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PRESENTATION

Operator

Morning all thank you for joining us for the CNO Financial Group fourth quarter 2024 earnings call. My name is [Carley] and I'll be coordinating your call today. (Operator Instructions). And then I turned over to your host, Adam Orville. The floor is yours.

Adam Orville - *CNO Financial Group Inc - Moderator*

Good morning and thank you for joining us on CNO Financial Group's fourth quarter, 2024 earnings conference call. Today's presentation will include remarks from Gary Bagiwani, Chief Executive Officer and Paul McDonough, Chief Financial Officer. Following the presentation. We will also have other business leaders available for the question and answer period. During this conference call, we will be referring to information contained in yesterday's press release.

You can obtain the release by visiting the media section of our website at cnoinc.com. This morning's presentation is also available in the investors section of our website and was filed in a Form 8-K yesterday. Let me remind you that any forward-looking statements we make today are subject to a number of factors which may cause actual results to be materially different than those contemplated by the forward-looking statements.

Today's presentation contains a number of non-GAAP measures which should not be considered as substitutes for the most directly comparable GAAP measures. You'll find a reconciliation of the GAAP non-GAAP measures to the corresponding GAAP measures in the appendix. Throughout the presentation, we'll be making performance comparisons and unless otherwise specified any comparisons made we're referring to changes between full year 2024 and full year 2023. And with that, I'll turn the call over to Gary.

Gary Bagiwani - *CNO Financial Group Inc - Chief Executive Officer*

Thanks Adam, good morning everyone and thank you for joining us, CNO delivered an exceptional quarter and full year financial performance showcasing our ability to grow the franchise while also growing earnings and improving profitability at the same time. 2024 was one of our best operating performances of the past several years, highlighted by sales records in both the consumer and worksite divisions.

This year's performance demonstrated our proven commitment to leverage our business model to enable sustained profitable growth, execute on our strategic priorities and drive ROE expansion. Our strong results were broad based across earnings, production investment results and capital.

We delivered our 10th consecutive quarter of sales growth, our eighth consecutive quarter in producing agent count and our most productive year ever for the banker live field force.

For the full year total new annualized premium was up 7% across the enterprise. Production records were set in both divisions and in multiple product lines which demonstrates the strength of our model to serve the varied needs of our middle income consumers. I'll cover these results in more detail in each division's comments. Our sustained sales momentum continued to translate into earnings growth.

Operating earnings per diluted share was \$3.97 an increase of 28%. Excluding significant items the increase was 40%. Earnings results were further supported by strong underwriting margins, favorable net investment income and expense discipline. New money rates have exceeded 6% for eight consecutive quarters now. Paul will go into greater detail on our financial performance.

Capital and liquidity were well above target levels while we returned \$349 million to shareholders this year a 50% increase over 2023. And for the 12th year in a row, we raised our quarterly common stock dividend book value per diluted share excluding AOCI was \$37.19, 10%. Additional highlights of our full year performance include growth in nearly all product categories.

Continued strong capital position and free cash flow generation and an all time high share price. Turning to slide five in our growth scorecard. All but one of our growth scorecard metrics were up for the quarter and for the full year. As a reminder, our growth scorecard focuses on three key drivers of our performance. Production, distribution and investments in capital.

I'll discuss each division in the next two slides. Paul will cover investments in capital during his remarks. Beginning with the consumer division on Slide 6. Our consumer division delivered an outstanding year capped off by our ninth consecutive quarter of sales growth. We executed well and delivered record sales across multiple product categories.

Consumer division total NAP was up 5% for the full year led by 10% sales growth in field agent NAP. Health NAP was up 18% for the year on the continued strength of our new and enhanced products. Medicare supplement NAP was up 26% for the year and Medicare Advantage policies sold were up 14%. Our field delivered another strong Medicare annual enrollment period. We submitted a record number of MA policies in the quarter up 39%.

MA certified agents were up 8% and we added seven new MA carriers bringing our total plan sponsors to 21. As a reminder, Medicare Advantage sales are not reflected in that. Persistency in both MedSupp and MA has consistently improved over the last few years due in large part, the lasting relationships that are exclusive agents build with the clients. Medicare products serve as a meaningful introduction point for customers to meet local agents who can help address additional retirement planning needs.

Long term care net was up 35% for the year. We continue to see a growing need for this product within our target market. As a reminder, our LTC products are designed for the middle market consumer. 99% of the policy sold have benefit periods of two years or less and more than 90% have benefit periods of one year or less. These plans cover essential costs for 1 to 2 years and offer a balanced affordable approach to funding care. Live production was down for the year driven by direct to consumer television advertising.

In line with previous election years, when leads costs were high, we remain disciplined and opportunistic in our approach to managing our D to C marketing spend. Annuity collected premiums were up 13% for the year capping off two consecutive quarters of record sales.

The long term relationships are exclusive agents established with their clients also adds stability to our annuity block. The fourth quarter represented our seventh consecutive quarter of brokerage and advisory growth. For the full year client assets in brokerage and advisory were up 28% to a record \$4.1 billion and new accounts were up 13%. When combined with our annuity account values, our clients now entrust us with more than \$16 billion of their assets up 11% from 2023.

The strength of our agent distribution fueled our sales momentum in 2024. Producing agent count was up 8% for the year with meaningful gains in recruiting, productivity, and retention. The fourth quarter of 2024 marked our eighth consecutive quarter of producing agent growth for the

consumer division. Technology investments continue to enable sales growth and operational efficiency in the division highlights included web and digital channels generated 30% of our full year direct to consumer NAP.

Myhealthpolicy.com, our Medicare health insurance technology platform processed almost 90% of all MA policies we sold during the AP. An accelerated underwriting on a portion of our simplified life products delivered a nearly 80% decision, instant decision rate on submitted policies. The consumer division delivered an outstanding year and I'm very pleased with the results.

Our unique capability to marry a virtual connection with our established in person agent force will complete the critical last mile of sales and service delivery remains an attractive and valuable differentiator. We expect our differentiated offerings to continue to generate sustained sales and agent for growth in 2025. Next, slide 7 and the work site division performance.

Our worksite division finished the year very strong with record full year insurance sales up 16% and record fourth quarter insurance sales up 23%. This represents our 11th consecutive quarter of insurance growth. New products and strategic growth initiatives contributed significantly to our strong work site map performance. I'll share year end results on three programs in particular. First, new insurance products generated double digit sales growth in 2024.

Critical illness was up 24%, accident was up 13% and hospital indemnity was up 20%. Second our geographic expansion initiative contributed 35% of the total work site nap growth for the year and 38% of NAP growth in the quarter. As a reminder, this initiative targets areas where we've identified strategic opportunities to grow our market share and footprint.

This is the fifth consecutive quarter of growth generated by this program. Lastly, NAP from new group clients was up 78%. This initiative helped agents cultivate and acquire new employer groups for insurance sales. We remain bullish on all three programs and expect their momentum to continue into 2025. The sales were up 37% for the year and up 12% for the quarter off of a small base.

As a reminder, this metric reflects the annual contract value of benefit services sold and is a leading indicator of fee revenue growth. Producing agent count was up 8% for the year capping off 10 consecutive quarters of growth. Recruiting was up 14% for the year and retention remains strong. As I mentioned previously onboarding new agents while simultaneously maintaining agent productivity is not easy.

Our results highlight both the caliber of our work site field force and the career opportunity we offer. I am pleased with work site steady growth, record sales and recruiting momentum over the past year. The division's solid performance illustrates the value that employers recognize in our integrated insurance and benefit solutions. Opportunities still exist to maximize the fee, business and drive cross sales. We remain confident in our strategic plan for work site and our ability to execute on it. And with that, I'll turn it over to Paul.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Thank you, Gary and good morning, everyone. Turning to the financial highlights on Slide 8, we certainly finished the year strong with operating earnings per share excluding significant items of 41% in the quarter and 40% for the year. The operating return on equity ex significant items improved by 280 basis points.

The results reflect growth in the business, higher interest rates and investment returns and strong insurance product margins coupled with disciplined expense and capital management. Admittedly, the results also reflect a year of mostly puts and very few takes in our insurance product margin. On a run rate basis we estimate the full year operating return on equity at about 10%.

Our expenses were in line with expectations with the incentive comp accrual pushing the expense ratio to the high end of our guided range. We deployed \$282 million of excess capital on share repurchases in the year. Accelerating our capital return in the wake of the debt issuance back in May.

This represents a 70% increase from the prior year and contributed to a 6% reduction in weighted average diluted shares outstanding. It also reflects the strong underlying free cash flow dynamics of the business. Turning to Slide 9, in general sales growth together with higher interest rates are translating to growth and insurance product margin across all three of our product categories.

Drilling down a bit, our supplemental health and long term care margins both continue to benefit from favorable morbidity in the quarter as they have for much of the year, reflecting claims trends that are within our expected range of outcomes but favorable to what we would consider a sustainable run rate. In addition, for a third consecutive quarter, though to a lesser degree, other annuity margins benefited from reserve releases due to higher mortality on larger closed block policies. We do not expect this favorable impact to continue. Our estimated run rate operating return on equity of about 10% in 2024 adjusts for the insurance product margin out performance in 2024 in these three product lines.

Turning to slide 10, the new money rate was 6.72% setting the high water mark for the year and the eighth consecutive quarter above 6%. The average yield on allocated investments was 4.87% up 19 basis points year over year. The increase in yield along with growth in the business drove a 7% increase in net investment income allocated to products for the quarter.

Investment income not allocated to products was up 70% primarily due to a \$28.1 million dividend from our investment in Rialto capital. Alternative investment results met yield expectations in the quarter, we completed a \$450 million 3 year FABN offering in the quarter, the third FABN offering this year bringing total 2024 issuance to \$1.6 billion.

Total investment income was up 16% for the quarter and 9% for the year. Our new investments in the quarter comprised approximately \$820 million of assets with an average rating of single A and an average duration of just under 6.5 years. Our new investments are summarized in more detail on slides 22 and 23 of the presentation. Turning to slide 11, the market value of invested assets grew 12% from the prior year with roughly half of the growth the result of recent FABN issuances and the other half due to growth in the business.

Approximately 96% of our fixed maturity portfolio at quarter end was investment grade rated with an average rating of single A reflecting our up in quality bias over the last several years. Turning to slide 12, our capital position remains strong. At quarter end, our consolidated risk based capital ratio was 383%. Available Holdco liquidity was \$372 million, well above our target minimum reflecting the debt issuance completed in May as well as continued strong free cash flow to the Holdco.

We generated \$284 million in excess cash flow to the holding company for the year exceeding the high end of the guidance range provided on the third quarter call and well above the original guidance provided last February. This result demonstrates the enterprise's significant ability to generate free cash flow. Leverage at quarter end was 32.1% as reported adjusting for the senior notes that will be paid off at maturity in May of this year leverage at quarter end was 25.6%.

Turning to Slide 13, in our 2025 guidance. As I mentioned, we estimate our run rate operating return on equity at about 10% in 2024. From that baseline, we expect to improve run rate operating ROE by 150 basis points over the next three years including 50 basis points in 2025. In other words, we expect to generate an operating return on equity of about 10.5% in 2025 and about 11.5% by 2027.

We expect 2025 operating earnings per share between \$3.70 and \$3.90. We expect the 2025 expense ratio to be between 19.0% and 19.4% with the midpoint in line with 2024 and inclusive of some pressure from expenses related to exploring a second reinsurance treaty with our Bermuda Company and by an IT initiative that I'll touch on further in a moment.

We expect the seasonality of the expense ratio to follow a quarterly trend similar to the last two years starting at the high end in the first quarter and then grading down through the year. We expect improved results in net investment income not allocated driven by our standard assumption that our alternative investments will generate a return in line with our long term run rate assumption in between 9% and 10%.

And we expect a modest decrease in fee income notwithstanding continued growth in Medicare advantage sales driven by a sales mix shift to smaller Medicare advantage providers which puts pressure on fee income in the near term. In addition, we are making investments in the service side of our work site business, which is also putting pressure on fee income in the near term.

We again expect roughly a quarter of the full year fee income in the first quarter and the balance in the fourth quarter with the 2nd and 3rd quarters roughly break even. We expect 2025 access cash flow to the holding company to be between \$200 million and \$250 million. Consistent with prior years. We expect the 2025 effective tax rate to be 23% and we will continue to manage to a consolidated risk based capital ratio of 375% in our US based insurance companies minimum Holdco liquidity of \$150 million and target leverage between 25% and 28%.

In addition to these high level metrics for 2025 and our projected return and equity improvement over the next three years. We want to preview an initiative that will be starting in Q2 of this year. It is a three year project to modernize certain elements of our technology, enabling continued growth of the business over the long term. It will result in a more stable and agile technology stack leveraging AI and cloud which would position us to more effectively leverage new technologies in order to speed up product development, enhance the agents experience and improve customer service.

The initiative is expected to cost approximately \$170 million over three years including approximately \$60 million in 2025. That \$60 million in '25 is reflected in our excess cash flow to the Holdco guidance for 2025. In terms of the accounting for this initiative, a small portion will be capitalized and amortized through operating income over time. A small portion will be expensed as incurred through operating income as mentioned, this is putting some pressure on our expense ratio in 2025.

The majority of the costs will be expensed as incurred but excluded from operating income and included as a component of non operating income. The expenses excluded from operating income are discrete expenses one time in nature related to the three year initiative largely paid to third parties as well as some asset write offs. They are clearly above run rate expenses during the project period and do not continue beyond the project period.

In closing, I would emphasize that all of the 2025 guidance metrics and the three year return on equity improvement metrics are inclusive of this technology investment. In other words, we expect to improve sales and earnings and expand return on equity over the next three years while also investing for the long term benefit of the company. And with that, Gary, I'll turn it back to you.

Gary Bagiwani - CNO Financial Group Inc - Chief Executive Officer

Thanks Paul, turning to Slide 14. As you have heard us discuss over the last several earnings calls expanding ROE is the next step in the strategic evolution of CNO. Before 2019, our fix and focus strategy was aimed at strengthening and fortifying our balance sheet. That phase culminated in our successful long term care reinsurance transaction and an upgrade to investment grade ratings.

Around 2020, we turned our attention to restarting our sales engine. We completed the strategic transformation of our business units to realign our operating model with changing consumer behaviors. Our consumer and worksite divisions were the result of these efforts. With 10 consecutive quarters of growth our sales momentum is strong. These building blocks create the strong financial foundation CNO enjoys today.

From 2024 onward, we have been positioning CNO for growth and optimizing the results. As Paul shared in our 2025 guidance, we expect to generate 150 basis points of operating ROE improvements over the next three years. It's critical to note that we expect to deliver this improvement while continuing our sales momentum and investing back into the business to enable long term growth.

We're using multiple levers from across the enterprise to deliver these results. This slide highlights a representative sample of initiatives already in place. I won't address them all but we'll share thoughts on a handful. Number one, brokerage and advisory. Generating retirement income is a critical need for our market we expect the demand for these services to accelerate.

Number two new products, consumers have embraced our new and refreshed product offerings. Significant additional opportunities remain to leverage our product portfolio. Number three, CNO Bermuda Re. We are pleased with our initial treaty and remain committed to working with regulators on future opportunities to do additional business in Bermuda.

Number four, modernizing our technology. As Paul referenced, we're investing in our technology to enable growth now and in the future, upgrading systems will bring enhanced stability and efficiency to our tech foundation. We're positioning CNO for long term growth and none of this would be possible without the outstanding team we have at CNO.

How our team executes and the capabilities of our leadership and associates drive our success. We also recognize that our ROE target for the next three years is a mile marker on the path and not our final destination. As our track record has demonstrated, we fully intend to keep leveling up as we advance CNO's growth story.

Turning to slide 15, CNO had exceptional full year financial performance in 2024. We demonstrated our ability to grow the franchise while also growing earnings and improving profitability. We once again enter a new year with considerable sales momentum and a growing agent force.

Our capital position, liquidity and cash flow generation remains strong. CNO is well positioned to continue profitable growth and drive ROE expansion in 2025 and beyond. We thank you for your support of an interest in CNO Financial group. We will now open it up for questions operator.

QUESTIONS AND ANSWERS

Operator

Thank you would like to open the lines for Q&A. (Operator Instructions). John Barnidge of Piper Sandler.

John Barnidge - Piper Sandler - Analyst

Good morning. Thank you for the opportunity. How should be thinking about buybacks as student and guidance? You offered a exit free cash flow guidance as well, some further call and that would be helpful. Thanks.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Good morning John. It's Paul. So I think you should, you can, you should consider the free cash flow guidance together with the excess cash position relative to our minimum Holdco liquidity at the end of '24. I think that gives you a sense for share purchase capacity in 2024 absent more compelling uses of that capital. I think I think I'd leave it there.

John Barnidge - Piper Sandler - Analyst

Thank you. My follow up question. Distribution's been good geographic expansion. It looks like it contributed 38% of nap growth in Q4, 35% of the full year. How much additional geographic expansion opportunity is there? Thank you.

Gary Bagiwani - CNO Financial Group Inc - Chief Executive Officer

The short answer, John is a lot. We think we're at the front end of this. We're very pleased with what our results have been so far. And we're always just trying to balance this against expense discipline. So we see tremendous potential particularly in our worksite business. Our consumer division has a very well developed national footprint. Our worksite division is considerably smaller.

If you think about the dedicated agents, we have our work site division literally has 1/10 the number of agents. So that gives you a sense now. Do I believe that the work site division has the potential to have all of the same footprint? No, I think that's neither wise nor necessary, but I think there's a lot more upside left. I'm very encouraged by what the geographic expansion has yielded and I think there's lots more upside.

John Barnidge - Piper Sandler - Analyst

Thank you.

Gary Bagiwani - CNO Financial Group Inc - Chief Executive Officer

Thank you very much.

Operator

Ryan Krueger of Keefe, Bruyette & Woods.

Ryan Krueger - Keefe, Bruyette & Woods - Managing Director

Good morning. First just wanted to ask Paul, I think you mentioned you were valuing additional Bermuda opportunities. Can you give us any more sense of what you're considering there?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Sure. Good morning Ryan. So I don't want to get ahead of the process. So I won't provide any specifics, but yes, we are, very closely evaluating what the opportunities are prioritizing those opportunities. You know, our focus over the last year or so has been to just establish the team in Bermuda.

You know, develop the relationships on island, including with the Bermuda Monetary Authority. We're in a good place there. We've got an established team. You know, they're hitting their stride and you know, so now our primary focus is to you know, look for opportunities to leverage that platform, beyond the initial treaty.

Ryan Krueger - Keefe, Bruyette & Woods - Managing Director

Thanks. And on in fixed annuities, particularly fixed index annuities, you saw surrender rate, moderate in the fourth quarter back towards historical levels and also pretty strong sales activity. Can you can you give us some color around what you're seeing there? And if you think this will kind of continue into 2025.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

You're right, I'll comment on the surrenders and then, and then Gary can comment on more broadly on sales activity. So the surrenders are down a little bit from sort of the high water mark. Last year. I wouldn't say they got back to where they were a couple of years ago, but they've come down a little bit and seem to have stabilized at the, at the current level. And then Gary I'll turn it over to you on the sales going forward for.

Gary Bagiwani - CNO Financial Group Inc - Chief Executive Officer

Yeah. Thanks, Paul and Ryan. Thanks for the question. We feel very bullish about the opportunity you have, we have with annuity sales. We think that the demographics are with us, meaning the number of people that are retiring or turning 65 every day continues to be growing. We're hitting your the peak of that. So we expect that to continue. There are fewer and fewer alternatives offered, meaning pensions and, and other things that offer lifetime income are virtually non existent anymore.

So we think when you take those things together, particularly for middle income, America, specifically the population we service. We think that there's going to be a continued demand. Now, we've had a really good run and in my experience, the real world doesn't move in a straight line. The comps are getting tougher for us. So those will certainly present headwinds. But I think if you look at a longer term trend, let's call it 3 to 5 years.

I think you're going to continue to see very robust growth will a given quarter here there not match up to a previous year's quarter. I'm sure that's going to happen just because our comps are getting tougher, but in the aggregate demand will be strong. Our clients need these products. Our agents love using them because they're such a useful tool. So we see a really bright future for annuities for middle income America.

Ryan Krueger - Keefe, Bruyette & Woods - Managing Director

Thank you.

Operator

(Operator Instructions). Wilma Burdis of Raymond James.

Wilma Burdis - Raymond James - Chartered Financial Analyst

Hey, good morning. Could you give us a bit of a breakdown on the tech investments? Is it, kind of platforms, consultants implementing systems, other items? And then just could you talk about a few of the use cases for the tech and AI investments? Thank you.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Sure, good morning. Well, I'll start off and then I'm sure Gary will provide some color, right? The primary focus of this this investment. This initiative is converting various legacy policy admin platforms and select foundational systems from mainframe systems to cloud based SaaS solutions. And you know, with the new platform, we'll be able to evolve with the quickly changing gen AI landscape and in general, it will allow us to adopt and leverage new technologies more fully in the future.

Gary Bagiwani - CNO Financial Group Inc - Chief Executive Officer

Yeah, I maybe I can just supplement that. I think the way to really think about this is, is exactly what Paul touched on getting away from historical. So and in some cases, these were things that, that have been built at home, so to speak. Getting away from these mainframe platforms, we really need to position ourselves to where we can offer consumers and agents, the new kinds of technology and flexibility that they expect and we just can't keep building them on these old systems.

We have to have newer systems that are cloud based, that are software as a service based and so on to give us that flexibility. So really the way it's been explained to me is a non tech guy. This is us building a new foundation that we can put other new features on top of. We can't put, keep putting these new features, these new bells and whistles on top of an old foundation, it just doesn't work anymore.

As a side note, I would just add that as a 30 year insurance executive. I think virtually all insurers have some version of this challenge that they have dealt with or need to deal with. This is not a unique thing to see, technology has changed so much in recent years and it's just imperative that we get on that new foundation so that we can have these new features and benefits Wilma does that, does that clarify what you were looking for?

Wilma Burdis - *Raymond James - Chartered Financial Analyst*

Yeah, that did, that definitely helped. And then it's, it's great to see the three year guys with the ROE improvement. You realize there's a lot of pieces, small moving pieces and you've talked about many of them, but maybe just help us think through what gives you the confidence. Are there some, some of those small pieces that you can identify? And it, certainly sounds like this platform investment will probably help streamline things as well. So maybe if you could talk about all that. Thanks.

Gary Bagiwani - *CNO Financial Group Inc - Chief Executive Officer*

Yeah. Well, maybe, maybe I can start with kind of, I'm sorry, go ahead, Paul. Did you want to start?

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

No, please go ahead.

Gary Bagiwani - *CNO Financial Group Inc - Chief Executive Officer*

Okay. I think I'm just going to start maybe with some general comments about how we think about guidance, kind of a little bit, maybe more philosophical and then I'll let Paul fill in so some specifics. I think that one of the things that we're particularly mindful of within C&O is we're really careful about the commitments we make, particularly when we make them in a public setting and, and I know that sounds obvious, but if you look over the last five years, I think what you'll see is we've been very cautious about when we provided guidance and the types of things we've provided guidance about.

So we've been very disciplined about making sure that we were committing to things that we really had a strong belief in. And I think if you take a look at our track record, I think we got a pretty good track record of when we say we will do it actually delivering it. But, but we're really careful about that. I think on the ROE in particular because that's the biggest thing that we've gotten feedback from our shareholders about was providing more visibility into that.

This is something we've been working on for quite some time as you know, ROE is one of our incentive comp metrics. So we've always had attention it, but really being able to get to a point where we've got good line of sight and we feel like we've got the ability to execute against it. We feel like this is the natural point in our evolution. In other words, I'm saying all that to make the point that it was very intentional that we didn't provide guidance prior. We feel like we're in a place now where we've got good line of sight, good credibility, the right people and so on.

So we feel good about our ability to do those things. There are a number of things, if you take a look at that slide that I spoke to, in terms of levers, we're pulling to get there, whether it's re-exploring our reinsurance, whether it's thinking about how we'll handle our capital, whether it's the expense discipline, there are a number of different things we're looking at to make sure that we can perform against that commitment or that guidance. Paul, do you want to add any more specifics to that?

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

I guess I had a couple of comments on. So we're not going to give you specific guidance beyond '25 in terms of what drives that additional improvement. But I would emphasize that, the sales growth over the last couple of years and the sales growth that we expect will continue over the next, foreseeable future together with sort of higher for longer interest rates, let's imagine the 10 year settles in here at about 4.5 and stays there maybe goes higher, who knows? I don't imagine goes a much lower, that that's a compounding tail end. So that's part of it.

There are things that we're doing in '25 that don't really begin to show up until '26 in terms of driving our expansion. There are additional things that we have line of sight on that we'll do in '26 that'll help a little bit in '26 and more in '27. So it's all the things that are, referenced or alluded to

and in the last slide of our deck, the thing, all the things that Gary just talked about in aggregate, you know, give us a lot of confidence in hitting this, this, you know, three year ROE metric that we put out.

Wilma Burdis - *Raymond James - Chartered Financial Analyst*

Okay, thank you.

Operator

Thank you very much. Suneet Kamath of Jeffreys.

Suneet Kamath - *Jefferies - Research Analyst*

Great, thanks. So first on the, on the tech investment, we got the \$170 million over three years, but I don't recall, I don't know if you quantified what savings element associated with that would be and sort of over what time frame. And then Paul, it sounds like a lot of this will be excluded from operating results. But then I thought you had said it's all embedded in the ROE. So I just wanted to understand what's going on there.

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

Yeah. Good morning Suneet. So first of all, this isn't really a cost play. We don't, expect this to translate to significant cost savings, but it's also not, the run rate of our technology will be no better or worse for this for this investment, but it creates a more stable platform that allows us to leverage current technology as Gary was talking about. Yeah, so that's really the play.

It's not a cost play. It's an investment that enables long term growth of the business, right? We're at a point in our evolution as a company where we need to make these kinds of investments. And as Gary said, by the way, many of our peers, will also you know, as an industry, we've got some sort of aging systems that are mainframe based and don't really allow you to leverage some of the newer technology. We're making this investment to enable long term growth. So that's, that's really it.

And then in terms of, you know how it will flow through. Yes, the majority of it we will characterize as non operating. We'll give it a lot of visibility as a component of non operating. And all of the guidance in '25 is inclusive of the impact on operating income, the impact on equity, the impact on free cash flow, the Hold code so that, 225 at the midpoint, free cash for the flow of the Holdco's after investing \$60 million in tech mod in 2025.

Suneet Kamath - *Jefferies - Research Analyst*

Got it. Okay. And then just on for me to just at a high level, it does seem like a lot of life insurance companies are using this opportunity. And I guess I worry when I see so many companies doing it at some point, just for me to kind of raise its hand and say kind of enough, is enough or just getting these treaties approved, just takes longer. Just curious if that's a concern that you have or, you know, how we should think about it? Thanks.

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

I don't, I don't foresee that being an issue in Bermuda. I mean, it's a the market that operates, I think, very effectively, very efficiently. And, you know, a regulatory regime that, that works well also that I think has, lots of capacity for growth. So I don't see that as an issue. I think, that's why so many companies have moved business there and I think I expect that trend will continue.

Suneet Kamath - Jefferies - Research Analyst

Thanks.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Thank you very much.

Operator

(Operator Instructions). Our next question comes from Jack Ma of BMO. Jack. Your line is not open.

Jack An - BMO - Analyst

Hi, good morning. Just a question the excess cash flow outlook and I understand that you're coming off a very strong 2024 baseline. If I think about the \$200 million to 250 million range, could you just discuss some of the drivers there? And I know you mentioned that some of the IT investments are flowing through. Then the other moving piece that might cause you to reach the higher end versus the lower end of that range.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Sure morning Jack. You know it's just a reflection of the dynamics of the business there, obviously lots of moving pieces that that determine our estimate of a free cash flow. I think it reflects a balance of commitment to organic growth at healthy slash reasonable pace, investments that we're making in the business like tech mod.

And you put all that together and this 200 to 250 is what you get in terms of, what causes you to be at the low end of the high end. It's primarily the pace of organic growth, the economic climate, if you tip into a recession that causes some credit migration down, which results in higher capital charges. And then the third, sort of primary element is the degree to which we, take more or less risk inside of our investment portfolio.

Jack An - BMO - Analyst

Got it. That makes sense. Thank you. And I just to follow up on the IT initiative and I heard the commentary about it not being, a pure kind of expense saving program. There's, there's more to it, but I guess given kind of the operating leverage you might expect to get over time. Is there maybe like a longer term like expense ratio that we should think about relative to the 19 to 19.4 for this year? I mean, should we expect that that ratio to keep coming down over time and just any other color on the benefits of the, of the program that you might expect?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

So in the long run, expenses broadly, not, not just this IT initiative. I would expect our expense ratio to come down as we grow as we develop more operating leverage. You would expect that, that's a lever that would help. And, and you'd see that move down. No, it's not moving down 24 to midpoint of our guided 25 largely because of, on the margin, some pressure on operating income and this operating expense ratio from tech mod some pressure on the margin. You know, from expenses related to exploring additional sessions to the Bermuda company.

Right, that takes some time and money before you can actually get to something that you're proposing to the Bermuda Monetary Authority. So it, in my mind, it reflects the balance, that we're trying to get to between growing the business, investing in the business, but also growing earnings and improving profitability. You know, so I think probably, maybe flat for a while in the context of that balance. But at some point, certainly moving down.

Jack An - BMO - Analyst

Thank you.

Operator

Thank you very much. Wes Carmichael of Autonomous.

Wes Carmichael - Autonomous - Chartered Financial Analyst

Hey, thanks, good morning. On long term care, Paul, I think in your commentary on getting to the run rate. ROE, the 10% here, LTC has been pretty favorable relative to run rate levels. You had margin of \$133 million in 2024. Any help with how you're thinking about, what core earnings power would be. And I'm not really looking for a guide, but maybe in terms of how much uplift that had on ROE versus the 10% would be helpful.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Right? So, the three adjustments that we're making are two annuities, which or sorry, other annuities, which we really expect kind of one or \$2 million per quarter. And we got a lot more than that in the, in 2024. So that's the one adjustment and then the other is to margin in LPC and sub health. So you can kind of do the math and, and the adjustments we're making there to get to something around 10% in 2024.

And what's happening there is, our experience has been, quite favorable really at the sort of the high end of the range of expectations. And, that we don't expect that to always happen or continue forever. You know, we expect some reversion to the mean and, and that's what we're assuming will happen in 2025. That's, part of the basis for the '25 guidance.

Wes Carmichael - Autonomous - Chartered Financial Analyst

Got it. Thanks and, and Gary, I think you mentioned in your prepared remarks and new and refreshed product offerings. What, what are you seeing in the near term? What do you see consumer demand and maybe attractive margins for CNO from your perspective?

Gary Bagiwani - CNO Financial Group Inc - Chief Executive Officer

Yeah, thanks for the question. We've had really good fortune in the in the products we have refreshed. We've seen a good demand on the annuity side. We launched some new features on the work site side. We lost, launched a number of new products and we've seen good reception to all those. As we move forward here with our tech mod, we'll continue to look at products.

But to be honest, for the next two or three years, I don't envision us doing major product launches because we need to keep the organization focused on effectively executing against this technology modernization initiative. So I would expect for the next 2 to 3 years, any product enhancements we make to be more tweaks than, than full on you know, new launches.

I think there's opportunity to do that. I think there's bandwidth within the organization to handle those types of modifications, but I don't see us doing major launches while we're in the thick of this technology modernization initiative. Thank you.

Operator

Thank you very much. We currently have no further questions. I'd like to hand back to Adam or for any closing remarks.

Adam Orville - *CNO Financial Group Inc - Moderator*

Thank you operator and thank you all for participating in today's call. Please reach out to the investor relations team. If you have any further questions, have a great rest of your day.

Operator

We conclude today's call. We'd like to thank everyone for joining you. May now disconnect your lines.

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