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Q3, 2021 Globe Life Inc. Earnings Call

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

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

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

Thank you, good morning everyone. Joining the call today are Gary Coleman and Larry Hutchison, our Co-Chief Executive Officers, Frank Svoboda, our Chief Financial Officer, and Brian Mitchell, our General Counsel. Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only.

Accordingly, please refer to our earnings release, 2020 10-K and any subsequent forms 10-Q on file with the SEC. Some of our comments may also contain non-GAAP measures. Please see our earnings release and website for discussion of these terms and reconciliations to GAAP measures.

I will now turn the call over to Gary Coleman.

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

Thank you Mike, and good morning everyone. In the third quarter, net income was $189 million or $1.84 per share compared to $189 million or $1.76 per share a year ago. Net operating income for the quarter was $182 million or $1.78 per share, an increase of 2% per share from a year ago.

On a GAAP reported basis, return on equity was 8.9% and book value per share is $84.52. Excluding unrealized gains and losses on fixed maturities, return on equity was 12.5% and book value per share is $57.11, up 9% from a year ago. In our life insurance operations, as we have noted before, we have seen improved persistency since the onset of the pandemic. In

the third quarter, life premium revenue increased 8% from a year ago to $729 million.

Life underwriting margin was $162 million, down 5% from a year ago. The decline in margin is due primarily to higher-than-expected COVID-related claims resulting from the impact of the Delta variant. Frank will discuss this further in his comments.

For the full year, we expect life premium revenue to grow 8% to 9% and underwriting margin to decline about 5%. In health insurance, premium revenue grew 4% over the year-ago quarter to $299 million, and health underwriting margin was up 6% to $77 million. The increase in underwriting margin was due primarily to improved claims experience and increased premium. For the year, we expect health premium revenue to grow 5% to 6% and underwriting margin to grow around 11%.

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

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

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

Thank you Gary. I am very pleased with the overall agency results. Looking forward, the addition of virtual recruiting and selling opportunities will continue to enhance our ability to grow. I will now discuss current trends at each distribution channel. At American Income, life premiums were up 12% over the year-ago quarter to $356 million, and life underwriting margin was up 11% to $111 million. The higher underwriting margin is primarily due to improved persistency and higher sales in recent quarters. In the third quarter of 2021, net life sales were $74 million, up 9%. The increase in net life sales is primarily due to increased agent count. The average producing agent count for the third quarter was 9,959, up 7% from the year-ago quarter, but down 5% from the second quarter.

The producing agent count at the end of the third quarter was 9,800. I have often mentioned the stair-step nature of our agency growth. It is normal to see a decline in agent counts after periods of high growth, as attrition occurs and more emphasis is placed on training new agents. I remain optimistic regarding our ability to grow this agency over the long term, regardless of economic conditions.

At Liberty National, life premiums were up 6% over the year-ago quarter to $79 million, and life underwriting margin was up 10% to $16 million. The increase in underwriting margin is due primarily to higher sales in recent quarters and lower policy obligations. Net life sales increased 33% to $18 million and net health sales were $7 million, up 19% from the year-ago quarter due primarily to increased agent count and increased agent productivity.

The average producing agent count for the third quarter was 2,706, up 6% from the year-ago quarter, but flat compared to the second quarter. The producing agent count at Liberty National ended the quarter at 2,700. We are pleased with Liberty National's continued sales growth.

At Family Heritage, health premiums increased 8% over the year-ago quarter to $87 million, and health underwriting margin

increased 9% to $24 million. The increase in underwriting margin is due primarily to improved claims experience and improved persistency.

Net health sales were down 1% to $19 million due to a decreased agent count. The average producing agent count for the third quarter was 1,152, down 16% from the year-ago quarter and down 6% from the second quarter. The producing agent count at the end of the quarter was 1,192. The focus will continue to be on recruiting for the remainder of the year.

In our Direct to Consumer Division at Globe Life, life premiums were up 6% over the year-ago quarter to $241 million, while life underwriting margin declined 65% to $12 million. Frank will further discuss the decline in underwriting margin in his comments. Net life sales were $33 million, down 25% from the year-ago quarter. We expected this sales decline. As you recall, there was a 50% increase in sales in the third quarter of 2020. While there is a decline in full year sales growth compared to 2020, the current full year 2021 sales guidance is an increase of 19% over 2019.

At United American General Agency, health premiums increased 3% over the year-ago quarter to $118 million, while health underwriting margin declined 3% to $18 million. Net health sales were $12 million, down 8% compared to the year-ago quarter. The decline is due primarily to a more competitive market. We will continue to protect our margins and pursue this market in an opportunistic manner. 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 the full year for each agency at the end of 2021 to be in the following ranges: American Income, flat to an increase of 2%. Liberty National, a decrease of 3% to an increase of 1%. Family Heritage, a decrease of 14% to 18%. Net life sales are expected to be as follows: American Income for the full year 2021, an increase of 12% to 16%. For the full year 2022, an increase of 2% to 10%. Liberty National for the full year 2021, an increase of 29% to 33%. For the full year 2022, an increase of 5% to 13%.

Direct to Consumer for the full year 2021, a decrease of 6% to 12%. For the full year 2022, a decrease of 2% to an increase of 8%. Net health sales are expected to be as follows: Liberty National for the full year 2021, an increase of 13% to 17%. For the full year 2022, an increase of 7% to 15%. Family Heritage for the full year 2021, an increase of 1% to 5%. For the full year 2022, an increase of 3% to 11%.

United American Individual Medicare Supplement for the full year 2021, a decrease of 6% to flat. For the full year 2022, a decrease of 1% to an increase of 7%. 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 our investment operations.

Excess investment income, which we define as net investment income less required interest on net policy obligations and debt was $59 million, flat compared to a year ago. On a per share basis, reflecting the impact of our share repurchase program, excess investment income grew 5%. For the full year, we expect excess investment income to decline approximately 2%, but be up 1% to 2% on a per share basis.

In the third quarter, we invested $325 million in investment grade fixed maturities, primarily in the municipal, industrial, and financial sectors. We invested at an average yield

of 3.19%, an average rating of A+ and an average life of 29 years. We also invested $56 million in limited partnerships that have debt-like characteristics. These investments are expected to produce incremental additional yield and are in line with our conservative investment philosophy.

For the entire fixed maturity portfolio, the third quarter yield was 5.21%, down 10 basis points from the third quarter of 2020. As of September 30, the fixed maturity portfolio yield was 5.20%. Invested assets were $19 billion, including $17.6 billion of fixed maturities at amortized cost. Of the fixed maturities, $16.8 billion are investment grade with an average rating of A-, and below investment grade bonds are $782 million compared to $840 million a year ago.

The percentage of below investment grade bonds to fixed maturities is 4.4%, and excluding net unrealized gains in the fixed maturity portfolio below investment grade bonds as a percentage of equity are 13%. Overall, the total portfolio is rated A-, compared to BBB+ a year ago. Bonds rated BBB are 54% of the fixed maturity portfolio. While this ratio is in line with the overall bond market, it is high relative to our peers. However, we have little or no exposure to higher-risk assets such as derivatives, equities, residential mortgages, CLOs, and other asset-backed securities. Because we invest long, a key criterion utilized in our investment process is that an issuer has the ability to survive multiple cycles.

We believe that the BBB securities that we acquire provide the best risk-adjusted, capital-adjusted returns due in large part to our unique ability to hold securities to maturity regardless of fluctuations in interest rates or equity markets. Low interest rates continue to pressure investment income. At the midpoint of our guidance, we are assuming an average new money rate for fixed maturities of around 3.45% for the fourth quarter and a weighted average rate of around 3.9% in 2022.

At these new money rates, we expect the annual yield on the fixed maturity portfolio to be around 5.21% for the full year 2021 and 5.11% in 2022. Fortunately, the impact of lower new money rates on our investment income is somewhat limited as we expect to have average turnover of less than 2% per year in our investment portfolio over the next 5 years. While we would like to see higher interest rates going forward, Globe Life can thrive on a lower for longer interest rate environment.

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

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

Thanks Gary.

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

In the third quarter, the Company repurchased 1 million shares of Globe Life Inc. common stock at a total cost of $96.5 million at an average share price of $94.13.

For the full year, we have utilized approximately $310 million of cash to purchase 3.2 million shares at an average price of $97.17. The Parent ended the third quarter with liquid assets of approximately $280 million, down from $545 million in the prior quarter. The decrease is primarily due to the redemption of the $300 million outstanding principal amount of our 6 and 1/8 percent Junior Subordinated Debentures due 2056. In addition to these liquid assets, the Parent Company will generate excess cash flow during the remainder of 2021.

The Parent Company's excess cash flow, as we define it, results primarily from the dividends received by the Parent from its subsidiaries, less the interest paid on debt and the dividends paid to Globe Life's shareholders. We anticipate the Parent Company's excess cash flow for the full year to be approximately $360 million, of which, approximately $25 million will be generated in the fourth quarter of 2021.

Taking into account the liquid assets of $280 million at the end of the third quarter, plus $25 million of excess cash flows expected to be generated in the fourth quarter, we will have approximately $305 million of assets available to the Parent for the remainder of the year. As I will discuss in more detail in just a few moments, this amount is sufficient to support the targeted capital levels within our insurance operations and maintain the share repurchase program for the remainder of the year.

As noted on previous calls, we will use our cash as efficiently as possible. We still believe that share 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. At this time, the midpoint of our earnings guidance reflects $90 million to $100 million of share repurchases in the fourth quarter. In addition, we anticipate using approximately $90 million to $100 million of the Parent assets to maintain our insurance subsidiaries RBC levels.

Thus, taking into account the expected $305 million of assets available to the holding Company less the $180 million to $200 million expected to be used for buybacks and subsidiary capital needs, we expect to have in the range of $105 million to $125 million of available assets at the holding Company at the end of the year. This is approximately $55 million to $75 million in excess of the $50 million of liquid assets we have historically targeted at the holding Company.

We will continue to evaluate the potential impact of the pandemic on our capital needs. However, we expect that most, if not all, of this excess liquidity will be returned to the shareholders in 2022, absent other more favorable alternatives.

Now regarding capital levels at our insurance subsidiaries.

Our goal is to maintain our capital at levels necessary to support our current ratings. As noted on previous calls, Globe Life targets a Consolidated Company Action Level RBC Ratio in the range of 300% to 320%.

At December 31, 2020, our consolidated RBC ratio was 309%. At this RBC ratio, our insurance subsidiaries have approximately $50 million of capital over the amount required at the low end of our consolidated RBC target of 300%. This excess capital, along with the $305 million of liquid assets that we expect to be available at the Parent, provides sufficient capital to fund future capital needs. The drivers of additional capital needs in 2021 primarily relate to investment downgrades, changes in the newly adopted NAIC RBC C-1 investment factors, growth of our business and higher COVID claims.

With respect to downgrades, our year to date downgrades have totaled $291 million, but have been offset by $224 million in upgrades, including a net upgrade of $110 million in the third quarter. At this time, in our base scenario, we are not expecting any significant NAIC one notch net downgrades or material credit losses in the fourth quarter, consistent with the favorable outlook we continue to see in our portfolio.

In August, the NAIC fully adopted the new and expanded C-1 investment factors. The adoption of these factors will result in higher amounts of required capital for our portfolio. In addition, higher sales, growth of our in-force business and higher COVID claims also increased

our capital needs. As I mentioned previously, we anticipate $90 million to $100 million will be needed at our insurance subsidiaries to maintain the midpoint of our consolidated RBC target for 2021, including the estimated $50 million of capital relating to the higher C-1 charges. As previously noted, the Parent Company has ample liquidity to cover this additional capital.

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

Through September 30, the Company has incurred approximately $82 million of COVID life claims, including $33 million in the third quarter on approximately 95,000 deaths reported by the CDC.

The claims incurred in the third quarter were significantly higher than anticipated primarily due to the significant impact the Delta variant has had on infection rates and death totals, especially in southern states, and in younger ages than earlier in the pandemic. Our third quarter COVID life claims include approximately $17 million incurred in our Direct to Consumer Division, or approximately 7.1% of its third quarter premium income, approximately $8.4 million of COVID life claims occurred at Liberty National, 10.6% of its premium for the quarter, and approximately $6.7 million at American Income, or 1.9% of its third quarter premium.

As indicated on prior calls, we estimated that we would incur COVID life claims of roughly $2 million for every 10,000 U.S. deaths. While this was a good benchmark for our claims incurred through June 30, the spread of the COVID Delta variant has impacted our in-force book of business differently than the effect of COVID in prior quarters. In the third quarter, COVID deaths shifted to a younger population where Globe Life has higher risk exposure, both in terms of number of policies and average face amount.

In addition, we are also seeing a greater concentration of COVID deaths in the southern region of the United States where a greater proportion of our in-force policies reside. Given our experience to date, and available information on the COVID deaths from the CDC and other sources, including the observed changes to the geography of the pandemic and the ages of people dying from COVID, we now estimate that our incurred losses in the second half of this year will be approximately $3.5 million for every 10,000 U.S. deaths.

While continued changes in the mix of deaths in terms of geography or the age of those impacted by COVID will impact this estimate going forward, we anticipate the level of losses per U.S. deaths to range from $3 million to $4 million for every 10,000 U.S. deaths in 2022. At the midpoint of our guidance for 2022, we have assumed $3.5 million of incurred losses per 10,000 deaths.

To date, we have experienced low levels of COVID claims on policies sold since the start of the pandemic. In fact, over 2/3 of our claims through September 30 related to policies issued before 2010. Of the nearly 3 million policies sold since March 1, 2020, only 231 COVID claims have been paid through the end of the third quarter, totaling approximately $2.8 million in death benefits.

In addition to COVID losses, we continue to experience higher policy obligations from non-COVID causes of death and lower policy lapses. The increase from non-COVID causes of death are primarily medical related, including heart and circulatory, non-lung cancer, and neurological disorders. The losses we are seeing are elevated over 2019 levels, due at least in part we believe to the pandemic and the existence of either delayed or unavailable healthcare.

In the third quarter, the policy obligations relating to the non-COVID causes of death and lapses were just slightly more than we anticipated, primarily due to higher reserves associated with better persistency at our Direct to Consumer channel. Higher-than-expected non-COVID claims at Direct to Consumer during the quarter were mostly offset by lower-than-expected non-COVID claims experience at Liberty National.

For the full year, we anticipated on our last call that we would incur approximately $70 million in excess policy obligations in 2021, with about $42 million of those related to higher reserves due to lower policy lapses in 2020 and 2021. We now anticipate that our total excess obligations will be approximately $78 million, of which approximately $48 million relate to higher reserves from lower lapses.

Finally, with respect to our earnings guidance for 2021 and 2022.

After taking into account various estimates of COVID deaths in the U.S. in the fourth quarter, we estimate fourth quarter COVID deaths of approximately 75,000 to 125,000 resulting in approximately $25 million to $45 million of COVID incurred losses. At the midpoint of our guidance, we estimate approximately $35 million of COVID losses on 100,000 U.S. deaths.

The 100,000 U.S. deaths is consistent with the October 15 projection by the IHME. As a result of the higher COVID claims in the second half of this year than previously anticipated, we are lowering the midpoint of our guidance from $7.44 to $6.95 with a range of $6.85 to $7.05 for the year ended December 31, 2021. The $0.49 decrease in the midpoint is almost entirely due to an increase in COVID incurred losses of nearly $63 million or $0.48 of earnings per share over the amount previously anticipated.

Looking forward to 2022, we anticipate that COVID deaths will continue to be with us throughout the year, but at a lower level than in 2021. We estimate COVID deaths could range from 100,000 deaths for the year to 200,000 and that our losses per 10,000 U.S. deaths could range from $3 million to $4 million.

At the midpoint of our guidance, we anticipate between $50 million to $55 million of COVID incurred losses on approximately 150,000 U.S. deaths, most of which are expected to occur in the first half of the year. Absent the impact of COVID, we believe our core earnings should be strong buoyed by premium growth in the 6% to 8% range as a result of strong sales in 2020 and 2021 and continued favorable persistency.

We also anticipate that the level of excess policy obligations will moderate somewhat, resulting in underwriting margins as a percentage of premium, excluding COVID losses, returning to pre-pandemic levels of around 28%. We also anticipate our health underwriting income to increase 4% to 7% during the year, with underwriting margins as a percent of premium approximately 24% to 25%.

Overall, we estimate our earnings for 2022 will range from $7.95 to $8.75 with a midpoint of $8.35. The wider than historical range is to take into account the wide range of potential impacts of COVID in 2022, which are largely dependent on the emergence of new variants, adoption and effectiveness of available vaccines and therapeutics, masking practices, and many other factors.

Our 2022 results also reflect a full year of operations for our newest acquisition, Beazley Benefits, which has been rebranded as Globe Life Benefits. The acquisition which we closed upon in the third quarter, is expected to add over $50 million of health premium in 2022 and over $11 million of underwriting income. We are excited

about the future of this new acquisition and the ability to grow this business over the long term.

The agency fits well into our overall business model as they offer group supplemental health insurance solutions to employer groups through brokers, and thus is complementary to our existing agencies that focus more on individual sales. Their underwriting results will be reflected in our other health line along with our United American General Agency Division.

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

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

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

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

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

Hi, good morning. First, I just had a question on margins in the life business. And it seems like Direct Response margins have declined a lot more than in other channels. And obviously, COVID has something to do with it. But is the makeup geographic and age group for Direct Response that much different than the other channels that's the only reason causing it? Or is it something other than COVID that is driving the sharp drop in margins of Direct Response?

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

Well, Jimmy, as you think about Direct to Consumer, if you remember that they just have a higher mortality aspect to their business than our other channels. But when you look at the impact of COVID, in the third quarter, they did have about 7%, but Liberty National had a 10.6%, which really reflected, one, it has a little bit higher concentration in the southern part. And then they also had -- in the ages that were impacted a little bit more by the Delta variant, which tend to be in the -- maybe like in the 40s and 50 year olds, they just have a little bit more exposure proportionately than Direct to Consumer did.

But Direct to Consumer is also being hit pretty hard with, if you will, with the excess COVID compared to the other lines of business. And the -- for the full year with Direct to Consumer, we kind of expect to have maybe like 5.7% higher policy obligations, which most of that is due to lapses or a little over half of that is due to lapses versus the excess non-COVID claims, whereas Liberty National and American Income, their excess non-COVID claims range from pretty flat to 1.5% or so.

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

Okay. And then how do you think about your ability to be able to sort of retain the agents that you have hired through the pandemic, especially early on, you had seen a big pick up in recruiting because of the tight labor or weak labor market. And now it seems like the labor market has improved even in some of the previously troubled sectors, such as travel and hospitality.

So is there a risk that if as the economy recovers further, that agent growth becomes an

issue beyond this year and any sort of metrics you are able to share on retention would be helpful as well.

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

In terms of agent retention, we think the ability to sell with the digital presentation has made that agent opportunity more attractive. And therefore, we have seen an increase in retention particularly at American Income versus the prior 2 years. Agents are now making more presentations. They spent less time away from home and they incur far fewer travel expenses. The digital presentation also removed the geographic restriction for the agent on sales leads.

So in addition to that, virtual recruiting will continue to be effective. We can reach more recruits and virtual training has proven to be well accepted and efficient. I would estimate right now that 80% to 85% of the sales at American Income are virtual. We think that will continue past the pandemic.

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 everyone. A couple of questions. On the Direct to Consumer, and I know you have been touching on a number of pieces of it. Notably, that only 231 of the COVID claims came from business written post 2019, and that was for all the businesses. So with that as a backdrop, I would like to know what the portion of claims from 2019 new – I am sorry, post 2019 vintages in Direct to Consumer were.

And your thoughts around whether these claims in Direct to Consumer that spiked up were a function of the adverse selection? Or as you were talking about, I will use the term adverse persistency.

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

Yes, Andrew, really of the 230-some additional claims, roughly half of that is at Direct to Consumer. So it is not -- substantially all just within that line. With respect to second part of your question I am not sure exactly what -- if you will, I think that is just more of the numbers there. It's -- I do not have any particular reason as to why -- from their total claims or where that is coming from.

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

So you would not -- I guess -- and again, I need to kind of sharpen my pencil after the call, but -- so let's say it is half of 231 claims at Direct to Consumer. Is that a number that would appear to be adverse selection on the amount of business written post 2019? Or would that be a normal number relative to everything else on business written post 2019 or into the pandemic. Does it seem like a normal COVID number relative to everything else?

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

Yes, I am going to say that might be just a little bit higher, but that is not a number that gives us great pause with respect to looking at

that level of claims over that period of time on that business. We are always going to have some claims that come in, especially in our Direct to Consumer business. But there will always be some claims that will happen in the first and second durations, if you will, after the policy has been issued, and for that level, really does not give us any real concern, if you will.

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

This is Larry. I want to clarify. You have been talking about post to March '20 or '19 -- I think COVID begin March of '20. In terms of adverse selection, since that time, we have monitored incoming insurance applications for indications of changes in the risk profile; that monitoring includes factors like age, amount of insurance and geography. And at this point, we have not seen any material change in the risk profile, and so we are comfortable with those Direct to Consumer sales to date.

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

Thanks Larry that is good to hear. And then just one follow-up on American Income. Year-over-year, the agent count looked fine. It was up 7%. But sequentially, the American Income ending agents were down 5% in the third quarter. And I am wondering if this implies any recruiting or retention concerns, would love to have your feedback on that.

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

Sure. The decrease in agent count is primarily driven by lower new agent recruiting. There has been a negative impact on recruiting across the 3 agencies because there are so many work opportunities in this current economy. And we believe as COVID declines and economic conditions normalize, our recruiting will return to normal levels. And again, as I stated earlier to Jimmy, the ability to sell the digital presentation has made that agent opportunity much more attractive as agents are now able to make more presentations.

They can utilize leads better. It's -- they can work from home, they incur far fewer travel expenses. We think that will help with retention and recruiting as we move forward.

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

Thank you.

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

Hi thank you. Can you talk about your expectations for 2022 free cash flow and what you have assumed in your guidance for share repurchases?

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

Yes. Our free cash flow was actually going to be down a little bit. We anticipate in 2022 to be in the range of around $280 million to $320 million, down from roughly the $360 million that we are seeing in 2021, really due primarily to $50 million of higher COVID losses, COVID claims that we are seeing here in 2021 versus 2020 but also really due to the significant growth that we have had in the agency businesses and their sales.

And so of course, we have talked about it in past calls that when you have especially double-digit growth in those agencies, that is going to have an additional strain in that first year, but of course, very good long term. So it does not surprises us that, that's down a little bit.

But -- so again, kind of at that midpoint around $300 million there, then we have assumed for buybacks somewhere in the range of $340 million to $380 million over the course of the year, anticipating that we would use some of that -- excess cash at the holding Company.

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

Got it thank you, and then just to clarify for the health business, the growth in margin that you talked about, does that include the Beazley business?

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

It does.

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

So the $11 million?

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

Yes, and on the premium side, the $50 million of premiums as well.

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

Got it and then I guess, lastly, just around expenses. Can you talk about what your assumption is for admin expenses, which I think were a bit elevated this year from some of the IT investments and other things? Do you see that continuing? Or will that start to revert to a more normal level?

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

Yes. Erik, administrative expenses for 2022, we expect to be up around 8%. That includes about $4 million for Beazley. Excluding that, the expenses will be up 7%. And it's again, we were still – we will see higher information technology and information security costs, also slightly higher travel and facility costs as well.

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, thanks good morning. Couple more numbers questions. Can you give us your excess net investment income guidance for 2022?

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

Yes. At the midpoint of the guidance, we are looking at excess investment income being down around 2%. On a per share basis, it will be up 1% to 2%.

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

Thanks, on the -- in the life business, the 28% margin, excluding COVID, was that just excluding direct COVID claims? Or do you also make an adjustment for any indirect impacts?

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

That is just the direct COVID claims, excluding that for the year.

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

Okay. And did you assume -- or can you quantify what you assumed for any sort of indirect COVID impact for 2022?

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

Yes. For 2022, in total, about 1.5% of premium is what we are anticipating at the midpoint with about half of that roughly 0.8% or so due to the continued higher lapses and then the other 0.7% being still a little bit of elevated claims predominantly still at the DTC market or the channel.

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

Got it. So if you excluded that, too, you would actually expect a 29% plus margin in life?

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

That's exactly right. So yes, excluding both the COVID and what we have seen in other higher policy obligations, we would say around 29.6%, 29.5%, a little bit higher than where we were in 2019. Really because with the strong persistency again and the higher premium base, then the amortization percentage ends up being a little less as a percentage of premium.

And that's probably elevated, that will probably be 1% to 1.5% lower than from those historic levels. So the 2019 levels anyway.

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

Okay, great thank you.

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

Thank you, most of my questions have been answered, but I do have one. Sadly, COVID remained around longer than we thought from where we sat probably at the beginning of the year and from a year ago. Given that what are you doing to encourage maybe wellness programs among your life insureds to maybe better deal with it from a long-term perspective?

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

I will say that we do continue from an organization perspective, continue to support those organizations that are around good health practices and helping to support those types of lifestyle. But I would say nothing specific, if you will, around some of the more sensitive areas around masking and some of those politically charged topics.

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

Okay, thank you.

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

Good morning, just had a few follow-up questions on free cash flow. The -- I just want to confirm the $280 million to $320 million you mentioned for 2022. That does not include your common dividend. So I should add that back to think about total shareholder I will say capital generation. Is that...

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

That is correct. And we would anticipate somewhere in that $80 million to $82 million of common dividends in 2022.

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

Got you. So I guess my question is when I look at your free cash flow conversion and I heard your comment on the overall, the sale -- the COVID impact and then the sales strain. But when I just look at the ratio and I compare it to the proportion of GAAP earnings, it is now drifting below 50%.

And I guess, historically, it has been a little bit higher, but that number has actually been coming down. The -- is there -- have you thought about that as a corporate strategy at all improving on that ratio. Now part of it is a high-class problem, right? When you are growing, your sales strain and you have to pay for that.

But when I compare how your ratio looks versus peers, like the MetLife's of the world that are now up to 70% your -- I guess, your proportion of cash flow relative to GAAP earnings is looking like an outlier on the lower side. Is that something you thought at all about as a way to maybe enhance that?

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

Well, we do think -- I mean, we do think about that and we do recognize that. But I do recognize that in -- it was down from historic levels where we have been more in that 70% to 80% pretax law change back in 2018. And as we have talked about really in the past, what that tax law did was it reduced -- or it increased our GAAP earnings because of the lower tax rate, but it really did not change our statutory income very much because our statutory taxes largely as they change the tax base, it really did not change the amount of cash taxes that we are paying out. So it did not have a big statutory impact. So then that knocked it down a little bit from those levels because we are -- our statutory capital did not change significantly. With the onset of COVID, here the last couple of years, coupled with really low interest rates, our basic statutory income is not growing as much. And when you look at the -- and this is the part that none of us here want to change, which is that growth in sales.

And when you look at that statutory drain and the money that we are investing in those new sales, that is going to maintain really strong premiums for the long term. It does kind of have in the near term an adverse impact on our ability to return some of that excess cash flow as a percentage of our GAAP earnings. But we think in the long term, those statutory earnings will, once we get past COVID, we feel really good about where we're at from a statutory income perspective and would expect

that to improve in future years as we get out of this.

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

Okay, great thank you.

Operator

There are no further questions. I would like to turn it back to management 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, and we will talk to you again next quarter.