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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the CNO Financial Group First Quarter 2021 Earnings Call. (Operator Instructions) I will now turn the conference over to Jennifer Childe, Vice President of Investor Relations and Sustainability. 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 First Quarter 2021 Earnings Conference Call. Today's presentation will include remarks from Gary Bhojwani, Chief Executive Officer; and Paul McDonough, Chief Financial Officer. Following the presentation, we will also have other business leaders available for the question-and-answer period. During this conference call, we will be referring to information contained in yesterday's press release. You can obtain the 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-Q and posted on our website on or before May 7.

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 first quarter 2020 and first quarter 2021.

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

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

Good morning, everyone, and thank you for joining us. Turning to Slide 4. CNO is off to a strong start in 2021. We reported operating earnings per share of \$0.55 or \$0.59, excluding significant items, which compared to \$0.58 in the prior period. There were no significant items in the prior period. Our book value per diluted share, excluding AOCI, grew by 13%. Our results benefited from ongoing deferral of medical care, which boosted our health margins, solid investment performance, and continued share repurchase activity.

Premium collections remained strong across both divisions. Expenses were slightly higher than the year ago period, in line with our expectations. Our capital and liquidity remained conservatively positioned. We ended the quarter with an RBC ratio of 407% and \$324 million in cash at the

holding company. While also returning \$116 million to shareholders and funding the direct path acquisition. A.M. Best recently revised our outlook to positive from stable, recognizing the strength of our balance sheet, our high-quality investment portfolio and our favorable operating trends.

Sales activity in our core businesses continues to gain momentum, and we are nearing or exceeding pre-pandemic levels in a number of metrics. We continue to execute well against our strategic priorities. Specifically, successfully implementing our strategic transformation that was initiated in January 2020, growing the business profitably, launching new products and services, including a new guaranteed lifetime income annuity, expanding to the right to slightly younger, wealthier consumers within the middle-income market, and deploying excess capital to its highest and best use.

Turning to Slide 5 and our growth scorecard. All 5 of our scorecard metrics were up year-over-year, which brings us back to the growth momentum we generated pre-COVID. Life sales were up a record 29% for the quarter fueled by record direct-to-consumer sales and a significant increase in production from our exclusive field agents. Health sales remained challenged, down 19% over the prior year. As discussed in previous quarters, our market is experiencing a secular shift away from Medicare supplement towards Medicare Advantage. As a reminder, when we sell third-party Medicare Advantage policies, we record fee income. Sales of our manufactured Medicare Supplement policies are recorded as NAP. We continue to target household penetration in this important door-opening business.

In the aggregate, collected life and health premiums were up 4% and reflecting solid growth in Life NAP in recent quarters and the continued strong persistency of our customer base. Annuity collected premiums were up 11%, the second consecutive quarterly increase. Client assets in brokerage and advisory grew 38% year-over-year to \$2.4 billion, fueled by new accounts, which were up 7%. Net client asset inflows and market value appreciation. Sequentially, client assets grew 6%. Fee revenue was up 12% year-over-year to \$32 million reflecting growth within our broker-dealer and registered investment adviser, growth in WBD fees and the inclusion of DirectPath's results.

Turning to our consumer Division on Slide 6. As we mark the anniversary of our transformation launch, we continue to see success leveraging our cross-channel sales program. Our hybrid sales and service model, which blends virtual engagement with our local exclusive field agents has led to significant improvements in lead conversion rates, customer acquisition costs and sales productivity. This was evident in our life insurance business, where sales climbed 34% for the quarter to a record \$51.8 million. Direct-to-consumer life sales grew 38% to a record \$31 million and comprised nearly 2/3 of total life sales within the division. Supported by leads generated from our direct-to-consumer business, life sales completed by our exclusive field agents were up 29% to \$21 million.

As I mentioned, annuity collected premiums were up 11% as compared to the prior year. Our portfolio of indexed annuity products continues to be well received by middle-market consumers in or approaching retirement. We continue to maintain strict pricing discipline on our annuities in order to balance sales growth and profitability in the current low interest rate environment. In addition to growing the business and optimizing distribution, we have been focused on expanding our consumer access. Half of the consumers -- consumer division's life and health sales during the quarter were completed virtually. In other words, 50% were not sold in person, which is a profound change in how we connect with our consumers.

We're also focused on household penetration. Client assets and brokerage and advisory grew to \$2.4 billion in the first quarter. Combined with our annuity account values, clients now entrust us with more than \$12 billion of their assets. Recall that this is consistent with our strategy to fundamentally deepen the relationship with our middle-income clients. We continue to reap the benefits of the shift in agent recruiting strategy we implemented several years ago. We now rely more heavily on personal referrals and other targeted recruiting approaches. This has resulted in fewer new agent recruits, but the agents we do appoint are more likely to succeed and stay with us over time.

Overall, our agent force continues to remain stable. The number of securities licensed registered agents was up 6%. These dual-licensed agents assist our policyholders with financial planning and are responsible for a majority of our annuity sales. This means that on average, we have 1 registered agent supporting every 6 insurance agents.

Turning to Slide 7 in our Worksite Division. We continue to see signs of recovery in our worksite business. As vaccination rates increased and restrictions started to relax, we had more face-to-face access to workplaces during the first quarter. Relative to the year ago period, worksite sales were down 30%, but this reflects steady sequential improvement over recent quarters. For the month of March, worksite sales were down only

11% year-over-year. As more workplaces reopen, we expect our Worksite Division to maintain sequential growth and return to year-over-year growth.

Ongoing pilots and programs to target new groups, offer new services and capture new business are progressing nicely. We also have been investing in online lead generation and B2B resources to target small businesses and HR representatives. Retention of our existing customers remain strong with continued healthy levels of employee persistency. While we largely slowed the recruiting of new agents during the pandemic due to workplace restrictions, the retention of our veteran agents remain solid.

Veteran agents have been instrumental in driving the recent sales momentum and will prove critical to rebuilding our agent force in the near future. WBD delivered solid results in the quarter with fee revenue up 5%. This was driven by steadily improving employee counts. We have also seen early success gaining access to new employee groups through WBD's employer benefit supersites.

We closed the acquisition of DirectPath on February 9. The all key DirectPath employees have joined CNO, and we have retained all clients. The new business pipeline has started to grow as our sales teams have identified cross-sell and referral opportunities across their customer bases. We are excited about the truly unique combination of products and services we can now bring to the market. We expect to integrate all of these offerings, and we'll speak more about this in future quarters.

Turning to Slide 8. A robust free cash flow enabled us to return \$116 million to shareholders in the first quarter, including \$100 million in share buybacks. Our capital allocation strategy remains unchanged. We intend to deploy 100% of our excess capital to its highest and best use over time. While share repurchases form a critical component of our strategy, organic and inorganic investments also play an important role. We invested \$50 million during the first quarter in the acquisition of DirectPath.

Turning to Slide 9. Before I turn it over to Paul, I provide an update on our ESG efforts. Our 2020 corporate social responsibility report will be available on our website, cnoinc.com next week. In the report, we outlined our recent accomplishments, including performing our first greenhouse gas emissions inventory, establishing an emissions reduction target, earmarking \$100 million in impact investments, advancing our diversity, equity and inclusion programs, including DE&I objectives in our 2021 executive compensation program and creating a responsible investment policy and vendor code of conduct. While there is much left to do, CNO remains committed to doing our part.

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

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

Thanks, Gary, and good morning, everyone. Turning to the financial highlights on Slide 10. Excluding significant items, operating earnings per share were up 2%, and return on equity improved 60 basis points compared to the prior year period. The results reflect stable underlying insurance margins, net favorable COVID-related impacts, strong investment performance and continued disciplined capital management. Expenses increased modestly year-over-year, in line with our expectations.

Turning to Slide 11. Insurance product margin in the first quarter was up \$19 million or 10% driven by a net favorable COVID impact of \$22 million and otherwise generally stable margins across the product portfolio. The net favorable COVID impact reflects favorable claims experience in our health care products particularly impacting long-term care due primarily to continued deferral of care. This was partially offset by the unfavorable impact of elevated mortality in our Life products. Overall, persistency remains solid across our business and is generally in line with pre-pandemic levels.

Turning to Slide 12. Investment income allocated to products was essentially flat in the period as growth in the net liabilities and related assets was offset by a decline in yield. Investment income not allocated to products, which is where the variable components of investment income flow through declined \$14 million year-over-year, notwithstanding the significant outperformance of our alternative investments. In the prior year period, extreme market volatility translated to unusually favorable trading gains and the severe decline in interest rates led to favorable net COLI and prepayment income. Our new money rate of 3.57% for the quarter was flat sequentially, reflecting higher interest rates, offset by our decision to invest in higher quality credits given more modest spread tightening in these securities.

Our new investments comprised \$1.1 billion of assets with an average rating of A- and an average duration of 15 years. This higher level of new investment reflected elevated proceeds from prepayments in our annuities as well as a reduced cash balance. Our new investments are summarized in more detail on Pages 23 and 24 of the earnings presentation.

Turning to Slide 13. At quarter end, our invested assets were \$26 billion, up 11% year-over-year. Approximately 95% of our fixed maturity portfolio is investment-grade rated with an average rating of single A. This allocation to A-rated holdings is up 160 basis points sequentially. The BBB allocation comprised of 41% of our investment-grade holdings, down 100 basis points from year-end 2020. To the extent suitable and attractive opportunities develop, we may, over time, balance our recent up and quality bias with a modest increase in allocation to alternatives.

Turning to Slide 14. We continue to generate strong free cash flow to the holding company in the first quarter, with excess cash flow of \$101 million or 135% of operating income this quarter and \$409 million or 116% of operating income on a trailing 12-month basis.

Turning to Slide 15. At quarter end, our consolidated RBC ratio was 407%, down slightly from year-end. This represents approximately \$35 million of excess capital relative to the high end of our targeted range of 375% to 400%. Our Holdco liquidity at quarter end was \$324 million, which represents \$174 million of excess capital relative to our target minimum Holdco liquidity of \$150 million. Since the onset of the pandemic in early 2020, we have intentionally maintained a conservative capital and liquidity posture relative to our target levels in the context of COVID-related uncertainty.

Turning to Slide 16. For the past year, in the context of the uncertain trajectory, the pandemic and its impact on our business, we've been running base and adverse case scenarios to provide our outlook. We continue to run both scenarios, although the adverse case appears increasingly unlikely as COVID infection rates, death rates and vaccination rates in the United States are all trending favorably and as the economy appears to be on increasingly solid footing. In our base case, which assumes herd immunity to COVID-19 in the U.S. later this year and a healthy economy, we expect a continuation of the sales momentum we've seen in the past 3 quarters.

We expect a modest net favorable COVID-related mortality and morbidity impact on our insurance product margin for the balance of 2021 and a modest net unfavorable impact in 2022, driven by an expected spike in health care claims post-COVID due to pent-up demand during the pandemic. I would emphasize that these are directional base case expectations. There remains a fair amount of uncertainty as to how this will play out.

Examples of uncertainty on the health side include how long deferral of care will persist, the nature and extent of pent-up demand and potential implications of long COVID. On the Life side, there remains uncertainty about the extent and duration of COVID mortality impacts, including whether COVID will persist in an endemic state in the U.S. and to what extent future deaths were pulled forward by the pandemic. We expect net investment income allocated to products to remain relatively flat as growth in assets is offset by lower portfolio yields, reflective of both the lower interest rate environment and are up in quality shift in asset allocation.

In general, we expect alternative investments to revert to a mean annualized return of 7% to 8%. But the actual results will certainly be more variable with likely more upside potential than downside in the near-term given the current economic outlook. We expect fee income to be modestly favorable to the prior year as we grow our third-party MA distribution and improve the unit economics of that business.

Growth in web benefit design, earnings and the inclusion of direct path will also contribute. We expect the sum of our quarterly allocated and nonallocated expenses for the balance of the year to be generally consistent with levels reported in the first quarter of this year, allowing for some quarterly volatility and resulting in total expenses for the year, roughly flat to the prior year, excluding significant items in both periods. These expense trends reflect continued expense discipline, driving for operational efficiency while continuing to make targeted growth investments. The trends also reflect expected higher travel and agency management-related expenses later this year compared to the prior year period as COVID-related social distancing protocols are relaxed.

And finally, in the base case, as COVID-related uncertainty continues to decline, we expect to manage our capital and liquidity closer to target levels, reducing our excess capital gradually over time. In our adverse case, we assume that new variants emerge for which the current vaccines are less effective or ineffective and the pandemic continues in the U.S. into 2022 and '23, and the economy and financial markets suffer accordingly. Though this scenario seems very unlikely from where we sit today, we certainly cannot rule it out entirely. The good news from our perspective is

that in the adverse scenario, consistent with our prior analysis over the past year, we expect that we would be able to maintain our target capital and liquidity levels, maintain our dividends to shareholders and still have a modest amount of share repurchase capacity.

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

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

Thank you, Paul. We're off to a very strong start this year. Our Consumer Division has largely returned to pre-pandemic performance, and we expect our Worksite Division to return to year-over-year growth in the second quarter. Accelerating vaccine distribution and economic recovery will continue to support our growth momentum. While risks and uncertainties still lie ahead, we will continue to successfully navigate through these unprecedented times, supported by our dedicated associates and agents, our very strong balance sheet, our defensively positioned investment portfolio and our robust cash flow generation. We remain committed to serving our customers and communities both through the pandemic and on the other side. 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) And your first question comes from Humphrey Lee with Dowling & Partners.

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

My first question is related to the -- to your long-term care claims experience. My understanding is that the strong performance in the quarter came from IBNR reserve releases. If so, can you quantify the benefit in the quarter?

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

Sure. Humphrey, thanks for the question. So the \$25 million of favorable COVID impact in long-term care in the quarter. Reflects about \$9 million in benefit reserve releases due to higher mortality from COVID deaths. And then about \$16 million in reduced paid claims and reduced increase in claim reserves. Due primarily to new claimants, well below normal expectations.

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

Okay. So in a sense that it feels like -- because for the past several quarters, you have been assume -- you're not taking full advantage of the lower incidents by booking IBNR reserves, and you're starting to see some of that coming through. Do you still have a decent level of IBNR reserves sitting on your books right now? And as the defer -- as people continue to defer care or defer utilization of nursing home. Could you see additional reserve releases to come through over the next several quarters?

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

Yes, Humphrey, it's really less about our building IBNR and more about the continued reduced new claimants relative to normal expectations.

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

Okay. All right. My second question is related to the updated guidance for underwriting. So you talked about the favorable -- net favorable mortality and morbidity impact in the balance of 2021, but net unfavorable in the first half of next year. I was wondering if you can elaborate a little bit in terms of your expectations by product lines.

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

Sure. So as you alluded to, Humphrey, the -- our outlook 3 months ago was that the net impact of COVID in 2021 would be neutral. Unfavorable in the first half, unfavorable in the second half. 3 months later, from where we sit today, we had a more favorable COVID impact in the first quarter than we anticipated. And now we're expecting a net favorable COVID impact for the balance of the year. And what's changed is primarily a persistence in the deferral of care across the health product portfolio. It's also reflective of the refinement in our view of how things will evolve as conditions lead to a return to higher utilization of health care.

And so as we think about that across the product portfolio, in Med Supp, we believe, and we're already seeing a return to more normal claim patterns. And in addition, we expect we'll see an increase above normal claim patterns due to some pent-up demand of health care. And so you'll have an adverse impact from COVID due to that dynamic and that's up in the critical illness policies and our sub health products, we'll see a similar dynamic, but it will take longer for that to play out. So we expect modest net favorable COVID impact on sub health through the balance of this year and an unfavorable impact in the early part of next year, normalizing the middle part of next year.

In long-term care, we expect that this deferral of care will persist through the end of this year and then normalize in the early part of next year, we don't really see an opportunity for sort of a catch-up in claims in that product. The other thing I would really emphasize, Humphrey, is that this is all directional. There's a lot of uncertainty as to how this will play out, the extent of it and the timing of it, we're giving our view of how we think it might play out, but it will certainly be wrong. It's just a question of by how much.

Operator

Your next question comes from Randy Binner with B. Riley Securities.

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

I wanted to ask a couple regarding buyback. So the buyback has been good in the last couple of quarters at \$100 million. And looking at kind of the commentary on Slide 16 about letting the excess capital go to kind of more of a target level? And then also, Slide 14 with kind of well, I think is an improved cash flow profile. I mean, I guess the 2 questions are, with the target RBC ratio in kind of a good business environment, go into the 3 handles towards \$375 million. And then with free cash flow, I guess, is the statutory earnings profile improving because of your business mix? Or are we kind of seeing signals and hear from just favorable claim activity that we would assume would revert? So trying to triangulate buyback potential through those items.

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

Thanks for the question. So certainly, the favorable COVID impacts in the quarter are temporary, right? Those are unwind and as we've noted, we'll go the other way, we think, in the early part of next year. So certainly, you have to adjust for that as you project forward. Generally, speaking, really just reiterating points we've already made. We have intentionally maintained a relatively conservative posture relative to our target RBC and minimum Holdco liquidity in the context of the uncertainty related to COVID. We think that, that uncertainty has diminished, but it hasn't gone away entirely. So we will continue to be relatively conservative.

But as that uncertainty does diminish, and we expect that it will in our base case. We will, over time, gradually be less conservative, more aggressive and get closer to our targets. So inside of \$400 million on the RBC closer to \$150 million on the Holdco liquidity.

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

Yes, that's helpful. And I guess the follow-up, just on the kind of the statutory earnings part. Because I mean the company is becoming less risky from an earnings profile because long-term care should from an actuarial perspective, you get better every year. I mean COVID's been helpful there. So understanding we would normalize for unusually favorable claims, wouldn't I expect a little bit better kind of normalized statutory earnings profile for the company looking out a year or 2 or 3, kind of given -- you're adding business that's more fee focused and has better underwriting margins and kind of winding off more of the long term care?

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

Certainly, Randy, directionally, we think that there's an opportunity to grow our business and grow our earnings, both GAAP and SASB. So in that context, yes, I would agree with you.

Operator

Your next question comes from Ryan Krueger with KBW.

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

My first question was on Life sales, they were at the highest level since the pandemic began. I was just hoping you could give some perspective on I guess the extent to which you think Life sales are still benefiting meaningfully from changes in awareness resulting from the pandemic versus, I guess, things you're doing differently that you think can be kind of sustained longer term?

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

Yes. Ryan, this is Gary. Thanks for the question. There's no question that for the last several quarters, there's been increased consumer awareness. So that's definitely true. It's very difficult to quantify that. And when I think about that question, I would look at a few things. First, it definitely did benefit. No question. Second, please remember, even before the pandemic, we were showing quite robust direct-to-consumer life sales growth. I believe we had a string of either 5 or 6 consecutive quarters of growth, if memory serves correctly before the pandemic. So we were on a very strong trajectory even before the pandemic. Then in January of 2020, we announced our business transformation, where we went from the 3 separate companies to 2 divisions, and we really brought much closer together our direct-to-consumer telesales efforts with Colonial Penn brought that much closer to our bankers life efforts and field agents. And 1 of the things I really want to emphasize, the lift from that has frankly exceeded our expectations.

And I don't think it's all COVID-related. I think that we're really benefiting from bringing those 2 entities closer together and sharing leads. 2 data points, I think, that support that. First, remember that this past quarter, 50% of our sales, life and health sales took place in a virtual setting, meaning either face-to-face agents over Zoom or our telesales agents or online or what have you, but in a non-face-to-face way. That's a big, big change for us. The second point I would emphasize, and I can't recall if we called this out specifically, but of the life and health sales completed by bankers Life agents, so by the historically face-to-face field agents. 20% to 25% were completed virtually.

And that number 2 years ago was 0. So there's a profound shift happening both in terms of consumer demand and how they think about purchase decisions and so on. As well as the proficiency of our agents and our systems to break down how much of that is all -- is COVID is very difficult to do. But I think there's a very significant portion of that, that is just due to our reorganization, our online efforts and our growing proficiency.

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

And then on the potential use of excess capital and bringing it down towards your target is, do you anticipate that share repurchase will be the primary method? Or are there still other bolt-on M&A capabilities that you'd like to add over time?

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

So thank you for the question. I wish I could say I was surprised. We know we get this question in every call. So thank you for that. My party line remains unchanged with 1 slight twist this past quarter. Those bolt-on acquisitions and share repurchase are not mutually exclusive. Indeed, look at Q1, we did both. We continue to think of share repurchases as a good use of capital. There's no question about that. I know we are biased, but we believe that the intrinsic value of CNO Financial is well beyond where the share price is today. So that influences our thinking. We're, of course, mindful of the GAAP impacts of buying shares above book value, but we really believe the company is worth more than what the share price is showing. So we think about that when we make those decisions.

And as I remind everybody, I've been CEO for 13 quarters now, we bought back stock in 12 of those 13 quarters. The only quarter we didn't was when we were prepping for the LTC reinsurance transaction. So again, I ask you to judge us by our actions. We continue to be mindful of what our shareholders want and put that capital to its highest and best use over time. So it will continue to be one of the many options that we consider.

Operator

Your next question comes from Erik Bass with Autonomous Research.

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

I appreciate the additional color on kind of your outlook for health claims going forward. And one follow-up on LTC. Think in addition to lower kind of benefits utilization, another trend that has happened or may happen, it's just more of a preference for home health care as opposed to being in a nursing home. So just wondering from your perspective, how does that affect your cost of claim if more people elect home health care option as opposed to nursing homes?

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

Thank you. Gary. I'm sorry, go ahead, Paul. Go ahead.

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

Erik, just thinking out loud, honestly, most of our policies -- nearly all of our policies have home health care coverage as a benefit. Your question is if there -- as a result of COVID and post-COVID dynamics, there's a skew towards more heavy utilization of that benefit as opposed to facilities. I just want to clarify the question.

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

Exactly. I guess, is there a difference in terms of your cost of providing the care if people elect one option versus the other? So it is one more favorable?

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

Yes. It's an interesting question. Gary, you're shaking your head now.

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

Yes. A couple of things I'd remind you of. I think generally speaking, the answer to that is I would not expect to see a material shift. And the reason is very simple. Remember that particularly for the policies we've sold over the last several years, say, the last 3 to 5 years at least, those are policies that are much more modest in nature. The daily benefit is quite modest. It's not like we have a number of unlimited benefit policies where we would really see a different claims result because of that. When you're talking about a benefit of, I don't know, \$300 to \$400 a day, whether they go into a facility or they have that home health care, I would guess that the financial impact is not going to be materially different against that couple of hundred bucks a day. So for that reason, I wouldn't expect to see that claims experience in terms of dollars paid out differ materially. Now I could be wrong, we haven't -- or at least I haven't looked at it sliced up that way, but that would be my estimate.

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

Got it. That's helpful perspective. And then one follow-up maybe on Randy's question on free cash flow. I think the other dynamic is certainly that your sales are recovering. And I think you'd expect to grow them from here. You've seen a shift more towards life and annuity products. How should we think about the level of new business strain and that impact on free cash flow?

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

So Erik, it obviously creates a call on capital, if you will, and reduces our free cash flow. I wouldn't put a number on it, but certainly, directionally, it changes the dynamic. We'll continue to generate healthy levels of free cash flow. It will change over time. There's -- as you know, lots of moving pieces to that equation.

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

Got it. I mean to give some perspective, I don't know if you've disclosed the sort of the approximate level of capital you allocated to new sales last year?

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

Yes, we haven't. And I don't have a number off the top of my head.

Operator

(Operator Instructions) And your next question comes from John Barnidge with Piper Sandler.

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

Can you talk about the directionality of conversion rates in the last several years? I'm just trying to get a better sense of the improved effectiveness of marketing spend once you brought all the brands together in those 2 divisions?

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

So just to make sure I understand the question, you're talking about basically sales closure rates, is that what you're asking about? How effective are we?

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

Exactly. Can you talk about the trajectory over the last number of years? Because it appears you're clearly growing the DTC channel and having benefits shut off into maybe some of the more traditional channels previously.

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

Yes. So a couple of responses to that. So first of all, that move was initiated in January of 2020. So in relative terms, particularly because COVID slowed us down in some respects. That move is still relatively recent. So I don't want to overstate that as a multiyear trend. It's relatively new. That's the first point I make.

The second point I'd make, we do track our closure rates and probably the best proxy for that or the best way to think about that is the productivity of our agents. And we've seen that continue to grow materially over several years. So we really feel like that's probably the best way to think about it. And our close rates do continue to improve. The third and final point I'd make, remember that with our D2C business, it's highly, highly sensitive to how and when we choose to advertise. I've been in the insurance business for over 30 years, and I've never seen a business that is so frankly, predictable.

We know when we're going to spend X in the first quarter in advertising, I can tell you within 5% or so what my sales are going to be following that. And so for us, the D2C, in particular, is really an exercise in dialing in that advertising and make sure we're buying it in the most cost-effective way. And that's why you see these expenses bounce around a little bit when we can buy ad rates at what we believe will produce a favorable yield we do so. And some time -- in some quarters, we escalate that. But we really base that on the productivity, on the marketing cost and what NAP at yield, what the annual is premium in yields. We dial that quite strongly. And as long as advertising costs and the yield allow for it, we'll ratchet it up or down depending on what's going on. So I think on both of those metrics, our MC the NAP, which we don't disclose, we regard that as a proprietary metric our MC the NAP as well as our agent productivity, we've seen a very nice trend over quite some time of both of those numbers getting better.

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

Okay. That's fantastic. And then my follow-up...

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

Sorry, John, one thing I want to add to that. I was focused on consumer, and that was a mistake. I should have also made some comments about worksite. We've seen similar trends in our worksite business, and we expect, as workplaces open up, and we really integrate the offerings, the insurance offerings. We have at Washington National and PMA, the technology offerings from web benefits and the service offerings from direct path we expect that, that will also increase the productivity and the close rates. Now we're at the front end of that, so I don't want to overstate that, but we expect that to happen, and we saw early signs of that pre-COVID. Recall that our worksite business, particularly at PMA, had been growing, I believe, for 5 or 6 consecutive quarters before COVID. So we expect that productivity and those close rates to get back to those pre-COVID levels. So sorry for interrupting, John. You had another question, I believe.

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

John, I'd offer one more data point. It's Paul. If you consider in consumer producing agent count down slightly year-over-year. The Life and health NAP, up 9.5% and annuity collected premium up 11.4%. And that gives you a sense for the degree to which productivity has improved.

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

That's a really good point. And then the follow-up registered agent count, up 6%. You made a comment that you're moving more towards kind of recruitment from referrals as opposed to like going out and finding them. Can you talk about -- or dimension maybe when you get a registered agent, the follow-through potential and timing, like how long that takes? And then within that, by doing more referrals, do you think that fall through is going to be quicker?

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

We don't want it to be quicker. When the insurance agents come on and join our field force, particularly if they didn't grow up in insurance or if they're new to insurance, we want them to spend the first 1 or 2 years strictly in insurance and really understand that business. I would get concerned if we started converting folks that hadn't been in insurance to become registered agents too quickly. So there's -- that's more art than science, and it depends on the caliber of the agents we recruit and what their experience is in these things.

But I think a good rule of thumb is somewhere between 12 and 24 months, we want to see them really -- get those licenses, if they're interested. And the way we've thought about it, it certainly increases productivity. But I think the more important point, there's 2 points that are much more important. One is that it fundamentally changes the relationship with the consumer. When they buy a Life or a health policy from us, that's an expense.

And frankly, they can decide to stop paying the premium and move to brand X if they want to. When they entrust us with assets and/or an annuity, they've now changed the relationship. We now become an investment for them as opposed to an expense. So that's the first reason we very much like that.

The second is having that path enables us to recruit a better caliber of agent and someone who really wants to stay in this business and make a career out of it. That's not to say they can't make a career out of being purely an insurance agent, but it opens up yet another avenue and the income stream also changes for people who are purely insurance agents versus registered agents. So we do it for a number of different reasons, not the least of which is productivity.

Operator

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

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

My first question is for Gary. I just want to make sure I heard that right in your comment on the long-term care daily benefits. You said \$300 and \$400 per day, which seems high to me. So I just want to make sure I didn't mishear you.

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

Yes, you know what, I'm looking -- sorry, we're in a virtual environment. I'm looking at my colleagues. I believe that the average benefit, that's on the high side of the policy that we saw. Recall that we sell a short-term policy I think the average is probably closer to \$200. I'm waiting for the high side from my colleague, if that's correct. Or potentially even slightly lower than \$200 is the average. So I think I misstated that. Thank you for clarifying that, Humphrey.

My point simply was that because of the nature of our middle-market consumer and what they can afford and what they buy this policy for, the overall benefit that we offer is, in relative terms, quite modest to what historically the long-term care industry has offered. Our policies really are short-term care in nature. The claims typically are resolved within a 1-year period. And the way they work is we sell a policy, I believe the average is around \$70,000 of a total benefit and whether they spread that out over 1 year or 3 years, the total benefit is still that number, and it works out

to around \$200 per day. And the point I was trying to make earlier was, I don't know that home health care is going to be much less than what that average sale is. But thank you for clarifying, Humphrey, you're correct. I think our average is closer to \$200 or less.

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

Okay. Got it. And then my second follow-up is regarding the expenses for advertising, I think you talked about you will be doing opportunistically based on where you think you can get the biggest bang for the buck. So -- but just thinking about for this quarter, the advertising expenses were a little higher compared to recent quarters. And I think long ago, you used to have kind of the first quarter and third quarter seasonality for advertising expense. But since you have clearly moved away from relying so much on TV ads that may have changed. So should we like -- so like looking -- just looking at the higher expenses in the quarter. We shouldn't think of the first quarter, third quarter seasonality would come back? Or like how should we think about the advertising expenses going forward?

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

There will always be some seasonality to this business, and it's going to vary a fair bit by 2 factors. Number one, the product line. So if you think about, as an example, the annual enrollment period for all of the Medicare policies, Q3, Q4. So as we build out our myhealthplan.com offering and as we get more proficient at selling those products, online, you would expect some seasonality there. The second thing that drives it is what's happening in terms of other advertising. So as an example, if there's a presidential election running or some other significant event happening that's driving up advertising rates, that's going to drive it. So those are 2 factors that are relevant beyond just the pure seasonality that we would talk about.

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

Okay. But so we should stay away from just thinking the old way of first quarter and third quarter, correct?

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

Paul, I'm going to look to you on that one. I haven't looked at that data lately in terms of how it's trended over the last few years.

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

Yes. So last year, for example, it was highest in the first quarter and then trended down thereafter. Of course, last year, you had an election, so that changes the dynamic a bit. But generally speaking, the first quarter is our highest quarter of TV ad spend. Not surprising that it was a bit higher this year, 23 versus 20 last year, just given the opportunity we have, given the tailwinds we have and the momentum. I think directionally, Humphrey, you should expect slightly higher spend by quarter this year than last year, again, just given where we are and the current dynamics.

Operator

And there are no further questions. I will now turn the conference back over to Jennifer for closing remarks.

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

Thank you, everyone, for joining us this morning, and we look forward to speaking with you again soon.

Operator

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

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