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EDITED TRANSCRIPT

CNO.N - Q3 2026 CNO Financial Group, Inc. Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to CNO Financial Group third quarter 2026 earnings results conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Adam Auvil. Please go ahead.

Adam Auvil - *CNO Financial Group, Inc. - Vice President - Investor Relations & Sustainability*

Good morning, and thank you for joining us on CNO Financial Group's third quarter 2026 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 release by visiting 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 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 refer to changes between the third quarter 2026 and the third quarter 2025.

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

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Gary Bhojwani - *CNO Financial Group, Inc. - Chief Executive Officer, Director*

Thanks, Adam. Good morning, everyone, and thank you for joining us. CNO delivered an excellent quarter, demonstrating the strength of our diversified business model and our ability to generate consistent, repeatable results. Operating earnings per diluted share were up 47% in the third quarter and up 43% year-to-date. We delivered our 17th consecutive quarter of sales growth and our 15th consecutive quarter of producing agent count growth.

As a result, we are raising our full year operating earnings per share guidance and either improving or maintaining most other 2026 guidance. We remain focused on growing sales and earnings, improving profitability and reinvesting in the business. We were also pleased to execute our third reinsurance transaction with our Bermuda affiliate. Paul will provide further details later in his prepared remarks.

Our business model continues to perform well. Sales results in the quarter were solid across both divisions. Producing agent count grew 4%. Our career field agents delivered across every major product line, while momentum remains strong in our asset accumulation products.

Our exclusive middle market focus and our last-mile captive agent distribution model are the foundation of our durable competitive moat. This difficult-to-replicate model remains a key competitive advantage that drives consistent sales performance and profitable growth.

Earnings benefited from strong insurance product margin and investment results, reflecting growth in the business and expansion of the portfolio book yield. Investment results were very strong in the quarter. New money rates have exceeded 6% for 15 consecutive quarters while maintaining a high-quality portfolio. We maintained a robust capital position while returning $77 million to shareholders. Book value per diluted share, excluding AOCI, was $41.29, up 8%.

Turning to slide 5 and our growth scorecard. Nearly all of our growth scorecard metrics were up for the quarter with strong performance across production, distribution and investments in capital.

Turning to slide 6 and our Consumer Division. We delivered our 16th consecutive quarter of sustained sales growth with continued strength in health, annuities and brokerage and advisory. Strong agent productivity and retention fueled our sales momentum. Producing agent count was up 4%, our 15th consecutive quarter of growth.

Total Life and Health NAP was down year-over-year against a strong prior year comparison. NAP generated by our career field agents was up 13% in the quarter. This channel is core to our business and a key driver of our success, reflecting the strength of our local agent distribution model and the value of the relationships we build with customers. Total Health NAP was up 7%, marking 17 consecutive quarters of growth.

Our Medicare business continued to perform well. Medicare Supplement NAP increased 41% in the quarter and has grown more than 60% over the last 12 months. The results reflect the ongoing shift in consumer preferences from Medicare Advantage to Medicare Supplement. The broader Medicare Advantage market continues to experience significant disruption during this year's Medicare annual enrollment period.

More than 3 million Medicare Advantage members will need to choose new coverage for 2027 as many leading carriers continue to exit plans, pare back benefits and/or reduce service areas. This environment reinforces the value of offering both Medicare Supplement and Medicare Advantage through our local agents who can help customers navigate these changes.

Medicare remains a flagship door opening product for CNO, supporting our ability to expand the total number of households we serve over time. Total Medicare policies sold, including Medicare Advantage, were up 20%. Life NAP was down 9% for the quarter against a strong prior year comparison that included $13 million of NAP from a third-party pilot program that we discontinued earlier this year. Excluding that production, Life NAP increased 20% and direct-to-consumer NAP was up 29%.

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In our D2C channel, we continue to take a measured approach to managing our business. We invest where we see productive opportunities to optimize performance while selectively experimenting with third-party partners that complement our existing capabilities and allow us to test new opportunities with limited upfront investment.

This strategy will create quarterly variability, but we remain comfortable with the business and its long-term performance. This quarter, non-television marketing channels, including web, digital and third-party partners, generated 71% of all D2C life sales.

We delivered strong results in our asset accumulation business during the quarter. Annuity collected premiums in the quarter totaled $514 million, up 9%. Account values were up 7%. We also delivered our 14th consecutive quarter of brokerage and advisory growth. Client assets were up 15% to a new record and total accounts were up 13%. Registered agent count grew 4%. When combined with our annuity account values, our clients now entrust us with nearly $20 billion of their assets, up 9%.

Next, slide 7 and our Worksite Division performance. We delivered our 18th consecutive quarter of sustained sales growth. Life and Health NAP was up 18% for the quarter. This represents our eighth consecutive quarter of double-digit sales growth. Producing agent count reached a record level, up 6%, marking the 17th consecutive quarter of growth.

Productivity remained robust across all agent cohorts. NAP generated by our Worksite career field agents was up 29% in the quarter. Similar to our Consumer Division, our last mile captive agent distribution model is an important driver of our Worksite success.

Sales highlights from the quarter included life, up 59% and hospital indemnity and accident, each up 16%. Our focus on small to midsized businesses and associations continues to drive meaningful sales growth. Employers are increasingly turning to employee-paid voluntary benefits to manage health care costs. Our products are designed to address these protection needs. And our career agents and partners are well positioned to help employees address potential gaps in traditional medical coverage.

NAP from new clients increased 168%. This growth is well balanced between geographic expansion and further penetration into existing markets. Life sales continue to experience a significant uptick from these new client relationships.

Across both divisions, our results highlight the value of a diversified product portfolio built around customer needs rather than individual products. It's a unique strength that allows us to meet a broad range of needs, build lasting customer relationships and deliver consistent performance over time.

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

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

Thanks, Gary, and good morning, everyone. Before turning to my remarks on the quarter, I'd like to briefly comment on our third reinsurance treaty with our Bermuda company, CNO Bermuda Re. Effective October 1, we ceded approximately $270 million of US statutory graded benefit life reserves from Colonial Penn Life Insurance Company to our Bermuda company.

With annuity, health and now life reserves in the Bermuda company, we have greater diversification across the liabilities, creating opportunities to further optimize the assets and the capital. This will be an area of focus for us in 2027, looking to settle into more of a run rate cadence in 2028 and beyond.

Our Bermuda operation has become an important component of how we efficiently deploy capital to support our mission of serving middle-income consumers. We value our working relationship with the BMA, appreciate Bermuda's strong regulatory framework and look forward to continuing to work closely with them as we grow the operation.

Turning now to the financial highlights on slide 8. We had another strong quarter, reflecting continued favorable trends in insurance product margins and net investment income, along with disciplined expense and capital management. We delivered operating earnings per share

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of $1.90, up 47% from the prior year. Excluding significant items associated with the annual actuarial review, operating earnings per share of $1.42 was up 48% for the quarter, with year-to-date up 45%.

Expenses continue to run favorably as they have all year, with the expense ratio at 18.5% on a trailing 12-month basis. This represents a 50 basis point improvement over the prior year, reflecting greater operating leverage due to sustained growth in the business over the last couple of years.

We continue to manage within or above our target capital and holdco liquidity levels while deploying $60 million of excess capital on share repurchases in the quarter. This contributed to a 4% reduction in weighted average diluted shares outstanding. On a trailing 12-month basis, operating return on equity was 15.4% and 14.1%, excluding significant items, reflecting the continued improvement in the underlying profitability of the business.

It's worth noting that this result includes approximately 50 basis points of benefit from outperformance in net investment income not allocated during the period. Our results again demonstrate the strength and quality of our earnings fundamentals and the consistent execution we've delivered over the last several years.

Turning to slide 9. Total insurance product margin, excluding significant items, increased 7%, continuing the favorable trend we've seen throughout the year and primarily reflecting the compounding benefit of sustained sales momentum. Within annuities, fixed indexed annuities benefited from growth in the block and a favorable change in the go-forward income pattern resulting from the annual actuarial review.

Other annuities benefited from favorable reserve releases on a handful of closed block policies. Supplemental health benefited from growth in the block, offset by less favorable morbidity compared with the prior year.

Medicare Supplement results reflected higher morbidity, partially offset by continued growth in the block and the benefit of rate increases implemented over the course of the year. Long-term care benefited from growth in the block and lower morbidity.

Within Life, interest-sensitive life benefited from growth in the block and lower mortality. Traditional life results reflected higher nondeferrable advertising expense in the quarter. Our annual actuarial review resulted in a $56.3 million favorable impact to operating income. The net benefit reflected broad-based favorable experience across the product portfolio, led by traditional life, fixed indexed annuities, supplemental health and long-term care, partially offset by unfavorable claims trends in Medicare Supplement.

Consistent with prior years, we are calling out the impact from the annual review as a significant item and presenting insurance product margin on this slide, excluding that impact. The annual review also resulted in changes to our quarterly go-forward operating income patterns, including an estimated favorable impact of approximately $3.5 million in fixed indexed annuities and $1 million in Medicare Supplement.

Turning to slide 10. Net investment income remained a meaningful contributor to earnings growth, increasing 13% year-over-year and marking the 12th consecutive quarter of growth in total net investment income. Investment income allocated to product lines increased 4%, primarily reflecting growth in average net insurance liabilities as we continue to grow the business.

Net investment income not allocated to products increased 72%. The improvement was primarily driven by favorable alternative investment income with positive contributions across the portfolio and no meaningful offsets. The result was approximately $12 million above our long-term yield estimate. And while we're pleased with the performance, we would not expect this level of contribution to continue.

We also benefited from higher funding and margins in our FHLB and FABN programs. The new money rate was 6.24% in the quarter, representing the 15th consecutive quarter above 6%. We continue to find opportunities to invest in high-quality names at attractive yields, and that has helped drive a 9 basis point increase in book yield year-over-year.

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The continued benefit from attractive new money rates, combined with growth in the business and disciplined portfolio management supports durable investment income generation over time. Overall, our investment results reflect a high-quality portfolio that continues to generate strong and consistent income while maintaining the flexibility and liquidity necessary to perform across market environment.

Turning to slide 11. Our total capital position remains robust with all of our capital and liquidity metrics within or above our target levels. Overall, our capital and liquidity position provides flexibility to support organic growth, invest in the business, manage risk and continue returning capital to shareholders.

Turning to our 2026 guidance on slide 12. Based on our strong third quarter performance and outlook for the fourth quarter, we are raising our full year operating earnings per share guidance to a range of between $5.05 to $5.15, representing a 9% increase at the midpoint from our prior guidance.

This increase reflects an expense ratio of 18.6% to 18.8%, down from the prior range of 18.8% to 19.0%, an operating effective tax rate of approximately 20.5% compared to the prior estimate of 21.5% and full year fee income of approximately $25 million, primarily reflecting the continued shift from Medicare Advantage to Medicare Supplement. We now expect full year free cash flow of between $220 million and $240 million. There is no change to our target RBC ratio, minimum holdco, holding company liquidity or leverage ranges.

Regarding return on equity, our 2026 operating return on equity is clearly on track to exceed the 12% target previously established for year-end 2027. We remain focused on improving operating return on equity with the long-term objective of achieving top quartile performance in our peer group. We expect to establish new long-term targets in February of next year, in line with our normal planning cadence.

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

Gary Bhojwani - *CNO Financial Group, Inc. - Chief Executive Officer, Director*

Thanks, Paul. Turning to slide 13. CNO delivered an excellent quarter. Our performance remains consistent and repeatable, underpinned by strong execution and our focus on the underserved middle-income market. We entered the fourth quarter with meaningful momentum, and we once again expect to end the year strong.

Thank you to everyone who joined us in September for our CNO investor briefing on our Worksite division and Medicare business. As a reminder, the webcast and materials from that session are available in the Investor Relations section of our website, cnoinc.com.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Randy Binner, Texas Capital Securities.

Randy Binner - *Texas Capital Securities - Analyst*

I had a question about the guide of free cash flow that is $220 million to $240 million. So I think that's a tighter range than prior, but not as high on the high end. And so two-part question, what changed there? And then kind of confirming that, that includes this third reinsurance deal with the Colonial Penn Life reserves? And if so, how that reinsurance transaction affects that guide?

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

Sure. Randy, it's Paul. So our year-to-date free cash flow has been generally in line with our expectations with some puts and takes. A little bit higher capital consumption from investments, primarily the growth in our FHLB program, offset a little bit by lower expenses and some favorable cash flow from our Bankers Life agency.

The full year guidance, just for context, in the three years since we completed the first reinsurance treaty with our Bermuda affiliate, we've built up a fair amount of excess capital in Bermuda. And our original free cash flow guidance for 2026 assumed that we would somehow solve for a portion of that.

We ultimately solve for it in the context of the third treaty with the Bermuda affiliate, which, as you know, closed on October 1, therefore, impacting not September year-to-date, but fourth quarter and full year free cash flow guidance.

Recall that our free cash flow is, again, just for context and perspective, net of the investment we're making to modernize our technology, which includes a cash spend in 2026 of approximately $45 million through September and an expected roughly $70 million for the full year.

And then more broadly, free cash flow is ultimately the output of an intentional balance of funding near-term organic growth, which has been quite healthy in the form of new business, which creates first year strain, optimizing the risk and return in our investment portfolio.

As I mentioned, we decided to increase the size of our FHLB program that generates earnings and an attractive return, but consumes capital, investing for our long-term growth in things like the TechMod project that I just mentioned, while also returning some amount of excess capital to shareholders through our ordinary dividends and on the margin through share repurchases, which have also been quite healthy.

And we think that we've managed that balance reasonably well while also improving the underlying profitability of the business as reflected in the improving ROE. So that's it in terms of the year. And again, just trying to offer some broader perspective, Randy.

Randy Binner - *Texas Capital Securities - Analyst*

No, that's great. So I guess the follow-up is, is it possible to isolate the capital freed up from this $270 million reinsurance transfer? And if it spans over different calendar years, which I imagine it does, is there kind of a way to think of in isolation because that was a very comprehensive answer and covered the whole gamut of what goes into capital management there, which is really helpful. But is there a way to say the $270 million over time can free up x amount of capital versus what it would have been domestically?

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

Yes. So the initial treaty certainly does have an impact on capital. And we certainly quantify that internally. We've generally not quantified it in our external remarks, primarily because it's one component of lots of variables that drive free cash flow.

So we think it makes sense to talk about free cash flow in total. But certainly, it contributed to the free cash flow in the quarter and the full year. And as we continue to operate in Bermuda with flow business, that helps us operate more efficiently. And as I mentioned, we solved a portion of the excess cash flow that's built up -- excess capital that's built up in Bermuda with this third treaty. There's more to do there.

And again, that will be a focus for us in 2027 as in the wake of this third treaty, we look to optimize assets and capital in the context of a very nicely diversified set of liabilities. And there's specific things that we're contemplating doing in 2027, all subject to regulatory approvals. So we'll be working with regulators, both in the US and Bermuda to try to accomplish those things.

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Randy Binner - *Texas Capital Securities - Analyst*

Okay. And the last one I have was just that the run rate cadence you mentioned in your prepared remarks would be kind of, I guess, executing on those special things you're looking to do?

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

Right. I'm just referring to in the wake of the things that we're contemplating in 2027, assuming we accomplish those, we would expect to then settle into more of a run rate cadence in Bermuda, which has become, as I mentioned, an important component of how we operate, and we expect will remain so for the foreseeable future.

Operator

Joel Hurwitz, Dowling.

Joel Hurwitz - *Dowling and Partners Securities LLC - Analyst*

A couple on expenses. Just in the quarter, it came in better than what you guys have guided to. I think early in the year, Paul, you had talked about it being timing, but it seems like it might be more than that and maybe some actions that you've taken to keep expenses down.

Could you just provide some more color on what you're doing on the expense side? Any further opportunities you see there? And then is the '26 level sort of a good baseline for moving forward?

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

Sure. Yes. The favorable trend in the expense ratio is at a high level, it's simply a reflection of expenses a little bit lower than we'd anticipated at the beginning of the year and revenues a little bit higher, reflecting the strong sales growth that we've generated, combining to deliver improvements in operating leverage, which translates to the ratio.

There haven't been any significant initiatives that we've undertaken in the year to drive expenses lower. And again, I'd say that the lower amount of dollar expenses is relatively modest, kind of, in the range of puts and takes that you can see across quarters.

We have expected that it's a bit of timing and that it would come back. It hasn't through September as much as we thought back in March, April and July, August. So we'll see how it plays out over the next few months.

But I would say that the current expense ratio is sustainable. We think that there's even some room for improvement going forward as we continue to grow the business and capture better operating leverage. Obviously, it's a trade-off.

Again, this is also a balance of how much do you invest in various things to grow in the near term and grow in the long term. But even with that in the context of the continued growth opportunities that we see, we think there's opportunity to continue to improve that ratio through better leverage.

Joel Hurwitz - *Dowling and Partners Securities LLC - Analyst*

Got you. That's helpful. And then a couple for me on Bermuda. Just have you guys taken any dividend out of that entity this year? Any color on expectations of what you're going to look to take out next year? And then just on this third deal that you did, it was a bit smaller than

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prior deals. It's a subset of your overall life business. Just any color on the rationale to only do this block? And do you see other opportunities with other life blocks?

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

Yes. So with the closing of this third treaty, we've essentially completed the transactions that we had initially contemplated. We don't currently expect to see a material additional block of in-force reserves. Recall, however, that the existing treaties include 100% of FIA new business and 50% of supplemental health new business.

And so again, the near-term focus is to optimize on the assets and the capital in the context of what now is a very well-diversified set of liabilities. And again, there's some discrete things that we're looking to do there.

In terms of your first question, have we taken dividends out? No. We haven't taken dividends out as such. As we did the second treaty and now the third treaty, we do capture efficiencies in the context of the initial settlement of those treaties, but haven't specifically taken out dividends.

Operator

Ryan Krueger, KBW.

Ryan Krueger - *Keefe Bruyette & Woods Inc - Analyst*

One follow-up on Bermuda first. I guess why aren't you ceding more life business to Bermuda? I would have thought that would have also had efficiencies in addition to the FIA and supplemental health on an ongoing basis.

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

So why are we not ceding more--

Ryan Krueger - *Keefe Bruyette & Woods Inc - Analyst*

Traditional Life business. I guess it seems like you've only ceded a small block of Life business in-force to Bermuda and you don't have a flow reinsurance treaty related to life insurance products.

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

Right. So as we looked at the opportunity, this is what we settled on as optimal. I don't know, Jeremy, if you want to offer any additional color there?

Jeremy Williams - *CNO Financial Group, Inc. - Chief Actuary*

Yes. I just -- this is Jeremy Williams, the Chief Actuary. We did look at it, Ryan, quite a bit and determined that this was the right size block to eventually optimize the diversification. While the reserve doesn't seem like a large number, it is over 600,000 policies that are involved in the transaction. So it is still a very substantial block of our life insurance.

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Ryan Krueger - *Keefe Bruyette & Woods Inc - Analyst*

Okay. And then [indiscernible] an on a cash basis for '26. Can you tell us what you'd expect that to be in 2027?

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

Sorry, Ryan, you were breaking up a little bit there. Can you repeat the question?

Ryan Krueger - *Keefe Bruyette & Woods Inc - Analyst*

Sorry about that. The $70 million of TechMod costs in 2026 on a cash basis, can you say what you expect that to be in 2027?

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

Yes. In 2027, I think we're expecting a comparable amount.

Operator

Suneet Kamath, Jefferies.

Suneet Kamath - *Jefferies LLC - Equity Analyst*

Maybe just a follow-up on Bermuda with one, and then I'll have a separate question. Just on this decision to stop ceding in-force blocks, is that entirely sort of your decision? Or are you hearing something either from the agencies or anybody else regulators that are maybe saying we want to kind of slow this transfer of blocks from onshore to Bermuda. Anything along those lines that you're hearing?

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

Yes, it's entirely our decision. We're not being pressured by anyone to do more or less. It's just as we've analyzed our liabilities, we've concluded that what we've ceded through these three treaties is the optimal mix. Again, Jeremy, I don't know if you want to offer any additional color.

Suneet Kamath - *Jefferies LLC - Equity Analyst*

Sorry, is he offering anything? Or should I move on?

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

Looks like not.

Suneet Kamath - *Jefferies LLC - Equity Analyst*

Not. Okay. So we'll move on then. So I guess for Gary, I mean, it looks like your target market has been pretty resilient as we just look at kind of sales and production and those kind of metrics, which is good to see.

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But I guess some of the economic pressures that we monitor have probably been lasting longer than maybe some of us thought earlier in the year, whether it's gas prices or short-term interest rates, inflation, that kind of thing.

So I'm just trying to understand kind of the -- how those two things relate to one another. Are you seeing anything that would suggest maybe economic pressures could start to build and impact new production as we move into 4Q, but also 2027? Just any color there would be helpful.

Gary Bhojwani - *CNO Financial Group, Inc. - Chief Executive Officer, Director*

Yes. Thanks, Suneet, for the question. I think it's a really good question. And I can just share with you how we think about it. We are not seeing anything that tells us there's going to be a material reduction in the need or demand for our services.

Now I think the reality is that on the margin, meaning people that are really close to deciding whether or not they need some of our products, of course, higher expenses has an influence. But the things that are somewhat immune to those things, when someone turns 65 and they're retiring, it doesn't matter whether gas is at $4 a gallon or $6 a gallon.

If they're retiring and they need to retire and their employer has moved on, they need to do that. When we see folks looking at Medicare, generally, those things are necessary regardless of what's happening in the macroeconomic picture.

So we expect the demand trends to remain relatively robust. Some other factors that simply aren't changing regardless of what's happening in the economy. The employers and the government are not offering more coverage for these types of exposures that, if anything, is going down.

So that drives demand for us. The number of people turning 65 every day continues to grow. That drives demand. The absence of other credible alternatives, that's not changing. So all of these other things, I think, frankly, are trumping whatever forces are being exerted by the economic pressures of gas prices and other things like that.

So I don't want to say that we're immune, but I do want to say that we're far less subject to it than other things because many of these products, they need to be purchased by middle-income America and there just aren't alternatives.

Suneet Kamath - *Jefferies LLC - Equity Analyst*

Got it. Can I just sneak one more in? Just on Medicare. It sounds like this whole Medicare Advantage issue is going to create incremental opportunities for Medicare Supplement. Is there anything that you guys need to do to sort of either staff up or increase advertising? It seems like you have a great opportunity here. Just wondering, do you have in place what it takes to really take advantage of it?

Gary Bhojwani - *CNO Financial Group, Inc. - Chief Executive Officer, Director*

Well, I think if you look at our growth rates that we've been posting through the year, I think we're doing pretty well in terms of taking advantage of the opportunity. So I feel like our agents are doing a fantastic job. I would make -- two observations on this.

So first of all, what you observed is absolutely correct. There is a secular shift happening from Medicare Advantage to Medicare Supplement. So that creates an obvious opportunity for us because we offer both, but in particular, we offer the Medicare Supplement.

I think the part that is less appreciated and frankly, harder to measure. Anytime there's a dislocation in a market like this, when you see 3 million policies put into play because other carriers are making changes, that increases the need for what is our point of differentiation, meaning specifically advice.

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Any time there's a dislocation, that causes more consumers to want to seek advice, and that plays to our strength. We've never tried to appeal to only the price shopping consumer. We've always had a strategy of focusing on those consumers that want advice, that want a fuller relationship that want other products.

And any dislocation like this plays into that. It has more people talking to us and looking at this. So we believe this is a trend that will continue. And if by some chance, it should revert, that's fine. We're happy to offer Medicare Advantage, too.

Operator

Jack Matten, BMO.

Jack Matten - *Bank of Montreal - Analyst*

Just a higher level one on the ROE trend line. If we look at the roughly 14% normalized ROE today, is there anything that you would expect to either like revert or normalize in the coming quarters? I think you mentioned there was 50 basis points of better unallocated NII, if I heard correctly from the prepared remarks, but wondering if there's anything else in, of course, the longer-term trend line that the ROE is moving higher.

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

Jack, I'll answer the sort of the numbers question, and then Gary may want to share some perspective. Yes, if you just look at the NII not allocated line item and as we've done that sort of relative to our expectations, it's contributed -- the outperformance has contributed about 50 basis points. So you might reasonably sort of adjust for that to get to a run rate.

That's the only specific thing that I would point to. I mean we've had really favorable experience in insurance product margin. Normally, they're sort of offsetting puts and takes. It feels like we've had more puts and takes for the last couple of years almost with some exceptions in certain quarters.

But -- so maybe there's some reversion to the mean there at some point. Obviously, we addressed what we thought was a sustainable run rate in our actuarial assumption update. But we wouldn't try to quantify that. And then generally, our expectation is to continue to improve ROE, but I'll stop there.

Gary, if you want to provide some context.

Gary Bhojwani - *CNO Financial Group, Inc. - Chief Executive Officer, Director*

Yes. Thanks, Paul. So I would say a couple of things. First of all, I've been very pleased with the way the organization has responded to our desire to improve ROE. All of our leadership has really kind of circled around this and come up with ideas from the bottom up on how to do this. Everything I'm seeing indicates that, that improvement will continue.

Will it continue at exactly the same pace? I don't know. We'll provide more guidance in February as to what our long-term expectations are. But I've been very pleased with the progress over the last three years since we launched this initiative. We've, as you know, exceeded our targets. We've hit the higher targets sooner.

We expect to do that. And the next goal for us is really to become a consistent top quartile player. We have line of sight on that. I believe we can achieve that. On any given quarter, I don't know, it might be up or down a little bit.

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But when I look at the long-term trends and what we're able to do, I really feel like the flywheel is picking up momentum, and I see no reason why we can't get to that place of being a consistent top quartile ROE performer. That is the goal, and I expect us to get there.

Jack Matten - *Bank of Montreal - Analyst*

Got it. That's helpful. Just one on the assumption review. Does any of the favorability you had on a GAAP basis, would you expect any of that to translate at all to your statutory reserving or earnings time lines?

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

Jeremy, do you want to take that?

Jeremy Williams - *CNO Financial Group, Inc. - Chief Actuary*

I'm sorry, you asked about the ongoing impacts of the unlocking. Sorry, it's breaking up a little bit.

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

He's asking how GAAP may translate to stat.

Jeremy Williams - *CNO Financial Group, Inc. - Chief Actuary*

How GAAP earnings translate to stat earnings specifically?

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

Yes.

Jeremy Williams - *CNO Financial Group, Inc. - Chief Actuary*

I mean, generally, statutory earnings, if there is new business and those sorts of things, it's certainly less on that side simply because of the strain that is involved on that front and then eventually later on, it comes back. And so generally, we see a little bit lower statutory earnings on most blocks these days simply because we're growing moving forward. And I'll just leave it at that.

Jack Matten - *Bank of Montreal - Analyst*

Okay. I was just asking more specific to the assumption review. I know it's a GAAP assumption review, but I was just wondering if there's any flow-through or translation to what happens on a stat basis from that review. I'm sorry.

Jeremy Williams - *CNO Financial Group, Inc. - Chief Actuary*

Yes, the phone was breaking up a little bit there. Yes. So not really any statutory impacts of unlocking to speak of. All of the impacts are GAAP on the LDTI side and then statutory is largely book value and is locked in at issue, and there's no implications on that front.

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Operator

Wilma Burdis, Raymond James.

Wilma Burdis - *Raymond James Holding - Analyst*

I'm just trying to squeeze kind of two into one for the first question here. Given the unfavorable mortality that you had in Med supplement, could you just talk about what's driving the improved kind of high $20 million run rate for the segment?

And then I guess along the same lines, if you could just give us a little bit more detail on what about the assumption review is driving the more favorable run rate in annuities?

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

Jeremy, do you want to take that one?

Jeremy Williams - *CNO Financial Group, Inc. - Chief Actuary*

Yes, certainly. On the Med on the morbidity side, I believe was your first question. Certainly, we've seen the much higher morbidity the last several periods, and therefore, we reflected in the assumptions, and that did create unfavorable immediate unlocking impacts as part of that.

Now as part of those updates, we are reflecting the higher near-term claims as part of that. And so as we move forward, now the expectation in the new run rate is a larger reserve release to offset those claims. And so you end up with a relatively small $1 million quarterly improvement moving forward.

On the FIA side then, the two major updates we did specifically were around surrenders, a little bit higher surrenders, as you might imagine, with some of the higher interest rate scenarios. But then also, we also see people utilizing the GLWB product less so than what we had expected in our prior assumptions. So we pushed the utilization out on that as well.

And those two things together lowered our GLWB benefit expectations in the future and created immediate reserve release in our MRB. And in addition to that, because we're now expecting less benefit in the future, it means lower accrual of that reserve moving forward as well. So then it comes through as a favorable quarterly reserve impact on that front as well.

Wilma Burdis - *Raymond James Holding - Analyst*

Okay. And then could you talk a little bit about the -- some of the ABS purchases you guys took on in the quarter? And what types of products you're specifically focused on within ABF?

Eric Johnson - *CNO Financial Group, Inc. - Chief Investment Officer; President, Chief Executive Officer - 40&pipe;86 Advisors*

Wilma, this is Eric Johnson. I'm going to talk about that briefly. Let me give you the kind of the high-level depiction. We roughly have $2 billion of private credit in total that includes ABF, which is about half of that. Direct lending is about 20%. Portfolio finance is about 20%. And then there are some other bits and pieces that are not significant individually. If you look at it by rating, it's pretty much all investment grade, all the ABF is higher rated investment grade.

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For the most part, it's -- the end risk is structured -- some flavor of structured consumer credit, that will have both excess spread and credit support behind it and an equity contribution also. So it's pretty highly belt and braces structured and protected. It's a real good earner for us.

We like it. It doesn't have binary risk. It doesn't have any kind of direct interest rate risk that you see in traditional private credit. And it tends to be fairly short duration as well. And the assets turn over very quickly as well as the structure turns over very quickly.

So it is -- for some of our ALM needs versus annuities, especially and that's up, it fits very well, very happy with it and open for business -- more business in that area as the company continues to grow and are long cash, short great ideas. So always looking for the next one.

Operator

Thank you. I'm showing no further questions at this time. I would now like to turn it back to Adam Auvil for closing remarks.

Adam Auvil - *CNO Financial Group, Inc. - Vice President - Investor Relations & Sustainability*

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

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

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