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PRESENTATION

Operator

Good morning or good afternoon, and welcome to the CNO Financial Group First Quarter 2023 Earnings Results Call. My name is Adam, and I'll be your operator for today. (Operator Instructions)

I will now hand the floor over to Adam Auvil to begin. So Adam, please go ahead when you are ready.

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

Good morning, and thank you for joining us on CNO Financial Group's First Quarter 2023 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 this release by visiting the media section of our website at cnoinc.com. This morning's presentation is also available in the Investors section of our website and was filed in the Form 8-K yesterday. We expect to file our Form 10-Q (sic) [Form 10-K] and post it on our website on or before May 10.

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 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 presentations, we will be making performance comparisons, and unless otherwise specified, any comparisons made will be referring to changes between first quarter 2023 and first quarter 2022.

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. We're off to a positive start in 2023, posting solid operating earnings, production and capital results. Operating earnings per share were \$0.51. Our balanced business model lent strength, stability and resilience to our earnings results. The fundamental health of the business is solid as demonstrated by strong insurance product margins, growth in fee income, increasing new money rates and solid overall investment results even as alternative results underperformed compared to the prior year period.

Sales production and agent recruiting delivered strong balanced results across both our Consumer and Worksite divisions. Total new annualized premium was up 7%. We posted sales growth in nearly all product categories, including direct-to-consumer and field agent sold live, Medicare products, including both Medicare Supplement and Medicare Advantage, supplemental health, annuities and worksite insurance sales.

Capital ratios and liquidity remained above target levels, underscoring our resilient capital position and disciplined capital management. Our high-quality investment portfolio remains well positioned to weather market turmoil and to deliver consistent investment income. Book value per diluted share, excluding AOCI, was up 13% to over \$31. Effective January 1, we adopted LDTI, a new GAAP accounting standard for long-duration insurance contracts. This transition represents the culmination of a significant multiyear initiative. We thank and recognize the many CNO associates from across our organization for their hard work and dedication to implementing LDTI.

Turning to Slide 5 and our growth scorecard. Four of our 5 growth scorecard metrics were up for the quarter, demonstrating the value of our broad product portfolio and diverse integrated distribution model. I'll discuss each division in the next 2 slides.

Beginning with the Consumer division on Slide 6. We are very pleased with sales performance in the quarter. We saw year-over-year sales growth in nearly all of our product lines in the consumer division. Life and Health NAP was up 4% for the quarter. Life production was up nicely. Life sales in the bankers life agent channel were up 5%. Our direct-to-consumer channel generated record life sales, up 1% against a strong comparable. This is the seventh consecutive quarter of sales growth for D2C Life.

Efficient advertising spend, enhanced distribution and solid policy conversion rates continued to deliver growth for this business. Supplemental health sales were up 12%, the third quarter of double-digit growth for these products. Our Medicare business posted record growth in the quarter, building on sales momentum from the fourth quarter Medicare annual enrollment period.

As a reminder, our approach to Medicare business includes Medicare supplement products that we manufacture and a broad offering of third-party Medicare Advantage and Part B prescription drug plans for which we collect fees. Medicare Supplement NAP was up 20% for the quarter. The new more efficient -- excuse me, the new more competitive Medicare supplement plans that we launched last year continued to be well received by consumers in this important market.

Medicare Advantage sales were up 55% for the quarter. This contributed to third-party fee revenue growth of 57%. As a reminder, MA policies drive fee revenue and are not reflected in NAP. Enhancements to our Medicare portfolio are enabling double-digit growth. We continue to add Medicare Advantage carrier plans that are available through our myHealthPolicy platform and make strategic technology investments in the platform's capabilities.

With branch offices in more than 230 communities, we operate a national footprint of knowledgeable local agents ready to help with Medicare enrollments. Our agents build personal relationships with our customers, earning the opportunity to assist with future needs and develop potential cross sales. These strong relationships allow us to mitigate the churn prevalent in so much of the industry. Our unique ability to marry a virtual connection with our established in-person agent force who complete the important last mile of sales and service remains a key differentiator.

Annuity collected premiums were up 1%, our 10th consecutive quarter of comparable period growth. Annuity persistency remains within expected ranges. This is primarily due to our model of distributing annuity products exclusively through our captive agents. Client assets in brokerage and advisory were down 8% year-over-year to \$2.6 billion due to ongoing market volatility and declining equity values.

More importantly, net inflows and new accounts were up, continuing this positive trend from prior quarters. Combined with our annuity account values, our clients entrust us with nearly \$14 billion of their assets.

Agent recruiting continued to accelerate and was up 22%, our fifth consecutive quarter of recruiting gains. As a result of this sustained recruiting success, we achieved an inflection point in our producing agent count, which ended up 1% for the quarter. As I've shared in previous calls, it takes time for new agents to meet production levels to be counted as a producing agent. We're pleased to see meaningful increases in agent recruiting begin to translate into increases in producing agent count.

We remain bullish on our agent force prospects for the balance of the year. Our recruiting strategy support a return to continued agent force growth. These include our proven agent referral program and recent enhancements to our online recruiting approaches. A softer labor market has traditionally resulted in more successful recruiting environments. Veteran agent retention and productivity remains solid. Our registered agent count increased 5% from prior year, expanding the number of securities professionals available to assist our customers in today's challenging economic environment.

Turning to Slide 7 and our Worksite Division performance. Insurance sales were up 28% this quarter. This is the eighth consecutive quarter of growth. Three of the last 4 quarters had growth of 20% or more, albeit off a small base. Leading indicators of the health of the business continue to trend positively.

Retention of our existing employer customers remain strong. Employee persistency within these employer groups is stable. Producing agent counts were up 38% and recruiting was up 48%. We remain squarely focused on deepening the integration of our worksite capabilities under our Optavise brand, advancing our strategic worksite priorities in both the national and regional employer markets and accelerating agent recruiting momentum. We also continued to invest in our ability to serve customers through service and product offerings.

In the second half of last year, we introduced our hybrid enrollment platform, Optavise Now. The platform gives our agents greater flexibility to connect with employees wherever they are, including by video meeting or over the phone. It continues to be well received by employers and employees, and we have experienced an uptick in attendance rates as a result of the technology.

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. Before commenting on our financial results in the quarter, I'd like to say a few words regarding the implementation of LDTI. Yesterday, we posted our fourth quarter '22 financial supplement recast to reflect the adoption of the new accounting standard. The impact on the balance sheet of the transition and on earnings over the remeasurement period were in line with the estimates we previously provided.

As a reminder, LDTI has no impact on financial results, capital or cash flows. I'd like to second Gary's comment from the beginning of the call and also express my gratitude to the CNO implementation team. We're well positioned not just for the first quarter close under the new standard, but also to operate smoothly and efficiently going forward.

Turning to the financial highlights on Slide 8. Our net income for the quarter was a loss of just under \$1 million, driven by a nonoperating loss of \$59 million, which in turn was driven primarily by \$65 million pre-tax of fair value changes in embedded derivative reserve liabilities and market risk benefits, both of which relate to the GAAP accounting for our annuity business and both of which are largely non-economic in nature.

Conversely, our operating income for the quarter was a gain of \$59 million or \$0.51 per share, \$6 million or \$0.03 per share lower than the prior year period, driven by a decline in the variable components of net investment income. Expenses were also elevated compared to the prior year period, but in line with our expectations for the quarter. Our projected expense ratio for the full year is unchanged at between 19.0% and 19.4%.

On a run rate basis, we're very pleased with the results in the quarter. Notably, insurance product margin increased by \$14 million or 7% year-over-year and fee income increased by \$6 million or 57%. We deployed \$15 million of capital on share repurchases in the quarter, contributing to a 5% reduction in weighted average diluted shares outstanding year-over-year. For the 12 months ending March 31, '23, operating return on equity was 10.3%.

Turning to Slide 9. The growth in insurance product margin was driven by growth in lower mortality -- by growth and lower mortality in the Life business and also reflects growth in fixed indexed annuities and supplemental health. The annuity and health margins were largely flat in total year-over-year with pluses and minuses by individual product line within each product category.

Turning to Slide 10. The new money rate in the quarter was 6.34%, up from 3.73% in the prior year period and 5.96% in 4Q '22. This is the fourth consecutive quarter with new money rates exceeding the average yield on allocated investments, which increased to 4.62% in the quarter, up 2 basis points both sequentially and year-over-year. This marks the third quarter of sequential improvement and the first quarter of year-over-year improvement in net yield.

While the improvement is small, it's nevertheless an important inflection point after years of declining yield, and together with growth in net insurance liabilities, contributes to growth in net investment income allocated to product, which was up 4% in the quarter.

Investment income not allocated to products fell in the quarter, driven by a decline in the return on alternative investments and also a decline in prepayment and call income. Notably, the decline was in part mitigated by growth in income from general account assets, the FHLB and FABN programs and the contribution from COLI investments. Our new investments comprised approximately \$690 million of assets with an average rating of AA- and an average duration of 3 years. Our new investments are summarized in more detail on Slides 21 and 22 of this presentation.

Turning to Slide 11. At quarter end, our invested assets totaled \$25 billion, down 8% year-over-year, reflecting declining market values driven primarily by higher interest rates. Approximately 97% 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.

In the last 12 months, the allocation to single A rated or higher securities is up 460 basis points. The BBB allocation is down 330 basis points, and the high-yield allocation is down 130 basis points. These actions served us well during the recent banking crisis and continue to position us well relative to potential broader economic downturn.

Given the amount of attention the commercial real estate market has received in the media and in equity research recently, I thought I should touch on that briefly. You'll note that 9.8% of our invested assets are in commercial mortgage-backed securities and 4.7% are in commercial mortgage loans. We've included some metrics on these investments in Slides 23 and 24 of this presentation.

The key messages are, number one, that our CMBS allocation is highly rated with significant structural protection, tilted toward lower risk property types and with limited loss content in extreme stress scenarios. And second, that our commercial mortgage loan allocation is also conservatively positioned across a number of metrics.

Turning to Slide 12. At quarter end, our consolidated RBC ratio is 380%. Holdco liquidity was \$158 million. We'll continue to manage to the targets of 375% RBC and \$150 million holdco liquidity.

Turning to Slide 13. Our outlook for the full year, as summarized on this slide, is unchanged from what we shared back in February at our Investor Day. I do want to provide an update on our planned formation of a captive Bermuda reinsurance company. We continue to work through the regulatory approval process, which we expect will conclude in time to initiate a treaty in the third quarter of this year.

Under this treaty, we intend to seed a portion of our fixed index annuity business from our U.S. operations to the Bermuda company. Contingent on all necessary regulatory approvals, we expect excess cash flow to the holdco to increase by \$150 million to \$200 million at inception of the initial reinsurance treaty. We'll certainly be judicious in how and when we deploy that capital, applying the same discipline and logic that we have historically.

Regulatory approval is by no means assured and we don't want to get ahead of the approval process, but we thought it was nevertheless appropriate at this stage to dimensionalize what the capital impact might be.

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

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

Thanks, Paul. In February, we held our Investor Day at the New York Stock Exchange. It was nice to see so many of you in person. We also appreciate those who are able to join virtually.

At the meeting, I opened my remarks with this comment: CNO is a growth story. After several years of navigating the pandemic and macroeconomic uncertainties, we're resuming our growth momentum. The pivot to growth was again on display this quarter in the strong sales performance delivered by both of our divisions. We have solid free cash flow to fund both growth and capital return. Our balance sheet, capital position and liquidity remains strong.

As we look to the remainder of 2023 and beyond, we are squarely focused on accelerating that profitable growth, consistent steady execution on our strategic priorities and generating sustainable long-term shareholder value.

We 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) And our first question today comes from Ryan Krueger from Stifel.

Ryan Krueger

My first question was on the Bermuda transaction. There's some proposed changes to Bermuda capital rules and I just wanted to confirm that the expected \$150 million to \$200 million benefit already incorporated those potential impacts.

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

Ryan, it's Paul. The range certainly incorporates the potential impact of the new rules that Bermuda has presented. Honestly, we're still sort of working through what the specific impacts might be, but we don't expect them to be material.

Ryan Krueger

Okay. Great. And then as a follow-up, how are you thinking about the potential use of the additional capital freed up? Would you be likely to return most of that to shareholders? Or would you like potentially use a piece of that to build a further capital cushion?

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

So Ryan, we'll continue to think about excess capital the way that we always have, which I think -- if you look at what we've done historically, we are thoughtful and deploy it appropriately on the margin. Certainly, we've used it to return excess capital to shareholders. So I would imagine that would be a component of it, but we -- as I said, we'll be -- we'll not do anything right away. We'll think about it and approach it, again, the same way we have historically.

Operator

The next question comes from Erik Bass from Autonomous.

Erik James Bass - *Bernstein Autonomous LLP*

I was just hoping you could talk a little bit more about the level of capital generation and excess cash flow to the holding company this quarter. I'm curious if this was affected at all by any seasonal impacts or timing issues?

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

Sure. Erik, it's Paul. So the excess cash flow in the quarter was a bit on the low side. I would emphasize that we expect the cash flow for the full year to be in the range of \$170 million to \$200 million. There are really 2 things that pushed it to the low side in the quarter. The first is the other category in sources of cash. This is largely timing differences of intercompany cash flows between the holdco and the operating subsidiaries. It was minus \$17 million in the quarter. On a full year basis, it tends to be neutral to slightly positive.

And then the second thing is holding company expenses and other are typically higher in the first quarter, and that's driven primarily by annual bonus payments made in March. So it was minus \$38 million in the quarter, and we'd expect that to improve in subsequent quarters.

Erik James Bass - *Bernstein Autonomous LLP*

Got it. That's helpful. And then a follow-up on the Bermuda cap. Is the plan initially to reinsure all of the in-force Bankers Life fixed annuity policies? And then thinking about the benefit prospectively, can we use the size of the capital release as a percentage of liabilities seeded to kind of approximate what that go-forward benefit would be on new sales?

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

So Erik, it's Paul again. So on the in-force book, we're proposing to seed the 2018 and more recent issue years, and that translates to about 60% of the in-force of fixed indexed annuities, which have an account value currently of about \$9 billion.

With respect to the new business, we do propose to seed a 100% of the new business. I don't -- I wouldn't take the amount freed up at inception necessarily as a proxy. I think they're more moving parts. And we're declining to size that at this stage, but certainly as we get into this we'll provide some appropriate disclosure.

Erik James Bass - *Bernstein Autonomous LLP*

And if I could just sneak in one quick one. Does your \$2.80 to \$3 of EPS guidance range factor in an expectation of lower VII in the first quarter? Or should we think of the range being based on a normal level of VII for the year?

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

So it's really based on actuals for the first quarter and plan for the balance of the year. So it does not presume that we get back the low VII in the first quarter, but it does presume that all income reverts to the mean in subsequent quarters. It also notably assumes that Life margin improves off seasonal first quarter lows and that expenses trend down resulting in the full year expense ratio in our guidance of between 19.0% and 19.4%.

Operator

The next question comes from John Barnidge from Piper Sandler.

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

If we could stick with guidance for a second. It looks like the income is really, really strong in the quarter. Can you talk about how we should be thinking that in the balance of the year? I know there's seasonality with the weighting for the first quarter?

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

Sure. So John, as I just shared with -- in response to Erik's question, the guidance is really pretty straightforward. It's based on actuals for the first quarter and plan for the balance of the year. The only material variance to our plan in the first quarter was lower alt returns, partially offset by higher fee income. Notably, our expenses in the first quarter were in line with our planned expectations. So if you do the math, clearly, we expect earnings to be higher in subsequent quarters than the first quarter. There is some seasonality to Life margin that explains some of that. As I mentioned, we expect expenses to trend down. And again, as I mentioned, we expect alts to revert to the mean in subsequent quarters.

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

Can you talk about the drivers of the strong growth in the fee income in the quarter? It seems like there was some good follow-through with Optavise driving improved enrollment rates?

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

Yes. So the fee income in the quarter was actually driven primarily by the Med Advantage sales in the quarter, not so much by Optavise.

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

Okay. Great. And then one last one. It looks like agent recruitment trends have been increasing, and with softening in the labor market, there's a propensity for referrals to be better agents. Are you seeing different sectors where the supply of that is coming as the labor market shifts?

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

John, this is Gary. I'll take that one. What we found -- we have certain targeted approaches, specifically referrals and certain other things we're doing online. And I wouldn't say we've seen a particular sector, one or another deliver more agent opportunities to us or more prospective agents to us. We're still following the same playbook with tweaks here and there.

All that said, I think it is reasonable to conclude if a particular industry experiences more layoffs might we see more agents coming from that industry. I think that's a fair theory, but we haven't seen it play yet.

Operator

Next question comes from Mark Dwelle from RBC Capital Markets.

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

Just building on the question on the recruitment, the recruitment has been ramping up a lot the last couple of quarters. What's the normal kind of lag time or hang time between when you do get recruitment and when these people translate into productive agents delivering targeted quotas or whatever the right metric is?

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

Sure. Mark, this is Gary. Before I answer your question, I just want to remind everybody of one thing. Producing agent count is not a gap defined metric. In other words, what we count as a productive agent may be different than brand X. So it's always important to remember that we've got various standards that are laid out in terms of how we define a producing agent.

But to answer your question, I think 1 to 3 years is when we see a really notable difference, somewhere in that time frame. If they make it past the first 12 months, then we really see the productivity start to ramp up. Again, between months 12 and 36, that's where we really see it start to kick in.

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

That's helpful. And then turning to some of the disclosures that you had related to the loan book and the CMBS. First of all, I appreciate you putting those together for us. It's definitely helpful. When you sit back and look at this, what would be the area that you're most concerned? Where would you see the greatest vulnerability as you look at this set of data?

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

Yes. This is Eric Johnson. When I look at this set of data, what I see is a pretty strong basis to whether -- whatever lies ahead in terms of the development of the commercial mortgage market. I feel looking at CMBS, which you mentioned first, it's a pretty highly rated portfolio, has very low loss content even using the NAIC's most conservative scenario, which has a -- they think has a 2% probability of occurring 40% deterioration in property values, maybe we lose \$15 million, \$20 million in that scenario on a \$2 billion portfolio. So over 10 years. So I think that demonstrates the even in the lowest probability scenarios, that's a fairly well-constructed portfolio with a lot of inherent credit support.

If you look at our commercial mortgage loan portfolio, it very conservatively constructed. We gave you some data around LTVs, which are current and around the SCRs, which are current, very tilted towards lower-risk properties spaces, no delinquencies, no restructured loans, very low amount, absolute amount of maturities. So in both those areas, while I do think there's still going to be some -- we're in the fourth inning of a 9-inning game. And I think we all have to be prepared for -- to play those next five innings. I think we have a strong basis not just to deliver pretty stable results from what we've got but find opportunities that emerge once CMBS trades to levels where severe losses are baked into the prices or higher quality loans and more in what is becoming a very conservative underwriting and pricing environment. So this may be an area where we have to be thoughtful, protect what we've got, but also look for the upside opportunities, which I think will emerge as we get into the later innings of the game.

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

I would tend to agree with your thoughts on that.

Operator

(Operator Instructions) Our next question comes from Tom Gallagher from Evercore.

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

Paul, a follow-up on the Bermuda reinsurance captive. The \$150 million to \$200 million amount being freed up, can you kind of split out how much of that is on the in-force versus how much of that do you expect to come from seeding 100% of new business for FIAs? And then maybe as a follow-up, what kind of annual cash flow benefit would you expect the new business part of that to have beyond this immediate onetime benefit?

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

So the \$150 million to \$200 million is entirely on seeding the in-force. And again, it's 2018 more recent issue years, which is roughly 60% of that in-force book. So we've not sized the impact from the new business, which we expect we would begin seeding 100% of at inception of the treaty, which we expect sometime in the third quarter. So directionally, there's some incremental lift there, which we haven't quantified. We will do so as we get deeper into this. But certainly, there's some relief from new business strain with this structure.

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

Got you. And then I guess we'll get more after you effect this in 3Q in terms of what the kind of ongoing benefit is expected? I assume there's going to be an ongoing benefit based on the new business strain positive? And then would you -- should you be willing to dimension that by 3Q?

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

I think we probably will. We'll know more than we do today. We'll have spent more time modeling it. We'll begin to have some real activity with it. So I imagine we'd be prepared to give some dimensionality to the relief of new business strain with the structure.

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

Great. And then for a follow-up, another question for Eric Johnson. The -- so it looked like 30% of your new money in the quarter was in residential mortgage loans at 57% yield. Were those direct investments into resi mortgage loans, I assume those are direct investments, not MBS? And then can you talk a little bit about -- would you expect to continue to allocate a lot to that asset class because I think it's fairly small for you right now.

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

Today, residential mortgage loan allocation is probably one and some change percent of our overall asset allocation. I think that can get bigger, although I think it will remain probably below to 3% at the high-end. Why do I say this? One, I think it's a good risk return even in an environment where [HPA] is flat to declining, and the consumer has probably peaked in terms of credit quality. I think that's because of -- this is -- the market for non-QM nonconforming loans, it's really been in a much more conservative underwriting posture in the last year relative to the prior period, where you're getting much lower LTVs, higher FICOs.

What we've been buying is FICOs in the middle 700s, LTVs in the middle 60s. And what we would historically expect for loans, whole loans of that -- of those characteristics would be a very low loss content in the basis points in a normal year, 10 to 20 basis points and a really bad year, 30 to 50 basis points. So if you were -- these loans carry a capital weighting that's akin to a A corporate bond, but they probably pay 200 extra basis points. So you have plenty of room to be wrong and still make an excess yield relative to the investable alternative.

And our experience with them, we've been doing it now for a number of years, has been quite good and in line with our expectations of losses in the basis points. So this is an area that we feel is additive to our overall performance. It's not a mainstream product for us, but at the margin and in times where the non-QM market and other markets are not providing the outlook. You can buy these at a good price on good terms and it worked off pretty well.

Operator

The next question is from Daniel Bergman from Jefferies.

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

To start, I was hoping you could provide a little more color on the main moving pieces for the RBC ratio this quarter. It looked like it fell slightly from year-end 2022 levels despite a below typical level of dividends paid to the holding company this quarter. So is there any color you can give on the main drivers of the ratio in the first quarter would be great.

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

I would describe it as sort of typical impacts on RBC. So the main drivers are any impact from investments, which were sort of in line with our expectations to the low side, and then statutory income and dividends. So it's really sort of part and parcel of cash flow.

And in that context, I would just repeat 2 of the main drivers that push the excess cash flow to the holdco to the low end in the quarter, and they are the other category in sources of cash, which is really just intercompany cash flows between holdco and opco, negative 17% in the quarter, tends to be neutral to positive on a full year basis. And then holdco expenses in the period include the annual bonus payment. Obviously, that's a seasonal thing. So that was \$38 million in the quarter, and we'd expect that to trend down in subsequent quarters.

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

Got it. And then maybe just shifting gears a little bit, just the Medicare Supplement earnings and margin in the quarter came in a little bit below where they've been running in recent quarters. So I was hoping you could give some color on the main drivers and what you saw in the quarter. I mean is there any way to think about how much of an impact came from seasonality versus higher utilization post pandemic or other factors. Anyway to dimension the earnings power of this business kind of going forward post LDTI would be very helpful.

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

So there is a seasonality component to it. The first quarter is typically the lowest margin quarter for Med Supp. Year-over-year in the first quarter, the decline is really driven primarily by two things. The shrinking size of the Med Supp block and better claims experience in the prior year period as compared to the current year period. We're observing that claims in Med Supp are certainly back to pre-COVID norms and in the quarter a bit on the high-end of that range still within a sort of normal range of volatility, but back pre-COVID levels.

Operator

Nothing further in the queue at present. (Operator Instructions) We have no further questions at this time. So I'll hand back to Adam for any concluding remarks.

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

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. And have a great rest of your day.

Operator

This concludes today's call. Thank you all very much for your attendance. You may now disconnect.

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