Q4, 2022 Globe Life Inc. Earnings Call

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PRESENTATION

Stephen Mota Globe Life Inc. - Investor Relations Director

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, 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 a 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. Before getting started, I want to let you know that due to the ice storms in the DFW area, we are doing this call from multiple locations. So, if there are any issues with connections, please bear with us. Then Matt and I would like to quickly take this opportunity to thank Gary Coleman and Larry Hutchison, once again and acknowledge their accomplishments as Globe Life's co-CEOs over the last 10 years, including 2022, another good year for Globe Life.

Now to the results of the quarter.

In the fourth quarter, net income was $212 million, or $2.14 per share compared to

$178 million or $1.76 per share a year ago. Net operating income for the quarter was $221 million or $2.24 per share, an increase of 32% from a year ago. On a GAAP reported basis, return on equity was 12.3% and book value per share was $49.65.

Excluding unrealized losses on fixed maturities, return on equity for the full year was 13.4% and book value per share as of December 31 was $64.01, up 9% from a year ago. It is encouraging that our return on equity, excluding unrealized gains and losses for the fourth quarter, was 14.3%, reflecting the lessening impact of excess life claims on our operations.

In life insurance operations, premium revenue for the fourth quarter increased 3% from the year ago quarter to $754 million. For the full year 2022, premium income grew 4%. Growth in premium income was challenged due to the lower sales growth we have seen this year, primarily in our Direct to Consumer channel in addition to the impact of foreign exchange rates on our Canadian premiums at American Income.

In 2023, we expect life premium to grow around 4%. Life underwriting margin was $212 million, up 45% from a year ago. The increase in margin is due primarily to improved claims experience. With respect to anticipated underwriting income, as we have talked about on prior calls, underwriting margin will be calculated differently under the new LDTI accounting rules and is expected to be substantially higher due to the changes required by the new accounting standards. Tom will discuss the expected impact of LDTI in his comments.

In health insurance, premium grew 4% to $324 million, and health underwriting margin was up 1% to $82 million. For the full year 2022, premium grew 6%. In 2023, we expect health premium revenue to grow around 3%, lower than 2022 due to lower premium growth in our United American General Agency operations.

Administrative expenses were $78 million for the quarter, up 12% from a year ago. As a percentage of premium, administrative expenses were 7.2% compared to 6.7% a year ago. For the year, administrative expenses were 7% of premium compared to 6.6% a year ago. In 2023, we expect administrative expenses to be up approximately 3%, and be around 6.9% of premium due primarily to higher IT and information security costs. Higher labor 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 fourth quarter marketing operations.

Matt Darden - Globe Life Inc. - Co-CEO

Thank you Frank.

First up is American Income Life.

At American Income Life, life premiums were up 5% over the year-ago quarter to $381 million, and life underwriting margin was up 27% to $130 million. The higher underwriting margin is primarily due to improved claims experience and higher premium.

In the fourth quarter of 2022, net life sales were $70 million, down 6% from the year-ago quarter. The decline in sales resulted from reduced agent count and agent productivity. The average producing agent count for the fourth quarter was 9,243, down 3% from the year-ago quarter and down 2% from the third quarter.

The decline from the third quarter to the fourth quarter is consistent with typical seasonal trends. The decline in average agent count from a year ago is due to higher than expected attrition throughout 2022, as we have previously discussed. While the agent count declined from a year ago, I am encouraged as we have seen positive recruiting momentum over the latter part of the fourth quarter into the beginning of this year. We have also started to have some success with our new retention efforts. I believe the agency compensation adjustments we have made to emphasize recruiting and retention will help continue this momentum. I am optimistic regarding the long-term growth potential of this agency division.

At Liberty National, life premiums were up 4% over the year-ago quarter to $82 million, and life underwriting margin was up 74% to $21 million. The increase in the underwriting margin is primarily due to improved claims experience.

Net life sales increased 24% to $23 million, and net health sales were $9 million, up 14% from the year-ago quarter due mainly to increased productivity and agent count. The average producing agent count for the fourth quarter was 2,946, up 8% from the year-ago quarter and up 6% compared to the third quarter. Liberty continues to build on the momentum that has been generated over the past year and is well positioned for future growth.

At Family Heritage, health premiums increased 7% over the year-ago quarter to $94 million, and health underwriting margin increased 2% to $26 million. Net health sales were up 21% to $22 million due to increased agent count and agent productivity. The average producing agent count for the fourth quarter was 1,334 up 12% from the year-ago quarter and up 8% compared to the third quarter.

As we have discussed before, there was a shift in emphasis last year to recruiting and middle management development. This has paid off nicely as we continue to see positive trends at Family Heritage.

In our Direct to Consumer Division at Globe Life, life premiums were flat over the year-ago quarter to $238 million, but life underwriting margin increased from $12 million to $39 million. The increase in underwriting margin is primarily due to improved claims experience. Net life sales were $31 million down 9% from the year-ago quarter due to declines in circulation and response rate. This sales decline is consistent with our expectations. 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.

Today, electronic sales are approximately 70% of our business compared to 54% in 2019. I am also encouraged to see some resiliency here as the average premium per issued policy has increased each year for the last several years and was 16% higher in 2022 than in 2019.

At United American General Agency, health premiums increased 5% over the year-ago quarter to $137 million and health underwriting margin increased 1% to $20 million.

Net health sales were $20 million, down 25% compared to the year-ago quarter. This decline is due primarily to the market dynamics we saw throughout 2022, including aggressive pricing by competitors on certain Medicare supplement products and a consumer movement to Medicare Advantage.

Projections

Now, based on the trends that we are seeing and our experience with our business, we expect the average producing agent count trends for 2023 to be as follows: American Income Life, high single-digit growth; Liberty National, low double-digit growth; Family Heritage, high single-digit growth. Net life sales trends for the full year 2023 are expected to be as follows: American Income Life, relatively flat; Liberty National, high single-digit to low double-digit growth; Direct to Consumer, relatively flat.

Net health sales trends for 2023 are expected to be as follows: Liberty National, a high single-digit to the low double-digit increase, Family Heritage, a high single-digit increase, United American General Agency, low 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 2022, we defined as net investment income, less required interest on net policy liabilities and debt, was $63 million, up 7% from the year-ago quarter. On a per share basis, reflecting the impact of our share repurchase program, excess investment income was up 10%. Net investment income was $254 million, up 6% from the year-ago quarter.

On a per share basis, net investment income was up 9%. With the adoption of LDTI in 2023, we will begin viewing excess investment income as net investment income less only required interest. For the full year 2023, we expect net investment income to grow approximately 5% as a result of the favorable rate environment. With respect to required interest, it will be substantially higher than reported in 2022 as a result of changes related to the adoption of LDTI.

As mentioned previously, Tom will further discuss LDTI in his comments.

Now regarding investment yield.

In the fourth quarter, we invested $239 million in investment grade fixed maturities, primarily in the financial, municipal, and industrial sectors. We invested at an average yield of 6.10%, an average rating of A and an average life of 21 years.

We also invested $104 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. For the entire fixed maturity portfolio, the fourth quarter yield was 5.18%, up 1 basis point from the fourth quarter of 2021 and up 1 basis point from the third quarter. As of December 31, the portfolio yield was 5.19%.

Now regarding our investment portfolio.

Investment assets are 20 billion including $18.3 billion of fixed maturities at amortized cost. Of the fixed maturities, $17.8 billion are investment grade with an average rating of A-. Overall, the total portfolio is rated A-, same as a year ago.

Our investment portfolio has a net unrealized loss position of approximately $1.8 billion due to the high -- higher current market rates on our holdings than book yields. 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, down from 54% from a year ago. While this ratio is in line with the overall bond market, it is relative -- 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. 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 $542 million compared to $702 million a year ago. The percentage of below investment grade bonds to fixed maturities is 3%. This is as low as this ratio has been for more than 20 years. In addition, below investment grade bonds plus bonds rated BBB are 54% of fixed maturities, the lowest ratio it has been in 8 years.

Overall, we are comfortable with the quality of our portfolio 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.

During 2022, we executed some repositioning of the fixed maturity portfolio to improve yield and quality. Over the course of last year, we sold approximately $359 million of fixed maturities with an average rating of BBB and reinvested the proceeds in higher-yielding securities with an average rating of A+. 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.

I would also mention that we have no direct investments in Ukraine or Russia and do not expect any material impact to our investments in multinational companies that have exposure to these countries. At the midpoint of our guidance for the full year 2023, we expect to invest approximately $940 million in fixed maturities at an average yield of 5.5% and approximately $310 million in commercial mortgage loans and limited partnership investments with debt-like characteristics at an average cash 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 on 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. Tom?

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

Thanks Frank. So, in the fourth quarter the Company purchased 490,000 shares of Globe Life Inc. common stock, for a total cost of $56 million at an average share price of $115.01 and ended the fourth quarter with liquid assets of approximately $91 million. For the full year we spent approximately $335 million to purchase 3.3 million shares at an average price of $100.90. The total amount spent on repurchases included $55 million of Parent Company Liquidity. In addition to liquid assets of the Parent, the Parent Company will generate additional excess cash flows during 2023. The Company's excess cash flows 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 $410 to $450 million and is available to return to its shareholders in form of dividend and through share repurchases. This amount is higher than 2022 primarily due to the lower COVID life losses incurred in 2022, which will result in higher statutory income in 2022 as compared to 2021. Thus, providing higher dividends to Parent in 2023 than were received in 2022. As previously noted we had approximately $91 million liquid assets -- $91 million liquid assets as compared to the $50 million or $60 million liquid assets we historically targeted. With the $91 million of liquid assets plus $410 million to $450 million of excess cash flows expected to be generated in 2023, we anticipate having $500 million to $540 million of assets available to the Parent in 2023, of which we anticipate distributing approximately $80 million to $85 million to our shareholders in the form of dividend payments.

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 the primary use of Parent excess cash flow after 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 modernization of 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 for 2023. In our earnings guidance, we anticipate between $360 million and $400 million of share repurchases will occur during the year.

Now with regard to capital levels at our insurance subsidiaries.

Our goal is to maintain our capital levels necessary to support current ratings. Globe Life targets a Consolidated Company Action Level RBC ratio in the range of 300% to 320%.

For 2022, since our statutory financial statements are not yet finalized, our consolidated RBC ratio is not yet known. However, we anticipate the final 2022 RBC ratio will be near the midpoint of this range without any additional capital contributions.

As noted on the previous call, the new NAIC factors became effective in 2022 related to mortality risk, also known as C2. Given the consistent generation of strong statutory gains from insurance operations and given our product portfolio, these new factors will simply result in even stronger capital adequacy at our target RBC ratios.

Now I would like to provide you a few comments related to the impact of excess policy obligations on fourth quarter results.

Overall, fourth quarter excess policy obligations were in line with our expectations. In the fourth quarter, the Company incurred approximately $5 million of COVID life claims related to approximately 31,000 U.S. COVID deaths occurring in the quarter as reported by the CDC and was in line with expectations. We also incurred excess deaths as compared to those expected based on pre-pandemic levels from non-COVID causes, including deaths due to lung disorders, heart and circulatory issues, and neurological disorders.

We believe the higher level of mortality we have seen is due in large part to the effects of the pandemic. So as the number of COVID deaths has moderated, so has the number of deaths from other causes. In the fourth quarter, the impact of excess non-COVID policy -- life policy obligations were generally in line with our expectations at about $6 million.

For the full year, the Company incurred approximately $49 million of COVID life policy obligations related to approximately 243,000 U.S. COVID deaths, an average of $2 million per 10,000 U.S. deaths. In addition, we estimate non-COVID claims resulted in approximately $69 million of higher policy obligations for the full year. The $118 million combined impact of COVID and higher non-COVID policy obligations was around 4% of total life premium in 2022, down from approximately 6% in 2021.

Based on the data we currently have available; we estimate incurring approximately $45 million of total excess life policy obligations from both COVID and non-COVID claims in 2023. We estimate that the total reported U.S. deaths from COVID will be approximately 105,000 at the midpoint of our guidance.

Finally, with respect to earnings guidance for 2023.

As noted on prior calls, the new accounting standard related to long-duration contracts is effective January 1, 2023. From this point forward, we will report 2023 results and guidance under the new accounting requirements. I will do my best to bridge the gap as there are many changes with these new requirements.

So, we are projecting net operating income per share will be in the range of $10.20 to $10.50 per diluted common share for the year ending December 31, 2023. The $10.35 midpoint of our guidance is lower than what we had indicated last quarter when including the impact of LDTI adoption. The reduction is primarily due to a reduction in the expected impact from the adoption of LDTI as we get more information and have refined our assumptions and estimates impacting both 2022 and 2023.

In addition to the lower LDTI impact, we anticipate slightly lower premiums, higher customer lead and agency expenses as well as higher financing costs, which are reflective of higher short-term yields than previously anticipated. We estimate the after-tax impact of implementing the new accounting standard resulted in an increase in 2023 net operating income in the range of $105 million to $115 million.

We are still in the process of determining the full 2022 results under the new standard once finalized, it could affect the 2022 -- 2023 estimated results. Going forward, fluctuations in experience and changes in assumptions will result in changes in both future policy obligations and the amortization of DAC as a percent of premium.

The largest driver of the increase is lower amortization of deferred acquisition costs, or DAC, than under the prior accounting standard due to the changes in the treatment of renewal commissions, the elimination of interest on DAC balances, the updating of certain assumptions and the methods of amortizing DAC. Due to the treatment of deferred renewal commissions on amortization in our captive agency channels, we do expect that acquisition costs as a percent of premium will increase slightly over the next few years. In addition to the changes affecting the amortization of DAC, the new accounting standard changes how policy obligations are determined under the new standard, life policy up -- life policyholder benefits reported in 2021 and 2022 will be required to be restated to reflect the new requirements and will include the impact of unlocking and updating prior assumptions.

For 2023, absent any assumption changes, we expect the following impacts. Life obligations as a percent of premium will be in the range of 40.5% to 42.5%. This is consistent with the average life policy obligation ratio over the last 5 years. Health obligations as a percent of health premium will be in the range of 50% to 52%. This is about 3% to 4.5% lower than the average health policy obligation percentage over the last 5 years.

For the life and health lines combined, commissions, amortization, and non-deferred acquisition costs as a percent of premium will be in the range of 20% to 21.5%, approximately 8% to 9.5% lower than the recent 5-year averages. The resulting life underwriting margins as a percent of premium are expected to be in the range of 37% to 38% and health underwriting margins as a percent of premium in the range of 28% to 29%.

So, offsetting the increases in underwriting income will be a reduction to excess investment income due to the elimination of interest accruals on DAC balances that historically have reduced net required interest. In 2022, interest on DAC balances was approximately $260 million. In 2023, this will be 0 under the new standards as compared to between $275 million and $285 million of interest accruals on DAC under historical GAAP that we would have anticipated.

In addition, required interest will change due to the changes in reserve balances at transition and restated balances in 2021 and 2022 under the new requirements. We anticipate that required interest in 2023 will be in the range of $910 million to $920 million.

With respect to changes in AOCI, we noted in the past few quarters that under the new accounting standard, there is a requirement to remeasure the Company's future policy benefits each quarter, utilizing a discount rate that reflects the upper medium grade fixed income instrument yield and affects the changes -- with the effects of the change to be recognized in AOCI, a component of shareholders' equity. The upper medium grade fixed income yields generally consist of single A-rated fixed income instruments that are relative -- reflective of the currency and tenor of the insurance liability cash flows.

As of year-end 2022, had the new accounting standard been in place, we anticipate the after-tax impact on AOCI would have decreased reported equity in the range of $1.3 billion to $1.4 billion. While the GAAP accounting changes will be significant, it is very important to keep in mind that the changes impact the timing of when future profits will be recognized and that none of the changes will impact our premium rates, the amount of premium we collect or the amount of claims we ultimately pay.

Furthermore, it has no impact on the 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 we offer. Those are my comments. I will now turn it over 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.

QUESTIONS AND ANSWERS

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

Hi good morning. So, I had a question first on direct response sales. They have been weak for the last several quarters. Wondering how much of it is a reduction in your part on mailings and circulations versus just weak consumer demand with higher inflation?

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

Yes. It is really on the distribution side. As we have talked about in the past, scaling back our mailings and other print media that's associated with the higher cost these days of the postage in paper. What we are seeing on the consumer side, as I mentioned in my comments, is actually the sale amount on a per policy basis, the premium amount for each sale is actually going up slightly. So that would indicate to me that it is really more of a reduction of that cost in the amount of things that we are distributing because we are really going to make sure that each one of those mailings and all of our campaigns are profitable.

And that is what the benefit is of switching more of our distribution over time to more of the electronic media side versus the sales side. But I do want to remind everyone that the -- all of these channels work together, and the mail does support and drive activity to our other channels such as the call center as well as just online.

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

Okay. And then maybe with the economy and inflation overall, there had been concerns about policy retention. And it seems like lapses are now close to historical levels, but do you expect that they will go up above where they were pre-pandemic.

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

Yes, Jimmy, I think, with respect to the laspe levels, I mean, you are right, the fourth quarter did really trend favorably versus the third quarter, while they are still higher than 2021. We are actually back to in the fourth quarter around the lapses, the persistency levels pretty much where they were in the fourth quarter of 2019. So, looking forward, I think for the most part, we do think they will trend back here to pre-pandemic levels during 2023, probably – Direct to Consumer, I would probably see those maybe sticking around at slightly higher lapse rates than what we have had pre-pandemic, but not that significantly. And Liberty for the most part first year lapses back to pre-pandemic levels as well.

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

Okay thanks, and if I could just ask one more on LDTI. Obviously, it is affecting the timing of income -- GAAP income. It does not really change the underlying economics. But do you -- and I am assuming that had you not been growing -- if you do not grow the business at some point in the next several years, it would actually have a negative impact on your results. But how do you think about with normal growth, could you reach a point where LDTI goes from being a tailwind to a drag on your results? Do you see that happening in the next like 3, 4, 5 years or so?

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

Yes. Jimmy, we did take a look. I think this is the same question you had asked last year or the last quarter as well and we did take a look at that. And actually, for that amortization to turn around, it takes -- it is 20, 30 years out there in the future before we end up actually where the amortization under the LDTI ends up being greater than what we would have anticipated under historical GAAP. So, it is actually a long ways out there.

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

Perfect thank you.

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

Hi thank you. So, it looks like recruiting turned nicely at Liberty and Family Heritage and you are starting to see the growth in the agent count there, but it has not come through American Income yet. And I realize the fourth quarter can have some noise with the holidays. I was hoping you could just talk more about the trends you are seeing in both recruiting and retention and what steps you are taking to improve those at American income in 2023.

Matt Darden - Globe Life Inc. - Co-CEO

Yes. As we had mentioned in the past, there has been some adjustments to the incentive side of the compensation at American Income. Those went in very late in the year and then obviously, it is going to continue through 2023. We are seeing -- it is in the early stages, but we are seeing some positive development there. We had, as a reminder, a significant increase in our agent count during the pandemic, it went from approximately 7,500 agents to over 10,000.

And so, our attrition has been a little bit higher here in the recent quarters than what we would like. And these programs that we have put in place seem to be working. We have got some – while it is still early, early indications that there has been a turnaround in our retention as well as recruiting efforts at American Income. So, we are positive where that is headed from a 2023 perspective. And as was noted, really feel like that is in our control because we do have strong agent growth at our 2 other agencies. And so not really impacted by environmental factors, but really believe this is in our control to maintain.

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

Thank you, and then I appreciate all of the color you gave on the LDTI impacts and just a quick question. When do you expect to release an updated financial supplement with recast financials?

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

Yes. We would do that along with our first quarter results is our intended plan at this point.

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

Got it. So, I guess we should not expect that in advance, so we should kind of model based off of the numbers you walked through on the call.

Tom P. Kalmbach – Globe Life Inc. – Executive VP & CFO

Exactly. Yes. When we talk again after first quarter, we will have quite a bit of detail around the impact on the various distribution channels and lines of business. So that will be the time to talk more about those details.

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

One of the things, Erik, we have to be a little bit careful about is we cannot be releasing some of the numbers on the restated 2021 and 2022 until it has actually gotten audited. So, we get into a little bit of a timing, especially around the first quarter. So as Tom said that -- we really intend to provide more of the detail on that, as we said later on.

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

Got it.

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

Hi thanks, good morning. I appreciate all the LDTI guidance. My first question is actually ex LDTI. I think last quarter, guidance, which was ex LDTI had a $9.35 midpoint. If we back out the LDTI impact this quarter, it looks like it is -- the midpoint is more like $9.20. So just curious if you can give us any perspective on kind of why that ex LDTI guidance seemed to come down a little bit?

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

Yes, Ryan, it is Tom. I would say that the midpoint, was more like $9.25 so dropped by about $0.10. Really the main drivers there are the lower premium growth that we had previously – that we mentioned. And then we are seeing a little bit higher lead costs and agency expenses impacted by inflation. As travel starts increasing and as meetings start increasing, and we have some additional training and recruiting costs that were incurred. We just had that pick up a bit and then as I mentioned, also a higher cost on debt given the higher cost for commercial paper, just the rates are a bit higher. And then given the share repurchase program, just a slightly higher share count than what we had previously estimated in our prior guidance work.

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

I will just say one thing - I would just add that is with the higher share count, the -- was not from the amount that we were anticipating, but just a higher -- with the higher share price that we are at this current time versus where we were back at the time of the last call, obviously, we are just getting fewer shares purchased with the same amount of dollars.

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

This is good, and then on the free cash flow guidance of $410 million to $450 million, is there some drag in that still from COVID and non-COVID excess claims that occurred in 2022? I am trying to think about if there would be a further bounce back as we go beyond 2023 to a more normalized level.

Tom P. Kalmbach – Globe Life Inc. – Executive VP & CFO

Yes. The way that we think about that is last year, we had combined -- in 2022, we had combined COVID non-COVID about $118 million. And in 2023, we expect about $45 million. So, kind of the difference between those 2 should result in higher statutory earnings in 2023, which would therefore, lead to higher dividends to the Parent in 2024.

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

Okay. So, the difference between those 2 and then tax affected, would be basically additive to free cash flow in 2024?

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

Exactly, yes.

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 very much. My question is around Direct to Consumer and the mailings seems like increased postage and paper cost is more of a secular trend. Are there areas that can be developed beyond just mailings that can be incorporated into the Direct to Consumer marketing efforts?

Matt Darden - Globe Life Inc. - Co-CEO

Yes. And as I had mentioned, we are really focused on growing our Internet and electronic media inquiries in -- which results in additional applications and sales. And so that has been the offset, as I mentioned in my comments, this continues to grow and is much more a significant part of the business than it was just even 3 or 4 years ago. So really, that's the offset as we have declined based on profitability in our models, the direct mail operation we have offset that with an increase on the electronics side. So overall, those dynamics are going on, but if inflation, depending on how that market dynamic plays out over the next several quarters, we will continue to adjust throughout the year based on the returns that we are seeing in the profitability. So overall, we want to make sure that we are maintaining our profitability targets on each of these campaigns, and we are flexible enough that we can adjust that throughout the year as market conditions warrant.

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

Great thank you, and a follow-up question. I know the indirect mortality is in the COVID estimate – is that -- do you anticipate that tapered over the year or present in equal levels throughout the year? Just trying to dimension if further away from the pandemic portion-- if that degrades.

Tom P. Kalmbach – Globe Life Inc. – Executive VP & CFO

For 2023, you mean?

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

Yes, correct, thank you.

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

So, for 2023, for the – we expect a little bit higher COVID deaths in the first quarter than we would for the third – second, third and fourth quarter. So that is – we do kind of think that will be front-loaded a little bit during the course of 2023.

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

Great thank you.

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

Good morning, first question is around American Income and completely understand kind of 2023 being kind of a digestion period of having 10,000 producers.

As you go into this new incentive strategy, just different initiatives. Do you think in 2024, and I know it is early for guidance, but is there a reason to believe you will kind of get back on track to that kind of mid-single-digit producer growth, maybe mid-upper single-digit sales growth. I mean, is there any reason to believe you cannot get there in 2024 that maybe it will take longer?

Matt Darden - Globe Life Inc. - Co-CEO

No, that is a great question as we do believe we can get back there. As a reminder, agent count and average agent count for the quarters is a leading indicator, and it takes time to get these new agents onboarded, trained, and producing. And then obviously, the longer they have been here, the more effective they are from a production perspective. And so – that is why you will see in our guidance as we have growth projected on the agent count side, but the sales are lagging that a little bit and more toward flat. We do believe that we can get to middle management growth in 2023 that will drive that longer term growth in – on the sales side in 2024. We also anticipate opening 3 to 5 offices in American Income over this next year and that too will set us up for good growth in 2024.

And I also wanted to just clarify, when we talk about compensation adjustments, there is 2 primary components to the compensation for agents. One is just the base commission on sales. And then we also have incentive-based compensation that is targeted at a specific behavior, and we do that throughout our history. So, when we talk about changing the compensation we are really not changing the total amount of compensation that is in our overall pricing and profitability targets, but really, we are targeting specific activities and behavior that we are trying to influence. So, I just wanted to clarify that overall, our compensation and acquisition costs are going to be consistent with what we have experienced in the past.

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

Super helpful. Shifting over to the health lines, particularly United American with sales down 25%. And I think that was due to pressures not only in Med Supp but also like Med Advantage gaining share. We look at a number of companies, the online players, some of them are subs of the other insurers we cover and many of them seem to be pulling back in that kind of online Medicare Advantage product. And so, as I look at United American down in the Agency channel, I am wondering – where is the competition coming from? And yes – I guess it is just where is the competition coming from as I kind of think the players seem to be getting more disciplined?

Matt Darden – Globe Life Inc. – Co-CEO

Yes. I will say what we saw throughout 2022 was just more aggressive pricing by certain competitors. And we are focused on maintaining our profitability targets and underwriting margins in this area, and we are really not going to chase the sales, so to speak. But -- and we are also seeing and experiencing a movement toward Medicare Advantage plans as well. I will say that we have been in this business since the program started, and we have seen these market dynamics happen over time. And so, we anticipate that some of that will abate as we move forward.

But Mike, do you want to add anything to that? You have been running this area for quite some time.

Michael C. Majors - Globe Life Inc. - Executive VP of Policy Acquisition & Chief Strategy Officer

Yes. I think you know while there may have been some that have pulled back, I mean, overall, we are seeing movement into Medicare Advantage plans. And in this line of business, there are big carriers or small carriers. The cost of entry is low because it is not a capital-intensive business. So, I could not speak to which are particularly pulling back or not. But overall, there is a move on the group side and individual side to Medicare Advantage plans. I think the current economic environment contributed to that. I would assume that people are more willing now to give up the benefits of a Medicare Supplement plan that does not have provider network restrictions or referral requirements to go to a cheaper managed care.

As Matt said, we have been in this business since Medicare started in the 60s. We have seen these swings back and forth over the years. So, it is not really unusual or surprising. We are going to maintain that disciplined approach. That said, it is to protect our margins. It is also to protect our customers. We want to avoid any higher than necessary renewal rate increases. We have never been the lowest cost provider here. We think that is fair to the customer to have the right price and have reasonable rate increases.

And the other thing to remember is that price in this business – the price we have in our new business is the same as our renewals. So, it is not like we can go in and have lower new business prices because if we were to do that, that would impact the profitability of our in-force block, which is the United American block of around $500 million. So again, it is something that we have seen before and again, not particularly surprising.

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

And just to kind of a little further clarification on this. So you are seeing the competition across agencies and online. Is there any interest from the Company to price in terms of kind of transitioning to more Medicare Advantage products as opposed to Med Supp?

Michael C. Majors - Globe Life Inc. - Executive VP of Policy Acquisition & Chief Strategy Officer

I am sorry. There was a lot of background noise. Could you repeat that?

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

Absolutely. So, in terms of distribution competitors. Is it pretty much across agency and online? And then with that, is Globe likely to pivot more to Med Advantage as opposed to historically being in the Med Supp area.

Michael C. Majors - Globe Life Inc. - Executive VP of Policy Acquisition & Chief Strategy Officer

Matt, do you want me to take that, or you want –

Matt Darden – Globe Life Inc. – Co-CEO

Let me start. I will say we do not have plans to pivot into the Medicare Advantage area. I think the competition is coming from all paths. We do have a little bit of our sales that are online as well. So, we do see the competition in the pricing, in the agency and online channels. A bulk of our sales are in the agency urban business.

So, Mike, do you want to add to that?

Michael C. Majors - Globe Life Inc. - Executive VP of Policy Acquisition & Chief Strategy Officer

Sure. I think the Medicare Advantage, we do not use networks for one and that would be a big change for us. And it is just -- it is not a line of business that we have been in, and I know we considered a long time ago. At one time, we were in the Part D plan, which is similar, and we exited that. And it is something that we would not want to do. It is really, I think, harder for smaller players to do that and to get involved with even Medicare Advantage or Part D. I do not think that undertaking would make sense for us.

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

It seems like a thoughtful approach as usual.

Operator

Does that answer your question, Mr. Kligerman?

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

Absolutely, thank you.

Mark Douglas Hughes – Truist Securities, Inc., Research Division – MD

Thank you good morning. I do not know if you touched on the -- what do you think about the -- is there anything about the LDTI accounting standard that impacts your growth on a go-forward basis, you obviously get a nice EPS benefit this year, but just the timing of the emergence of profitability, is it changed over time so that there is a natural acceleration or deceleration perhaps as time goes by, that will impact your kind of trend line growth rate in future years?

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

Yes. I will answer that one. Probably the one thing as we think about the implementation of LDTI is the treatment of future deferrals of renewal commissions. So, to the extent that there a portion of renewal commissions are deferred, the new rules require us now to -- in historical gap, we would look at all anticipated future renewal commissions and determine an amortization rate that was an average that was needed to amortize both the first year capitalized expenses as well as future renewal capitalized expenses.

Under the new method, we are only allowed to -- as we capitalize, we are only -- we are forced to change the amortization rate upon each additional capitalization and so for our AIL line of business, we do have some renewal commissions that we capitalize. And we had kind of talked last quarter that for the block, we would expect kind of a 50-basis point increase in amortization. That is really driven by 2 things; one is, you know we have a mixed business where we do not have any DAC on some of business and on the other business we have DAC that is being amortized. So as the block that we do not have any DAC where we fully amortize on - as it runs off the average amortization rate goes up. But the other is that as we get new renewals, commissions that are deferred on AIL we will see the amortization rate tick up a little bit.

In aggregate, we would see probably that amortization rate tick up around 20 to 30 basis points over the next few years and then kind of even out and that increase would diminish over time as we put new business on the books.

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

Mark, the one thing I would just add to that is, I think, really other than that, and other than assumption changes that might come through from time to time, I would expect once it kind of gets reset, then that the general level of growth rate should be somewhat similar.

Mark Douglas Hughes - Truist Securities, Inc., Research Division - MD

Okay great, thank you very much.

Operator

We do not appear to have any further questions at this time. Gentlemen, I would like to turn the call back over to you, Mr. Mota, for any additional or closing remarks.

Stephen Mota- Globe life Inc.- Investor Relations Director

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