



Q1 2022 Globe Life Inc Earnings Call

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Corporate Participants

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

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

Brian Mitchell Globe Life Inc. - EVP, General Council

Conference Call Participants

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

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

Presentation

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

Thank you, good morning everyone. Joining the call today are Gary Coleman and Larry Hutchison, our Co-Chief Executive Officers, Frank Svoboda, our Chief Financial Officer, and Brian Mitchell, our General Counsel.

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our earnings release, 2021 10-K and any subsequent Forms 10-Q on file with the SEC. Some of our comments may also contain non-GAAP measures. Please see our earnings release and website for discussion of these terms and reconciliations to GAAP measures. I will now turn the call over to Gary Coleman.

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

Thank you Mike, and good morning everyone. In the first quarter, net income was \$164 million or \$1.64 per share compared to \$179 million or \$1.70 per share a year ago. Net operating income for the quarter was \$170 million or \$1.70 per share, an increase of 11% per share from a year ago. On a GAAP reported basis, return on equity was 8.5% and book value per share is \$69.16. Excluding unrealized gains and losses on fixed maturities, return on equity was 11.5% and book value per share is \$59.65, up 10% from a year ago. In our life insurance operations, premium revenue increased 7% from a year ago to \$755 million. Life underwriting margin was \$150 million, up 10% from a year ago. The increase in margin is due

primarily to increased premium. For the year, we expect life premium revenue to grow around 6% and at the midpoint of our guidance, we expect underwriting margin to grow around 23%, due primarily to an expected decline in COVID life claims.

In health insurance, premium grew 8% to \$317 million and health underwriting margin grew 10% to \$79 million. The increase in underwriting margin was due primarily to increased premium and improved claims experience. For the year, we expect health premium revenue to grow 6% to 7% and, at the midpoint of our guidance, we expect underwriting margin to grow around 5%. Administrative expenses were \$73 million for the quarter, up 10% from a year ago. As a percentage of premium, administrative expenses were 6.8% compared to 6.6% a year ago. For the full year, we expect administrative expenses to grow 10% to 11% and be around 6.9% of premium. That is due primarily to higher IT and information security costs, employee cost, a gradual increase in travel and facility costs and the addition of the Globe Life Benefits Division.

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

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

Thank you Gary. At American Income, life premiums were up 10% over the year-ago quarter to \$370 million, and life underwriting margin was up 13% to \$111 million. The higher premium is primarily due to higher sales in recent quarters. In the first quarter of 2022, net life sales were \$85 million, up 23%. The increase in net life sales is due to increased productivity, plus a gradual improvement in issue rates and some challenges in underwriting, such as staffing and speed of obtaining medical records and

other information are resolving. The average producing agent count for the first quarter was 9,385, down 5% from the year-ago quarter and down 2% from the fourth quarter. The producing agent count at the end of the first quarter was 9,543. We are confident American Income will continue to grow. The agent count was trending up the last several weeks of the quarter. We also have seen improvement in personal recruiting, which generally yields better candidates and better retention than other recruiting sources. In addition, we have made changes to the bonus structure designed to improve agency middle management growth.

At Liberty National, life premiums were up 7% over the year-ago quarter to \$81 million and life underwriting margin was up 35% to \$13 million. The increase in underwriting margin is primarily due to improved claims experience. Net life sales increased 7% to \$17 million, and net health sales were \$6 million, up 6% from the year-ago quarter due to increased agent productivity. The average producing agent count for the first quarter was 2,656, down 3% for the year-ago quarter and down 2% compared to the fourth quarter. The producing agent count of Liberty National ended the quarter at 2,687. We have introduced new training systems to help improve agent retention and updated our sales presentations to help agent productivity. We are pleased with the continued growth at Liberty National.

At Family Heritage, health premiums increased 7% over the year-ago quarter to \$90 million and health underwriting margin increased 9% to \$24 million. The increase in underwriting margin is due to increased premium and improved claims experience. Net health sales were up 19% to \$19 million due to increased agent productivity. The average producing agent count for the first quarter was 1,100, down 14% from the year-ago quarter and down 8% from the fourth quarter. The producing

agent count at the end of the quarter was 1,130. We have modified our agency compensation structure and are increasing our focus on agency middle management development to drive recruiting growth going forward. We are pleased with the record level of productivity at Family Heritage.

In our Direct to Consumer Division of Globe Life, life premiums were up 3% over the year-ago quarter to \$251 million, and life underwriting margin increased 3% to \$9 million. Net life sales were \$34 million, down 15% from the year-ago quarter. We expected this sales decline due to the 22% sales growth experienced in the first quarter of 2021. Although sales declined from the first quarter of 2021, we are still pleased with this quarter's sales results.

At United American General Agency, health premiums increased 13% over the year-ago quarter to \$133 million, and health underwriting margin increased 6% to \$20 million. Net health sales were \$13 million, flat compared to the year-ago quarter.

It is difficult to predict sales activity in this uncertain environment, but I will now provide projections based on trends we are seeing and knowledge of our business. We expect the producing agent count for each agency at the end of 2022 to be in the following ranges: American Income, a decrease of 2% to an increase of 3%; Liberty National, flat to an increase of 14%; Family Heritage, an increase of 8% to 25%. Net life sales for the full year 2022 are expected to be as follows: American Income, an increase of 9% to 17%; Liberty National, an increase of 4% to 12%; Direct to Consumer, a decrease of 13% to a decrease of 3%. Net health sales for the full year of 2022 are expected to be as follows: Liberty National, an increase of 3% to 11%; Family Heritage, an increase of 4% to 12%; and United American Individual Medicare Supplement, a decrease of 5% to an increase of 3%.

I will now turn the call back to Gary.

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

Thanks Larry. We will now turn to the investment operations. Excess investment income, which we define as net investment income less required interest on net policy liabilities and debt, was \$61 million, up 1% from a year ago. On a per share basis, reflecting the impact of our share repurchase program, excess investment income was up 5%. For the full year, we expect excess investment income to decline between 1% and 2%, but be up around 2% on a per share basis. As to investment yield, in the first quarter, we invested \$351 million in investment grade fixed maturities, primarily in the municipal and financial sectors. We invested at an average yield of 3.97%, an average rating of A and an average life of 27 years. We also invested \$118 million in limited partnerships that have debt-like characteristics. These investments are expected to produce additional yields and are in line with our conservative investment philosophy.

For the entire fixed maturity portfolio,

The first quarter yield was 5.15%, down 9 basis points from the first quarter of 2021. As of March 31, the portfolio yield was also 5.15%. Regarding the investment portfolio, invested assets are \$19.5 billion, including \$18 billion of fixed maturities at amortized cost. Of the fixed maturities, \$17.4 billion are investment grade with an average rating of A-, and below investment grade bonds were \$583 million compared to \$802 million a year ago. The percentage of below investment grade bonds to fixed maturities is 3.2%. And I would add that this is the lowest ratio has been for more than 20 years. Excluding net unrealized gains in the fixed maturity portfolio, below investment grade bonds as a percentage of equity are 10%.

Overall, the total portfolio is rated A-, same as a year ago. Bonds rated BBB are 54% of the fixed maturity portfolio. While this ratio is inline with the overall bond market, it is high relative to our peers. However, we have little or no exposure to higher risk assets such as derivatives, equities, residential mortgages, CLOs and other asset backed securities. Because we primarily invest long, a key criterion utilized in our investment process is that an issuer must have the ability to survive multiple cycles. We believe that the BBB securities that we acquire provide the best risk-adjusted, capital-adjusted returns due in large part to our ability to hold the securities to maturity regardless of fluctuations in interest rates or equity markets. I would also mention that we have no direct exposure to investments in Ukraine or Russia, and we do not expect any material impact to our investments in multinational companies that have exposure to those countries.

For the full year, at the midpoint of our guidance we expect to invest approximately \$1.1 billion in fixed maturities at an average yield of around 4.3%, and approximately \$200 million in limited partnership investments with debt-like characteristics at an average yield of around 7.7%. We are encouraged by the recent increase in interest rates and the prospect of higher interest rates in the future. Higher new money rates will have a positive impact on operating income by driving up net investment income. We are not concerned about potential unrealized losses that are interest rate driven since we do not expect to realize them. We have the intent and more importantly, the ability to hold our investments to maturity. In addition, our life products have fixed benefits that are not interest sensitive.

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

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

Thanks Gary.

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

The Parent began the year with liquid assets of \$119 million. In addition to these liquid assets, the Parent Company will generate excess cash flows in 2022. 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 Parent Company debt.

During 2022, we anticipate the Parent will generate \$350 million to \$370 million of excess cash flows. This amount of excess cash flows, which again is before the payment of dividends to shareholders, is lower than the \$450 million received in 2021, primarily due to higher COVID-life losses and the nearly 15% growth in our exclusive agency sales in 2021, both of which result in lower statutory income in 2021, and thus lower cash flows to the Parent in 2022 than were received in 2021. Obviously, while an increase in sales creates a drag to the Parent's cash flows in the short-term, the higher sales will result in higher operating cash flows in the future. Including the excess cash flows and the \$119 million of assets on hand at the beginning of the year, we currently expect to have around \$470 million to \$490 million of assets available to the Parent during the year, out of which we anticipate distributing a little over \$80 million to our shareholders in the form of dividend payments.

In the first quarter, the Company repurchased 880,000 shares of Globe Life Inc. common stock at a total cost of \$88.6 million and at an average share price of \$100.70. Year to date, we have repurchased 1,097,000 shares for approximately \$110 million at an average price

of \$100.76. We also made a \$10 million capital contribution to our insurance subsidiaries during the first quarter. After these payments, we anticipate the Parent will have \$270 million to \$290 million of assets available for the remainder of the year.

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

As discussed on prior calls, we have historically targeted \$50 million to \$60 million of liquid assets to be held at the Parent. We will continue to evaluate the potential impact of the pandemic on our capital needs and should there be excess liquidity, we anticipate the Company will return such excess to the shareholders in 2022. In our earnings guidance, we anticipate between \$400 million and \$410 million will be returned to shareholders in 2022, including approximately \$320 million to \$330 million through share repurchases.

Now with regard to our capital levels at our insurance subsidiaries.

Our goal is to maintain our capital levels necessary to support our current ratings. Globe Life targets a consolidated Company Action Level RBC ratio in the range of 300% to 320%. For 2021, our consolidated RBC ratio was 315%. At this RBC ratio, our subsidiaries have

approximately \$85 million of capital over the amount required at the low end of our consolidated RBC target of 300%.

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

In the first quarter, the Company incurred approximately \$46 million of COVID life claims, equal to 6.1% of our life premium. The claims incurred in the quarter were approximately \$17 million higher than anticipated due to higher levels of COVID deaths than expected, partially offset by a lower average cost per 10,000 U.S. deaths.

The Center for Disease Control and Prevention, or CDC, reported that approximately 155,000 U.S. deaths occurred due to COVID in the first quarter, the highest quarter of COVID deaths in the U.S. since the first quarter of 2021. This was substantially higher than the 85,000 deaths we anticipated based on projections from the IHME. At the time of our last call, we utilized IHME's projection of 65,000 first quarter U.S. deaths and added a provision for higher deaths in January as reported by the CDC, but that were not reflected in IHME's projection. IHME projection anticipate a significant drop-off in death starting in mid-February. Obviously, the decline in death did not occur as quickly as anticipated, especially during the latter half of the quarter.

With respect to our average cost per 10,000 U.S. deaths, based on data we currently have available, we estimate COVID losses on deaths in the first quarter were at a rate of \$3 million per 10,000 U.S. deaths, which is at the low end of the range previously provided. This reflects an increase in the average age of COVID deaths and a decrease in the percentage of those deaths occurring in the South.

The first quarter COVID life claims included approximately \$25 million in claims

incurred in our Direct to Consumer Division or 10% of its first quarter premium income, approximately \$4 million at Liberty National or 5.5% of its premium for the quarter, and approximately \$15 million at American Income or 4% of its first quarter premium. We continue to experience relatively low levels of COVID claims on policies sold since the start of the pandemic. Approximately 2/3 of COVID claim counts come from policies issued more than 10 years ago. For business issued since March of 2020, we paid 624 COVID life claims with a total amount paid of \$9.3 million. The 624 policies with COVID claims comprised only 0.01% of the approximately 4 million policies issued by Globe Life during that time. These levels are not out of line with our expectations.

As noted on past calls, in addition to COVID losses, we continue to experience higher life policy obligations from lower policy lapses and non-COVID causes of death. The increase from non-COVID causes of death are primarily medical related, including deaths due to lung ailments, heart and circulatory issues and neurological disorders. The losses we are seeing continue to be elevated over 2019 levels due at least in part, we believe, to the pandemic and the existence of either delayed or unavailable health care and potentially side effects of having contracted COVID previously.

In the first quarter, the life policy obligations relating to the non-COVID causes of death and favorable lapses were approximately \$7 million higher than expected, primarily due to higher non-COVID deaths in our Direct to Consumer Division than we anticipated. For the quarter, we incurred approximately \$22 million in excess life policy obligations, of which approximately \$15 million relates to non-COVID life claims. For the full year, we anticipate that our excess life policy obligations will now be approximately \$64 million or 2.1% of our total life premium, 2/3 of which are related to higher

non-COVID causes of death. This amount is approximately \$11 million greater than we previously anticipated.

With respect to our earnings guidance for 2022.

We are projecting net operating income per share will be in the range of \$7.85 to \$8.25 for the year ended December 31, 2022. The \$8.05 midpoint is lower than the midpoint of our previous guidance of \$8.25, primarily due to higher COVID life policy obligations related to higher expected U.S. deaths during the year. We continue to evaluate data available from multiple sources, including the IHME and CDC, to estimate total U.S. deaths due to COVID and to estimate the impact of those deaths on our in-force book.

At the midpoint of our guidance, we estimate we will incur approximately \$71 million of COVID life claims, assuming approximately 245,000 COVID deaths in the U.S. This is an increase of \$21 million over our prior estimate. This estimate assumes daily deaths will diminish somewhat from recent levels, but remain in an endemic state throughout the year. With respect to our cost per 10,000 deaths, we now estimate we will incur COVID life claims at the rate of \$2.5 million to \$3.5 million for 10,000 U.S. COVID deaths for the full year, or approximately \$2.8 million per 10,000 U.S. deaths over the final 3 quarters of the year.

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

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

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

Questions and Answers

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

Hi, good morning. So I had a couple of questions. First, if you could talk about the decline in the agent count and I guess it's multiple factors, but to what extent is it difficulty finding new agents in this labor market versus just the sort of departures of people that you have hired over the past couple of years for other jobs? And then how do you think this implies for sales? Do you think this is something that will pressure sales as you get into late this year and into next year?

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

Jimmy, I will address the first question first. I am not sure of the second part. It is true that recruiting has been challenging because there are so many work opportunities. I would also remind everyone that there's typically a decline in agent count sequentially from the fourth quarter to the first quarter because of seasonality of the holidays that affect American Income and Family Heritage. You also have open enrollments at Liberty National adjacent to the holidays. People are focused on open enrollments during that period. I do believe we will continue to see agency growth because our agencies sale to the underserved middle-income market. Also, there is actually no shortage of underemployed workers looking for a better opportunity. Historically, we have been able to grow the agencies regardless of economic conditions.

For example, during an economic downturn and high unemployment of 2008 to 2010, American Income had very strong agency

growth. In 2018 and 2019, the U.S. experienced record low unemployment, American Income, Liberty National, Family Heritage had strong growth. Our long-term ability to grow the agencies, Jimmy really depends on growing middle management, expanding new office openings and providing additional sales tools to our agents. During 2022, we anticipate opening new offices and increasing the number of middle managers in all 3 agencies. We are also providing additional sales technology to support our agents.

Jimmy, could you repeat the sales question? I do not think I heard the sales question.

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

It was just that like, obviously, to the extent that you are losing people who were recently hired then you do not lose a lot of production from them because they had not ramped up. But how do you think like -- does the decline in the agent count, both people leaving who are already agents and difficulty in hiring new agents, does that make you less optimistic about sales later this year and into next year?

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

Well, it does not make me less optimistic. You know new agents are less productive than veteran agents, as you look across the 3 agencies, the increases in sales are partially explained by the increase in productivity. As an example, the largest decline is in Family Heritage, and we had a 16% increase in the percentage of agency submitting business, also a 22% increase in the average premium written per agent. So with that level of

productivity, that comes from the veteran agents and existing agents.

At American Income, in the first quarter, we saw personal recruits increase about 15% versus the first quarter of 2021. That is important because personal recruits are -- they stay twice as long and are twice as productive as the recruits from other sources. So I have confidence even though the agent increase will be slower this year, we will still have the sales within the range that I gave during the script.

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

Okay. And then any comments on what you are seeing in terms of non-COVID mortality? Because it seems like claims for a number of life companies have been elevated even beyond COVID because of other health issues or related -- issues related to potentially COVID, but not direct COVID claims?

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

Yes, Jimmy, I mean, that is really consistent with what we are seeing right now as well, and that we are seeing especially in the first quarter, we really did see elevated levels at -- especially in Direct to Consumer, but also saw it across the distributions and really across all the -- several different causes of death. But primarily, as I mentioned, in the heart and circulatory lung, some of the neurological disorder type areas. We really do attribute that to the various side effects of COVID and whether it just be not getting care when they needed it throughout 2021 or side effects of having had it and a decline in health for the survivors of COVID.

As we are looking at -- in 2022, looking back, we saw some early trends back in

December that kind of led us to believe that we would start to see a decrease in those claims in 2022, and so we had originally anticipated those kind of trending back to more normal levels over the course of the year. In the first quarter, it really was not worse than what we have seen in the past. It was a little bit elevated, but not substantially. So -- but it was just greater than what we had anticipated. And we do think over time that these -- again, it kind of will revert back to normal levels, but probably a little bit more slowly than what we had originally anticipated.

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

And then just lastly, on the accounting changes, do you have any sort of initial commentary on what you expect the impact to be, both in terms of the balance sheet and on the income statement?

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

Yes. No updates from what we had talked about in the last quarter. We do anticipate giving some more quantitative disclosure here after the end of the second quarter. We are still in the process of finalizing, if you will, our models, doing the testing, making sure our controls are in place, looking at the various aspects of validating our numbers, if you will.

So as I said on the last call, we do anticipate a favorable impact from an operating earnings perspective, primarily through reduced -- the changes being made on the amortization side of the balance sheet, -- or of the income statement. And then with respect to the equity on the AOCI, there will be some decrease there clearly from just a change in the interest rate and the impact that, that entails.

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

Thank you.

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

Hi Good morning. I thought I would go back to the producing agent count numbers. So the new targets for American Income are negative 2% to positive 3%. That is versus 3% to 8% at your last quarterly guidance. Liberty National, 0% to 14% is versus 3% to 18% last time. And then Family Heritage, 8% to 25% versus 12% to 30% last time. So I guess the question is, was it the tight labor market that is primarily driving this change in guidance? Is there something else? What are some of the key drivers of this new guidance?

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

I think for American Income one of the key drivers, is just the amount of agent growth we had in 2020 and 2021, which, you will recall, we had a greater than 20% agency growth. Agency growth is always a stair-step process. So I would not expect the same level of agency growth in 2022 than we had in 2020 through 2021. I think the uncertainty really around the other 2 agencies has to do with COVID. As you will recall, Liberty National really sales the majority of the sales through worksite presentations, and those take place at the place of business and those appointments have been more difficult to set during the pandemic. If COVID continues to decline, the agent count growth of Liberty National will be at the upper end of the range because we were able to recruit

to an at home or at business sale. If COVID does not decline, I expect our guidance to be at the lower end of the range.

Likewise, at Family Heritage, they do not sell life insurance with leads. They sell in the home -- physically in the home or at the business, and those appointments were very difficult to set during the pandemic. So again, if COVID continues to decline, the agent count growth at Family Heritage will be at the upper end of the range, because we are better able to recruit to an at home or at business sale. If COVID does not decline, I'd expect Family Heritage to be at the lower end of the range.

What's encouraging, I think is the sales levels we have had in the first quarter with a 19% sales growth at Family Heritage. That is really easy to recruit to, because the agents are having such success. Likewise, we saw worksite sales increase 10% for the quarter -- first quarter of '22 versus '21, so that is easier to recruit to when there are more prospects in the worksite market.

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

That makes a lot of sense, particularly Liberty and Family Heritage. But I guess again, on American Income, you knew about the agency growth that was so strong in '20 and '21, and yet you gave the guidance of 3% to 8%. Now it's just -- it is off a bit sharply. Anything else, Larry, that might -- that changed your thinking in the course of 2 or 3 months?

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

Well, not in 2 or 3 months. So I would remind you, at American Income we had a large numbers of offices opened in 2018 and 2019, and that recruited -- that resulted in a higher agency growth with those new offices. During COVID, it was more difficult to open those new offices, and so we have lower new office openings in 2022 than we had in '21 and '22 -- excuse me, '21 and '22, versus '18 and '19.

And again, I would say that when you look at American Income with approximately 10,000 agents, a 3% increase is 300 agents. That is a large number of agents to bring in and train and enter your systems. So again, referring back to the stair-step process, we always have lower agent growth following the faster growth. If you go back to '17 and '18, you would see that at American Income and Family Heritage, we had almost 0 agent growth in those 2 years. And then in '19 and '20, we had the accelerated agent growth. So this follows a pattern that historically we have seen in all 3 agencies.

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

I see, okay. And then you talked a little bit about going forward, building out the middle management and increasing the offices further as we go through '22. Could you put any numbers around it or any further color?

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

For the year for all 3 agencies, we expect to increase middle management from 5% to 8%. That is so important because middle management really drives most of the recruiting in all 3 agencies. So the lack of agent growth at

Family Heritage -- particularly middle management growth during 2022 -- as we see the agent growth accelerate, more people will take that opportunity and move into middle management. Again, we have had such rapid agent growth at American Income. I think the 5% to 8% growth is certainly a reasonable number to assume -- a reasonable range to assume for 2022. And Family Heritage -- excuse me, at Liberty National, if we see the worksite sales increase, we will see that same increase in middle management.

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

Got it. And I guess, lastly, you were just touching on how sort of those elevated sort of non-COVID, but COVID-related claims reverting back over time. And we have heard that from some of the big U.S. life reinsurers as well. Anything further there? Is it just -- once COVID subsides, all these kind of situations where people are not getting medical checkups, et cetera, that will just kind of subside with COVID? Anything else that gives you confidence that will revert over time?

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

I think, Andrew, that, that is largely when you think about getting back to -- access to health care and generally, people feeling -- getting more comfortable with getting out of their homes and getting back into the doctor's offices and getting the care that they need to take care of their conditions. I think as time goes on, obviously, we will start to see -- get more experience in the numbers and be able to get a little better sense of that. I think at this point in time, it is where -- if you look at this elevated

level and you kind of see the situation and it is more from the belief that over time that as we get past the COVID pandemic and just again, uses of health care gets back to normal levels, that is where we would anticipate that it would've -- that the non-COVID deaths would get back into kind of normal levels as well, at least until we start to see something in the numbers that would indicate otherwise.

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

Yes, that seems very encouraging for '23 -- 2023 and '24. Anyway, thank you very much for answering the questions.

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

Sure. Thanks.

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

Hi, thank you. It looks like the lapses ticked up a little bit from where they have been running in the life business. So I was just wondering, are you starting to see persistency begin to normalize? And is that something you would expect to continue?

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

Erik, I think that is true of Liberty National. It appears that we are getting back more towards the pre-pandemic level of lapses. On the Direct to Consumer side, we're -- the lapse rates were a little bit higher. First year lapse rates were a little bit higher than it had

been in late 2020 into 2021. But it along with the renewal lapse rates are still favorable compared to where we were pre-pandemic.

American Income, I think we have had a fluctuation there this quarter. The first-year lapse rate was a little over 10%, which is normally you know less than 9%. I think we are - I think that will settle down as we go forward, and I think like Direct to Consumer, the rates there at American Income will be a little bit higher than what we experienced in '21, but still favorable versus the pre-pandemic levels.

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

Got it thank you, and then can you remind me -- I think one of the other factors driving the excess life claims that you are assuming is better persistency. Can you just kind of provide a reminder of what you are assuming there and how that works through?

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

Yes. About 1/3 -- I had mentioned in the opening comments that for the year, we have total excess policy obligations we are estimating at around \$64 million and about 1/3 of that is due to the higher lapses. Just over time, I mean we are bringing that down, if you will, over the course of 2022. And as Gary indicated, we still anticipate having favorable persistency versus pre-pandemic levels, but we are kind of grading that back over time. But by the end of the year, still anticipating some favorable persistency and then that favorable persistency does result in some higher policy obligations than normal. So over time again, we are kind of just grading that down slowly over the course of the year.

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

Thanks and if I could just sneak one more in. On your excess investment income, I think it was up year-over-year this quarter, and your guidance is still for it to decline on kind of a dollar basis. Was there anything unusual in the investment income this quarter?

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

Yes, Erik. We had our -- the income from the limited partnerships that we have was about \$2.5 million higher than expected, and I think that is a little bit of a timing thing. So the investment income was -- that investment income was weighted heavier towards the first quarter, than it will be later in the year.

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

Got it thank you.

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

Hi good morning. On the \$15 million of non-COVID excess mortality claims in the quarter, can you give that by division? I guess I am curious if it was more concentrated in Direct to Consumer like the direct COVID claims were?

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

Yes, the total excess obligations, I think indicated were about \$7 million higher for...

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

I was looking for the \$15 million of the - I think you said, there was \$22 million of indirect policy obligations and \$15 million was from mortality.

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

Yes. Okay. Yes. So about \$10 million of that was from -- related to DTC and about \$2 million each from -- I guess, about \$11 million DTC and \$2 million each from AIL and LNL.

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

Got it. I guess is there any -- as you dug into the data, is there -- are there any conclusions as to why you think you are seeing more concentration in both direct and indirect COVID claims in Direct to Consumer relative to the agent-driven divisions?

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

You know I think just in general, as we look at it, remember that Direct to Consumer is just a higher mortality business. So just in the normal course of time, their policy obligation make up about 54%, 55% of their total premium. Whereas for both Liberty and American Income, they are in that 30%, 35% range kind of on a pre-pandemic level. So just from a proportion perspective, DTC is just -- has just that higher mortality.

Other than just being part of that, there just tends to be a broader swath of the U.S. population, if you will, and having just tend to --

I am going to say, just be a little less healthy group of policyholders just because we do less underwriting. Remember that you have simplified underwriting in Direct to Consumer that -- we do not really see anything else in the numbers, if you will, to specifically point to anything specific for DTC.

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

Thanks, and then when I look at your -- if I take your life underwriting income in both 2021 and in the first quarter, and if I add back the direct and indirect COVID and mortality impacts that you cited. It looks like the margin would have been about 29% of premium if you add everything back, which is higher than it was running pre-pandemic, which I think was more in the 27% to 28% range. Is 29% more indicative of what you would expect once the pandemic fully ends? Or are there some other offsets?

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

Yes, Ryan, I think one additional piece there is that we are seeing improved or lower amortization of deferred acquisition costs because of the improved persistency. And so that is a piece that gets you from the 28% -- what we would say, from the normal 28% to the 29% that you came up with --

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

Okay understood, thank you.

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

Thank you very much, can you maybe talk about how inflation changes the dynamics for distribution of products in your targeted demographic? Maybe asked a bit differently, how do you think about your sales persistency holding up in a soft economic environment driven by inflation?

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

I will first talk about the impact of inflation. It is really different in each distribution for the agency channels. We expect little impact on the level of sales due to inflation. And remember, we sell on a needs basis. Sales are favorably impacted if the customers need a larger face amount and should a client need to purchase additional coverage a low monthly premium is associated with the products for sale resulting in a slight increase in premiums. Our premiums are designed to comprise only a small percentage of the agent's budget. For Direct to Consumer inflation could be a negative for the mail and insert channels. Inflation increases, overall cost of insert mail media due to postal rate and paper cost increases. As such, we will probably need to adjust mail volumes to maintain profit margins. However, we can expand the use of the internet and e-mail channels to offset those decreases.

For Medicare Supplement at United American, inflation can lead to higher medical trends. This higher trend will be offset with rate increases over time to achieve the lifetime loss ratios. To the extent medical trends are higher than assumed, profit margins may actually improve as the fixed dollar acquisition costs become a lower percentage of premium.

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

That is very helpful, and then maybe on the investment portfolio as a follow-up. The rate environment could change a lot. Is this change maybe interest in floating rate securities versus more -- versus fixed at all? Or maybe talk about how rates change your view on investments?

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

Well, John, as you know, we primarily invest long, and that is -- the reason we do that is because our liabilities are long. Yes, we have seen -- especially in treasury rates, we have seen in the quarter -- from the beginning of the quarter to the end of the quarter the curve flattening. However, when you take into consideration spreads still the longer -- the 25-year bonds that we are buying, provide -- still provided a substantial yield enhancement over the shorter bonds. So -- but we do not -- we are trying to look for the best opportunities we do not rule out investing short. There are especially times that we want to improve diversification or quality or whatever we do go shorter. And in fact, we are going short to a certain extent when you talk about the alternatives that we are investing in. And as I mentioned we're going to invest approximately \$200 million in 2022 in these limited partnerships that are credit -- structured credit type of arrangements.

Yes, they are shorter, and it still gives us a good yield. But for the most part, when we are investing for assets to support our policy liabilities, we need to invest long and where we stand today, as I mentioned, 15% will go into the shorter investments. But that means 85% are still going to be in the longer investments.

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

Thank you very much for answering.
Best of luck in the quarter ahead.

Operator

And there are no further questions. I'd like to turn it back to Mr. Mike Majors for any additional or closing comments.

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

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