Q1, 2023 Globe Life Inc. Earnings Call

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PRESENTATION

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

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

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

I will now turn the call over to Frank.

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

Thank you Stephen, and good morning everyone. I would note here that our reported results for the first quarter of 2023 and 2022 reflect the adoption on January 1, 2023 of the new LDTI accounting guidance. First, I want to thank the many members of our accounting, actuarial, investment and technology teams for getting us ready to adopt this new accounting guidance this quarter. It was a substantial project, and they did a fantastic job. Tom will discuss the new guidance in more detail in his comments.

In the first quarter, net income was $224 million or $2.28 per share, compared to $237 million or $2.37 per share a year ago. Net operating income for the quarter was $248 million or $2.53 per share, an increase of 4% from a year ago.

On a GAAP reported basis, return on equity was 22.9% and book value per share is $39.74, excluding accumulated other comprehensive income, or AOCI, return on equity was 14.6% and book value per share is $70.34, up 10% from a year ago.

In life insurance operations, premium revenue for the first quarter increased 3% from the year-ago quarter to $773 million. For the year, we expect life premium revenue to grow around 4%. Life underwriting margin was $291 million, up 1% from a year ago. At the midpoint of our guidance, we expect life underwriting margin as a percent of premium to be in the range of 37% to 39%. As we discussed on prior calls, underwriting margin is different under the new LDTI accounting rules.

In health insurance, premium grew 2% to $322 million, and health underwriting margin was up 4% to $91 million. For the year, we expect health premium revenue to grow around 3%. At the midpoint of our guidance, we expect health underwriting margin as a percent of premium to be in the range of 28% to 30%.

Administrative expenses were $74 million for the quarter, up 2% from a year ago. As a percentage of premium, administrative expenses were 6.7% compared to 6.8% a year ago. For the full year, we expect administrative expenses to be up between 2% and 3% and be around 6.9% of premium due primarily to higher IT and information security costs. Higher labor and other costs are expected to be offset by a decline in pension related employee benefit costs.

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

Matt Darden- Globe Life Inc. - Co-CEO

Thank you Frank. At American Income Life, life premiums were up 5% over the year-ago quarter to $388 million, and life underwriting margin was up 2% to $176 million. In the first quarter of 2023, net life sales were $83 million, down 2% from the year-ago quarter, while first quarter sales declined slightly from a year ago they grew 19% from the fourth quarter of last year.

The average producing agent count for the first quarter was 9,714, up 4% from the year-ago quarter and up 5% from the fourth quarter and is consistent with our expectations discussed on the last call. I am very encouraged with the sales and agent count trends and see a lot of positive momentum in this division.

At Liberty National, life premiums were up 6% over the year-ago quarter to $85 million, and life underwriting margin was up 3% to $28 million. Net life sales increased 27% to $22 million, and net health sales were $7 million, up 14% from the year-ago quarter due to increased agent count and productivity.

The average producing agent count for the first quarter was 3,011 up 13% from a year-ago quarter.

I am very pleased with the results here as Liberty continues to successfully generate strong sales and recruiting activity.

At Family Heritage, health premiums increased 7% over the year-ago quarter to $96 million, and health underwriting margin increased 15% to $32 million. The increase in underwriting margin is primarily due to higher premiums and improved claim experience. Net

health sales were up 21% to $23 million, primarily due to increased agent count.

The average producing agent count for the first quarter was 1,298, up 18% from the year-ago quarter. As we have mentioned previously, this agency has shifted focus over the last several quarters to recruiting and middle management development.

Now in our Direct to Consumer Division, life premiums increased 1% over the year-ago quarter to $248 million, but life underwriting margin declined 3% to $56 million. The decrease in underwriting margin is primarily due to an increase in lead-related non-deferred acquisition expenses. Net life sales were $32 million, down 4% from the year-ago quarter.

As we have mentioned in previous calls, Direct to Consumer marketing is one facet of our business that has been impacted by the current inflationary environment. We have had to pull back somewhat on circulation and mailings as increases in postage and paper costs impede our ability to achieve satisfactory return on our investment for specific marketing campaigns.

There is an offset to this as we continue to generate more Internet activity, which has lower acquisition costs than our direct mail marketing. In fact, electronic sales have grown at a 5.8% compounded annual growth rate since 2019 and are currently approximately 70% of our new business.

On to United American General Agency. Here, the health premiums increased 1% over the year-ago quarter to $133 million, and health underwriting margin of $13 million, which is 10% of premium, is consistent with the year-ago quarter. Net health sales were $15 million, up from $13 million in the year-ago quarter. The increase in net health sales is primarily due to the sales growth at Globe Life Benefits.

Projections.

Now, I want to talk about, based on the trends that we are seeing and the experience with our business, we expect the average producing agent count trends for 2023 to be as follows: at American Income Life, low double-digit growth; at Liberty National, low double-digit growth; and Family Heritage, low double-digit growth. We are very nice -- pleased to project that all 3 of our exclusive agencies are going to have low double-digit growth through the remainder of the year.

Net life sales for the full year 2023 are expected to be as follows: American Income Life, low single-digit growth; Liberty National, low double-digit growth and Direct to Consumer, slightly down to relatively flat for the full year.

Net health sales for the full year of 2023 are expected to be as follows: at Liberty National, low double-digit growth; Family Heritage, low double-digit growth, and at United American General Agency, mid-single-digit growth.

I will now turn the call back to Frank.

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

Thanks, Matt.

We will now turn to the investment operations.

Excess investment income, which for 2023, we define as net investment income less only required interest was $29 million, up 13% from the year-ago quarter. On a per share basis, reflecting the impact of our share repurchase program, excess investment income was up 15%. Net investment income was $257 million, up 5% from the year-ago quarter. Required interest as adjusted to reflect the impact from the adoption of LDTI, is up 4% over the year-ago quarter, in line with the increase in net policy liabilities. For the full year, we expect net investment income to grow approximately 5% as a result of the

favorable rate environment and steady growth in our invested assets. And excess investment income to grow between 10% and 12%.

Now regarding our investment yield.

In the first quarter, we invested $311 million in investment-grade fixed maturities, primarily in the municipal, industrial, and financial sectors. We invested at an average yield of 5.84% and an average rating of A and an average life of 25 years. We also invested $45 million in commercial mortgage loans and limited partnerships that have debt-like characteristics. These investments are expected to produce additional yield and are in line with our conservative investment philosophy. I will further discuss our commercial mortgage loans momentarily.

For the entire fixed maturity portfolio, the first quarter yield was 5.18%, up 3 basis points from the first quarter of 2022 and flat versus the fourth quarter. As of March 31, the portfolio yield was 5.20%.

Now regarding the investment portfolio.

Invested assets are $20.2 billion including $18.5 billion of $6 million -- of fixed maturities at amortized cost. Of the fixed maturities, $17.9 billion are investment grade with an average rating of A-. Overall, the total portfolio is rated A-, same as a year ago.

I would like to make a few comments regarding our banking and commercial mortgage loan investments.

Total bank investments are 7% of our fixed maturity portfolio. We realized an after-tax loss of roughly $21 million during the first quarter on Signature Bank bonds. We also hold $39 million of First Republic bank bonds, which have been impaired in the second quarter due to recent developments. We did not have any exposure to the Silicon Valley Bank or the Credit Suisse AT1 bonds that defaulted.

Regarding our commercial mortgage loans.

We have $204 million net book value of CMLs directly held on our balance sheet, which is 1% of our total investment portfolio. We also have $454 million of limited partnership funds or 2.4% of the total investment portfolio that invest in CMLs. These limited partnerships are carried at fair value, which is updated quarterly and managed by PIMCO and MetLife. The CMLs we hold directly and most of our limited partnership CML investments are transitional or bridge loans that generally have a floating rate, 3-year maturities and 2 optional 1-year extensions if certain criteria are met. We prefer the risk return profile of these types of loans over traditional commercial mortgage loans and believe they provide good diversification away from corporate securities.

Transitional or bridge loans are typically used to renovate or otherwise improve a particular property. For loans that are on our balance sheet, oftentimes the appraised value reflected in our regulatory filings reflect the original "as is" appraisal at the time the transitional loan was initiated, which does not take into account any increases in value after the renovations are completed. The loan-to-value method we consider in evaluating the property, what we call "stabilized appraised value", is the basis we use in the supplemental information we provided on our website and reflects appraisals that take into consideration the effect such renovations are expected to have on the property's value using market comps and other standard appraisal techniques at the time the loan -- of loan origination. Thus, the stabilized appraised values are typically higher than the original appraised values reflected in the regulatory filings.

With respect to the CMLs held directly on our balance sheet, $115 million gross book value were originated prior to 2022. We have $59 million of loans with maturities in 2023 of which $22 million have optional extensions, subject to satisfaction of certain criteria. Of the loans with maturities in 2023, only $8 million are related to office properties, plus $2 million related to the pro rata office portion of mixed-use properties. The average loan-to-value ratio of the 2023 maturities is 64% with none greater than 90%. Our expected lifetime losses for our CML portfolio, which is equivalent to our CML CECL allowance is $3.1 million or 1.5% of book value.

Based on both the underlying structure of our direct and indirect CML investments and the specific properties involved, we believe that the incremental risk inherent in these investments is more than offset by the additional yield they generate.

As mentioned in our earnings release, we have provided additional information regarding our banking and CML investments on our Investor Relations website under Financial Reports and Other Financial Information.

These investments have been included in our portfolio stress testing that Tom will discuss in his comments.

Our fixed maturity investment portfolio has a net unrealized loss position of approximately $1.3 billion due to the current market rates being higher than the book yield on our holdings. As we have historically noted, we are not concerned by the unrealized loss position as it is mostly interest rate driven. We have the intent and more importantly, the ability to hold our investments to maturity.

Bonds rated BBB are 51% of the fixed maturity portfolio compared to 55% from the year-ago quarter. While this ratio is in line with the overall bond market, it is high relative to our peers. However, keep in mind that we have little or no exposure to higher risk assets such as derivatives, common equities, residential mortgages, CLOs, and other asset-backed securities. Additionally, unlike many other insurance companies, we do not have any exposure to direct real estate equity investments or private equities. We believe that the BBB securities that we acquire provide the best risk-adjusted, capital-adjusted returns due in large part to our ability to hold securities to maturity regardless of fluctuations in interest rates or equity markets.

Below investment grade bonds are $596 million compared to $583 million a year ago. The percentage of below investment grade bonds to fixed maturities is 3.2%, still near historical lows. In addition, below investment grade bonds plus bonds rated BBB are 54% of fixed maturities, the lowest ratio it has been in over 8 years. Finally, the amount of our fixed maturity portfolio subject to either negative outlook or negative watch by the rating agencies is at the lowest level since 2010. Overall, we believe we are well positioned not only to withstand a market downturn, but also to be opportunistic and purchase higher-yielding securities in such a scenario. Because we primarily invest long, a key criterion utilized in our investment process is that an issuer must have the ability to survive multiple cycles.

We have performed stress tests under multiple scenarios on both our fixed maturity portfolio and our commercial mortgages held directly and through limited partnerships. As previously noted, Tom will address the potential capital implications of these stress tests in his comments.

At the midpoint of our guidance for the full year, we expect to invest approximately $1 billion in fixed maturities at an average yield of approximately 5.6% and approximately $250 million in commercial mortgage loans and

limited partnership investments with debt-like characteristics at an average yield of 7% to 8%. As we have said before, we are pleased to see higher interest rates as this has a positive impact on operating income by driving up net investment income with no impact to our future policy benefits since they are not interest sensitive.

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

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

Thanks Frank.

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

The Parent began the year with liquid assets of $91 million. In the first quarter, the Company repurchased 1.2 million shares of Globe Life Inc. common stock for a total cost of $135 million which includes the acceleration of approximately $35 million of our annual repurchase plan to take advantage of recent lower share prices. The average share price for these purchases was $115.04, and we ended the first quarter with liquid assets of approximately $77 million. Year-to-date, we have purchased 1.4 million shares of Globe Life Inc. common stock for a total cost of $158 million, at an average share price of $114.04.

In addition to the liquid assets held by the Parent, the Parent Company generated excess cash flows during the first quarter and will continue to do so throughout 2023. The Parent Company's excess cash flow, as we define it, results primarily from the dividends received by the Parent from its subsidiaries less the interest paid on debt. We anticipate the Parent Company's excess cash flow for the full year will be approximately $420 million to $440 million and is available to return to its shareholders in the form of dividends and through share repurchases. This amount is higher than 2022, primarily due to the lower life losses incurred in 2022, which resulted in higher statutory income in 2022 as compared to 2021, thus providing higher dividends to the Parent in 2023 than were received in 2022.

So as previously noted, we had approximately $77 million of liquid assets at the end of the quarter as compared to $50 million to $60 million of liquid assets that we have historically targeted. In addition to the $77 million of liquid assets, we expect to generate $295 million to $315 million of the excess cash flows for the remainder of 2023 providing us with approximately $350 million to $370 million of assets available to the Parent for the remainder of 2023 after taking into consideration the approximately $23 million of share repurchases to date in the second quarter. We anticipate distributing approximately $60 million to $65 million to our shareholders in the form of dividend payments for the remainder of 2023.

In May, we have approximately $166 million of senior debt maturing. In April, the Company closed on $170 million 18-month term loan, the proceeds of this term loan will be used to retire the 7.875% senior notes maturing on May 15, 2023. We want to continue to monitor debt markets and our capital needs. Our current plan is to issue new long-term debt -- long-term senior debt in 2024 to pay off the term loan, reduce other short-term debt and meet long-term capital needs.

As noted on previous calls, we will use our cash as efficiently as possible. We still believe that share repurchases provide the best return or yield to our shareholders over the other alternative -- other available alternatives. Thus, we anticipate share repurchases will

continue to be the primary use of the Parent's excess cash flows after the payment of shareholder dividends. It should be noted that the cash received by the Parent from our insurance operations is after our subsidiaries have made substantial investments during the year to issue new insurance policies, expand and modernize our information technology and other operational capabilities as well as to acquire new long-duration assets to fund their future cash needs. The remaining amount is sufficient to support the targeted capital levels within our insurance operations and maintain the share repurchase program in 2023. In our earnings guidance, we anticipate between $370 million and $390 million of share repurchases will occur during the year.

With regard to capital levels at our insurance subsidiaries.

Our goal is to maintain our capital 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%. At the end of 2022, our consolidated RBC ratio was 321%. At this RBC ratio our subsidiaries had at that time, approximately $125 million of capital over the amount required to meet the low end of our consolidated RBC target of 300%.

When adjusted for first quarter realized losses of $24 million and anticipated $30 million after-tax loss related to the First Republic Bank, the RBC ratio is reduced approximately to 312% and is near the midpoint of our targeted RBC range of 300% to 320%.

We are well positioned to address any additional capital needed by our insurance subsidiaries due to potential downgrades and additional defaults that may occur due to a recession or other economic factors. As Frank mentioned, we routinely perform stress tests on our investment portfolio under multiple scenarios. Under these stress tests, we anticipate various levels of downgrades and defaults in our fixed maturity portfolio and include a provision for losses in our CML portfolio that reflects loss rates in excess of those in the Fed's severely adverse scenario. Under our scenarios, we do not anticipate that all the downgrades, defaults, and losses in our CML portfolio would occur in 2023, but rather anticipate they would emerge over an extended period, which could be as long as 24 months. Even if the losses under our internal stress test occurred before the end of the year, we estimate only between $30 million to $55 million of additional capital would be needed to maintain the low end of our consolidated RBC target of 300%. The Parent has sufficient sources of liquidity to meet this capital if it is needed to maintain our consolidated RBC ratio within our target range while continuing our dividend and share repurchase program as planned.

Now I would like to provide a few comments related to policy obligations on the first quarter results.

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

For the first quarter, the life policy obligations showed slightly favorable fluctuations when compared to our assumptions of mortality and persistency. This resulted in a small life remeasurement gain in the quarter. The Supplemental Financial Information available on our website provides exhibits, which shows the remeasurement gain or loss by distribution channel. The remeasurement gain or loss shows the current period fluctuations in experience and the impact of assumption

changes, if any, which are allocated to the current quarter as well as past periods. In the absence of assumption changes it is indicative of experienced fluctuations. The remeasurement gain for the Life segment was $2.7 million lower policy obligations, reflecting favorable fluctuations for the quarter while for the health segment resulted in $2 million higher policy obligations, reflecting unfavorable fluctuations for the quarter. In the first quarter, we had no changes to long-term assumptions.

Finally, with respect to our earnings guidance in 2023,

We are projecting net operating income per share will be in the range of $10.28 to $10.52 per diluted common share for the year ending December 31, 2023. The $10.40 midpoint of our guidance is higher than what we had indicated last quarter. The increase in our expectations for 2023 is largely due to the impact of lower share price and slightly higher life margins as a result of lower policy obligations than previously anticipated.

Consistent with our guidance on the last call and Frank's comments, for the full year 2023, we anticipate life underwriting margins to be in the range of 37% to 39% and health underwriting margins to be in the range of 28% to 30%.

Given that our assumptions were recently updated, we believe first quarter obligation ratios are indicative of emerging policy obligations over the year. We will be reviewing assumptions and anticipate making updates in the third quarter each year. At this time, we do not believe that to be significant.

Total acquisitions in the first quarter as a percent of premium is 21%, including both amortization and non-deferred acquisition costs and commissions, we expect the full year to be consistent with this 21%.

While the new GAAP accounting changes were significant, it is important to keep in mind that the changes only impact the timing of when our future profits will be recognized and that none of the changes impact our premium rates, the amount of premiums we collect and the amount of claims we ultimately pay. Furthermore, it has no impact on our statutory earnings, the statutory capital we are required to maintain for regulatory purposes or the Parent Company's excess cash flows, nor will it cause us to make any changes in the products that we offer.

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

Matt Darden- Globe Life Inc. - Co-CEO

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

Mike C. Majors - Globe Life Inc. – Executive VP and Chief Strategy Officer

Melissa, we are ready to open up the call for questions now.

QUESTIONS AND ANSWERS

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

All right thanks. So first, just a question on investment losses and their potential impact on statutory income and just your dividend capacity and share buybacks next year? Should we assume that the loss that you took on Signature Bank and the upcoming loss on First Republic will have an impact on buybacks as you are going into next year?

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

Yes, Jimmy, we would expect statutory earnings to be lower from our subsidiaries in 2023, which would impact the dividends that the Parent receives in 2024 as a result of those losses. It is too early to really tell what the impact on our buyback plans are for 2024.

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

Okay. And then on the decline in STAT income should be commensurate with the losses on the 2 banks assuming nothing else?

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

No, that is right. So, as you think about the total realized losses that we had in the first quarter, there was the 1 bank. We did have a smaller -- small bond related to a University of Georgia property that was included in the net $24 million in there as well. But that as well as Republic would go through the statutory income in 2023 on an after-tax basis. And then, Jimmy, I was just going to note that there is other -- as we think about the changes in our loss claims, so we still have a certain amount of expectations with respect to the payments of -- we have talked in the past on excess obligations, whether it be from COVID or COVID-related and obviously, as those kind of subsides. So, it is a little bit early to see. I think the initial anticipation was that those would be lower in 2023 than what they were in 2022. So, we typically have some growth in our statutory earnings as well over time. We will see how that plays out over the course of the year.

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

Okay, and then just on direct response. Obviously, it seems like the Internet business is growing, but the mailing business, should we assume that if -- unless inflation comes down, a decent amount, then there should not be much of a change in your circulation volumes and your sales activity?

Matt Darden - Globe Life Inc. - Co-CEO

Yes, you are correct. Those 2 are offsetting each other. Our -- as we have mentioned in the past, we are reducing some of our circulation in mail and we will continue to most likely do that through the remainder of 2023, because of those costs associated with the higher production cost of that channel. But we are trying to offset that, of course, with increase in Internet sales. And so that's why we have guided to essentially flat maybe a slight decline from a sales perspective for 2023.

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

Okay and then just lastly, could you comment on the recruiting environment, I would have thought with the tight labor market, the agent growth would have been stunted, but it has actually been fairly strong across the various channels recently?

Matt Darden- Globe Life Inc. - Co-CEO

Yes, as we have talked about in the past, we have been able to successfully recruit in a variety of different economic environments. And as we think about it, we really look at what are the things that we are doing because we always have good sources of recruits, and so we really

focus on how effectively can we onboard new agents. As we have mentioned that growth in the middle management count who's doing a lot of the recruiting of new agents, training them, and getting them onboarded, that is a key aspect that we are focused on growing to be able to grow that agent count. So, we are really not seeing an impact from a macroeconomic environment from an employment perspective.

And if you reflect back on, we had strong agent count growth in Family Heritage and Liberty in Q3 and Q4 of last year. That momentum is continuing on. And then as we talked about on the last call, AIL, some of the things that we have put in place right at the end of the year are showing some fruits here in the first quarter, and so we have upped our projections for the agent count growth at AIL. And in fact, across all 3 of the agencies just based on the individual things that we are putting in place in each of those divisions.

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

Thank you.

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

Hey good morning, I think you mentioned a senior debt maturity that is coming up here in May, and I think that is going to be met with the draw on the term loan. But I think there is also some commercial paper around $285 million that's coming due. So, are you expecting that to also be satisfied with the term loan draw or is that going to be met some other way?

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

We generally have commercial paper out there maturing and then issuing again. So we would expect to just reissue that commercial paper as well. And we generally will maintain that $285 million to $300 million of commercial paper out there.

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

Got it that is helpful, and then on the CML portfolio outside the limited partnerships, you mentioned there are transitional or bridge loans for the most part. And I think 5% is shown in the office bucket, but it looks like a good portion of the mixed use bucket is also related to office. So, within your stress test or your thoughts, like how are you thinking about any higher capital charges on that portfolio, either from drift in CM ratings due to potentially having to take on some of those loans as owned real estate?

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

Yes. So, when we did look at the stress test on those, we did take into consideration both the potential drift in the downgrades along with any downgrades we would have within the fixed maturity portfolio. We looked at that the same way if we did have some drift in those as well. But then we took a look at the loss rates on those that actually assumed in kind of our -- the high-end severe stress, about a 15% loss rate, which is about 2x the Fed's severely adverse scenario. I think theirs is around 6.8% or so, and so we doubled that with respect to what we included in our stress test.

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

Got it thanks and you touched on this a little bit, but the press release did not have anything related to COVID or excess mortality. I think previously, maybe you guided to around 105,000 U.S. deaths this year. Is that still the case? Has that changed? And how much of that excess mortality is embedded in the midpoint of the $10.40 EPS guidance?

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

Yes. Good question. So, we still think COVID deaths for the year will be around -- in the U.S. around 105,000. We have not changed from that estimate.

When we updated our assumptions last year, we reflected what we thought from an excess deaths' perspective from the pandemic, both from COVID and non-COVID causes. So that is embedded in our -- the midpoint of our guidance.

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

Thank you.

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

Thank you very much for the opportunity and good morning. If we could stick with the investment portfolio a bit. Can you maybe talk about occupancy rates of that office and mixed-use and then compare it to central business district versus suburban?

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

Just in general, on the broad 200...

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

I am talking about -- I am talking specifically around the office and then that 45% of the mixed uses.

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

Yes. So, on the ones that are maturing here in 2023, so we have got about $8 million of -- that are 100% office. One of those was located in Washington, D.C., one of those in New York City. And then on the mixed use, there is about a $2 million allocation to office use of that particular property. So, there is only 3 properties that make up that entire amount that is due here in 2020 or is maturing in 2023. One of those is in the process of doing renovations, they are in the process of actually extending that for another 24 months. So that will be extended into 2025.

The other one that is a 100% office. It is around -- it is a little bit different because they are actually taking it and then selling it into condo style offices. They are in the process of selling that. And as they sell those offices, it is -- they are repaying back down a portion of that goes to pay back on the loan. Given some of the current -- the sale bump from that particular property, it kind of points to actually a loan-to-value ratio of around 42%. So, it is something we are not very concerned on there. And on the mixed-use, they have actually got-- it is actually 100% leased and occupied at this point in time.

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

That is really helpful. My follow-up is on mortality. Some have talked about an early flu peak in the fourth quarter. Others have suggested that did not occur. Can you maybe talk about your seasonal experience in the quarter? Thank you.

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

Yes. Just -- I mentioned that we had a small favorable fluctuation in mortality during the quarter. So, we were pleased with kind of the overall mortality results really very consistent with our expectations and slightly positive.

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

Thank you very much, appreciate the answers.

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

Hi thank you. First question, just when you give your free cash flow guidance for the year, do you have any placeholder for credit losses in that? Or is your assumption just that if those occur, they would be borne by the excess RBC ratio in the subsidiary?

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

It is really the latter, right? We do not reflect any excess losses. And we do anticipate losses in general during the course of the year, we will have some realized gains and losses. But -- so our base case does assume some but not a significant portion. So, in general I would say any subsequent losses would be borne by our other liquidity resources and the surplus that we have in our -- the excess in our RBC ratio that we currently have.

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

Got it, which is, I guess, why with these losses, you are just comfortable it brings the RBC ratio to the midpoint of your range, but there is really no impact on your free cash flow expectations.

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

Exactly. And in addition, we -- just our liquidity resources that we have available to us if those losses did occur, we have resources available.

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

Yes Eric, remember again, from the free cash flow -- from the excess cash flow that is really, again, driven by the dividends out of our subsidiaries from last year's statutory earnings. And so, any of those losses do not affect that cash flow as any losses that we have this year will simply affect next year's cash flow.

But again, as we -- although that would be included in our stress test. And again, as we think about those stress tests we are trying to really look at what maybe could happen as we are doing a bottoms-up approach, not necessarily what we think will happen because when we look at our particular portfolio, we do

not necessarily think that we will end up and again because we have that ability to hold, especially on the fixed maturity side. So, we do not anticipate losses that would actually be occurring during the year.

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

Got it thank you, and then can you talk about the decision to use the term loan to pay off the debt maturity as opposed to issuing senior debt now? And I guess as you think of liquidity management, you will now have the term loan maturity next year to deal with. Does that change at all how you think about kind of how much liquidity you want to hold or need to hold?

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

Yes. As we were thinking about the best way to refinance the debt that was maturing. We looked at a number of options. And we just -- one of the things that we are trying to do is to look at our maturity ladder as well, so we thought it best to issue debt in 2024 to space out some of our maturities going forward.

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

Got it thank you.

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

Hi good morning, I just wanted to understand the under LDTI, given that you already made an assumption for some level of continued excess mortality, is that – is the 37% to 39% underwriting margin guidance, does that actually -- is that being negatively impacted at all by the excess mortality? Or did the assumption change that you made last year basically reflect that upfront already?

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

Yes, the assumption change last year ended up being reflected in that 37% to 39% underwriting margin so it is already embedded.

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

Got it. I guess maybe the question maybe to ask another way is, if -- how much upside would there be to that margin if the excess mortality kind of fully subsided?

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

Yes, it is probably about 1% of premium -- maybe.

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

Yes got it, then just one more. How are you thinking about your leverage capacity if we did end up in an environment where you had more credit losses, do you think you could end up just issuing additional debt and maintain the buyback at a consistent level?

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

Yes. Our debt capital ratio as of the first quarter is 22.9%. So, we have quite a bit of debt capacity over $700 million, $700 million or $800 million to be a bit below a 30% debt cap ratio, which is kind of where Moody's sets their limit. So quite a bit of debt capacity. And we'd actually expect that debt capital ratio to go down during the course of the year as well to give us even more debt capacity.

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

Thank you.

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

Good morning. Interesting, American Income agent count up 6%. Their average producing agent I think, was up 4%. And the guidance this year for sales and life is low single digit. I am kind of curious about -- you know -- your recruiting, how that is coming along? And just kind of the seasoning of these new recruits. And could we expect a really nice number next year as a result?

Matt Darden- Globe Life Inc. - Co-CEO

Yes. Probably go back in history just a little bit. As far as if you look at the increase in life sales for AIL in Q1 of last year, so Q1 of 2022. We had a 23% increase in life sales. And then in the second quarter of 2022, we had a 16% increase in life sales. So, we have got tough comparables, so to speak when you look at the first quarter and the second quarter of this year as compared to the prior year. But as we have talked about in the past, the agent count and recruiting is a leading indicator for sales yet to come. And so, what we are very pleased about is just that growth in the agent count throughout the first quarter of this year. And in fact, each week in the month of March, we were over 10,000 agents, again, in American Income. So that momentum, as those agents get up producing and as we have talked about in the past, the more experienced agents, obviously, are more effective from a sales perspective. So as those new onboarded agents get more experience, we expect that sales growth to accelerate in the last half of this year and then obviously that would carry over into 2024.

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

Very helpful. And then just staying on that topic, you mentioned -- and I did not get the exact numbers increasing the branch managers. And maybe you could talk a little bit about those initiatives within American Income. What is the delta there? And how impactful?

Matt Darden- Globe Life Inc. - Co-CEO

Sure, as far as our middle management growth in American Income, it is up 10% in the first quarter of this year. So that is what we are very pleased with. So that 10% growth in the middle management, again, helps us from a recruiting perspective as well as training and onboarding agents, and that is very good. We anticipate as far as just new agency owners, new offices being open, in American Income, still predict that for -- throughout 2023 to be in the 3 to 5 number range, so good growth there as well.

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

Excellent thanks a lot.

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

Hi good morning, just a question on the health margin that increased a little bit. Could you talk just drilling in a little bit more about what happened there?

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

Yes, we have to -- we kept the bottom end of the range the same, but we do see the potential for it to move up a little higher. We are seeing a little bit favorable experience on Family Heritage. And we feel like if that continues, the health margins could go up overall. On the UA side, we have seen a little bit of first quarter, a little bit higher claims, and I think others have seen that as well. And that is fairly consistent with the seasonality of Medicare Supplement. But we think that Family Heritage actually provides kind of an opportunity for some upside.

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

Great and it seems like all of the recruiting and sales numbers came up a little bit, which is great to see. But I guess my 1 quick question is if there is any recessionary impacts that could kind of flow through and pressure sales a little bit this year?

Matt Darden- Globe Life Inc. - Co-CEO

Generally, in the past, as we have look through different economic trends, we really have not seen that. Our sales growth is really driven by agent count growth and agent count growth is really driven by middle management growth. And so that is why you are seeing us revise up just the momentum that we are seeing in our onboarding of new agents as well as the growth in the management count across the 3 agencies is really what is driving our sales projections for the year.

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

Thank you.

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

Hey thanks for taking my follow-up call. Actually, I had a technical one. As we are thinking about stress testing, and I am really thinking about the RBC framework, but it does kind of give you credit through diversification benefit of the C risk. So, I think you guys are a pretty C2 heavy Company. I was just wondering if there is any way to think about a rule of thumb for the diversification benefit within C1 if you see any credit drift,-- if that makes sense.

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

There would be some overall, you are right, about 50% of our CMLs are in CM2. And are you looking -- maybe I misunderstood your question here on just the --

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

Yes, I am just thinking if that is really like -- sure. So, like if you think about the gross C1 charges and then you could do that math to your 300% to 320% RBC target. But then when you actually put it into the RBC formula, the square root calculation gives you some offset against those growth factors. So, I am just thinking about -- is there a rule of thumb we can use, so we are not overestimating the credit drift impact to Globe for RBC.

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

Yes, I will be honest. I am not sure that I am able to give you that what that rule of thumb would be. I mean there is definitely, as we do think about the C1 charges. We look a lot -- we think about size, diversification, and we work with that quite a bit and then trying to get the diversification across the portfolio. I will be honest,-- I do not have that -- something I have handy to try to give you that rule of thumb.

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

Okay. And just last one on LDTI. It looked like there might have been a favorable impact on retained earnings and thus, book value ex AOCI. Just wondering, is there a way to quantify that? My math was there is a few moving pieces, but I thought it was around $4.50 a share versus prior GAAP. Is that in the ballpark? Do you have that handy?

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

I did not put it in that framework, but we are definitely seeing higher retained earnings as a result of restating 2021 and 2022 earnings under LDTI. It was -- and then the traditional balance sheet change was relatively small. There is like that was about $12 million. So, we had previously guided to the LDTI would increase earnings by $105 million to $115 million; and so -- I think actually what might be helpful to you is to look in the Supplemental Financial Information, where we have restated the 2022 earnings numbers, and that will help guide you. But 2021 was about $187 million favorable over historical and 2022 was about $253 million favorable over historical. So that is adding about $428 million to retained earnings just because of the restatement of the prior historical numbers.

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

Yes, to the retained earnings as of 12/31/22 right? So—

Tom P. Kalmbach - Globe Life Inc. - Executive VP and CFO

That is right, 12/31/22.

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

That is perfect. My math was $429. So, it sounds like we are in the same ballpark. But I appreciate the follow-up.

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

And a large part of that, of course, if you are thinking about restating on those prior years, it is because we had the large fluctuations with COVID in both of those years so under LDTI that got a good chunk of that pushed out in the future years as well as then the impact from the lower amortization.

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

Thank you.

Operator

Thank you, and as we have no further questions, I would like to hand it back over to Stephen Mota for any closing remarks.

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

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