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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the CNO Financial Group Fourth Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Ms. Jennifer Childe, Vice President of Investor Relations and Sustainability. Please go ahead, ma'am.

Jennifer Childe - *CNO Financial Group, Inc. - VP of IR*

Thank you, operator. Good morning, and thank you for joining us on CNO Financial Group's Fourth Quarter 2021 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 can obtain the press -- the release by visiting 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. We expect to file our Form 10-K and post it on our website on or before February 25.

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 fourth quarter 2020 and fourth quarter 2021.

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

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

Thank you, Jennifer. Good morning, everyone, and thank you for joining us.

Turning to Slide 4 and our full year performance. We delivered another strong year of results, reinforcing the strength and resiliency of our business. We reported operating earnings per share growth of 10%; generated free cash flow of \$380 million; and returned \$468 million to shareholders, including record share repurchases of \$402 million, reflecting 13% of our market cap as of the beginning of 2021. Operating earnings per share grew 9%, excluding significant items and COVID impacts in both periods.

Our results reflect the strength of our overall franchise, the stability of our operations, the diversity of our product suite and distribution channels, the impacts from our strategic transformation, and most importantly, the expertise and dedication of our associates and agents.

In 2021, we made significant progress against our strategic priorities. Within our Consumer Division, we strengthened the integration between our direct-to-consumer and field agent channels. We meaningfully enhanced our online insurance market -- our online health insurance marketplace and generated agent productivity gains in each quarter of the year.

Within our Worksite Division, we acquired DirectPath in February, significantly improving the attractiveness and capabilities of our worksite offering, further integrated our worksite businesses and began executing on our cross-sell playbook and piloted initiatives to position us for growth in the hybrid work environment. At the enterprise level, we prudently manage our operating expenses while investing in technology and digital tools to enhance our virtual sales and customer service capabilities.

We also made significant progress with our ESG program. Last week, MSCI upgraded our ESG score by 2 notches to A. We are now ranked in the top quartile of life insurance peers. In January of this year, A.M. Best upgraded the financial strength rating of CNO's life and health subsidiaries from A- to A. We are very pleased with this recognition of our strong balance sheet, operating performance and high-quality investment portfolio.

Turning to Slide 5 and our results for the quarter. For the fourth quarter, operating earnings per share were up \$0.26 or 43%. Excluding COVID impacts and significant items in both periods, operating earnings per share were up \$0.13 or 28%. Our production metrics were strong and continued to exceed pre-pandemic levels in most areas, particularly within our direct-to-consumer business. Our worksite business is making continued progress but has not yet returned to pre-pandemic levels.

Total collected premiums remained robust, exceeding pre-pandemic levels. Our underlying insurance margins excluding COVID impacts performed well, and we managed expenses prudently. Our capital and investment portfolio remain conservatively positioned with ample liquidity. We ended the quarter with an RBC ratio of 386% and \$249 million in cash at the holding company. This is after returning \$116 million to shareholders through a combination of share repurchases and dividends.

Turning to Slide 6 and our growth scorecard. All 5 growth scorecard metrics were up compared to the fourth quarter and full year of 2020. And most production metrics are higher relative to pre-pandemic 2019 levels. Life sales were up for the quarter compared to 2020, fueled largely by continued momentum in our direct-to-consumer channel. For the full year, life sales were up 12%. Overall, health sales were down 3% for the quarter, reflecting a continuing shift by consumers away from Medicare Supplement, but health sales were up 6% for the full year.

Total collected life and health premiums were up 1% for the quarter. This reflects solid 5% growth in life collected premiums offset, as expected, by lower Medicare Supplement premiums. For the full year, life and health premiums were also up 1%. Annuity collected premiums were up 15% for the quarter and up 20% for the year. Relative to 2019, annuities were up 7%.

Client assets in our brokerage and advisory grew 25% year-over-year to \$2.9 billion, fueled by new accounts, which were up 17%, net client asset inflows and market value appreciation. Sequentially, client assets grew 8%. Fee revenue was up 54% for the quarter to \$56 million, reflecting significant growth in our distribution of third-party products, expansion of our broker-dealer and registered investment adviser and our 2021 acquisition of DirectPath.

Turning to our Consumer Division on Slide 7. I continue to be pleased with how we're executing against our transformation objectives to drive synergies between our agent and direct-to-consumer businesses. Life sales were up 4% for the quarter driven by continued director-to-consumer sales momentum, which was up 21%. Life sales generated by our exclusive field agents were down 12% as the tight labor market slowed recruitment of first year agents who tend to sell a higher proportion of life policies.

Health sales were down 4% with strong long-term care sales, offset by continued weakness in Medicare Supplement. As a reminder, our long-term care policies have short durations. The average benefit period is 12 months.

As discussed in previous quarters, our market is experiencing a secular shift away from Medicare Supplement and towards Medicare Advantage. We continue to invest in both our Medicare Supplement and Medicare Advantage offerings to ensure we remain well positioned to meet our customers' needs and preferences. For example, later this year, we plan to launch a new Medicare Supplement product that we believe is more aligned with consumer preferences.

Total third-party sales grew 24%, and Medicare Advantage sales were up 20% during the fourth quarter's annual enrollment period. We attribute this growth to our high-touch model, which blends the digital capabilities of our growing online health platform, myHealthPolicy.com, with the personal support of our teleagents and local bankers' life agents. Recent investments are driving meaningful increases to lead flow and customer engagement in our online marketplace.

But what makes us different is the size and tenure of our professionally trained exclusive agent sales force. Bankers Life local field agents guided 95% of our Medicare Advantage customers with their purchases. This is a unique strength in how we acquire service and retain our clients, which we believe cannot be easily replicated.

On a combined basis, the number of Medicare Advantage and Medicare Supplement policies sold was up 12% over the fourth quarter of 2020 and 2% over the full year of 2020. Annuity collected premiums were up 15% compared to the prior year quarter, and the average annuity policy size rose 12%. We continue to maintain strict pricing discipline on our annuities to balance sales growth and profitability. Participation in crediting rates are reviewed regularly to reflect current macro environment conditions. We remain very comfortable with the economics of our annuity book.

Client assets in brokerage and advisory grew 25% year-over-year to \$2.9 billion in the fourth quarter. Approximately 2/3 of the increase came from new accounts and 1/3 from market appreciation. Combined with our annuity account values, we now manage more than \$13 billion of assets for our clients. As planned, this has fundamentally shifted the relationship we have with our customer base. Unlike some insurance products, which can be transactional in nature, investment products typically create deeper and longer-lasting customer relationships.

In recent years, we proactively shifted our agent recruiting strategy to focus more heavily on targeted approaches paired with strategies to boost the productivity levels of our existing agent base. While we recruit fewer new agents, the new agents that we do appoint are more likely to succeed and stay with us over time. The tight labor market impacted us during the fourth quarter and throughout 2021. Our total producing agent count declined 12% as we recruited fewer first year agents. As a reminder, producing agent count represents the monthly average of agents that have submitted at least one policy during the quarter.

Importantly, the total agent productivity is up over the prior year, and retention remains strong among our veteran agents who typically generate higher premiums per policy. We continue to deploy various programs to boost our new agent recruiting but expect near-term recruiting headwinds to remain.

Turning to Slide 8 and our Worksite Division. Worksite sales were up 16% in the fourth quarter. We continue to see steady improvement in this business despite prolonged COVID disruption. We expect the pace of worksite recovery to improve in the coming quarters as COVID disruptions subside and worksites reopen more broadly.

To respond to the new hybrid work environment, we continue to introduce new technologies to our field agents to improve virtual access to employer groups and their employees. We also have programs in place to generate new employer group leads and offer new products and services to our employer clients.

Retention of our existing employer customers remains strong, and employee persistency within these employer groups continues to be stable, as expected. Our producing agent count was down 11% year-over-year and down 1% sequentially, largely as a result of weaker first year agent recruitment due to the challenging labor market. We recently launched a new field agent referral program that is generating promising results in

its early stages. We have seen higher productivity levels across all agent groups, including first year agents. Similar to previous quarters, retention and productivity levels among our veteran agents remained very strong.

The integration of our fee-based businesses has progressed nicely. Fee revenue within worksite more than doubled in the quarter due to the inclusion of DirectPath's results. We also saw a 20% increase in the average client size in our benefits administration business as a result of cross-sale activity. Market feedback on our unique combination of worksite products and services remains positive.

Turning to Slide 9. Our robust free cash flow enabled us to return \$116 million to shareholders in the fourth quarter, including \$100 million in share buybacks. Our capital allocation strategy remains unchanged. We intend to deploy 100% of our excess capital to its highest and best use over time. While share repurchases form a critical component of our strategy, organic and inorganic investments also play an important role.

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

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

Thank you, Gary, and good morning, everyone.

Turning to the financial highlights on Slide 10. We generated operating earnings per share of \$0.87 in the quarter, which is up 43% year-over-year as reported and up 28% excluding significant items and COVID impacts in both periods. Results for the quarter benefited from solid underlying insurance margins, ongoing net favorable COVID-related impacts and disciplined expense and capital management, partially offset by still solid but moderating alternative investment results.

Fee income was flat year-over-year, reflecting growth in fee income from the sale of third-party Medicare Advantage policies, offset by a decline in fee income from our worksite business due to ongoing challenges accessing employers and employees in the workplace during COVID. As expected, the sum of expenses allocated to products and not allocated to products, excluding significant items, was down sharply versus the fourth quarter of 2020. For the full year, total expenses were up 2.8%, reflecting operating efficiency coupled with continued targeted growth investments.

Over the last 4 quarters, we deployed a record \$402 million of excess capital on share repurchases, reducing weighted average shares outstanding by 8%. Operating return on equity for the year was 12.1% or 11.8%, excluding significant items.

Turning to Slide 11. Insurance product margin, excluding significant items, was up \$9 million or 4% in the fourth quarter as compared to the prior year period. Excluding favorable COVID impacts in both periods, total insurance margin was up \$12 million or 6%. In the aggregate, the favorable net COVID impacts decreased \$3 million year-over-year from \$19 million in the fourth quarter of 2020 to \$16 million in the current year period.

The year-over-year increase in our annuity margin reflects growth in the business but also reflects volatility from FAS 133 accounting for the embedded derivative reserve related to our fixed index annuities, which had about a \$5 million favorable impact in the fourth quarter of 2021 as compared to a neutral impact in the prior year period. We also benefited in the current quarter from favorable non-COVID mortality in our payout annuity block.

In our Life business, we saw a significant increase in unfavorable COVID mortality impacts in the fourth quarter as compared to the third quarter of 2021 due to a slight shift in relative mortality to older ages and volatility in the claims reporting lag from quarter-to-quarter. In general, looking at not just a single quarter but over longer periods of time, we are not seeing any material change in COVID mortality, severity or incidents per 1,000 reported U.S. deaths. Excluding COVID impact, our life margin was down \$6 million year-over-year due to increased nondeferrable advertising spend.

In our health business, the favorable COVID impact remained flat at \$35 million in both periods. However, there was some movement between the individual health lines. Our health margins benefited from both continued deferral of care across all 3 business lines and excess mortality within long-term care and supplemental health, which led to favorable reserve releases.

As referenced in our earnings press release, we completed our annual GAAP actuarial assumption review in the fourth quarter, which had a pretax net favorable impact of \$26 million in operating earnings, which we called out as a significant item in the quarter. The favorable impact was driven by lower initial portfolio rates resulting from asset turnover in the annuity portfolio, driving a favorable adjustment to the embedded derivative reserve related to our fixed index annuities.

Turning to Slide 12. Investment income allocated to products was up modestly as the impact from growth in the net liabilities and related assets more than offset a decline in yield. Our new money rate of 3.67% for the quarter was up 12 basis points sequentially, reflecting higher yields and selective direct investments. Investment income not allocated to products, which is where the variable components of investment income flow through, decreased \$15 million, reflecting still solid but moderated performance within our alternative investment portfolio.

Our new investments comprised \$683 million of assets with an average rating of A- and an average duration of 11.4 years. Please see Slides 23 and 24 of the earnings presentation for more detail.

As we mentioned on our third quarter call, we established a \$3 billion funding agreement-backed note program in September and closed on \$500 million of notes in October of last year. In January of this year, we closed on an additional \$900 million of notes. We expect the FABN program to contribute to earnings about 100 basis points pretax annualized per dollar of notes outstanding, net of the expenses associated with the program. Our fourth quarter net investment income not allocated to products included \$1 million pretax net spread income associated with the FABN program. Please see Page 17 of our quarterly financial supplement for more detail.

Turning to Slide 13. At year-end, our invested assets totaled \$29 billion, up 5% year-over-year. 95.4% of our fixed maturity portfolio at year-end was investment-grade rated with an average rating of A. Reflecting our recent up-in-quality bias, the allocation to single A-rated or higher securities was up 460 basis points year-over-year, while the BBB allocation was down 400 basis points and the allocation to high yield was down 60 basis points.

Turning to Slide 14. Our fourth quarter free cash flow reflects lower dividends out of the operating companies as we absorbed the impact of the revised C1 factors on our consolidated RBC ratio. As expected, the impact was approximately 16 RBC points or \$80 million of capital. In addition, funding the initial \$500 million of FABN notes consumed approximately \$20 million of capital in the quarter.

Turning to Slide 15. At quarter end, our consolidated RBC ratio was 386%, which represents approximately \$55 million of excess capital relative to a 375% target RBC. This 386% is after the impact of the revised C1 factors. We are refining our target consolidated RBC ratio to a point estimate of approximately 375%. This point estimate is at the low end of our previous target range of 375% to 400% and reflects the company's strong and stable operating results and balanced risk profile.

In the context of a stress scenario, we would expect to flex lower temporarily, returning to 375% over a short period of time. We believe the 375% RBC target continues to adequately support our credit ratings and is aligned with our risk appetite. Our holding company liquidity at quarter end was \$249 million, which represents \$99 million of excess capital relative to our \$150 million minimum holdco liquidity target.

Turning to Slide 16. As we look ahead to 2022, a significant amount of uncertainty persists due to the ongoing COVID-19 pandemic. Nevertheless, we can share some directional baseline expectations. We expect continued positive sales momentum across our 5 key scorecard metrics despite ongoing recruiting challenges in the tight labor market, which will continue to pressure agent counts. We expect continued net favorable COVID impacts on our insurance product margin tapering over the course of the year. This assumes that no additional surge in COVID-19 infections and deaths emerges in the wake of the current surge from the Omicron variant.

We expect net investment income allocated to products to remain relatively flat as growth in assets is mostly offset by lower portfolio yields reflective of both the lower interest rate environment and our up-in-quality shift in asset allocation. We expect net investment income not allocated to products to trend down as compared to the elevated levels in recent quarters. We expect fee income to trend up as we grow our third-party Medicare Advantage distribution and the fee income components of our worksite business. We expect the sum of our allocated and nonallocated expenses, ex significant items, to trend modestly higher as we capture operating efficiencies while also investing in growth.

With respect to capital and liquidity, we will manage to our target 375% RBC and move closer to our \$150 million minimum holding company liquidity target.

Finally, we expect free cash flow to moderate relative to recent trends, reflecting less favorable insurance product margin impacts from COVID and diminishing alternative investment returns, capital strain from new business and the ramp-up of the FABN program. We nevertheless expect our free cash flow conversion to remain at the high end of our peer group range.

Before I turn it back to Gary, I'd like to provide a brief update on where we stand with our progress in adopting ASC 944 or the long-duration targeted improvement standard. First, as you all know, it is important to note that the accounting change will have no impact on statutory accounting or the capital required by regulators, cash flows or lifetime GAAP profits. We expect the most significant impact on the January 1, 2021 transition date will be the requirement to update the discount rate assumption used to determine the value of the liability for future policy benefits with a rate that is generally equivalent to a A yield, matched to the duration of our liabilities. We expect this change will result in a material decrease to accumulated other comprehensive income at the transition date.

After the transition date, we will be required to update the discount rate each reporting period with changes recorded in AOCI. We also expect the adoption of this standard to change the pattern of future profit emergence following the transition date. We have made significant progress toward the January 1, 2023 adoption of the standard, and we expect to be able to begin to provide quantitative impacts in the second or third quarter of this year.

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

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

Thank you, Paul. I'm pleased with our performance in the quarter and for the full year, along with the progress we've made against our strategic priorities. I thank our associates and agents for their continued commitment and dedication to helping our customers every day. While visibility into COVID's ongoing impact remains unclear, the earnings and cash flow generating power of the company remains robust. We are confident that we will navigate the pandemic from a position of strength while continuing to generate value for our shareholders.

Thank you for your support of and interest in CNO Financial. We will now open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Erik Bass from Autonomous Research.

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

I guess to start, you mentioned that you expect the free cash flow conversion rate to remain strong even though the dollars of free cash flow will decline from where they've been running. So can you help dimension this for us? Is there a conversion rate range that you could give that we should assume?

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

Sure, Erik, it's Paul. So just looking at this ratio that's calculated across our peer group, looking back over the last couple of years, it looks to be in the range of kind of mid-50s to high 80s, low 90s. We would expect to be in the top quartile of that range.

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

Got it. And then can you talk a little bit about your claims experience in health and long-term care? Other companies have started to see this normalize, but your results aren't really showing this yet. So is there anything different in your client or product mix that could explain this? And how are you thinking about 2022 claims patterns?

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

Sure. So it's Paul again. It's tough for us to say because we don't see the data of our peers. But what we can say is that we are recording the results based on the claims that we're seeing. And the results are based on a consistent application of the claims handling, which has also been consistent, and the consistent application of our financial reporting, very tight controls around that.

The other thing I'd say is that this is speculation, but I suspect the difference in our experience versus other companies has to do with the demographic profile of our policyholders, and with respect to LTC in particular, the benefits in our policies as compared to benefits in policies at other companies.

In terms of going forward, as I -- as we stated in our prepared remarks, our expectation is that we continue to see net favorable COVID benefits, including in long-term care for some period of time in '22 but tapering, again, presuming that there's no additional surge beyond the current Omicron surge.

Operator

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

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

Maybe sticking with the COVID net benefit a little bit. Can you maybe talk about the progression during the quarter as the months went along and then maybe from December into January as maybe people developed COVID fatigue with the Omicron variant?

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

Sure. John, it's Paul. So the claims experienced during the fourth quarter was fairly consistent. Year-over-year, we did see in our long-term care and our supplemental health products less favorable impact from deferral of care but more favorable impact from mortality.

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

Okay. Great. And then my follow-up question, if I could. Can you maybe talk about the improvement in worksite sales? Do you think it's recovering off a lower base or real growth as people maybe return?

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

Yes. John, this is Gary. We do expect worksite to recover. I want to just emphasize a few things. We remain extremely bullish on the business. We see a trend continuing where more and more employees will seek to get some of these coverages through their employers. So we fundamentally believe in the business.

We've actually done reasonably well across 2 dimensions: number one, keeping the employers and employees that we have; and number two, signing up new employees. However, that doesn't translate into sales growth until we can get access to the actual employees to enroll them. So

an employer says, "Yes, I'll offer these products to my employees, but we've got to get in there and enroll them. And of course, we can't do until our worksites open."

So that's been up and down, as you know, across the country. But we expect that as more workplace is open, these results will improve on a sequential basis. And remember, we're also going to markets in 2022 in a much more improved position than we were, say, in 2020. We now have a technology platform, we now have a service and advice platform and we continue to improve our products.

Finally, we've invested in technology for our agents to be able to better interact with these customers. So we think as these office locations open up, we will see an improvement and we remain very committed and very bullish on the [business].

Operator

Your next question comes from the line of Humphrey Lee from Dowling & Partners.

Humphrey Lee - Dowling & Partners Securities, LLC - Research Analyst

My first question is related to fee income. I was hoping you can provide a little more detail in terms of what you saw this quarter. The fee revenue growth of over 50% was definitely very strong, but the fee-related expenses grew even at a higher clip. So can you just talk about the performance of the different businesses that run through the fee income line, like meaning Medicare Advantage, broker-dealer, DirectPath and myHealthPolicy.com?

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

Yes. Humphrey, this is Gary. Thanks for the question and for calling in. I'll make some general comments, and then I'll invite Paul to supplement it as he sees appropriate. I think the first thing I would say to all of our shareholders, we are very pleased with the way the fee business has evolved in the aggregate. As you point out, there are a few different components to the fee business, and I'll speak to each of them generally.

The first is the fee business that we generate or the fees that we generate from the Medicare Advantage sales. I was quite pleased with the progress that we showed. Remember that we've just launched this site. We think there is a significant opportunity and a change in consumer behavior, where they're interested in pursuing or purchasing some of these products online. So we're very bullish on that. And we saw a very nice growth. And I think, frankly, we've just gotten to scratch the surface. I think where we will differentiate ourselves is narrowing those technology offerings or those online offerings with real agent support. I think that's where we can really deliver a different long-term results than perhaps others have. So we were very pleased in that. That growth was very good, very strong. Now we did have to invest, and we continue to invest in those technology offerings.

The second area that you see is the broker-dealer. And there, too -- remember, we launched the broker-dealer in 2017, and the entire strategy behind that was to make the consumer relationships stickier, to move away from transactions, i.e., an insurance product that's simply an expense, and move more towards relationships where our consumers are entrusting us with their investments and really changing that relationship. That also continues to see very robust growth. Now like most insurer, we run our broker-dealer, frankly, not for the stand-alone profit that it generates. We run it for the relationship that we want.

The third and final category, a main category of our fee income, has to do in our worksite business, and that pertains particularly to the investments we made in Web Benefits and DirectPath. In both cases, as I referenced earlier, worksites have not yet fully opened. So we haven't been able to exploit the full potential of those businesses and those additional offerings to our worksite customers. So we continue to invest in them. And the revenue growth hasn't been as strong in those 2 areas because the worksites aren't yet open. But we're confident that once more worksites open, we will see that revenue and profit growth pick back up.

Last comment I'd make, in the aggregate, I think it's important to keep all of this in perspective. These are still, relatively speaking, smaller pieces of a much larger CNO organization. Paul, I'd invite you and then any areas you want to add to in terms of my comments?

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

Nothing to add, Gary. Thank you.

Humphrey Lee - Dowling & Partners Securities, LLC - Research Analyst

Got it. My second question is regarding kind of Medicare Supplement within the health margin. As we think about the enrollment period results in 2021, how should we think about the top line expectation for 2022?

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

Humphrey, are you referring to Med Supp or Med Advantage?

Humphrey Lee - Dowling & Partners Securities, LLC - Research Analyst

Med Supp, Med Supp.

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

Well, as you know, the -- much of the sales occurs in the context of the ADP, Medicare Advantage [with Med Supp] there as well. I wouldn't expect -- other than the context of sort of the secular decline in our Med Supp sales, I wouldn't expect any variation in the seasonality that you see in the historical results.

Humphrey Lee - Dowling & Partners Securities, LLC - Research Analyst

But just thinking about the lower sales in the quarter, just thinking about from a full year basis running through into 2022, should we see a little bit more kind of downward pressure on the top line for that business?

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

We do expect that there will continue to be downward pressure in our Med Supp sales. But -- and perhaps you can pick up here, Gary. We really think about the Medicare business broadly across Medicare and sort of Medicare Supp and Medicare Advantage. We also, as Gary mentioned, are introducing a new product in the Med Supp space in 2022, which will help improve those dynamics.

Gary, would you add anything?

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

Yes. Paul, I apologize. I lost audio there just for a minute or 2. Yes, sorry. Could you just recap the question? Is it just about our general outlook on Medicare? Was that the question?

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

Yes. No, the question was general outlook on Medicare Supplement sales, but I was trying to put that in the broader context of how we think about Medicare.

Humphrey Lee - *Dowling & Partners Securities, LLC - Research Analyst*

Yes. Actually, it's less about the sales but just more of the premium growth within like kind of running through the income statement for 2022.

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

Yes. And there again, Humphrey, the dynamics of how that flows through doesn't change. So you have to model what you think that the total sales decline is, if that's the expectation. Again, we do think that directionally, that's a reasonable expectation. Although we're expecting that the new Medicare Supplement product that we're introducing in '22 will change that dynamic a bit. And again, as we think about Medicare as a door opener for us, we think about that across both Med Supp and Med Advantage.

Operator

(Operator Instructions) Your last question comes from the line of Cullen Johnson from B. Riley Securities.

Cullen Johnson - *B. Riley Securities, Inc., Research Division - Research Analyst*

Just with respect to the tightness of the labor market, and we touched a bit on the field agent pro program, but you also hear anecdotally about salary increases or onetime bonuses or other kind of benefits that are being offered as a means to retain talent. So I was just wondering if there's any other specific programs at CNO has either enacted or will enact to kind of help with agent count in addition to that referral program?

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

Cullen, this is Gary. Thanks for the question. I'll maybe start off by taking a crack at this. So I think, first of all, like every other business in America, we're facing labor challenges. There's no question about that, and we've made various adjustments where appropriate. The one thing I will say, we watch this pretty carefully. And I recently saw an exhibit from our Head of HR about our employee retention. And in general, I've been extremely pleased. I think that our employees really gave us some credit for the work we did throughout some of the social justice movement and the COVID crisis. And if you remember back in 2020 when COVID was still happening, we gave our employees a guarantee that no jobs will be lost.

So we did a number of things, and we made a number of improvements. And I think our employees have responded in kind with their hard work and their dedication. So in the aggregate, I'm very pleased with where we are. That said, like everybody else, we're struggling to bring new talent in. There's no question about that. It's a very tight market.

And so I would share a few observations in particular about the agents. The first thing I want to emphasize is that remember that in 2017, we changed our strategy. We intentionally said we're going to deemphasize raw recruiting and just trying to bring in more and more agents and instead focus on productivity and veteran agents. Again, we started that process in 2017. And I think you've seen some of the results of that in the subsequent years where our productivity has indeed increased, where our retention of veteran agents has indeed increased.

So we've seen pretty significant retention gains, as much as 2 or 3x from these targeted recruiting strategies and significant productivity gains. Those 2 things take a fair bit of the pressure off new recruiting. Stated differently, we're not as reliant on new recruiting as we were 5 years ago. And here's where I want to, I guess, give a careful message. Do I want more agents? Yes. Am I as dependent on that as we were, say, 5 years ago? No, we're not, because of the veteran agent productivity and retention gains.

Now in terms of where we see the agent force going over the next year, the feedback I get from our experts in the field -- and remember, some of these folks have been doing this for decades. The feedback I get from our experts out in the field is we really think we're at or near a bottom in terms of being able to recruit new agents. We expect that bottom to happen sometime in '22, and we expect to be able to once again start sequentially growing agent counts in 2022.

I don't have -- I want to emphasize, I don't have hard data to back that up yet. It's only February. So it feels a little early, but I'm really relying on our experts, some of whom have decades of experience doing this. And again, I want to emphasize, we're still most focused on productivity and retention. We face the same labor pressures as everybody else, but our points of focus may be slightly different. Cullen, did I answer your question?

Cullen Johnson - *B. Riley Securities, Inc., Research Division - Research Analyst*

Yes. That was really helpful. And then just one more question. So could you talk maybe a little more about the integration between direct-to-consumer and field agents and just kind of what that looks like?

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

Yes. I'm glad you asked about that. Frankly, that's been one of the most significant ingredients in our ability to successfully navigate COVID. You've seen that most of our growth metrics have continued to rise, and in most cases, exceed pre-pandemic levels. One of the largest drivers of that has been this combination.

And just as a quick reminder, remember that we brought together our direct-to-consumer and agent-driven consumer businesses. We brought those together in January of 2020, right before COVID hit. So our timing was just pure luck. I wish I could take some credit for that, but it was just pure luck.

And what we've been able to do is really learn quite a bit and improve in terms of how these leads come in on a direct-to-consumer basis and how we use those in both directions. We have certain leads that come into our agents where the consumer uses a direct-to-consumer platform and vice versa. But the combination of those 2 things has really made a difference. And that's what's given us the confidence to invest in myHealthPolicy.com because we believe that the things we learned in life -- in the life insurance business of going between direct-to-consumer and agent-driven businesses, we can apply some of those same learnings to the health business. So we expect to be able to bring that type of learning there as well.

I really think that our sales numbers would be very, very different if we hadn't done that in early 2020. I think that's been a significant differentiator for us. And I think we're just scratching the surface. I think that the other thing COVID did that doesn't maybe get a lot of attention, I think there are certain consumer behaviors and consumer comfort levels on interacting virtually that have changed permanently. And we feel like we're very well positioned to be able to capitalize on those.

Operator

Your last question comes from the line of -- there are no further questions. I'll hand the call back to the company.

Jennifer Childe - *CNO Financial Group, Inc. - VP of IR*

Operator, I think there is one more question.

Operator

Your last question comes from the line of [Rafael Quintos] from FactSet.

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

This is actually Ryan Krueger from KBW. I had just, I guess, one question on advertising spend in the life business. It was up a fair amount in 2021 but obviously led to good sales results. How are you thinking about ad spend and the opportunity there as we go into 2022?

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

So as we've discussed in the past, our volume of ad spend has really sort of dependent on the opportunity set at a price that makes sense for us. We manage that quite tightly, just looking at the ad spend relative to the amount of NAP that we think we can generate with it. So obviously, that moved up in 2021 versus prior years, and that was largely a function of sort of the demand in direct-to-consumer. So we're opportunistic there.

We expect that, that will continue. So as we look into 2022, I think it's reasonable for you to expect that the '21 levels will persist at least flat, maybe up. And again, that will depend on how things evolve and the dynamics that I just described.

Gary, would you add anything?

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

No. Well, actually, I think the only thing I would just emphasize, and you mentioned it, Paul, but I'd emphasize it again, we watch this really carefully. We have proprietary internal metrics where we watch the marketing cost against the NAP. And when we can buy the ads at the right price that delivers the yield we want, we buy more. And when we don't get the yield we want, we buy less. And that strategy has served us well, and I think we'll continue to use it.

One final comment I'd make, given what's coming with the 2022 elections and so on, I don't know how many opportunities there will be from a pure cost standpoint to buy advertising at the levels that we really like. But if they're there, we'll do it.

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

And then do you expect much of a sales benefit from the A.M. Best upgrade, whether it be in worksite or areas where you're distributing more through third-party distributors?

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

I think conventional wisdom has held that on our consumer business, as long as the A.M. Best rating is above B+, consumers are generally satisfied. On the employer businesses, I think you need to be at an A- or higher. So stated differently, I believe that the A.M. Best rating we had was not previously a limiting factor. So I doubt it will be a huge benefit. There may be some employers out there that have internal risk management guidelines that won't allow them to work with a carrier who has less than an A rating. So on the margin, there might be a few extra counts here and there, but I wouldn't expect a significant lift by virtue of that. We've played in a different space for quite some time. And I think our clients, generally speaking, are not as rating-sensitive.

Operator

There are no questions at this time. I'll hand the call back to the company.

Jennifer Childe - CNO Financial Group, Inc. - VP of IR

Thanks, operator. And thanks, everyone, for joining us, and we look forward to speaking with you again soon.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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