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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the CNO Financial Group Fourth Quarter 2020 Earnings Call. (Operator Instructions). I would now like to hand the conference over to your speaker today, Jennifer Childe, Vice President of Investor Relations. Thank you. Please go ahead.

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 2020 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 the media section of our website at cnoinc.com. This morning's presentation is also available in the Investors Section of our website and was filed in a Form 8-K yesterday.

We expect to file our Form 10-K and post it on our website on or before February 26. 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 presentations, we will be making performance comparisons and unless otherwise specified, any comparisons made will be referring to changes between fourth quarter 2019 and fourth quarter 2020.

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

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

Thanks, Jennifer. Good morning, everyone, and thank you for joining us. I'm going to start with a discussion of the DirectPath acquisition we announced last night. I'll then provide brief commentary on our fourth quarter and full year performance, before turning it over to Paul to discuss our financial results and outlook in more detail. I'll finish with a few closing remarks before opening it up to your questions.

Turning to Slide 4. We are very excited about this transaction and the enhanced Worksite capabilities it brings to CNO. The transformation that we announced last year created a Worksite division dedicated to this market. Growing our Worksite business is the next step in our strategy. We are significantly expanding our Worksite business to position CNO as a full-service provider of Worksite solutions.

DirectPath is a leading national provider of employee benefits management services to employers and employees. It brings 3 primary new revenue sources to CNO, employee education services, employee advocacy and transparency services and employee benefits, communications and compliance services. DirectPath operates directly nationwide through approximately 7,000 benefit broker partners. It serves 400 employers of all sizes from small businesses to Fortune 100 companies, which reflects a covered employee base of more than 2.5 million individuals.

Prior to COVID, Worksite was one of the fastest growing, higher multiple businesses for us and in the industry. We expect that dynamic to resume over the next year or so. DirectPath builds out our capabilities and gets us deeper into the employer value chain. It will also create extensive cross-selling and referral opportunities for us. Through its fee-based structure, DirectPath will diversify our Worksite revenue base.

It adds to our existing high-return fee-based businesses that will help drive expansion in our overall ROE. The purchase price of \$50 million was funded out of holding company cash. There is an additional earnout if certain financial targets are achieved. The transaction is expected to add \$0.01 per share to our earnings beginning in 2022.

This transaction aligns well with the M&A playbook we've been executing against and is reflective of the types of opportunities we may consider again in the future.

Turning to Slide 5 and our full year performance. We reported operating earnings per share growth of 37% for the full year, \$387 million of free cash flow or 107% of our operating income and we returned \$330 million to shareholders in the form of buybacks and dividends, which reflects 12% of our market cap at the beginning of 2020.

End results underscore the continued strength and resiliency of our diverse product portfolio and distribution channels. Despite the COVID backdrop, we achieved many important operational accomplishments during 2020. Within the consumer division, we've continued to build upon success with our direct-to-consumer life business and cross-channel collaboration efforts. Integrating these channels has led to significant improvements in overall lead conversion rates and per customer acquisition cost.

Leads generated from our D2C business have become an increasingly important source of new business for our exclusive field agent force. In 2020, these leads drove 2/3 of the increase in life sales generated by our exclusive field agents. This year, we recognized the opportunity to create a similar multichannel sales and service experience for the Medicare market. We launched our new digital health insurance marketplace, myhealthpolicy.com. Our objective is to take the strength of our face-to-face distribution, couple it with our growing online strength and use our unique offerings to become a significant player in the online health insurance market.

This is a competitive space. The depth and strength of our agent force is the key differentiator. Just as we successfully scaled and became a top 5 provider of direct-to-consumer life insurance, we intend to profitably grow the direct-to-consumer health care business.

Within the Worksite division, despite COVID, we saw modest growth in our employer client base. Of course, we face significant restrictions accessing workplaces to complete employee enrollments. In response, we focused extensively on building out our virtual and online enrollment capabilities. For the full year, virtual sales comprised 23% of total production. Continued premium persistency was another key driver of our worksite business this year. Persistency was actually up modestly over historical levels, reflecting the critical value our consumers' attribute to our protection products and the mix of stable industries we serve.

While we intentionally slowed our agent recruiting efforts in 2020 to align with the softer demand for on-site enrollment due to COVID, we retained our core managers who are critical to rebuilding our sales force and driving our ultimate recovery.

As I've shared in previous quarters, in 2020, we made significant investments in supporting the safety, wellness and financial well-being of our associates, customers and agents in response to the pandemic. We expanded our commitment to diversity, equity and inclusion and named a senior director to support our ongoing initiatives to develop and embed ENI practices across our organization.

We also made progress in our ESG efforts, the principles of which are central to our overall business strategy. CNO is now a signatory to the United Nations principles for responsible investment which commits us to incorporating ESG principles in our investment analysis and reporting framework. We expect to formally adopt the SASB and TCFD reporting frameworks this year when we publish our updated corporate social responsibility report.

Turning to Slide 6 and our results for the quarter. Our fourth quarter results benefited from the ongoing deferral of medical care, which drove continued strong health margins. Our performance was also boosted by a particularly robust alternative investment earnings.

Operating earnings per share were up 17%. Our book value per diluted share, excluding AOCI, was up 8%. During the quarter, we saw continued improvement in several key metrics. However, the wave of COVID late in the fourth quarter created a headwind to certain sales and agent metrics. Premium collections remain strong across both divisions, but reflect the impact from weaker health sales in recent periods. Expenses were higher in the quarter and higher than we signaled on previous calls, driven primarily by the acceleration of spending on growth initiatives. This was a conscious decision.

The strength of our business and cash flow in 2020 enabled us to capitalize on opportunities to support the continued growth of our franchise beyond the pandemic. We saw this as an opportunity to build capabilities for future growth and differentiation. Paul will provide more details.

Fee income was down reflecting solid growth in fee revenue, offset by spending related to the development and marketing of myhealthpolicy.com. Our capital and liquidity positions remain solid. We issued \$150 million in subordinated debt in November and ended the quarter with an RBC ratio of 411%, with \$388 million in cash at the holding company.

Turning to our growth scorecard on Slide 7. 3 of our 5 metrics were up year-over-year. Life sales were up 6% for the quarter and 12% for the full year, fueled by both continued strong direct-to-consumer growth and a sharp increase in sales from our exclusive field agents. Collected life premiums were up 3%, reflecting solid growth in NAP in recent quarters and the continued strong persistency of our customer base.

Collective health premiums were down 4.7%, largely resulting from the impact of softer in-person health sales in recent quarters. Annuity collected premiums were up 6% for the quarter, reversing the trend in recent quarters. Client assets under management grew 18% to nearly \$1.8 billion. Of this growth, approximately half was driven by new client assets.

Fee revenue was up a healthy 19% to \$36 million, reflecting growth in third-party sales and growth within our broker-dealer and registered investment adviser. Health sales remained challenged, down 22% over the prior year, driven by a 29% decline in Medicare supplement sales.

As we've discussed previously, we're in the midst of a secular shift away from Medicare supplement towards Medicare Advantage. Helping customers navigate the complex Medicare landscape has been a core strength of our exclusive field agents.

Our approach to the shift in consumer preferences is to leverage the strength of both our field agents and our new digital health marketplace to capture incremental Medicare Advantage sales. At the same time, we will continue to maintain a strong presence in the Medicare supplement market, which consistently delivers a compelling loss ratio and provides a meaningful contribution to our health margin. It's also a key differentiator. Very few peer companies manufacture and sell Medicare plans.

As a reminder, Medicare supplement sales are reflected in the new annualized premium, while Medicare Advantage sales are reflected in the fee revenue.

Turning to our Consumer division on Slide 8. Sales of life insurance remained strong, up 17% for the quarter and up 19% for the full year. Direct-to-consumer life sales, which comprised about half of our total life sales were up 10%. Life sales generated by our exclusive field agents were up 26%, supported by leads shared from our direct-to-consumer channel. This cross-channel dynamic has resulted in improved productivity metrics such as lead conversion rates and customer acquisition costs.

Again, this underscores the value of our unified distribution model as growth in 1 channel is able to feed growth in the other. As I mentioned earlier, we are working to create the same dynamic on the health side of our consumer business. During this year's Medicare annual enrollment period, consumers were able to purchase Medicare products from us online or from 1 of 2,800 telesales and local exclusive field agents certified to sell Medicare plans.

With the launch of myhealthpolicy.com marketplace, we created pathways for our tele-agents to refer consumers to local agents and for field agents to refer consumers to a tele-agent or the platform itself. As a result, our Medicare Advantage policies sold in the fourth quarter increased 3% over the prior year and total third-party policies were up 5%. Myhealthpolicy.com accounted for 14% of our third-party health sales in the quarter.

Our producing agent count was down 3%, which makes our sales momentum and productivity even more impressive. Due to the resurgence of the pandemic, COVID related quarantines kept a number of our exclusive field agents and clients from engaging in face-to-face appointments.

COVID restrictions also remain more stringent in the areas of the country where our agents are more concentrated. As a reminder, to be counted as producing our agents need to sell at least 1 policy each month. Our total exclusive agent count, which includes our field and telesales agents, was actually up 3% for the full year.

We continue to grow the number of securities licensed financial representatives, which is core to how we are evolving our field force and changing the relationship with our clients.

Turning to Slide 9 and our Worksite division. Collected premiums remained strong as the profile of our existing employer groups has translated to continued healthy levels of employee persistency. We saw continued sequential improvement in our Worksite sales in the fourth quarter with sales up 61% over the third quarter. Relative to the year ago period, however, sales were down 41%.

Given recent increases in COVID infection rates across the country and workplaces opening up more slowly, we continue to expect a steeper recovery path in the worksite business. We launched a new group product in the fourth quarter called Monthly Income Protection Group term life. This is a unique group life product that is designed to replace monthly income rather than paying a lump sum death benefit.

Web Benefits Design delivered solid results in 4Q, including a 3% increase in the average per employee per month charge. WBD cross-selling activities drove 5% of overall NAP in the quarter. As I mentioned at the beginning of my prepared remarks, we are excited to bring DirectPath into our worksite organization. The division will be co-managed by current Worksite President Mike Hurd and by DirectPath, Chairman and CEO, Mike Byers. Both will report to me and Mike Byers will join our executive leadership team.

Turning to Slide 10. We returned \$117 million to shareholders in the fourth quarter, including \$100 million in share buybacks. For the full year, we deployed \$263 million on buybacks at an average price of \$18.17. Our capital allocation strategy remains consistent. 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. It's worth noting that most of our organic investments in the fourth quarter flowed through our income statement as operating expenses rather than as capital expenditures. These investments remain mission-critical to our future success. Paul will provide more color in his remarks.

Turning to Slide 11. Over the past 2 years, we've also been making minority investments in various InsurTech and FinTech companies. Through CNO ventures, we seek to generate attractive returns, develop relationships, source and track opportunities and ultimately invest in various companies that are disrupting the insurance and financial space.

We fully expect these investments to stand on their own merits and deliver attractive returns. They also serve as important vehicles for us to collaborate and innovate. We seek out companies that are strategically relevant, particularly those we can partner with to help us improve our digital engagement with consumers, accelerate our speed to market with new products and services and/or enhance our technology. To date, we have invested a total of \$21 million in 5 companies, including HealthCare.com, Human API and Kindur. We expect to complete a few similar transactions per year. The portfolio will remain small relative to our total invested assets, but impactful in other ways.

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

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

Thanks, Gary, and good morning, everyone. Turning to the financial highlights on Slide 12. Operating earnings per share were up 17% in the fourth quarter and up 21%, excluding significant items. Benefiting from favorable health insurance product margins driven by continued customer deferral of care-related to COVID and by strong net investment income, resulting from significant outperformance of our alternative investments.

Earnings per share also benefited from our share repurchases, which reduced our fourth quarter weighted average share count by 7%. We deployed \$100 million of excess capital on share repurchases in the fourth quarter and \$263 million for the full year, partially offsetting the increase in insurance product margin and investment income in the quarter was an increase in expenses and a decrease in fee income both driven by our decision to fast track spending on growth initiatives in the second half of 2020 in the context of accelerating trends relating to all things virtual and digital and supported by strong earnings in the period.

These initiatives included spending related to myhealthpolicy.com, which flows through as an expense in our fee income line as it relates to activities supporting our fee revenue. Other examples of growth initiatives in the period include spending on virtual sales and service capabilities, market access, data analytics and various initiatives designed to improve our policyholder customer experience. All of these investments flowed through our income statement on the expenses allocated to products line.

In the 12 months ended December 31, 2020, we generated operating return on equity, excluding significant items, of 12%, which compares to 10.4% in the prior year period. As referenced in our earnings press release, we completed our annual GAAP actuarial assumption review in the fourth quarter, which had a net favorable impact of \$11.8 million in operating earnings, which we called out as a significant item in the quarter. The favorable impact was driven by our lower initial portfolio rates, which manifested from asset turnover in the annuity portfolio in the third quarter of 2020. Those lower rates drove a favorable adjustment to the embedded derivative reserve related to our fixed index annuities.

Separately, as part of the assumption update, we lowered the new money rate assumption to 3.5% in 2021 and 3.75% in 2022, but that did not create material unlocking impacts.

Turning to Slide 13 and our product level results. Our overall margin in the fourth quarter was up \$30 million or 15%. Excluding significant items, it was up \$9 million or 4%. This included a net favorable COVID impact of \$18 million driven by the deferral of care in our health care products and reflects modest spread compression in our annuity product and generally stable results in our life and health products ex COVID.

Turning to Slide 14 and our investment results. Investment income allocated to products was essentially flat in the period as the favorable impact of the 4% increase in net insurance liabilities was largely offset by a 19 basis point year-over-year decline in the average yield on those investments to 4.83%. Sequentially, the average yield declined 5 basis points consistent with our prior guidance.

Investment income not allocated to products increased \$32 million year-over-year to \$58 million driven by strong alternative investment performance. This translates to an annualized return on our alternative investments of 24% as compared to a mean expectation of between 7% and 8%, reflecting outperformance driven by private equity realizations and strong private equity -- excuse me, private credit results.

Our new money rate of 3.58% was down 50 basis points, both year-over-year and sequentially, with the sequential change driven primarily by tighter credit spreads. This reflects \$888 million of new money invested in assets with an average rating of BBB+ and an average duration of 12 years, as summarized in more detail on Page 26 of the earnings presentation.

Turning to Slide 15. At quarter end, our invested assets were \$27 billion, up 9% year-over-year. Approximately 95% of our fixed maturity portfolio is investment-grade rated with an average rating of single A. The BBB allocation comprised 42% of our investment-grade holdings, up slightly from the prior quarter.

As you can see on Page 27 of our earnings presentation, as of year-end, we remained underinvested in sectors generally considered to be high-risk in the context of the pandemic, including energy, airlines, gaming, hotels, nonessential retail and restaurants.

Turning to Slide 16. We continue to generate strong free cash flow to the holding company in the fourth quarter with excess cash flow of \$122 million or 142% of operating income this quarter and \$387 million or 107% of operating income on a trailing 12-month basis.

Turning to Slide 17. At quarter end, our consolidated RBC ratio was 411% down from 428% at September 30. This represents approximately \$55 million of excess capital relative to the high end of our targeted range of 375% to 400%. The our holdco liquidity at quarter end was \$388 million, which represents \$238 million of excess capital relative to our target minimum holdco liquidity of \$150 million or approximately \$185 million of excess, net of the capital deployed this quarter on the DirectPath transaction. We had intentionally maintained a more conservative posture in the context of ongoing COVID related uncertainty.

Turning to Slide 18 and our outlook for the remainder of the year. We continue to run base and adverse case scenarios that are generally aligned with certain rating agency assumptions regarding COVID-19 infection rates, death rates and related economic impacts. From a top line perspective, in our base case, we expect the continuation of the positive momentum that we experienced in the second half of 2020.

From an earnings perspective, we expect 2 sets of headwinds in '21 relative to 2020. The first relates to COVID, where we expect a trend toward more normal claims experience in our health care products as consumers and health care providers continue to become more accustomed to COVID related protocols and/or as the benefits of vaccines take hold.

In our base case, we expect this will translate to net mortality and morbidity impacts that are modestly favorable in the first half, modestly unfavorable in the second half and neutral for the full year. It's also worth noting that the decline in sales in 2020 due to COVID will reduce insured product margin in 2021, and beyond all else equal.

The second set of earnings headwinds in 2021 relate to investment income, particularly a potential for reduced income from alternative investments and from opportunistic trading as compared to significant outperformance in 2020.

Lastly, continued pressure from low interest rates generally which has lately been coupled with tighter spreads, will continue to pressure earnings. We expect this will translate to flat net investment income allocated to products within our insurance product margin as growth in the asset base will likely be offset by a decline in the yield on those assets.

These headwinds notwithstanding, we expect a modest offset from a slight decline in expenses mostly in the second half of the year as we continue to drive operational efficiencies, while also continuing to invest in growth initiatives.

Regarding free cash flow and excess capital, we exhausted our life NOLs in 2020, which will put modest pressure on our free cash flow conversion rate in 2021. Nevertheless, still healthy levels of free cash flow generation in our base case scenario on top of our excess capital position at year-end 2020 should result in share repurchase capacity, exceeding our actual share repurchase activity in 2020.

Importantly, even in our adverse case, which is intended to capture scenarios far out in the tail, we expect to be able to manage RBC holdco liquidity and debt leverage within our targeted levels, pay our dividends to shareholders and still had a modest amount of share repurchase capacity, albeit at much reduced levels compared to our base case.

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

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

Thanks, Paul. Turning to Slide 20 -- to Slide 19. 2020 was an incredibly challenging year on many fronts. Our pandemic response and financial results demonstrated the resilience of our organization and proved that we can emerge from the crisis even stronger while continuing to support our associates, agents, customers and communities. There's no question that difficult and uncertain conditions remain. In many respects, we have less visibility into 2021 than we had in 2020.

The lack of short-term clarity should not detract from the long-term view of our prospects. Our franchise remains strong and our financial position is robust.

Longer term, I couldn't be more optimistic about the future of this company and our ability to capitalize on the opportunity before us. Please continue to stay healthy and safe. Thank you for your interest in and support of CNO Financial Group.

We will now open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ryan Krueger with KBW.

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

Couple of questions. First, can you just provide more quantification on the impact to free cash flow from fully utilizing the life NOL?

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

Sure. Ryan, it's Paul. Thanks for the question. What I would say to you is that having exhausted the life NOLs last year, we are now limited to the non-life NOLs, which will continue to offset 35% of our life income and 100% of our non-life income through at least 2023.

And in your model, you'll have to compare that to where we've been in the last few years, which is available life NOLs offsetting 100% of our life income.

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

Do you know maybe what the life NOL benefit was in 2020 for a perspective?

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

Well, from a cash tax perspective, while we exhausted the life NOLs partway through. So that complicates the analysis a bit. But from a cash tax perspective, to keep it simple, most of our life income in 2020 was offset by the NOLs as compared to going forward, 35% of it. And in terms of the mix, that gets a bit complicated, but roughly speaking, 75% to 80% or so of our income life versus non-life?

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

Got it. And then a question on expenses. Was your comment that -- I know you commented that expenses would likely be down some in the second half of 2021. Did I -- did you also say that you thought full year expenses for 2021 would be somewhat lower than 2020?

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

Yes. So the guidance, and I recognize that this is directional, and I'm sure you'd prefer that we provide more specificity. But directionally, we are committed to full year '21 expenses lower than full year '20, with most of that coming in the second half, particularly in the fourth quarter.

And just to provide a little bit more context, Ryan, the balance that we're trying to strike here is to be very disciplined in capturing efficiencies in how we operate. And we've had some examples of that in the last 12 to 15 months that you're familiar with. But I think it's probably worth referencing them.

Number one, the technology partnership that we announced in November of 2019 that will translate to roughly \$20 million of expense save over a 5- year period. And the transformation that we announced in January of 2020 that we didn't do for expense reasons, but it translates to roughly \$11 million of expense savings.

Another big opportunity that we have going forward is rethinking how we utilize office space. That won't translate to any material savings in '21. In fact, might go the other way as we spend to sort of reposition. We had a little bit of that in 2020 also.

But longer term, our expectation is that we'll need roughly half the space that we used to need, that will translate to some meaningful savings. We're also always looking for opportunities to tighten our belts. And that's why we were able to reduce expenses in 2020 through the first 3 quarters versus '19, while still making growth investments.

In the fourth quarter of this year, obviously, that tune changed a little bit, as we alluded to in our prepared remarks, we took the opportunity to accelerate a number of growth initiatives in order to take advantage of accelerating trends and frankly to take advantage of a period where earnings were exceptionally strong, driven by strong underlying fundamentals, but also by net favorable impact from COVID and very strong performance on investments.

So sorry for the long-winded answer, but I just want to reinforce that we remained very focused on expense discipline and trying to balance that with appropriate investments to grow the franchise.

Operator

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

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

Can you talk about the earn-out associated with DirectPath, what it is over what period? And maybe some of the metrics?

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

Yes. John, this is Gary. Thanks for calling in and thanks for the question. To be blunt, we're not providing a lot of detail on the earn-out. I will tell you that it's not going to be significant, and we would be thrilled to pay it. The performance conditions are such that if they hit the earn-out conditions, we would be very happy to pay it.

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

Okay. No, I appreciate your bluntness. Your -- and then the follow-up, your fixed rate annuity block, it's essentially in a runoff. FIA is clearly a growing business for you. The market has been constructed to block transactions with fixed, really being the low-hanging fruit. Can you talk about maybe how much capital is associated with that? And is there anything structurally or from a distribution perspective that would really prevent you selling your fixed interest annuity block?

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

I'm going to make a couple of general comments, and then I'll hand it over to Paul to give you a little bit more detailed color. So first of all, we've obviously been watching in the marketplace some of the transactions that have taken place. And I would just offer a few general comments before Paul gives you a little bit more specifics.

First, please recall that we don't sell and never have variable annuities and some of the other products that have really been the most common subject of some of these transactions. As a respect to fixed index annuities, it's true we sell those, and it's true there have been some block transactions on those. However, when you dive deep into the structure of our products, we simply don't have the richness of guarantees and some of the other things.

And so maybe a simple way of saying that, they're very well-performing financial products for us. We like the way they work. We like the way they perform. And I believe that our job is to remain open to anything that will maximize shareholder value. So if we got a compelling offer, we would absolutely consider it and look at it. But I also want to be clear that I just don't see that happening because of the nature of the products. We simply don't have some of those exposures that would make it a worthwhile trade for us and for the buyer. But we're wide open to it.

Paul, I don't know if you want to add any further color?

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

No, nothing to add.

Operator

Our next question comes from Erik Bass with Autonomous Research.

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

I was hoping you could elaborate a little bit on your outlook for health claims and margins over the next few quarters. And am I interpreting your guidance correctly that you expect to still have some level of favorability for the full year in 2021, that will offset some elevated life mortality, but essentially, you expect to be back to normal or slightly elevated claims levels in the second half of the year?

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

Erik, it's Paul. Thanks for the question. Yes. So what I would say is that the health product margins ex COVID, have been reasonably stable, and we would expect that to continue.

With respect to COVID, yes, consistent with the outlook our expectation is that the net impact of mortality and morbidity in the first half of the year will be modestly favorable. So the continuation of favorable COVID impact in our health products.

And in the back half of the year, as that diminishes, we expect it will diminish over the course of the year. At some point, we crossed the line where there's not enough health product morbidity offset to get to net positive and we end out net modestly negative in the back half of the year.

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

Got it. But the health margins in isolation for the year would be kind of in line or slightly favorable to your normal expectations?

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

I would say in line. Again, I think that they've been relatively stable in our actual results and our expectation is that continues.

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

Got it. And then maybe if you could just turn to buybacks. I think in the presentation, you note having capacity to exceed the level of share repurchases done in 2020 if conditions permit. So can you just talk about what you mean by this? Is that a comment on the stock valuation, potential for other opportunities to deploy capital or something else? Or are you -- I know you don't want to give a specific number, but is -- are you pointing at kind of 2020 level being the base case or higher?

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

Yes. Thanks for the question. This is Gary. As you know, we've philosophically taken the view that we don't want to provide absolute guidance. I would just make a couple of comments.

So first, in response to your questions, yes, you're correct. There are a number of different factors, 2 of the very significant factors are where the stock is trading and what the alternatives are. Now all of that said, we recognize that we have -- we're fortunate to have a business that has a very strong cash flow, and we've got to deploy that cash flow.

If you take a look at the incentives of the management team, we don't have any incentive to hold on to the cash, quite the contrary. Our incentive is to deploy it. And the question is, how to deploy it and deploy it smartly. I would also just point out, this is my 13th quarter as CEO and if memory serves correctly, in 12 of those 13, we have bought back shares. And the only time we didn't was when we were prepping for reinsurance transaction.

So we recognize what our shareholders look for. We recognize the opportunity that it presents. And we've stopped short of providing specific guidance, but we've been in a place for the last several quarters, where our stock has been a really compelling value. We continue to believe that the value of the company is beyond what's reflected in book value. And we'll factor all that in as we look at alternatives to deploy the cash.

Operator

Our next question comes from Humphrey Lee with Dowling & Partners.

Hung-Fai Lee - *Dowling & Partners Securities, LLC - Research Analyst*

My first question is related to kind of the outlook, especially the comment about lower insurance margins in 2021, given the lower sales in '20. How should we think about the level of kind of earnings degradation? Based on your comment just now health margin likely to be stable. So I would assume most of that is coming from the life side. But how should we think about that?

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

Humphrey, it's Paul. So we're just pointing out something that maybe that is a need to be pointed out because it's fairly obvious. But the simple observation is that with the decline in sales in 2020, driven by COVID, all else equal, we're going to have fewer in force policies in '21 and forward.

And we just simply want to call that out. I don't want to put a number on it. There's obviously, there are a number of moving parts there, but we just wanted to call that out directionally as a headwind, again, all else equal.

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

Humphrey, this is Gary. Just one thing I would add to it, and I've had this conversation with other investors as well, just to think about it in a real simple way. Every policy that we sell, we expect to derive future profits from it. So when we sell fewer policies, if we sold 5 instead of 8 policies in a given year, then in the future years, we would just have fewer policies delivering a profit.

And I think all that I am trying to say is we sold fewer, so we're going to have less profit dollars in the immediate terms following.

Hung-Fai Lee - Dowling & Partners Securities, LLC - Research Analyst

Okay. Regarding the DirectPath acquisition, I guess, how should we think about the platform and how does it fit into kind of your overall offering? And is there any kind of -- does it complement WBD in any formal way? And how should we think about kind of the longer-term aspiration in this area?

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

Okay. So Humphrey, thanks for the question. I'm really glad you asked it. I'd like to respond from 2 perspectives. First, I'd like to share the perspective directly to the way you asked the question and then maybe give it a little broader perspective from an overall CNO view.

So first of all, in terms of the way you asked the question directly in exactly how does DirectPath fit. If you think about our worksite offerings, there's really 3 overall dimensions to how we want to go to market. So when we sit down and talk to an employer, we want to first talk to them about the insurance products, and we've been doing that for several years. Think of that as our Washington National Piece.

Second, we needed to talk to them about the administration technology, the platform where those employers interface with their employees. That was the rationale behind the Web Benefits acquisition a little over a year ago.

The third piece that we've just added with DirectPath is being able to talk to our employer clients about benefits management services. So if you think about it, first insurance, then technology and now services. So this DirectPath acquisition fills that services offering. And within services, there's education, there's advocacy and then there's employer recommendations in education.

So that's how it fits into it. But there's a broader perspective, I would ask our investors to think about when they're looking at what CNO has done over these last several years. And what I've got in my head is something that Buffett wrote in his -- I believe it was his 2001 shareholder letter, where he talked about the Noah rule. And basically, I'm going to get that quote wrong, but it's roughly along the lines of predicting rain doesn't count building arcs does.

And what we've really tried to do here, if you take a look at the way we've diversified the company, we last year formalized the division between consumer and worksite. And what I would say to you is, given the pandemic, I'm really happy we weren't 100% focused on worksite. Thank god, we had our consumer business that really helped us as we navigated the pandemic.

And then you think about, we've had direct-to-consumer versus face-to-face. Again, thinking about the pandemic, thank god, we had this face-to-face presence with Colonial Penn online and so on, and we weren't just reliant on our face-to-face agents.

And then we've really tried to build out the life and the health, that diversification. Again, looking at a pandemic, thank god, we had the health business to really help offset some of the mortality claims and so on.

We're continuing to diversify beyond our underwriting businesses into fee businesses. So you're seeing us with a broker-dealer with selling third-party products and now with the DirectPath and WBD.

There's a variety of different things where at least from my standpoint, I'm not so much trying to predict what the future is going to do, but I'm trying to make sure we've got bets on different sides of the table so that wherever it goes, we're in a position to be able to help our consumers and deliver a good result for our stakeholders, so this notion of really diversifying.

And I see building out the worksite business as very much of a diversification play against the consumer business. And frankly, I think it's a really good time to do it because a fair number of the assets have just been beaten down because of COVID. This particular asset would have been substantially more expensive just 12 months ago.

So it's the right time for us to build that back up as we know that particularly in certain industries, I think manufacturing, restaurants and so on, they're going to have to come back to the workplace. They're going to have to come back to the factory floor or whatever it is. And there's a huge opportunity for us to build this business out and now was the right time to have invested in it against this broader context of diversifying against the consumer business. I know that was a much longer answer than you expected. I hope it speaks to what you were asking.

Operator

(Operator Instructions) Our next question comes from Cullen Johnson with B. Riley Securities.

Randolph Binner - B. Riley Securities, Inc., Research Division - Analyst

This is Randy Binner from B. Riley. I think we got our names mixed up on that. Can you all hear me?

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

Yes. Randy.

Randolph Binner - B. Riley Securities, Inc., Research Division - Analyst

Gary, I was interested in your comment around kind of building a direct-to-consumer health business. And yes, I think it's definitely a logical extension of your distribution franchise. So just curious, kind of what that will look like? And if you can tie in kind of what changes with the new administration Medicare Advantage may bring into that. I'd just be curious kind of what your vision is there.

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

Okay. So Randy, thanks for the question. So first of all, we've had a secular shift that we've been watching happen from Med Supp to Med Advantage. And a way overly simplified explanation is, think of Med Advantage like an HMO plan where it's got specific conditions but lower costs and Med Supp as a richer health insurance plan.

And we've seen consumers migrate increasingly to this lower cost more efficient but more restrictive structure. And we can have lots of discussions about whether that's a good thing or a bad thing or whether it's smart or not, but the reality is that's what the consumer has been doing. It's been a very compelling value for them.

So we've watched that happen. We've thought about it internally, and we've come to the conclusion, it doesn't make sense for us to try and build up the ability to manufacture a Med Advantage offer. We're better off being a distributor.

So we're going to continue to do that. You've seen us do that, and there's some side benefits in terms of accounting treatment, and so on for fee income. So we like doing that. I would love to rather sell something that we manufacture and distribute because we get both pools of margin in this case, we only get 1 pool of margin, but that's still better than nothing. It does the most important thing, which is get us into the household so that we can sell life and short-term care and annuities and so on and so forth. So we're going to continue doing that.

Now in terms of the online offering, one of the things that I want to be really clear about, we're not trying to compete with some of these online players that are out there. There's a handful of them, some of them are public. They've got wonderful valuations. I mean make no mistake, I'd love to get their multiple but we're not trying to compete with them. I really think that the long-term success play in the Medicare space is to be able to meet the consumer initially where they want online, telephone, face-to-face, whatever does they want. But the long-term relationship and the way to hold that client and not subject ourselves to crazy amounts of churn and other things is to be able to supplement it with a face-to-face support.

Now we made that move on the consumer side, specifically with our life products last year when we reorganized, and we brought Colonial Penn and Bankers Life together and are cross sharing the leads. Frankly, the way that worked, blew me away. But for COVID, I can't imagine what those sales results would have been. But if you look at those life results and how effectively that cross-selling and the feeding between the online and the direct-to-consumer channel has worked with the face-to-face, it far exceeded anything I would have expected. I think in the non COVID environment, I think it will do even better. So what we're betting -- betting is probably the wrong word. What we're preparing for in case it goes this way, if consumer preferences continue to have a move towards Medicare advantage. And if consumer preferences continue to like online and direct-to-consumer, we want to be able to solve that and then add to that the face-to-face. And I really think that when you compare us to some of these strictly online offerings, where we're going to be able to differentiate is because we can provide that face-to-face service and provide other products.

So the short answer to your question, if you want a shorthand, what we did with the life, where we brought together direct-to-consumer and face-to-face, we're trying to do the same thing in health, and we think that the secular trends support that. That was the crux of the investments we made in late 2020. And we think that, that consumer force is going to continue to push there. And we like our odds. We think we've got a real good chance of making that work.

Randolph Binner - *B. Riley Securities, Inc., Research Division - Analyst*

All right. Well, that's really helpful. So a couple of follow-ups. One, on the Bankers and Colonial Penn synergies, I think at some point, you were kind of quantifying cross-sell or other metric around that. Is that -- can you remind us of that? If there's an updated version or if that got messed up with COVID, I'd just be curious like what the quantification was of the success of Bankers and Colonial Penn in that regard?

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

Yes. I think we might have touched on the script. I'm going to look at Paul and Jennifer. I'm not remembering the number. I think we did disclose how much percentage-wise was cross-sell.

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

Yes. So the critical data points that I'd point you to, Randy, are D2C life sales up 10% in the quarter. Field life sales, up 26% in the quarter. And there's -- I don't know that there's a third sort of cross-selling metric that we've shared. But the important point is that we're sharing leads from B2C to the field. And that's supporting field sales. And we're also referring from the field back to telesales agents and/or to web digital. So we're creating a business model that is optimizing across D2C and face-to-face.

And we're finding in our productivity metrics that more holistic approach drives much better productivity in terms of lead conversion and just overall productivity.

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

Paul, internally, I know I've seen the data for how many of our face-to-face life sales emanated from that D2C lead sharing. I can't remember if we've disclosed it publicly or not. But Randy again, we are now tracking it. It's been a very impressive figure, which is why we're doubling down on it and building out similar capabilities in health. We (technical difficulty) be able to bring together this notion of face-to-face and direct-to-consumer and make it feel seamless.

Operator

Our next question comes from John Barnidge with Piper Sandler.

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

Worksite sales year-over-year have consistently improved since the second quarter. January is now on the books. Can you talk about January from maybe a year-over-year perspective just trying to get a sense to the degree to which that improvement is so far in this year?

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

So John, it's Paul. We obviously have the number. We've decided not to share our January sales metrics to try to get back to our former cadence of just sharing quarterly. We had been selling the -- or sharing rather the initial month of the quarter, the last 2 quarters in the context of COVID and its impact on our sales dynamics.

What I will tell you, though, is that the January sales data help inform our overall sales outlook, and it's certainly consistent with the outlook that we provided, which is the momentum in the second half of 2020 carrying into 2021.

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

Okay. That's fantastic. And then somewhat relatedly, Super Bowl ratings were down a ton, how does this changing dynamic and how people consume frankly entertainment, change how you're thinking about advertising within Colonial Penn for '21?

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

Yes. John, thanks for the question. I think it's a very astute observation. We -- for a long time, we've tracked, but we've not disclosed publicly because we regard it as a competitive issue. We've tracked our marketing cost to NAP, to our new annualized premium. And I've been amazed, even though I'm a 30-year career insurance person, I've been amazed at how tightly that range can predict our sales. I remember being a part of the business floor where when we move up marketing costs, I can tell you within 5% to 10%, what the sales are going to be. I mean, it's just such a tight indicator.

So we track it very religiously. We've got a lot of systems and I think virtual property in place to do that. We're bringing that same discipline and those same set of skills to our online marketing efforts. You're absolutely correct that the efficacy of television is changing simply because the viewership is changing. And we are pushing continuously to have more and more of those leads generated from sources other than television.

I will tell you one thing, though, that we're still kind of watching and learning from because we've only been doing it for about 4 quarters now. Since we brought closer together, the face-to-face and the direct-to-consumer marketing, meaning Colonial Penn and Bankers Life. Since we brought those closer together, each dollar of marketing spend is yielding more, which is to say we can afford to continue to spend a similar amount of dollars because the yield is higher, meaning we have a better close rate. That's what we're learning. So we're continuing to modify that. But the salient point you're making, which is the television is becoming less and less fruitful, meaning the yield is lower because fewer people watch it.

So that's absolutely correct. Television advertising rates are changing and our yield is changing. So it's not just a one variable thing. But because of all of that, we're pushing more into online, and we're bringing the same discipline into our online analysis and marketing spend.

Operator

There are no further questions in queue at this time. I'll turn the call back over to the presenters for closing comments.

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

Thank you, operator. I'd like to apologize for the technical difficulties experienced earlier in the call and the fact that Gary's earlier remarks -- earliest remarks were missed. A full recording of the call will be available on our website this afternoon. And thank you all for joining.

Operator

This concludes today's conference call. You may now disconnect.

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