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PRESENTATION

Operator

Hello and welcome to today's CNO Financial Group's Third Earnings Results. My name is Bailey and I'll be your moderator for today's call.

(Operator Instructions)

I would now like to pass the conference over to our host, Adam Auvil. Please go ahead when you're ready.

Adam Auvil - *CNO Financial Group, Inc. - VP of Corporate Development*

Good morning and thank you for joining us on CNO Financial Group's Third Quarter 2022 Earnings Conference Call. Today's presentation will include remarks from Gary Bhojwani, 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 could obtain the release by visiting the Media section of our website at cnoinc.com. This morning's presentation is also available in the Investor section of our website and was filed in a Form 8-k yesterday. We expect to file our Form 10-Q and post it on our website on or before November 4.

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 presentations contain 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 non-GAAP measures to the corresponding GAAP measures in the appendix. Throughout the presentation we will be making performance comparisons and unless otherwise specified any comparisons made will be referring to changes between third quarter 2022 and third quarter 2021.

And with that, I'll turn the call over to Gary.

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Thanks, Adam. Good morning, everyone and thank you for joining us. Turning to Slide 4 and our third quarter performance. We reported operating earnings per share of \$0.49. Our underlying business results are stable with insurance product margins performing as expected. Strong new money rates in the quarter lead to sequential growth in our yield on assets allocated to products, reversing a long-term trend of declining portfolio yields.

Gradually declining yield on historically low new money rates over the last several years have offset growth in assets, thereby constraining investment income results. We are cautiously optimistic this inflection point signals stabilized yields in the portfolio. Our focus remains squarely on accelerating sales growth and agent productivity. We delivered strong sales performance this quarter in Life and Health NAP, annuities, direct-to-consumer businesses and Worksite insurance sales.

Strategic investments and product enhancements in our consumer and Worksite Divisions have positioned us well to capture year-end sales and enrollment opportunities. We returned \$26 million to shareholders, including \$10 million in share buybacks. We reduced the weighted average shares outstanding by 10% since the third quarter of 2021.

Our key capital ratios are at or slightly above target levels, reflecting the robust capital generation capacity of the enterprise and disciplined capital management. Our balance sheet is strong and enables our ability to navigate the changing economic environment. We increased book value per diluted share, excluding AOCI by 15%.

Turning to Slide 5 in our growth scorecard. Continued strong production in the quarter demonstrated the depth and resiliency of our model. I'll touch on the specifics by division in the next 2 slides.

Beginning with the consumer division on Slide 6. We are pleased with our production results. As in previous quarters, we continue to achieve strong growth in both our annuities and direct-to-consumer business. Life and Health sales were flat to prior year against the tough comparable. Last year, we achieved record sales in the State of Washington as a result of legislation that requires workers to contribute to a state sponsored long term care fund unless they receive an approved exemption for owning private LTC insurance.

Adjusting for the sales Life and Health NAP was up to 3% year-over-year. Direct-to-consumer life sales were up 4%, the 6th consecutive quarter of sales growth. This channel continues to benefit from efficiencies in advertising spend and policy conversion rates as well as enhanced distribution. As we have mentioned, our approach to Medicare includes our manufactured Medicare supplement plan and a large slate of third-party Medicare Advantage and Part D prescription drug providers.

During the quarter, we continue the rollout of our new Medicare supplement plans. This product is more competitive and is now available in nearly every state. As compared to the previous quarter, Med Supp NAP is up 16%. We continue to expand the number of Medicare Advantage carrier plans that are available through our myHealthPolicy platform. This platform enables customers to buy plans through direct enrollment online, through our tele sales operations or through our field agents via a newly operationalized pilot program. I will cover this program in greater detail shortly.

For the quarter, Medicare Advantage sales, which drive fee revenue are up 26%. Reminder, our fee business is not reflected in NAP. We are capitalizing on a strong Medicare annual enrollment period which began on October 15 and runs through December 7. We recently operationalized a pilot that instantly connects consumers responding to one of our marketing campaigns to a Bankers Life agent in their area. These agents have local knowledge that is uniquely suited to help customers with their enrollment decisions. After this initial introduction, local agents can build relationships with our new clients and assist with additional insurance and retirement needs.

Our broad product portfolio and omnichannel distribution model are competitive strengths in this important market. The pandemic accelerated the adoption of virtual tools both at home and in the workplace. Our unique capabilities marry this virtual connection with our established in-person agent force who complete the critical last mile of sales and service delivery.

Annuity collected premiums were up 11% compared to the prior year. This represents 8 consecutive quarters of year-over-year growth, 7 of those 8 quarters posted double-digit increases. As a reminder, fixed index annuity products tend to perform well in an environment of rising interest rates and uncertain equity markets.

The need for reliable retirement income, combined with the increased risk of pure equity investments continue to make these products attractive to our customers. These products represent an important component of our product suite, creating value for our customers and shareholders. We like the risk adjusted return characteristics of the product. When comparing the present value of future profitability on a capital adjusted basis, our fixed index annuities are slightly more favorable, leaving us largely indifferent from a sales mix perspective. Our annuities are also less complex than most annuities in the market, thereby reducing the potential for a significant tail risk event.

Client relationships tend to be stickier when customers own annuities because they're typically entrusting us with a considerable percentage of their net worth. That dynamic enhances the lifetime value of those customers as we offer them additional products over time to address their evolving needs. Client assets and brokerage and advisory were down 9% year-over-year to \$2.5 billion in the third quarter as a result of declining equity values. However, we reported increases in net inflows and new accounts. Combined with our annuity account values, we manage more than \$13 billion in assets for our clients. Our agent productivity is improving, and we continue to experience positive momentum in agent recruiting. Field producing agents count was down 6% primarily due to the tight labor market over the last 12 months.

As mentioned last quarter, the softening macro environment appears to be helping our recruiting efforts. Agent recruiting was up 9% for the quarter, representing our third consecutive quarter of recruiting gains. These results further signal that we are at an inflection point in agent recruiting. Please remember that it does take time for a new agent to meet the minimum level of production to be counted as a producing agent. Finally, veteran agent retention remained stable and agent productivity was up 5%. Our registered agent count increased 7% from prior year as more agents became securities professionals.

Turning to Slide 7 and our Worksite Division performance. Insurance sales were up 33% in this quarter. This is the second consecutive quarter of double-digit growth. We continue to experience an acceleration in sales as COVID disruption subsided and access to employees has improved.

As I shared in our last call, we recently announced the launch of Optavize. Through this single Worksite brand, we can now offer employers and employees a one-stop shop for expert guidance from our agents, benefit educators and health care advocates, voluntary benefits, year-round communications and advocacy services and benefits administration technology. We recently rolled out Optavize NOW, our hybrid enrollment platform to give our agents greater flexibility to connect with employees wherever they are. We saw positive customer experience with the platform and strong attendance from initial enrollment cases.

This is another example now within the Worksite business of how we are marrying the virtual connection with our in-person agent force to complete the last mile of sales and service delivery in a differentiated manner.

In the fourth quarter, most employers conducted employee benefits enrollment. As a result, October through December are critical months for our Worksite business. We have seen meaningful increases and scheduled enrollments over the next several months and expect utilization of the Optavize NOW platform to increase in the quarter.

Retention of our existing employer customers remain strong and employee persistency within these employer groups is stable. Producing agent count was up 13% year-over-year and 10% sequentially. First year agent counts were up substantially year-over-year. These results are due in large part to the field agent referral program that we introduced in late 2021 and modeled after an effective consumer division program. New agents who are referred by an existing agent stay with us longer and are more successful.

We also saw improved conversion rates of new agents into producing agents. Recent improvements to our new agent onboarding and skills development programs are credited for these positive trends. We expect the momentum to persist as our agent force rebuilds and favorable agent productivity continues.

The integration of our fee-based businesses continues to progress steadily. Fee revenue within the Worksite Division was up 2% in the quarter.

And with that, I'll turn it over to Paul.

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Thanks, Gary, and good morning, everyone. Turning to the financial highlights on Slide 8. We generated operating earnings per share of \$0.49 in the quarter. Results in the period reflect favorable supplemental health margins and stable net investment income allocated to product, offset by lower annuity and life margins. Annuity results were again affected by largely noneconomic GAAP accounting impacts, which I'll address in more detail in a moment.

As expected, variable investment income results were lower in the quarter, which was partially offset by higher net investment income allocated to product, reflecting continued growth in the business and the second consecutive quarter of new money rates above the portfolio yield. The sum of expenses allocated to products and not allocated to products, excluding significant items, was up 8%, primarily reflecting continued investment and growth initiatives.

Our annualized effective tax rate was up 136 basis points to 23.5% from the year ago period, but flat to the first half of 2022. The change from prior year is driven by a change in Illinois state income taxes as discussed last quarter. We deployed \$10 million of capital on share repurchases in the quarter, contributing to a 10% reduction in weighted average diluted shares outstanding year-over-year. For the 12 months ending September 30, 2022, operating return on equity was 10.2%.

Turning to Slide 9. Insurance product margin was down \$16 million or 7% in the third quarter as compared to the prior year period. Adjusting for the GAAP accounting impacts caused by market volatility on our fixed index annuity margins, COVID impacts across all of our products, the increase in nondeferred advertising expense and the favorable non-COVID mortality in the prior period, as referenced on the slide, total margin was flat, reflecting the continued stable underlying dynamics of the business.

As usual, there were some puts and takes by product line. Adjusting for these items, annuity margin was down by \$2 million, health margin up \$5 million and life margin down \$3 million. Health margins benefited from an update to the loss adjustment expense claim reserve, bringing those reserves more in line with recent experience as a result of a recently completed study.

Turning to Slide 10. As Gary mentioned, we like the risk-adjusted profitability of our annuity book, even though GAAP accounting creates volatility for these products under certain market conditions, let me provide some context. We're able to very effectively hedge the exposure to equity market volatility inherent in our FIAs using 1-year call options, resulting in stable and predictable spread earnings on an economic basis. Over time, we're able to manage to a target spread based on the initial crediting rate and the ability to adjust the crediting rate on each anniversary date. However, the GAAP accounting for our FIAs introduces volatility in our reported earnings as financial conditions, particularly interest rates fluctuate. We attempt to reflect this volatility in non-operating income, but the methodology developed years ago to accomplish that objective wasn't designed for periods of significant volatility, resulting in a portion of the volatility reported in the operating income. We believe the noise in the GAAP results obscures the economic earnings dynamics of this product. As you can see from Slide 10, adjusting for these impacts, our annuity margin is very stable.

Turning to Slide 11. Investment income allocated to products was up slightly as the new money rates above 5% in the second and third quarter reversed the trend of a declining yield leading to a sequential gain of 4 basis points. Our new money rate was 5.36% for the quarter, reflecting higher interest rates and spreads.

Investment income not allocated to products, which is where the variable components of investment in flow-through fell in the quarter as expected. The \$19 million decline reflects lower alternative investment returns, partially offset by favorable FHLB results and the addition of the FABN program. Our new investments comprised \$900 million of assets with an average duration of AA minus -- an average rating of AA minus, and an average duration of 6.6 years. Our new investments are summarized in more detail on Slides 23 and 24 of the presentation.

Turning to Slide 12. At quarter end, our invested assets totaled \$23 billion, down 15% year-over-year, reflecting declining market values in the quarter driven primarily by higher interest rates. 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 actions over the last several quarters.

As a result of our up-in-quality bias, we are well positioned for where we are in the credit cycle. The allocation to single-A-rated or higher securities is up 360 basis points year-over-year, while the BBB allocation is down 290 basis points year-over-year.

Turning to Slide 13. At quarter end, our consolidated RBC ratio is 375% at target and up from 360% at June 30. Our HoldCo liquidity was \$162 million, \$12 million above our minimum target of \$150 million and up from \$141 million at June 30.

Turning to Slide 14. I'd like to provide a bit more detail on the impact of ASC 944 for the long duration targeted improvement standard on our financial results. First, as you all know, but I think it bears repeating, the accounting change will have no impact on statutory accounting or the capital required by regulators, cash flows or lifetime GAAP profits, although it does modify when the profits emerge over time. You may recall that during our first quarter '22 earnings call and in our first and second quarter 10-Q filings, we disclosed estimated impacts of at time of transition on AOCI and retained earnings. We're now augmenting that disclosure with directional impacts on reported operating earnings from the transition date into 2021 and 2022.

Under the new standard, we expect recast GAAP earnings will be modestly higher and perhaps more importantly, less volatile. This is due to a number of factors. First, we are seeing less quarter-to-quarter volatility in most products as temporary deviations from experience are offset by reserve changes in the current period. As you know, this is different than current GAAP accounting for health and traditional life products where no such change to reserves is made unless there is a loss recognition event.

Second, we expect positive impacts from the gradual release of provisions for adverse deviations or PADs embedded in our transition balance sheet reserves. This will affect our health and traditional life in-force box business and will be spread over the remaining life of those blocks.

Third, we expect positive impacts from lower amortization of deferred acquisition costs of DAC and other similar intangible assets. This change represents the largest impact to operating earnings, benefiting all major product categories.

Fourth, the previously disclosed transition impact to retained earnings from reserve changes on certain cohorts of older long-term care policies will increase earnings in 2021 and 2022 due to favorable experience during these periods. We do not expect this positive impact to persist materially past year-end 2022. Based on current conditions, we expect the first 3 impacts to carry forward post the recast period. We have made significant progress towards the January 1, 2023, adoption of the standard and expect to provide quantitative impacts, including recast results around the time we report full year 2022 results in the first quarter of 2023.

And with that, I'll turn it back to Gary.

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Thanks, Paul. As we look toward 2023 and beyond, CNO's growth and shareholder return opportunity remain compelling. Our market is growing and offers favorable demographic tailwinds. Our virtual selling technology, coupled with our established in-person agent force enabled us to deliver the last mile of sales and service delivery. And we have the requisite financial strength and cash flow to fund our growth.

Before we open it up for questions, a reminder that next Tuesday, November 8, is Election Day. Voting is one of our most important civic rights. At CNO, we encourage our associates to get out and vote. I extend that encouragement to everyone on the call as well. Thank you for your support of and interest in CNO Financial Group.

Operator, let's now open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question today comes from the line of Ryan Krueger from Stifel.

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

It looks like your required capital within the RBC ratio came down a bit. Could you give any more color on what led to that?

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Sure. Ryan, it's Paul. So we took some actions with our investment portfolio that freed up capital in the quarter, which basically rightsizes the use of capital by investments on a year-to-date basis. Just to provide some context in a typical quarter, our investment activity increases our RBC by between 4 and 5 points. We were well ahead of that pace in the first half of the year, driven primarily by our investments in Rialto Capital and the FABN program. In the third quarter, we restructured the Rialto Capital investment to make it more capital efficient and we sold some below investment-grade bonds, reinvesting them in investment-grade bonds, consistent with our up-in-quality bias.

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

That's helpful. And then I guess now that your capital ratios are back at targeted levels, how are you thinking about buyback activity going forward? Would you expect to deploy most free cash flow generated going forward into buybacks, dividends and other uses? Or do you -- would you like to build up your capital ratios a little bit more?

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Sure. So I'd say we'll air on the plus side of the target \$375 million through the fourth quarter, not changing that target, but building in some conservatism, just given where we are in the credit cycle and then settle into a run rate of use of excess capital in the same fashion as we have historically. But in the context of the opportunities, we see to grow the business.

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Yes. Ryan, I'd just like to supplement Paul's comments a little bit. I agree with him about the requisite caution here in 4Q, given what's happening in the credit cycle. So we're definitely aligned on that. And I just want to assure our analysts and our shareholders, the thought process and the analysis we're going to bring to the deployment of capital has not changed. It's the same that we've brought over the last several years, meaning we will look at all growth opportunities that are presented to us, including things like share buyback.

I do want to remind everybody, though, that as we do seek to grow, and please remember we were on a very good growth trajectory before COVID and we'd like to reestablish that. Growing does consume capital. So I just want to make sure folks remember that as we seek to grow, that does take capital. It will continue to bring the same discipline we brought over the last several years. There are quarters where we'll buy more stock and there are quarters when we'll focus more on growth.

Operator

The next question today comes from the line of Daniel Bergman from Jefferies.

Daniel Basch Bergman - Jefferies LLC, Research Division - Equity Analyst

I guess first, I just wanted to see if you had any updated thoughts on kind of the demand you're seeing for life insurance products as the pandemic hopefully eases? And relatedly, I wanted to see if you could give an update on life persistency kind of what you saw in the quarter and how recent persistency levels as compared to pre-COVID levels?

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Daniel, this is Gary. Maybe I'll start, and then I'll hand it over to Paul. We've been pretty pleased with the demand for our life insurance, particularly in our direct-to-consumer businesses. It's been quite healthy, and we've got several quarters under our belt now of steady growth there. And we're actually looking forward to seeing some of that in our agent-produced businesses.

I certainly understand that one would expect life insurance demand to slow down a little bit post COVID. People really got focused on things like life insurance, leading up to COVID as it was building up. But so far, we're quite pleased with the demand. We think that our consumers still need this product and are acting accordingly. Of course, we do think some demand will slow. But so far, it's been good and we're pleased with the growth rates we've been able to put up.

In terms of persistency, maybe I'll hand it over to Paul to give you some color on that.

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Yes. So the persistency has really been quite stable through the pandemic and through the most recent period, certainly, it bounces around a little bit here and there, but kind of within a reasonable range of variance. I think there's been a thesis in the industry that a lot of the life product that was bought during the pandemic would not persist sort of at historical levels. We've not seen any indication of that in our own experience.

Daniel Basch Bergman - Jefferies LLC, Research Division - Equity Analyst

Got it. That's really helpful. And then maybe just switching gears a little. I wanted to see if you can give an update on, I guess, what you're seeing in your appetite for further growth in that funding agreement-backed note market? Just any update on kind of competition and investor demand would be helpful. And relatedly, it looked like investment results in the FHLB program were also pretty strong again this quarter. So any update there and whether that recent step-up in earnings is sustainable would be very helpful.

Eric Ronald Johnson - CNO Financial Group, Inc. - CIO

Yes. This is Eric Johnson, and I'll be happy to give you some talk track around that. Yes, I think we've had good outcomes so far with both of those institutional products. In both cases, we've been able to meet and even exceed our return objectives, while at the same time, maintaining good quality, highly liquid asset allocation, meeting all of our targets for -- from a risk management perspective as well. So we're very happy with it. Now having said that, there are 2 aspects. One, we're mindful of the required capital to support those activities. And so that's something we keep a careful eye on in terms of the best -- highest and best use of capital. Although as I said, we're making very solid returns there. The second point is just that the [ARB] has to be right. We're not doing it just for the incremental dollar of NII, the ARBs got to be right to produce a good return.

In today's market, with funding agreements, I'm not sure that a single A issuer is going to get the best end of that bargain without taking perhaps an undue level of investment risk. We're not going to do that. Today, but certainly keeping our eyes open for opportunities in windows where the ARB will open back up, and we can do something.

In regards to Federal Home Loan Bank, we are very good partners with them that has -- it's a different point on the yield curve and the tracks in a sense of different asset allocation. It could be that as you look into early next year, we'd reassess the scaling of that program, and it could grow

some, although it would only grow if at the time we can continue to achieve the good results we have achieved. So we're pretty disciplined about it, but I would think that as you get into next year, there may be opportunities for us to get a little bigger, but not a giant quantum.

Operator

The next question today comes from the line of Mark Dwelle from RBC.

Mark Alan Dwelle - RBC Capital Markets, Research Division - Director of Insurance Equity Research

A couple of questions. I wanted to start on the holding company liquidity. The amount of increase in the quarter was a little bit more than I was able to track just looking at obvious inflows and outflows. Could you help maybe reconcile how you move from \$140 million to \$160 million in the quarter?

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Sure. It's Paul. So the major pieces are identified in the cash flow slide that's included in the earnings presentation. One of those items is a little bit outsized relative to a normal pattern, and that's the other \$18 million in the quarter. And that does bounce around, but it's certainly larger this quarter than usual. And it's mostly related to the timing of payables and receivables between the HoldCo and the OpCo. So that might suggest that there should have been perhaps a bit more at the OpCo versus the HoldCo, but it wouldn't change our capital position, taking those 2 things together.

Mark Alan Dwelle - RBC Capital Markets, Research Division - Director of Insurance Equity Research

Got it. Okay. All right. That was the only numbers question I had. Then certainly, you talked about it a little bit in the opening comments, but there's been the initiative for a few years to try to build up the agency headcount and improve the productivity there. Can you maybe just provide a broader or more detailed update of kind of what you're doing there, what you're doing to drive the productivity improvements and maybe ultimately, kind of what differentiates CNO relative to some of its competitors with the agency force that it has?

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Yes, Mark, this is Gary. I'll take a crack at that question. So first of all, thanks for the question. If you look back to a program we initiated several years ago, we identified that we of course need to grow our agency force. That's the lifeblood of any life insurance agency. We always need to be growing it. But we really felt the balance was off between growing the top line headcount versus focusing on the retention of the agents and the productivity of the agents. We really identified those as being key factors. As an example, there was a point not so long in our history when we were recruiting as many as 10,000 agents a year.

And if you fast-forward the clock 3 years later, roughly a 100 of those folks would still be standing. And that's just a brutal amount of churn. So we decided to shift to a model where instead of, say, 10,000, we were recruiting roughly 5,000 agents a year and 3 years later, instead of 100 of them still being standing, we have 300 of them standing. So still a pretty tough model, given the nature of the business, but a material improvement in terms of the yield, 300 out of 5,000 as opposed to 100 out of 10,000. And those numbers aren't precise, so I want to emphasize that, but they're pretty close to what we've been aiming for. So the first goal was really to rethink the top line, the funnel and how many of those folks we were going to retain.

Now to be successful at that, we had to do a number of things. Number one, we had to ensure a better training program, a more robust training program and a better selection program because if we're going to focus on bringing in 5,000 instead of 10,000, we got to make sure we've got a better process to identify it. And we get them in, and we got to support them with various training and financial support. And then we got to give them a career path that makes sense, something where they can start out selling simple life insurance or simple Med Supp policies and eventually

progress to becoming securities advisers as an example. We saw a nice increase this quarter in the number of our agents that went ahead and became securities professionals. So we really had to work on the selection, the retention and the career path. All of that leads to gains in productivity.

I've been really pleased with the productivity gains our field organization has been able to show. And frankly, that really carried us through COVID, when it became so much more difficult to recruit for a period of time, being able to continue to drive productivity with annuity sales as an example that we're growing every quarter and so on. So it's really a combination of things. I can't point to one big thing. I can point to 15 or 20 small things that we did to make that difference. But it's all come together. And now we're finally at a point that the labor market is softening a bit, we're seeing an opportunity to once again grow our top line agent count in a responsible and disciplined way. And that should, over time, lead to growth in producing agents.

Last comment I want to make, I want to remind everybody that producing agent is not a gap defined term. We have a set of criteria where we really focus on producing agents as opposed to just recruited agents and it takes time for an agent that gets recruited to meet those production criteria and what to be included in what we call our producing agent count. Mark, is that kind of the overview that you were looking for?

Mark Alan Dwelle - *RBC Capital Markets, Research Division - Director of Insurance Equity Research*

No, that's really helpful. I mean, there will be different pieces of this over the last few years, and it was good to just hear kind of a whole put together summary of what the game plan was and what you've delivered. So thank you for that, and I'll drop out of the queue.

Operator

The next question today comes from the line of Erik Bass from Autonomous.

Erik James Bass - *Bernstein Autonomous LLP - Partner of US Life Insurance*

In the health business, you continue to see benefits from low utilization. Do you still believe that this is primarily due to the pandemic? Or could there be more durable changes in policyholder behavior that persist longer?

Paul Harrington McDonough - *CNO Financial Group, Inc. - CFO & Executive VP*

Erik, it's Paul. Certainly, there could be reasons why this has persisted longer than we would have originally expected, and I think longer than one might have imagined. We haven't really formed any conclusions about that. We are reviewing that in the context of our annual review of actuarial assumptions. I don't really want to get ahead of that. But what we ultimately conclude will, of course, have some implications for how we manage the business going forward. The last thing I'd say is that beginning next year, I think we'll stop identifying everything outside of our pre-COVID expectations as COVID impacts, but rather accept the then-current claims experience as the collective influence of where we are today, where we will be then in 2023 with the pandemic having gone from a pandemic to more of an endemic state.

Erik James Bass - *Bernstein Autonomous LLP - Partner of US Life Insurance*

Got it. That makes sense. And then maybe on the annuities, I appreciate the extra page that you put in the deck kind of normalizing for the market impacts. I guess looking at that normalized trend, the earnings have been pretty flat sort of year-over-year. Given the flows that you're seeing now and the benefit from higher interest rates, should we expect that number to start growing on a sequential basis?

Paul Harrington McDonough - *CNO Financial Group, Inc. - CFO & Executive VP*

I think that's a reasonable expectation. I mean, with all the growth we've had in that product, certainly, the margin should grow. Over the last several quarters, there has been some spread compression, and that's really what you're seeing sort of keeping a lid on that margin growth. But yes, I think at some point, it's reasonable to expect that you'd see an upward trend there.

Erik James Bass - *Bernstein Autonomous LLP - Partner of US Life Insurance*

Got it. And is that spread compression basically stopped now given that you're investing new money yield above your portfolio yield?

Paul Harrington McDonough - *CNO Financial Group, Inc. - CFO & Executive VP*

We're generally managing to a target spread. And looking backwards, there was some excess spread, if you will, that eroded over time. So again, I think that it's reasonable to expect looking forward that you begin to see an upward trend.

Operator

The next question today comes from the line of John Barnidge from Piper Sandler.

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

I wanted to talk about the comments around new local and regional approach and then positive indicators of the referral program for agents. Can you please dimension maybe how fast referral agents produce in speed and size? And have you changed compensation to drive more referral recruit?

Gary Chandru Bhojwani - *CNO Financial Group, Inc. - CEO & Director*

John, this is Gary. Sorry, John, can you hear me okay?

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

Yes, I can hear you now.

Gary Chandru Bhojwani - *CNO Financial Group, Inc. - CEO & Director*

Okay. Yes, sorry. So first of all, in terms of agent compensation and so on, we have provided some modest incentives to our existing agents to refer in folks that they know. We know that our referred agents typically produce quicker and typically have a better retention rate. So that type of incentive program pays for itself over time. So we have done that for our existing agents. But you've seen that the aggregate compensation line or the aggregate agent expense line really hasn't moved, so it's not a material number.

In terms of the time that it takes for them to become productive, the rule of thumb is somewhere between 3 and 6 months. We don't have a hard and fast rule. It's really going to depend on how familiar they are with the industry and what kind of support and so on, they're getting. But I would say 90 to 180 days is reasonable for a referred agent starts to meet the producing agent count thresholds.

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

Great. And my follow-up question to that. Have you changed compensation at all for middle managers that manage some field agents to better harness and manage data? We've heard other insurers this earning season on the consumer side talk about that.

Gary Chandru Bhojwani - *CNO Financial Group, Inc. - CEO & Director*

I wouldn't describe what we've done as a change to middle managers. Remember that one of the critical things we did that we started back in January of 2020 was to bring all of our consumer businesses together. So we have phone calls as an example, that might come in to Colonial Penn for a direct-to-consumer life sale, and those then get handed off to respective agents and managers for pursuit of some other products, and they are compensated for that. So I wouldn't describe that as a change, but in addition to really capitalize on this new channel. But beyond that, there's been no material change in compensation.

Operator

(Operator Instructions) The next question today comes from the line of [Jim Sugga] from FactSet.

Adam Auvil - *CNO Financial Group, Inc. - VP of Corporate Development*

Operator, the participant is on mute.

Operator

Participant on mute?

Adam Auvil - *CNO Financial Group, Inc. - VP of Corporate Development*

Yes.

Operator

Unfortunately, we're still not getting any audio from that line. (Operator Instructions) We have Jeremy registering a question. So please go ahead with your question.

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

It's Tom Gallagher from Evercore ISI. The first question was on just your long-term care experience that continues to trend favorably. Can you talk a little bit about what you're seeing behind the scenes there? Are you seeing any elevated cost of care impacts on your claim costs? And then what's driving the favorable experience? Is it still just lower claim submissions? Is it severity? Just a little bit behind the scenes, what you're seeing on long-term care.

Paul Harrington McDonough - *CNO Financial Group, Inc. - CFO & Executive VP*

Sure. Tom, it's Paul. So the claims experience that's really driving the benefit to margin is just fewer claimants coming on claim. That's really the primary driver. And I'm sorry, what was the second part of your question?

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

Just on cost of care, whether you're actually seeing -- yes, elevation in the actual cost per claim?

Paul Harrington McDonough - *CNO Financial Group, Inc. - CFO & Executive VP*

Right. Yes, I'm sorry. We are beginning to see a little bit of inflationary pressure in our long-term care claims. Nothing that I would describe as material. But anecdotally, we are beginning to see a bit of that.

Gary Chandru Bhojwani - *CNO Financial Group, Inc. - CEO & Director*

Paul, this is Gary. One thing to clarify on the first part of your response, we've seen fewer claimants, but we've also not seen any material degradation in the renewals or persistency of the policy, correct?

Paul Harrington McDonough - *CNO Financial Group, Inc. - CFO & Executive VP*

That is correct.

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

Okay. And then, Paul, just a question on your LDTI disclosure. You mentioned how it's a modest positive overall and that it's positive for both the PADs and the lower DAC amortization going forward. Can you -- just want to make sure I understand what does modest mean? Is that less than 5%? And if it is less than 5%, could you dimension whether the PAD impact is greater than the DAC amortization change?

Paul Harrington McDonough - *CNO Financial Group, Inc. - CFO & Executive VP*

Sure. I'm in a decline to dimensionalize moderate just because we're not that far along to want to do that. So I'll leave that to your interpretation. Of the 3 impacts that we've identified as sort of persisting beyond 2022, that DAC is certainly the most impactful.

Operator

(Operator Instructions) Next up, we have a follow-up question from Ryan Krueger from Stifel.

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

I just had a quick follow-up to one of the questions Tom just asked. In terms of long-term care claims inflation, do you know how much -- I guess, what percentage of your policies are indemnity based versus reimbursement?

Paul Harrington McDonough - *CNO Financial Group, Inc. - CFO & Executive VP*

Yes. They're almost all indemnity. So there's -- the impact of inflation on our long-term care is somewhat mitigated by that, the daily limits and aggregate limits.

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

Got it. But it doesn't sound like it's having that much of an impact at this point.

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

That's correct.

Operator

There are no further questions registered at this time. So I'd like to hand the call back over to Adam Auvil for any closing remarks. Please go ahead.

Adam Auvil - CNO Financial Group, Inc. - VP of Corporate Development

Thank you very much for your time this morning, and thanks for your interest in CNO. Operator, you can now wrap the call.

Operator

Thank you. This concludes today's conference call. Thank you all for your participation. You may now disconnect your lines.

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