mentioned, we still have a lot to do. So we are still in conversations with our regulators as well as conversations with our rating agencies on the Bermuda subsidiary and the impact there. So it is a little bit premature to talk about timing, but we will certainly provide

updates once we have clarity later this year.

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

As Tom mentioned, in the latter half of this year and the third quarter, we will be finalizing an updated business plan with the regulators and -- as a result of that work, we will be able to update you here on the next one or two calls as we get more of those plans finalized and approved.

Jack Matten - BMO Capital Markets - Analyst

Thank you.

Andrew Kligerman - TD Securities - Analyst

Hi, good morning everyone. My first question is around the sales. It appears you have got a bit lower guidance on the life insurance sales. And Matt, I think you mentioned 8% agent count growth. So I guess two things. Given that you have lowered the guidance, what gives you that confidence that the back half of the year will bump up from what we saw in the first half of the year, and should we use that 6% agent count growth as an indication? I know you are not giving guidance yet, but that would be a ballpark expectation for next year?

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

Yeah. I was commenting on the 6% was an overall growth rate of Q2 compared sequentially to Q1. I had mentioned on the last call, just kind of what we were seeing early stages as we moved into the second quarter. So just wanted to comment overall it was very positive growth from our perspective for just one quarter.

You are correct. We are revising down slightly on the sales side, still in that mid-single-digit growth. As we have talked about before, the agent count growth, which has been very strong, if you look at over the last 6, 12 months, that is a leading indicator in sales, and so we are still having that strong agent count growth, which does, as I have mentioned, impact productivity sometimes in the near term as our more experienced agents are spending their time training and onboarding new agents. But we know over a long term, that bodes well for sales growth, and so the revision of the guidance is just really reflective of what actually happened in Q2 and recognizing that increase in sales from the increase in agent count may be delayed a little bit more toward the latter half of this year and into the beginning of next year.

So it is really nothing other than reflecting just some timing considerations of those new agents coming on and getting more productive there. And so then as you had

mentioned, just our overall -- I would look at just kind of our overall agent count growth this year in our guide there would be reflective of what we would think as we get into 2026 guidance, but that would be a leading indicator of what we think sales would look like for 2026 based on what we know today.

Andrew Kligerman - TD Securities - Analyst

That is really encouraging. Thanks for that. And then on the Med supp side, I mean, your sales have been phenomenally strong. And part of that is, and correct me if I am wrong, part of that is a function of the Medicare Advantage under a lot of regulatory scrutiny and change. Now if we are a year out and that stabilizes, do you think that there could be kind of the flip side, a little bit of pressure on Med supp sales or do you think that you can kind of continue to grind up?

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

I would say it this way, you are correct. There is a lot of noise in the system around Medicare Advantage, as we have talked about in the past, we have been the beneficiary of some of that dislocation on the Med supp sales side. What we see over time, is there are some ebbs and flows to this business, but there continues to be a

segment of the population that values what the benefits are from a Med supp policy versus Medicare Advantage as it relates to being able to have more choice and some of the benefits that come along with those type of policies.

So I think there will always be a strong market for that, but it will ebb, and flow based on some things that we see in the Medicare Advantage side.

Also, to the extent we look at the significant size of our in-force block there and the premium growth that happens as a result of the rate filings that Tom had mentioned, and so I think that bodes well for earnings growth here over the next coming periods, including into 2026. And so as we mentioned before, within Medicare supplement and in the United American group there, we do have some group business, and so that does come through a little bit lumpy. And so we will get higher sales growth sometimes associated with -- as those new groups come on, particularly as it is compared to the same quarter in the prior year.

Andrew Kligerman - TD Securities - Analyst

Thanks for that.

Jimmy Bhullar - JPMorgan Chase & Co - Analyst

Hey, good morning. So first, I just wanted to discuss your comments around guidance. I think the midpoint is up about \$0.70. And you implied that a lot of it is because of a reserve release, but I think you said that some of it might also be because of higher assumed earnings on an ongoing basis because of sort of ongoing reserve remeasurement gains.

So is that true? And to what extent are you able to quantify how much of the \$0.70 is just a one-time 3Q impact versus maybe assuming normal earnings outside of the annual actuarial review.

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

Jimmy, you are right, is that we expect mortality results to continue to run favorably, and we would expect those to continue throughout the year, which is not impacted by the assumption change. We would expect like the fourth quarter life underwriting margins to be more in the 41% range. So that is kind of indicative of some of the results coming through. And then also some continued small benefits from the health segment.

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

The one thing I would add to that, Jimmy, is that we also, I think, seeing some favorable reductions, if you will, in our admin expenses. So our guidance -- we reduced that just a little bit, see that as being closer to 7.3% for the full year, and we are really seeing some moderation in our expenses that is kind of helping with that. So I think that will be something that will carry forward for us, and then we did have a little bit of pickup in the overall guidance just from the additional repurchases that we had in the second year as well, which, of course, will continue to benefit us not only from the remainder of this year but going forward as well.

Jimmy Bhullar - JPMorgan Chase & Co - Analyst

Okay and then on direct sales, I think you had been down 16 quarters in a row on sales in direct on the life side. And this quarter, there was a slight improvement. Is that channel close to bottoming? Or was this just a blip given that the comps are easy and just trying to get an idea on whether you are seeing some stability or signs of recovery there.

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

Yeah. No, we do think this is a starting point from a recovery perspective. As I

have mentioned, there is some fundamental things that we have put in place that came online here at the beginning of the year. There will be some continued benefit of the activity from an underwriting perspective, and which ultimately results in improvement from a conversion of those inquiries that we get into ultimately issued policies. So we anticipate that continuing through the rest of the year.

The other thing that is very important too is that -- to the extent that we are now able to convert our leads that we are getting through that Direct to Consumer channel, and we look at that conversion across the entire organization, the agent channel is able to convert those leads at a higher rate than a passive channel like Direct to Consumer.

And so what that is doing for us is that we analyze that on an aggregate basis, it gives us more margin to be able to spend on getting back into and expanding some of the campaigns that we have scaled back on. So there is a benefit to the Direct to Consumer sales just as a result of that continued marketing in addition to the sales that will happen in the agency channel.

And so I would say those two things are really fundamental changes that drives our guide for the rest of the year of an overall increasing trend from a sales perspective. So we are very pleased to see those two things come to fruition.

Jimmy Bhullar - JPMorgan Chase & Co - Analyst

And then just lastly, on Bermuda, I realize like the structure is not final and it is a couple of years out. But -- and there is, I guess, some discretion on how much business you decide to put into it. But if you do get a \$200 million benefit on annual free cash flow, assuming you are using it for buybacks that sort of implies a 2 percentage point uptick in whatever your growth would have been otherwise.

Is that the right way to think about it? Or are there any other sort of offsets that would reduce the benefit versus what I mentioned.

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

No, I think that is the right way to think about it, Jimmy.

Jimmy Bhullar - JPMorgan Chase & Co - Analyst

Okay. Thank you.

Elyse Greenspan - Wells Fargo Securities LLC - Analyst

Thanks, good morning. I guess my first question is just on some of the recent headlines we have seen from Centene and some others just on the medical trends that have been making the news. It does not seem like there has been any impact

on you guys, but I was just hoping that you could address that.

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

Yeah. I will comment on that and then if Matt or Frank, you guys want to as well. But that comment on Centene was primarily around Medicaid experience which is kind of major medical coverage, and so I think the Medicare supplement market is just quite a bit different. The demographics are a bit different.

And I think, in general, I think the experience is just different in the Medicare supplement business versus the Medicaid business. And I think they also commented on some favorable trends in their Medicare supplement side of things - Medicare Advantage, yeah.

Elyse Greenspan - Wells Fargo Securities LLC - Analyst

Okay. And then my second question, like, if we just kind of look at the health business in general, kind of excluding the noise, right, from the Medicare supp business versus pre-COVID, right, the margins seem pretty good. And we are just trying to get a sense like -- is this kind of a good kind of run rate level to think about going forward or is there anything else to consider?

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

No, I think the supplemental health business, which is based upon the incidence of certain medical events and not really medical reimbursement overall, I think those trends have been fairly stable and consistent. And so I think we are in a pretty good place there.

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

Yeah. No, I would agree. I think we really do like the supplemental health business that we have that is limited benefit and supplemental health has been really good and stable for us. Especially, we really like the return of premium product that we have with Family Heritage. That has continued to be a very good product for us, and they are showing really good growth with that. And that -- and we really like that because it is one that stays on the books a little bit longer because of the return of premium feature as well as just having really good, stable margins. And so we really see that continuing to grow for us and to be a positive addition going forward.

Elyse Greenspan - Wells Fargo Securities LLC - Analyst

And then one last one. Is there any kind of update on just like relative to the DOJ and just the ongoing investigation?

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

Really, there have been no developments on both the DOJ and the SEC. And in fact, we have not received any request from either of those groups since the beginning of the year. So as a reminder, just both the DOJ and the SEC, they have not asserted any claims or made any allegations against Globe Life or AIL and we are not aware that there is an intention to do so. So in the -- as I have said before, to the extent we have significant developments, we will be sure to update you.

Elyse Greenspan - Wells Fargo Securities LLC - Analyst

Thank you.

Ryan Krueger - Keefe Bruyette & Woods Inc - Analyst

Hey thanks, good morning. I had another Bermuda question. It looks like the \$200 million would be about 15% of your GAAP operating income. I guess, trying to think about what your free cash flow conversion

could look like following Bermuda. It seems like maybe it could be about 60% or so but hoping to get some color from you guys on what you would expect.

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

Yeah. Ryan, we have not really finalized that at this point in time, but I think your math is good and in line with kind of what would happen if we were to get that earlier. Like we obviously expect to have earnings growth over the coming years. So it really is dependent upon kind of the timing of the earnings emergence from the Bermuda subs and the U.S. subs as it relates to the Bermuda affiliate.

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

Yeah, and Ryan, I would say we have talked about really looking at how do we get our conversion rate, does it make sense for us to have a higher conversion rate and trying to look at that 60% or so. Looking at this, is there an opportunity here and this could potentially definitely help us to get at least to that level. And I would agree with Tom, I mean I think that is kind of the math that is part of that. And of course, we really like it in that -- it does -- it gives additional flexibility to the holding company from just an overall liquidity and capital management perspective as those

dividends emerge just at a different time frame than it would be under just regular U.S. statutory. So obviously, it gives us flexibility for how we manage the capital within our organization. And obviously, then to the extent it is truly excess, then it would be returned back out to the shareholders.

Ryan Krueger - Keefe Bruyette & Woods Inc - Analyst

Thanks, and just to make sure I have this right. So the expected benefits are likely to start emerging in 2027 and beyond. Is that right?

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

That is what we are seeing right now, and again, once we -- yeah, and as Matt mentioned, once we finalize the business plan and here over the remainder of this next quarter, so -- we will have better insight into how some of that might emerge.

Ryan Krueger - Keefe Bruyette & Woods Inc - Analyst

Thank you.

John Barnidge - Piper Sandler - Analyst

Thank you for the opportunity. My question is a follow up on Bermuda. I know you talked about getting to 25% of the in-force. Do you anticipate once that initial transaction establishes the infrastructure on the island -- it will be a series of transactions that follow or one large one? Thank you.

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

Yeah, John, we probably do a series of transactions as kind of that operation is up and running, including evaluating in-force as well as some portion of new business being seceded to Bermuda as well.

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

Yeah. And I was going to say, for clarity, the 25% of statutory reserves is more of a longer-term view as we do in-force blocks as well as the new business and we start seeing new business into there as the reserves on that new business grow over time. And so that is just our preliminary view.

Somebody asked a question earlier, could that change over time? And the answer is yes, that could change over time as we get more of our plans finalized and we are focused on getting it up and running this

year and then developing out what that looks like from a long-term perspective.

John Barnidge - Piper Sandler - Analyst

And because of the free cash flow that frees up and the leverage it creates on an operating perspective. At the same time, with some of these operational efficiencies that have been brought for automation sounds like on applications that could lead to higher close rates. Do you think this will allow you to accelerate agent growth or maybe pursue opportunistic inorganic or other distribution channels.

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

I mean to the -- I am not sure it would really accelerate agent count growth because right now, we do not restrict sales in any manner because we are not capital constrained. As we have mentioned, part of our cash flow conversion is because of the amount of money that we are investing in new sales every year.

So to the extent that we start putting some of those new sales through a GAAP regime with the deferral of acquisition costs, then the timing of emergence under GAAP is different than STAT. That would continue to help from a cash flow conversion ratio. But we are not going to change the amount of investment into new sales because right

now, we invest all that we can that has the appropriate return, but it will provide us more flexibility. And then from a potential M&A perspective in the future, that could provide additional, as we have said, additional cash flows at the Parent Company are strategic in nature, and we look at funding a variety of things and then, of course, returning excess to shareholders.

John Barnidge - Piper Sandler - Analyst

Thank you.

Wilma Burdis - Raymond James - Analyst

Hey good morning. After the massive amount of buybacks you guys have done and then you have got a lot more capital you are freeing up as well. Is M&A more interesting?

I know there was something you guys were looking at a couple -- 18 months ago. Maybe just give us an update there, thanks.

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

You know our M&A lens that we look through is always opportunistic and the fact that it has to fit in with our overall strategy, as we have said, we are a distribution organic growth company to

the extent that it would add to that with expertise that we have that we feel like we could continue and enhance our growth.

We will continue to look at -- those opportunities do not come along very often -- and right now, based on our view of our stock price and where that is trading now from compared to a historical level still is the overall compelling use of our funds for continuing to invest in stock buyback. But we will continue to look for an M&A opportunity to the extent it makes strategic sense for us.

Wilma Burdis - Raymond James - Analyst

Okay. Thank you. I know a lot of people have asked about mortality, but given the reserve releases you guys anticipate in 3Q from the life side, the mortality remeasurement gains continue to accumulate. Can you just talk about how that would flow through future years? How do you think about it in the future? Thanks.

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

Yeah. I think -- so Wilma right now, we anticipate the -- our life mortality assumption to be fairly in line with pre-pandemic levels, right. And I would say that the recent experience we are seeing is a little bit below that. So to the extent that our recent experience continues, as I mentioned, we would see continued remeasurement gains relative to that new

baseline mortality assumption emerge into next year. So I think we will just have to wait and see whether that mortality continues that we are seeing currently.

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

Yeah, Wilma, the one thing I would just add to that is if -- just kind of by default those long-term assumptions are what we ultimately expect that mortality to be over the long term. So we would expect even though we are seeing some favorable mortality right now, we would expect that to trend back to those long-term averages over time. And if that is -- and if actual experience emerges kind of in line with those long-term expectations and long-term assumptions, I think Tom mentioned that you're kind of looking at that margin percentage and kind of similar to what we are kind of projecting for the fourth quarter, which is in that 40.5% to around 41%.

And we have talked on the prior call that there is probably still a little degradation of that -- degradation of that is going to happen over the next couple of years just as amortization, the transition to LDTI continues to -- as that blends in on the changes to the DAC amortization. And -- but I think to the extent that we have favorable mortality versus the long-term assumptions, that we would expect those margins to be a little bit north of that.

Wilma Burdis - Raymond James - Analyst

Okay. Thank you.

Mark Hughes - Truist Securities - Analyst

Hey, thank you very much. How about lapse experience in the life business -- you talked about that contributing to the remeasurement gain, but any observations there?

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

Yeah. I would say in general, our lapse experience on the life business has been fairly consistent in -- with recent quarters. I think there's a couple right spots that first year lapses at AIL actually were favorable this quarter. So that could be a fluctuation, but I also think that we are pleased to see that as well.

And then DTC, as first-year lapses have been -- Direct to Consumer channel first-year lapses had been consistent with prior quarters, but they are still running a little bit higher than where they have from historical norms, and so we are continuing to monitor that to see whether that is kind of the new normal or whether that comes back over time as well.

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

Yeah. I would say overall, I think we are pretty -- we are pleased overall with the resiliency of business, especially given some of the economic uncertainties that are kind of running through the marketplace in recent times. And as Tom said, we had -- I am going to say with the exception of DTC, we had good first year lapses. Our first-year lapses in the second quarter did improve sequentially over Q2. A lot of that is seasonality. That is kind of what typically happens.

But overall, they are kind of then staying if you look at general levels, pretty consistent with our long-term averages, and you kind of think about pre-pandemic from that perspective because we had very favorable lapses during the pandemic years. So there definitely has been a recovery in our lapse rates to some of those pre-pandemic levels.

And I will tell you, in general, we are pleased where we are at given the kind of economic situations and clearly not out of any kind of norm that we have seen in prior periods with some economic stress. But we think they have stabilized and feel pretty good with where they are at right now.

Mark Hughes - Truist Securities - Analyst

Understood. On the health business, the rate increase and then the slight reduction in utilization, was that fully reflected in the P&L, would you say in 2Q or is there some marginal improvement yet to come in 3Q?

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

I would say it is fully reflected in the second quarter results. I mean there is a trickle that will come in later, but it is really very, very small. And I think one of the important pieces is that in that UAGA line, it includes individual Med supplement as well as group coverages, and so the rate increases are really a function, are really coming into play on the individual Medicare supplement business. But they are fully reflected.

Mark Hughes - Truist Securities - Analyst

Appreciate it.

Wes Carmichael - Autonomous Research - Analyst

Thank you for fitting me in. So I guess I wanted to talk about the Direct to Consumer channel. It is the first time, I think, in recent memory, you guys are talking pretty positively about that. So I just wanted to get a little more color on what was the technology that you guys put

into place. I think if I think back, it was a lot of mailings and now it seems like that has changed. So maybe just the evolution there? And is there any associated increase in corporate or admin expenses from marketing in that channel or how should we think about that?

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

Sure. You are right, historically a significant amount of the marketing campaigns and inquiries came through more of a paper medium, whether it was mail or inserts. But over the last recent years, up to about 75% or 80% of that business really comes through a digital channel now, and some of that is fulfilled through call center that we have.

But essentially, what is happening is, is that the technology investments are associated with kind of the throughput of taking those leads and ultimately issuing those policies. We are able to utilize the data in a better way than we have in the past from a underwriting perspective.

And so historically, part of the process was based on how people filled out applications. We had to have follow-up and understand some of those health situations better. Well, there's a falloff because we cannot contact everybody that submitted an application, and so

there is a little bit of friction in the system from that perspective.

Now with the use of data, we can go ahead and issue certain policies with -- that meet our risk criteria and without even contacting an individual.

And so a lot of that is just from a technology throughput perspective. We are still issuing policies from a same risk profile perspective, we are just able to do it much more efficiently.

And so to the extent that our conversion rate goes up overall, for that marketing spend because we are spending money upfront for an estimate of what policies get issued at the end, the combination of Direct to Consumer channels, conversion rate going up as well as being able to utilize that marketing spend in our agencies and the conversion of that marketing spend through sales in those agency channels, changes the dynamic of evaluating the marketing spend for the policies and the profit -- estimated future profits that we are ultimately issuing.

So it enables us to spend more money on marketing as well as certain campaigns that were kind of on the bubble related to whether they were profitable or not, it makes them now more profitable. So to the extent that we spend more on marketing, we get more inquiries and the conversion of those across the organization. So we are very pleased to see both of those factors coming into play that are going to benefit the sales on both

sides of the equation, meaning Direct to Consumer and our agency channels.

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

Yeah, and you raised the question on whether any of those expenses go through the corporate or admin expenses and they do not. So as we look at increasing spend, that is all acquisition cost that is supported by the profits and the sales of DTC.

Wes Carmichael - Autonomous Research - Analyst

Great. Thank you so much.

Suneet Kamath - Jefferies LLC - Equity Analyst

Hey thanks, good morning, I guess afternoon now. I know we are going on long, so I will just leave it at one. On the reviews, I appreciate your comment about not being contacted by anybody since the beginning of the year, but I think there still is a bit of an overhang on the stock from this issue. And I know you want to be probably careful about how much noise you make on it, but is there an objective here to just put this to bed maybe by the end of the year? And if the government is being slow, maybe just trying to see if there's anything that you can do to just put

it behind you because it has been going on for a while, and like I said, I think there is still a bit of an overhang on the stock. So just curious about your thoughts. Or is the strategy just sit back and wait and let them come to you and when they have time to do that, they'll do that

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

No. We have proactive outreach, of course, we are not in control of the agency's timing. I was just pointing out that we received no new inquiries or requests from either agency for this calendar year, so that is what we know to date.

We are still active in trying to bring that to fruition and resolution and we would like to be able to communicate that, but as I have mentioned before, these are informal processes, and so being able to bring that to a conclusion that we can discuss publicly is definitely our goal.

Suneet Kamath - Jefferies LLC - Equity Analyst

Okay, I will leave it there. Thanks.

Thomas Gallagher - Evercore Inc - Analyst

Hi, first question just on the \$200 million of additional annual free cash flow from

Bermuda that you're thinking. I know you said the initial benefits will start in 2027, just curious, how long do you think it would take to get up to that run rate? That is a very big percentage increase of your current free cash flow.

So I mean, is this five years down the road? Or is it sooner than that? Can you give a little bit of color for how long you think that might take to get up to that level?

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

Yeah, as I said earlier, it is a little bit early to give you timing on that and we still need to work through putting together that final business plan and getting regulatory approval and rating agency discussions solidified. So I think that is an update for a future call.

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

Yeah. It is safe to say that would not all happen in year one, but we will have better timing discussion in the next couple of calls. But it is also -- it is not a 10-year runway either. So it is probably a 3 to 5 if we are handicapping it -- but we want to be able to finalize all those discussions that Tom just mentioned, and then we will give a little bit more clarity on timing.

Thomas Gallagher - Evercore Inc - Analyst

Got you. And then -- and just a mechanics question on the free cash flow. Does most of the \$200 million annual improvement come from acquisition expenses -- or are there other components like discount rate? Are you -- do you think you will get some benefit from this mortality improvement that you have seen? It probably does not sound like that, but I am just curious if you could kind of dimension like what are the major drivers of the improvement?

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

Yeah. I think it is generally a difference between how statutory earnings emerge versus how GAAP earnings emerge is really the key difference.

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

And the two big components of that, of course, are your deferred acquisition costs and how those are treated between GAAP and statutory as well as differences in reserving.

Thomas Gallagher - Evercore Inc - Analyst

Makes sense. Thank you.

Operator

Thank you. There are no further questions in queue. I will now hand it back to Stephen Mota for closing remarks.

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

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