Globe Life Inc.

Q4, 2023 Earnings Call

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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

Stephen Mota-Globe Life Inc. - Sr. Director Investor Relations

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

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

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

Thank you Stephen, and good morning everyone. In the fourth quarter, net income was $275 million, or $2.88 per share, compared to $242 million or $2.46 per share a year ago. Net operating income for the quarter was $267 million or $2.80 per share, an increase of 10% from a year ago. On a GAAP reported basis, return on equity through December 31 is 23.2%, and book value per share is $47.10. Excluding accumulated other comprehensive income, or AOCI, return on equity is 14.7% and book value per share as of December 31 is $76.21, up 11% from a year ago.

In our life insurance operations, premium revenue for the fourth quarter increased 4% from the year-ago quarter to $795 million. Life underwriting margin was $305 million, also up 4% from a year ago. In 2024, driven by strong premium growth in both our American Income and Liberty National divisions, we expect life premium revenue to grow between 4.5% and 5% at the midpoint of our guidance and life underwriting margin to grow between 7% and 7.5%. As a percent of premium, we anticipate life underwriting margin to be in the range of 38% to 40%.

In health insurance, premium grew 3% to $336 million, and health underwriting margin was up 1% to $97 million. In 2024, we expect health premium revenue to grow 7% to 8%. At the midpoint of our guidance for the full year 2024, we expect health underwriting margin to grow between 5% and 6%, and as a percent of premium, to be around 27% to 29%.

Administrative expenses were $77 million for the quarter, down 1% from a year ago, primarily due to a decline in pension and other employee-related costs. As a percentage of premium, administrative expenses were 6.8% compared to 7.2% from the year-ago quarter. For the year, administrative expenses were 6.8% of premium compared to 6.9% a year ago. In 2024, we expect administrative expenses to be approximately 7% of premium, higher than 2023 due primarily to continuing investments in technology as we modernize and transform how we operate. I will now turn the call over to Matt for his comments on the fourth quarter marketing operations.

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

Thank you Frank. At American Income Life, life premiums were up 7% over the year-ago quarter to $406 million, and life underwriting margin was up 5% to $183 million. In the fourth quarter of 2023, net life sales were $76 million, up 9% from a year ago primarily due to growth in agent count. The average producing agent count for the fourth quarter was 11,131, up 20% from a year ago. American Income has had sequential agent growth each quarter of 2023 but accelerated in the last half of the year to double-digit growth, which bodes well for sales growth in 2024. I am pleased to see the strong growth in agent count and sales as we continue to build momentum from the recruiting and agent retention initiatives put in place at the end of 2022.

Now at Liberty National, life premiums were up 8% over the year-ago quarter to $90 million, and life underwriting margin was up 16% to $31 million. The growth in life premium reflects the significant progress this agency has made over the past several years, going from no growth in life premiums in 2016 and just 2% annual growth through 2019 to where we are today. Net life sales grew 12% to $26 million, and net health sales were $9 million, up 9% from the year-ago quarter due primarily to increased agent count. The average producing agent count for the fourth quarter was 3,387, which is up 15% from a year ago. Liberty continues to generate strong growth in both agent count and sales due in part to the new technology implemented over the past few years, which has provided more granular field activity feedback and allowed agents to track their sales activity and training progress.

Now Family Heritage. At Family Heritage, health premiums increased 8% over the year-ago quarter to $102 million, and health underwriting margin increased 12% to $36 million. Net health sales grew 12% to $25 million due to increased productivity and higher agent counts during 2023. The average producing agent count for the fourth quarter was 1,368, which is up 3% from a year ago. For the full year 2023, the average producing agent count increased 10% from a year ago. Family Heritage will continue to focus on recruiting, with additional emphasis on middle management growth.

Now on to Direct to Consumer. In our Direct to Consumer Division at Globe Life, life premiums were flat compared to the year-ago quarter at $247 million, while life underwriting margin declined 2% to $59 million due to increased acquisition costs.

Net life sales were $26 million, which is down 16% from the year-ago quarter, primarily due to declines in customer inquiries as we have reduced marketing spend on certain campaigns that did not meet our profit objectives. We continue to focus on maximizing the underwriting margin dollars on new sales by managing the rising advertising and distribution costs associated with acquiring this new business. In addition to generating new business at profitable margins, the Direct to Consumer channel provides critical support to our agency business through brand impressions and the generation of sales leads.

On to United American General Agency. Here, the health premiums were flat compared to the year-ago quarter at $139 million. Health underwriting margin was $14 million, down approximately $3 million from the year-ago quarter due to both higher policy obligations and acquisition costs. Net health sales were $28 million, which is up 40% over the year-ago quarter due to strong activity both in the individual and group Medicare supplement businesses.

Projections

Let me talk about where we are headed based on the trends that we are seeing and the experience with our business. We expect the average producing agent count trends for the full year 2024 to be as follows: at American Income Life, high single-digit growth; at Liberty National, low double-digit growth; at Family Heritage, low double-digit growth. Net life sales for the full year 2024 are expected to be as follows: American Income Life, low double-digit growth; also at Liberty National, low double-digit growth; and Direct to Consumer, relatively flat.

Net health sales for the full year 2024 are expected to be as follows: Liberty National, low double-digit growth; also at Family Heritage, low double-digit growth; United American General Agency, low- to mid-single-digit growth.

Now before turning the call back over to Frank, I would like to discuss one additional item. During 2023, an online publication posted articles related to litigation pending an arbitration against American Income Life and one of its State General Agents. Although we generally do not comment on pending litigation and will not be taking any questions on the topic today, we would like to provide the following limited statement.

This litigation relates to allegations made by a former independent contractor sales agent with American Income. In 2021, prior to the litigation and as soon as American Income became aware of the agent's allegations, the Company engaged an external third party to conduct an impartial and thorough investigation. American Income took prompt and appropriate action based on that investigation. We continue to vigorously dispute and defend against the allegations made about American Income Life in this litigation. And we do not believe the litigation will be material to Globe Life's overall results or American Income Life's agency operations. We take seriously any allegations brought to our attention concerning harassment, inappropriate conduct, or unethical business practices, and we do not tolerate such behavior.

American Income Life provides numerous ways for sales agents to raise concerns, including contacting the Company's Agency Department directly or utilizing an independent third-party reporting hotline. We have processes in place to address such concerns when we learn of them. We also provide mandatory anti-harassment and anti-discrimination training to agents and provide and ask agents to review the Company's Code of Business Conduct and Ethics, which includes information about how to report concerns. I want to emphasize that at Globe Life, we strive to act in accordance with the highest level of ethics and integrity at all levels of our organization. I'll now turn the call back to Frank.

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

Thanks Matt. We will now turn to the investment operations. Excess investment income, which we define as net investment income less only required interest, was $36 million, up $5 million from the year-ago quarter. Net investment income was $272 million, up 6% or $16 million from the year-ago quarter. The increase is due primarily to growth in average invested assets, but also supplemented by the impact from higher interest rates across fixed maturities, commercial mortgage loans, limited partnerships, and short-term investments. Required interest is up nearly 5% over the year-ago quarter, slightly higher than the 4.5% growth in average policy liabilities.

For the full year 2024, we expect net investment income to grow between 5% and 6% due to the combination of the favorable interest rate environment and steady growth in our invested assets. In addition, at the midpoint of our guidance, we anticipate required interest will grow around 5% for the year, resulting in growth in excess investment income of approximately 10% to 12%.

Now regarding our investment yield.

In the fourth quarter, we invested $443 million in investment-grade fixed maturities, primarily in the industrial and financial sectors. We invested at an average yield of 6.61%, an average rating of BBB+ and an average life of 23 years. We also invested approximately $114 million in commercial mortgage loans and limited partnerships that have debt-like characteristics at an average expected cash return of 8%. None of our direct investments in commercial mortgage loans involved office properties. These investments are expected to produce additional cash yield over our fixed maturity investments, and they are in line with our conservative investment philosophy.

For the entire fixed maturity portfolio, the fourth quarter yield was 5.23%, up 5 basis points from the fourth quarter of 2022 and up 4 basis points from the third quarter. As of December 31, the portfolio yield was also 5.23%.

Now regarding our investment portfolio.

Invested assets are $20.7 billion, including $18.9 billion of fixed maturities at amortized cost. Of the fixed maturities, $18.4 billion are investment grade with an average rating of A-. Overall, the total fixed maturity portfolio is rated A-, same as a year ago.

Our fixed maturity investment portfolio has a net unrealized loss position of approximately $1 billion due to current market rates being higher than the average book yield on our holdings. As we have historically noted, we are not concerned by the unrealized loss position as it is mostly interest rate-driven and currently relates entirely to bonds with maturities that extend beyond 10 years. We have the intent and, more importantly, the ability to hold our investments to maturity.

Bonds rated BBB comprised 48% of the fixed maturity portfolio compared to 51% from the year-ago quarter. While this ratio is high relative to our peers, we have little or no exposure to higher risk assets such as derivatives, common equities, residential mortgages, CLOs and other asset backed securities held by our peers. Additionally, unlike many other insurance companies, we do not have any exposure to direct real estate equity investments or private equities. We believe that the BBB securities we acquire generally provide the best risk-adjusted, capital-adjusted returns due in part to our ability to hold securities to maturity regardless of fluctuations in interest rates or equity markets.

Below investment-grade bonds remain low at $530 million, compared to $542 million a year ago. The percentage of below investment grade bonds to total fixed maturities is 2.8%. At the midpoint of our guidance, for the full year 2024, we expect to invest approximately $1.1 billion in fixed maturities at an average yield of 5.5% and approximately $440 million in commercial mortgage loans and limited partnership investments with debt-like characteristics at an average estimated cash yield of approximately 8.2%. As we have said before, we are pleased to see higher interest rates as this has a positive impact on operating income by driving up net investment income with no impact to our future policy benefits since they are not interest sensitive. Now I will turn the call over to Tom for his comments on capital and liquidity.

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

Thanks Frank. First, let me spend a few minutes discussing our share repurchase program, available liquidity and capital position. The Parent began the year with liquid assets of $91 million and ended the year with liquid assets of approximately $48 million. In the fourth quarter, the Company repurchased approximately 660,000 shares of Globe Life Inc. common stock for a total cost of $77 million. The average share price for these repurchases was $117.02. For the full year, we purchased 3.4 million shares for a total cost of $380 million at an average share price of $112.84.

Including shareholder dividend payments of $84 million, the Company returned approximately $464 million to shareholders during 2023. In addition to liquid assets held by the Parent, the Parent Company will generate excess cash flows during 2024. The Parent 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 $420 million to $460 million and is available to return to its shareholders in the form of dividends and through share repurchases.

Excess cash flows in 2024 are estimated to be higher than those in 2023, primarily due to anticipated higher statutory earnings in 2023 as compared to 2022, thus providing higher dividends to the Parent in 2024 than were received in 2023. The reason for this anticipated increase is due primarily to favorable life claims which are sufficient to offset approximately $50 million of realized losses in 2023. So, using the $48 million of liquid assets plus the $420 million to $460 million of excess cash flows expected to be generated in 2024, we anticipate having approximately $470 million to $510 million of liquid assets available to the Parent in 2024, of which we anticipate distributing approximately $85 million to $90 million to our shareholders in the form of dividend payments.

As mentioned 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 alternative -- other available alternatives. Thus, we anticipate share repurchases will continue to be the primary use of Parent's excess cash flows 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 generate new sales, transform and modernize our information technology and other operational capabilities as well as acquire new long-duration assets to fund their future cash needs. The remaining amount is sufficient to support the targeted capital levels within our insurance operations and maintain the share repurchase program in 2024.

In our earnings guidance, we estimate approximately $330 million to $370 million of share repurchases will occur during the year.

With regards to the 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%. As discussed on previous calls, our consolidated RBC ratio was 321% at the end of 2022. For 2023, since our statutory financial statements are not yet finalized, our consolidated RBC ratio is not yet known. However, we anticipate the final 2023 RBC ratio will be slightly above the middle of our targeted range without any additional capital contributions being made.

Now with regards to policy obligations for the current quarter.

As we have discussed on previous calls, we have included the historical operating summary under -- results under LDTI for each of the quarters in 2023 and 2022 within the supplemental financial information available on our website. In addition, we included an exhibit that details the remeasurement gain or loss by distribution channel. As also noted on previous calls, life and health assumption changes were made in the third quarter of 2023. No assumption changes were made in the fourth quarter.

In addition to the impact of assumption changes, the remeasurement gain or loss also indicates experience fluctuations. For the fourth quarter, life policy obligations were favorable when compared to our assumptions of mortality and persistency. The remeasurement gain related to experience fluctuations resulted in $13 million of lower life policy obligations and $4 million of lower health policy obligations, primarily a result of favorable claims experience versus expected. For the full year, encompassing both assumption changes and experience-related fluctuations, the remeasurement gain for the life segment resulted in $29 million of lower life policy obligations and $12 million of lower health policy obligations.

This is the second quarter in a row with life remeasurement gains greater than $10 million. We are encouraged by the short-term trend, and to the extent it continues, we would expect continued favorable remeasurement gains in 2024. The recent experience, as well as life mortality trends in the first half of 2024, will inform the third quarter 2024 update to our endemic mortality assumptions. Recall -- our endemic mortality assumption currently assumes returning to mortality levels slightly above pre-pandemic levels over the next few years. Recent trends, if they should continue, may indicate a quicker recovery than our current assumption.

So finally, with respect to our earnings guidance for 2024.

For the full year 2024, we estimate net operating earnings per diluted share will be in the range of $11.30 to $11.80, representing 8.5% growth at the midpoint of the range. The $11.55 midpoint is higher than our previous guidance and reflects recent favorable mortality trends continuing in 2024. Those are my comments. I will now turn the call back to Matt.

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

Thank you Tom. Those are our comments. We will now open up the call 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. So first, just on the remeasurement gains. What is your policy in terms of when you see actual experience, are you reflecting the entire variance in remeasurement gains in the given quarter or only a portion of it in any given quarter on the experience related gains and losses?

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

Jimmy, you reflect the full difference between what we had expected in our valuation assumptions versus what we actually incurred from claims and lapse experience in the quarter as it occurs.

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

Okay. But then you are not unlocking any assumptions that just happens when you do your annual review?

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

Yes. Our plan is to unlock assumptions in the third quarter. So for instance, we have seen 2 quarters of good experience -- mortality experience in the third quarter and the fourth quarter. We would like to see that -- the development of that fourth quarter experience as it moves into 2024. And then we would also like to see that continue in the first half of 2024 before we make a decision to inform our updates to our underlying assumptions.

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

Okay, and then on the health business, a few health insurers have seen a significant uptick in claims in Med Advantage plans and they are raising prices as a result. It does not seem like you have seen, at least not as much of an uptick in Med Supp claims. But what is it that you have seen? And do you expect any impact on Med Supp sales because of potential disenrollment from Med Advantage plans?

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

Yes. Just from a claims experience on Med Supp, we have seen some increased trend over the course of 2023 in both our individual and our group business, but more so on the group side. And then that subsided a little bit later in the year. We have reflected those trends into our rate projections for -- our rate increases for 2024. So, we continue to monitor that regularly and actually, whatever trend we are seeing will build into rates for the following year.

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

And then, Jimmy, I think your second question was related to sales. As we have mentioned in the past, as the Medicare Advantage plans -- and you saw people moving into that -- that had a little bit of impact on us. So, from a 2024 sales perspective to the extent that there is more disenrollment or, as you have mentioned, you are seeing some trends out there from the cost side as costs might be increased by competitors offering those plans. I think that could be a tailwind for us for our supplemental product. Our goal is really to keep steady in that market, and we see competitive pressures coming and going over a long period of time. So, our goal is really to keep steady and price for what we ultimately want to achieve and kind of ride out some of the short-term fluctuations from market dislocation.

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

Okay thanks and if I could just ask one more. There has been a lot of confusion about the Tri-Agency's rule on limited benefit health plans. Are any of your products in scope of that? And do you expect any impact on your business if the rule is not changed from the initial proposals?

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

Well, the Tri-Agency rule, the primary target was short-duration health plans, right? So we do not have any of those products in our portfolio. It did also bring in some supplemental health plans that we do sell. And -- but – there has been quite a bit of reaction to that Tri-Agency rule. And there's been comments from a broad spectrum of constituents, whether that be unions, employers, companies themselves. So, we are really waiting to see what actually happens within that ruling. We are expecting something to come out in April. And at the end of the day, we will make the changes that we need to make, depending upon what comes out in that rule. But we do not see it as having a very significant impact overall to our marketing efforts.

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

Okay, thank you.

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

Good morning, thank you very much. I see you updated your commercial real estate disclosures. Could you maybe talk about your outlook for 2024 maturities?

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

Yes. For 2024, we have about $70 million of our total direct commercial mortgage loans maturing. Of that is about $4 million of office buildings, and then we have about $35 million of mixed use, of which about $12 million is office. So, you kind of think the hotspot, of course, right now is what kind of office exposure is maturing here this next year. And so in total, between those 2, we do have about $16 million. Of what is maturing on average, it is below a 50% LTV and then none have over a 90% LTV on any that we have looked at. And about -- about $47 million, $50 million of those do have some continuing optional extensions. So, a good portion of those could get extended on into 2025 or beyond.

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

Thank you for that. My follow-up question. What does the outlook assume around the rate environment? Can you talk about sensitivity to the short end or floaters? Thank you.

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

Yes. Sensitivity on the rates of this particular asset class?

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

No, I am just talking generally within the outlook for net investment income.

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

Okay. Yes, we are taking -- over the course of 2024, we kind of see basically the benchmark, we kind of rely mostly on 30 year. It is kind of our benchmark. And so, I see that being relatively stable, but probably drifting downward over the course of the year. But right now, as you know, the spreads are extremely tight. Currently, we do expect that to expand a little bit over the course of the year as well. And so built into our guidance, we are expecting for our fixed maturities to be around 5.5%. It is a little bit lower than we had in 2023 and it is largely due to the declines in the spread. If you look at 2023, our benchmark was just a little bit over on average. Over the course of the year, a little over 4%, but we were getting nearly 200 basis point spreads on those investments. It has really tightened up here during the fourth quarter. So, we do not expect that high of spread continuing at this point in time, at least into 2024.

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

Thank you for the answers.

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

Hi thanks, good morning. First question was on American Income. I think if I look at the full year average producing agents that -- for 2023, it was up 12%. But sales were up 2%. And just curious what the disconnect there was? Is it first year agents needing to be trained to become more productive, or something else going on?

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

Yes. And I think 1 of the things to look at is just really the agent count growth accelerated in the last half of the year. So, if you just kind of look at that over a sequential basis, Q1 was 3.5%, Q2 was 8.5%, and then Q3 was 16% and 20% in Q4 from a growth perspective. So, the agent count growth really accelerated in the last half of the year, which bodes very well from a 2024 perspective. So usually, as we have talked about in the past, there will be a little bit of a lag from those new agents getting onboarded, trained and productive. Our more experienced agents are more productive than newer agents. And so that should carry forward into 2024 as we thought about our sales guidance. So, we generally look at that as a little bit of a timing lag.

One of the things, if you look over a long period of time, if you look at agent count it is directly related to sales count growth when you start looking at it on a -- a year or a multiyear basis. Our -- as an example, generally across all our agencies, our 5-year CAGR is within 1% of each other, our agent count growth and our sales growth. So, we really think about it on a long-term basis. Of course, we talk about it on a quarterly basis here on the calls, but I am very bullish on where I think 2024 is going to come out for American Income.

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

Thanks, and then I had a question on mortality. And I do not know if you look at it this way, but maybe stepping back and trying to remove LDTI from the equation. How does mortality look relative to where it did pre-pandemic at this point in 2023? I am just trying to get a sense of -- is mortality fully back to kind of where it was before the pandemic for the Company, even though the population is still seeing some excess mortality?

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

Yes. So, in the first half of the year, mortality was quite a bit higher. The remeasurement gains were quite a bit lower than we saw in the second half of the year. So there really does seem to be kind of a change that has happened in the third and fourth quarter. And kind of looking at the third quarter, it is coming much closer to pre-pandemic mortality levels.

And similarly with the fourth quarter, we would want to see the fourth quarter develop more fully to -- it takes a little bit of time for all the claims to get adjudicated and paid from that period. So, we would like to see those claims develop and continue actually into Q1 and Q2 to make sure that it is sustainable. But at this point, I would say it is getting fairly close to pre-pandemic levels. So that excess mortality seems to have dropped much more quickly than what our assumptions had anticipated.

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

One thing I would add to that is that I think we are generally pleased clearly with the -- what we were seeing here in the third and fourth quarters. And as Tom said, it was a little bit higher, or it was definitely higher early in the year. But we are seeing that improvement across all the distributions. And then as we look into it, we really are seeing it across all the issue years. So, it is a little bit kind of a broad-based improvement overall in the mortality, which I think that is favorable. And as Tom said, we clearly want to see how that kind of plays itself out here over the next couple of quarters and see if it continues in that fashion or if it was just a fluctuation that we have had here at the end of the year. So, we will see how that turns out.

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

Thank you.

Suneet Laxman L. Kamath - Jefferies LLC, Research Division - Equity Analyst

Yes thanks. You talked about an acceleration in recruiting in the second half of 2023. I guess as we think about 2024, is the plan to kind of keep the foot on the gas pedal there or maybe shift and focus a little bit more on productivity?

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

I would say it would be more of a shift toward -- we are still not going to take our foot off the gas from a recruiting perspective. But a lot of -- when we have such a significant growth, is really focused on getting those agents in, trained and retention. And then productivity is kind of a natural byproduct of the fact that they are better -- have more training, they have been there longer, have more experience. So, our focus is really on the retention and training that results in the higher productivity. And so just considering we have had this accelerated growth over the last half of the year, that is our real focus.

The other thing I am really pleased to see is our agent retention trends have been continuing to move up throughout 2023, and in fact, in American Income our agent retention trends are higher than 2019. So, from a pre-pandemic level, obviously, there were some disconnects during the pandemic. So, we kind of look at it -- where we were in 2019 and prior, and I am very happy to see that the retention efforts that we put in place at American Income are coming through in the stats that we are seeing, and those retention numbers are going up across all our different vintages from a hiring perspective. So, I think that is going to bode very well for 2024 performance as well.

Suneet Laxman L. Kamath - Jefferies LLC, Research Division - Equity Analyst

Got it. And then it looks like -- I think based on your comments, the RBC ratio is going to be in your range, maybe slightly above the midpoint. Is there a level of liquid assets at the holding Company that you just want to keep as sort of a buffer, just as we think about excess capital?

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

Yes. We tend to keep, $50 million to $60 million is our kind of target range for liquid assets at the Parent Company.

Suneet Laxman L. Kamath - Jefferies LLC, Research Division - Equity Analyst

Okay. Got it. And maybe if I could just sneak one more in. It looks like you tipped up your 2024 EPS outlook a little bit. Can you just unpack some of the drivers? It does not seem like it is investment income, but just curious what caused that bump up?

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

Yes. No, the biggest driver is continued remeasurement gains in our life segment -- is just what we have seen in Q3 and Q4. What we have tried to reflect in the guidance range is to reflect what we see as a potential continuation of those remeasurement gains as well as the potential impact of an assumption change in 2024.

Suneet Laxman L. Kamath - Jefferies LLC, Research Division - Equity Analyst

Got it. That is embedded in your outlook already?

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

It is embedded in our outlook. Yes.

Suneet Laxman L. Kamath - Jefferies LLC, Research Division - Equity Analyst

Perfect, thank you.

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

Hi good morning. Can you talk a little bit more about what is driving the high sales guide in the health segment? I know you have had very strong agent count growth, but is there any tailwind in the market or anything that is attractive about the market right now?

J. Matthew Darden - Globe Life Inc. - Co-Chairman & Co-CEO

Well, on Family Heritage, for sure, it is driven based on agent count. We rolled out a CRM system in 2023. So that helped on the productivity side. Overall, Family Heritage and including all of our exclusive agencies, we see continued positive momentum on the recruiting side. So, we are anticipating good recruiting growth in 2024. We do not see anything in the market out there that would suggest we should have different experience there.

And then on the Med Supp side, that is kind of market forces. Clearly, we had a very good -- very strong Q4 and what was nice to see is that was both on the individual side and the group side. A lot of times, those group sales can be lumpy, but that was very strong in Q4, but our individual Med Supp sales were as well. And so that is what I have mentioned earlier, depending on pricing and market changes out there, that is a highly price competitive market, the Medicare Supplement sales. We could see some additional tailwinds depending on what others in that marketplace do. Again, our course is kind of steady with our pricing targets and objectives and sometimes we are the beneficiary of that to the extent other folks are -- get back to profitability and adjust pricing accordingly.

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

Thank you, and then a follow-up on Suneet's question. You mentioned that the higher guide includes some of the life mortality coming through. Should we think about that being weighted towards the back end because you will review it in 3Q? Or how should we think about that coming through throughout the year? Thank you.

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

Yes. The remeasurement gains would continue in first quarter and second quarter, and to the extent that we make an assumption update, that would be in the third quarter. In the first quarter, usually mortality is a little bit higher, just because of seasonal flu, and so, we may see it a little -- we would expect a little bit higher mortality in that first quarter.

I mean .. the other thing is we still expect to see COVID deaths. So COVID is still out there. We expect that we would see 60,000 to 80,000 U.S. deaths in the U.S. next year. So that is still a factor as well. But I think you should expect to see, if trends continue, remeasurement gains in the first quarter and second quarter. We will revisit the assumptions and reset those in the third quarter, and fourth quarter remeasurement will probably be a little bit lighter.

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

Thank you.

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

Thanks, just a follow-up on Wilma's question on the remeasurement gains. The -- so if I heard you correctly, 38% to 40% margin guide on life. And in 4Q, when you had big remeasurement gains that was at 38%. So, it looks like it is a little bit above that at least midpoint in terms of where it has been trending. Is that -- is that because you have deferred part of them, and you are going to be getting the benefit through the amortization of those gains through earnings in 2024 or at least some piece of that? So, is it really just the deferred profitability that is emerging here that you are guiding to or are you assuming the remeasurement gains themselves actually get a little better or underlying experience gets a little better?

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

I would say, Tom, that you think about, as you say, it is kind of at the midpoint of that, right. We had in the fourth quarter of 2022, which is kind of where you would have set at that point in time, we had about a 38% margin in the -- overall for the life in the fourth quarter. That was kind of the expectations, if you will, of where that -- where that would have been -- what we would have expected from a margin on a long-term basis. And so, we had a little higher expenses -- and remember, we had a little higher expense and we talked about having higher amortization on our overall life business as we continue to capitalize and amortize renewal commissions. And so that was a little bit of a drag in 2023, and that was really offset with some of the favorable remeasurement gains that we saw in 2023.

So, we saw a little bit -- less than 0.5% increase, if you will, in that overall margin between 2023 -- and between 2022 and 2023. So, I think what we are anticipating from remeasurement gains and just improvement in that overall mortality is what you are seeing in that expectation for that margin, that margin improvement in 2024. So that is what is really driving that. So, we are still going to end up having a little bit higher amortization. We have talked about -- we will probably have between 0% to 0.5% increase in our amortization expense over the course of the next few years as we continue to capitalize and amortize those renewal commissions, especially at American Income. And then that's the higher margins really representing that better mortality, which is really going to manifest itself in the combination of those remeasurement gains over the course of the year.

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

That is helpful. So, a little bit of expense drag when you think -- which has maybe obscured the level of favorability due to the underwriting?

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

That is correct.

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

Now I just want to make sure I am thinking about it correctly, though. In a year like 2023, where you had -- particularly the back half where you had significant favorability of remeasurement gains, there is some piece of that -- of the experience that is getting deferred and then amortized back through earnings, I believe. Is that meaningful? And will that like meaningfully improve future earnings at all? Or is that not that meaningful because it gets amortized over such a long period of time?

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

It really is spread out over a long period of time. So, it is that spreading out over time is reflected in the obligation ratio and the percent of premium that we need to set aside to pay for future benefits. So, it is spread out over quite a long period of time. Yes.

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

Thanks, and then just one more, if I could. The -- so when I look at the dividends and share repo guidance for 2024, $440 million at the midpoint. That -- if I just solve for a free cash flow conversion ratio, it is only about 40% to 45% of your updated GAAP EPS guidance. And I recognize a Company like Globe that is growing faster than the average in the industry is going to have a good amount of capital consumed on writing new business. But the 40% to 45% is just way below the industry average. And curious if you have thought about exploring ways to improve that conversion ratio at all? Or is that just something because of the intensity of the commission and the life insurance business, you're just willing to live with?

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

Yes, Tom. I mean that is something that we are really taking a look at as to making sure that we understand what are those differences that we are seeing between our GAAP earnings and then the statutory earnings that are clearly driving that cash flow conversion. What portion of that is related to the growth that we are seeing in our agency businesses, right. Because that is a good portion of where we see those drags as we continue -- if they are having 10% to 15% growth years, that is a really good thing for the long term, but we need to make sure that we can articulate what that means from a cash flow conversion perspective as well as -- as we continue to make investments in our technology stack and proving -- making those investments that's setting us up for the future, what that really entails.

But we are also then taking a look at -- are there ways that we can manage that a little bit better in order to -- we would like to get to where we are probably closer to a 60% conversion rate. And not sure if we can -- what that would really take to get there, but it is something that we want to take a look at and make sure -- we have had -- in addition, we had the drag of the -- of the defaults and the capital losses that we had in 2023. So that is a drag here, a little bit on a cash flow conversion in 2024. And so, we will see where -- if we get past some of those headwinds, what that really looks like on a go-forward basis.

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

Okay thanks appreciate it.

Operator

As we have no further questions, I would like to turn the call back over to Stephen Mota for any closing remarks.

Stephen Mota-Globe Life Inc. - Sr. Director Investor Relations

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