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PRESENTATION

Operator

Good morning. Thank you for attending today's CNO Financial Group third-quarter 2024 earnings call. My name is Regan, and I'll be your moderator today. (Operator Instructions) I would now like to pass the conference over to our host, Adam Auvil, with CNO. Adam, you may now proceed.

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

Good morning, and thank you for joining us on CNO Financial Group's third-quarter 2024 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 could 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. Let me remind you that any forward-looking statements we make today are subject to a number of factors, which may cause actual results to be materially different than those contemplated by the forward-looking statements. Today's presentation contains a number of non-GAAP measures, which should not be considered as substitutes for the most directly comparable GAAP measures.

You'll find a reconciliation of the non-GAAP measures to the corresponding GAAP measures in the appendix. Throughout the presentation, we'll be making performance comparisons, and unless otherwise specified, any comparisons where refer to changes between third quarter 2024 and third quarter 2023. And with that, I'll turn the call over to Gary.

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

Thanks, Adam. Good morning, everyone, and thank you for joining us. CNO delivered another excellent quarter. Operating earnings per diluted share were \$1.11, up 26% and \$0.94 or up 27%, excluding significant items. Our results were broad-based across operating earnings, production, investment results and capital.

Our diverse and integrated distribution model and broad product portfolio differentiate us in the marketplace. They enable our momentum in baseline of consistent and repeatable results. CNO posted our ninth consecutive quarter of strong sales momentum and our seventh consecutive quarter of growth in producing agent count. Total new annualized premium was up 1% across the enterprise.

Excluding direct-to-consumer, total NAP was up 7%. I'll cover the factors impacting the D2C business later in my remarks. Green shoots from our strong sales growth are translating into earnings growth, establishing a solid foundation for future results. Earnings continue to benefit from favorable insurance product margin and strong investment results, reflecting growth in the business and expansion of the portfolio book yield.

Our new money rate exceeded 6% for a seventh consecutive quarter. Capital and liquidity remain well above target levels after returning \$107 million to shareholders. Book value per diluted share, excluding AOCI, was \$35.84, up 6%. Each component of our business continues to deliver strong performance as demonstrated by sales momentum in both consumer and worksite, a growing distribution force, solid and sustainable earnings, our excellent capital position, our strong free cash flow generation and raising full year guidance for earnings and cash flow.

As we advance our growth strategy, we continue to optimize the balance between production, profitability and capital management. Turning to Slide 5, our growth scorecard focuses on three key drivers of our performance: production, distribution and investments in capital. We are pleased that all of our growth scorecard metrics are up once again. I'll discuss each division in the next few slides; Paul will cover investments in capital in more detail during his remarks.

Beginning with the Consumer Division on slide 6, we delivered our eighth consecutive quarter of sales momentum. Solid execution and sustainable sales growth remain the hallmark of the Consumer Division's strong performance and in large part, are a result of our broad product portfolio. Our middle market consumers continue to embrace our differentiated capabilities that marry a virtual connection with our established in-person agent force to complete the critical last mile of sales and service delivery. Total NAP was up 1% for the quarter. NAP from field sales was up 9%.

The Health NAP was up 11%, led by strong results from new and enhanced products. Our Medicare portfolio continues to deliver strong sales growth. Medicare Supplement NAP was up 15%, and Medicare Advantage policies sold were up 26%. As a reminder, Medicare Advantage sales are not reflected in NAP.

By offering both Medicare Supplement and Medicare Advantage products, we provide more coverage options for customers. The balance and diversification of our Medicare portfolio is an important part of how we serve the middle-income market. We are in the midst of Medicare annual enrollment period, which began on October 15 and runs through December 7. We are off to yet another strong start.

Our thousands of dedicated field agents across the country are uniquely positioned to help customers make an informed decision about how they receive their benefits. This season, we have more than 3,400 agents certified to sell these plans, up 10% over last year. Our agents can enroll consumers in Medicare Advantage and Medicare Prescription Drug plans from 21 different plan sponsors, an increase of 7 carriers over last year. For the third consecutive year, we also expanded the number of offices participating in our Medicare Advantage inbound referral program.

As part of this program, customers who contact us by phone or online can be connected in real time to an agent in their local office who can assist them. Long-term Care NAP was up 31% on the strength of our long-term care fundamental plus product. This quarter represents the fifth consecutive quarter of double-digit growth for this product, reflecting the strong consumer demand for practical long-term care solutions. As a reminder, our LTC products are designed for the middle market consumer, 99% of the policy sold had benefit periods of two years or less and more than 90% have benefit periods of one year or less.

These plans cover essential costs for one to two years and offer a balanced affordable approach to funding care. Life production was down in the quarter, driven by lower spend on direct-to-consumer marketing. As we shared last quarter, we managed our D2C business based on advertising efficiencies. Consistent with last quarter, we reduced our television marketing spend in response to higher lead costs.

This stems from competition for television media space, which tends to spike during presidential election cycles. We continue to grow non-television direct response channels such as web and digital, which now accounts for over 30% of sales generated by D2C leads. Annuity collected premiums posted record results in the quarter, up 25%. Account values were up 6%.

Our strong annuity performance is led by number of policies sold, up 9%, higher premium per policy, up 14%. Demand for these products continues to benefit from favorable demographic tailwinds and the growing need from clients to protect against out living their retirement savings. Stability

in our block benefits from our captive distribution and the meaningful long-term relationships that our agents established with their clients. This quarter reflects our seventh consecutive quarter of brokerage and advisory growth.

Client assets in brokerage and advisory were up 35% for the quarter to a record \$3.9 billion; new accounts were up 11%. When combined with our annuity account values, our clients now entrust us with more than \$16 billion of assets, up 12%. Recruiting continues to be favorable and reflects our ninth consecutive quarter of year-over-year gains. Producing agent count was up 5%, our seventh consecutive quarter of growth.

Next, slide 7 and our Worksite Division performance. We delivered a record third quarter performance for insurance sales with NAP up 4%. This represents our tenth consecutive quarter of growth. The sales were up 108% of small base.

As a reminder, this metric reflects the annual contract value of benefit services sold in the quarter and is a leading indicator of fee revenue growth. Our benefit services strategy remains a priority for 2024 and beyond. Recruiting was up 7% for the quarter. Producing agent count was up 17%, our tenth consecutive quarter of growth.

First year producing agent count was up 16%, agent retention remains strong across all cohorts. New products and strategic growth initiatives are key drivers of our worksite NAP growth. I'll comment briefly on three programs. First, new products continue to perform well. In the third quarter, we introduced a new hospital indemnity insurance product, which helps provide supplemental coverage for hospital stays.

Sales of this product are up 66% in the first few months. Our critical illness product, which was introduced last year, was up 9%. Second, our geographic expansion initiative accounted for 11% of total worksite NAP growth in the quarter. This initiative targets areas where we've identified strategic opportunities to grow our market share and footprint. This is the fourth consecutive quarter of growth generated by this program, and we're bullish on the results that these new markets can deliver.

Lastly, in 2023, we launched an initiative to help agents cultivate and acquire new employer groups for insurance sales. NAP from new group clients was up 164% and we continue to experience solid momentum from this program. And with that, I'll turn it over to Paul.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Thank you, Gary, and good morning, everyone. Turning to the financial highlights on slide 8, we had another strong quarter across both operating earnings and capital, reflecting favorable trends in insurance product margins, investment income and free cash flow and continued expense and capital discipline. The expense ratio was 18.8% in the quarter and 19.2% on a trailing 12-month basis. We deployed \$90 million at excess capital on share repurchases in the quarter, accelerating our capital return in the wake of the debt issuance back in May.

This contributed to a 7% reduction in weighted average diluted shares outstanding year-over-year. On a trailing 12-month basis, operating return on equity was 11.7% as reported and 10.5% excluding significant items. We remain focused on continuing to improve our run rate return on equity over time. I'll briefly touch on two recent actions that will contribute to improved profitability.

First, we took steps in the third quarter to improve how we operate and our efficiency within the organization, the actions focused on repositioning certain back office roles for capabilities we need for the future, removing certain management layers and reducing costs through outsourcing. The net effect was a 3% reduction in the workforce. Severance and outsourcing transition costs associated with these actions totaled \$8.3 million pretax and were reported as nonoperating income in the quarter. These changes will improve run rate return on equity and allow us to advance our growth road map, including modernizing our technology and service capabilities.

Second, we have terminated a reinsurance agreement in which we had been seeding 25% of our long-term care new business. Effective October 1 of this year, we will now retain 100% of long-term care new business. To be clear, this does not impact the in-force that we had previously ceded, but we're pleased to be keeping all of the new business going forward, given the favorable and stable economics of the business. Turning to slide 9, total insurance product margin was very strong in the quarter with mostly puts and some takes across products.

Fixed indexed annuity margins were impacted by higher amortization due to our change in assumption to reflect higher surrenders as well as some modest spread compression. Notwithstanding these impacts, our FIAs continue to generate returns consistent with our target return for the business. For a second consecutive quarter, other annuity margins benefited from reserve releases due to higher mortality on larger closed block policies. We do not expect this favorable impact to repeat.

Supplemental Health and long-term care margins both benefited from growth in the block and favorable morbidity. Traditional Life margins benefited from lower advertising expense in the quarter. Finally, our annual actuarial review resulted in a \$27.3 million favorable impact to operating income. This was driven by favorable mortality and persistency assumption updates in our fixed indexed annuity business, partially offset by an unfavorable morbidity assumption within Medicare Supplement.

The remaining results were smaller and mostly offset across the other product lines. We're calling this out as a significant item in the quarter and presenting the margin on this slide ex significant items. Turning to Slide 10, net investment income results remained strong for another quarter. The new money rate was 6.5%, the seventh consecutive quarter above 6%.

The average yield on allocated investments was 4.81%, up 12 basis points year-over-year. The increase in yield along with growth in the business drove a 5% increase in net investment income allocated to products for the quarter. Investment income not allocated to products was up 18%, with alternative investment results slightly below expectations but improved from the comparable quarter. We completed a \$400 million five-year FABN offering in the quarter.

Total investment income was up 7% for both the quarter and year-to-date, demonstrating the strength of our investment portfolio. Our new investments in the quarter comprised approximately \$600 million of assets, with an average rating of single A and an average duration of just under six years. Our new investments are summarized in more detail on Slides 20 and 21 of the presentation. Turning to Slide 11, the market value of invested assets grew 21% in the quarter, with roughly one-third of the growth a result of recent FABN and debt issuances and two-third due to market appreciation on the investment portfolio and growth in the business.

Approximately 97% of our fixed maturity portfolio at quarter end was investment-grade rated with an average rating of single A, reflecting our up and quality bias over the last several years. Our commercial real estate portfolio continues to perform within expectations, reflecting conservative underwriting and proactive management. We have again included some summary metrics on Slides 22 and 23 of the presentation. Turning to Slide 12. Our capital position remains strong.

At quarter end, our consolidated risk-based capital ratio was 388%. Available Holdco liquidity was \$453 million, well above our target minimum, reflecting the debt issuance completed in May as well as continued strong free cash flow to the Holdco. Leverage at quarter end was 32.5% as reported, adjusting for the senior notes that will be paid off at maturity in May of next year, leverage at quarter end was 26.0%. With the incremental debt issued in May, leverage has moved just inside our target range of between 25% and 28%.

Turning to Slide 13 and our '24 guidance, we are raising and narrowing guidance on operating earnings per share to between \$3.50 and \$3.60 for the full year, excluding significant items, reflecting our strong third quarter results. Consistent with guidance assumptions, this includes an expectation that alternative investments generate a return in line with the long-term run rate assumption of between 9% and 10% for the fourth quarter. At the midpoint, our guidance is now 11% above the initial range for the year, reflecting the strong earnings results we've reported year-to-date. We are raising and narrowing guidance for excess cash flow to the holding company to a range of between \$250 million and \$275 million.

The midpoint of the new range is 50% higher than the midpoint of the original range for the year, reflecting solid earnings year-to-date, together with capital consumption in our investment portfolio, consistent with the high end of the original free cash flow range, which corresponds to no material increase in the risk profile of the investment portfolio throughout the year. We are maintaining the expense ratio range of between 19.0% and 19.2%. We will continue to manage to a consolidated RBC ratio of 375% in our US-based insurance companies and minimum Holdco liquidity of \$150 million over the long term, although we expect to end 2024 well above those target levels.

There's no change to our target leverage of 25% to 28%. And with that, I'll turn it back to Gary.

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

Thanks, Paul. CNO delivered another excellent quarter. Our sustained sales growth is translating into earnings growth, establishing a solid foundation for future results. We have a unique and differentiated position to serve the middle-income market through our products, distribution and proven track record of execution. Our capital position, liquidity and free cash flow are strong, and we continue to deliver on our commitment to shareholder return. CNO enters the fourth quarter with considerable momentum, and we expect to end the year strong.

Before we open it up for questions, as you know, next Tuesday, November 5, is election day. Voting is one of our most important civic rights. At CNO, we encourage our associates to take the time to vote. I extend that encouragement to everyone on the call as well. We thank you for your support and interest in CNO Financial Group. We will now open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Barnidge, Piper Sandler.

Can you maybe talk about that long-term care announcement, the reinsurance arrangement. And within that, maybe the opportunity to further utilize the Bermuda platform for other liabilities of the company.

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

I'll make just a general comment. Sorry. Just a general comment and then Paul can dive into the specifics. I think the biggest thing I'd like our shareholders to take away is we really like this business. We think we know what we're doing, it's performed well. And basically, we want to eat more of our own cooking. Paul can speak to some of the details on the numbers, but it's really a reflection of our belief in the business and the solid performance. Paul?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Yes. So on the numbers, John, I think it's pretty straightforward. We're now keeping the 25% that we used to cede. And so that will flow through to earnings over time and on the margin should be one of the many things that we're doing and contemplating to improve our return on equity over time. And then with respect to Bermuda, we completed the first treaty in the fourth quarter of last year, where we ceded much of the in-force book and 100% of the new business, that's going well.

We've been very focused on building out the infrastructure of our Bermuda company and establishing relationships on the island, including with the Bermuda Monetary Authority. That's also gone very well. We have a solid team in Bermuda now that's occupying our office there. So we are beginning to turn our attention to other things that we might see to the Bermuda company. That's a work in process and more on that in future periods.

Obviously, it's whatever we propose to seed is subject to regulatory approval. And so we'd be going through the normal approval process.

And then the actions to improve the organizational structure, repositioning of back office, removing management leaders and reducing the cost through outsourcing. How do we think about that having an impact in improving the direct expense ratio prospectively?

So John, no change to the guidance that we provided for the full year and you kind of back into what that means for the fourth quarter. I don't want to get ahead of guidance for next year, but as we typically do on our February call, we'll provide guidance for the full year '25, including the

expense ratio. Certainly, the actions that we've taken improve our run rate expenses and will contribute to, again, the efforts that we're taking across the value chain to improve the ROE.

Operator

Ryan Krueger, KBW.

Ryan Krueger - Keefe, Bruyette & Woods Ltd. - Analyst

I had a question on free cash flow. When you think about the \$250 million to \$270 million this year, I guess, to what extent do you view that as a sustainable run rate? Or I guess, can you help us understand how much favorability this year maybe impacting that number?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Ryan, it's Paul. As you know, it's hard to say because there are impacts related to capital efficiency in terms of how we're structured, their impacts at the holding company level related to the debt that we issued in May. But what I would emphasize is that the underlying dynamics of the business generate a very healthy level of free cash flow. I think that's been clearly demonstrated over time, including in the last nine months. So without putting a specific number on it, I think the takeaway is that the business generates healthy levels of free cash flow, which will, in the first instance, well, it's a function of what the business generates.

Over time, that may be reduced if we're putting more capital to work to grow the franchise, which would certainly be a good thing. So I know I'm not answering your question directly because there are simply too many moving parts. Again, in February, when we provide outlook for '25 we'll provide a bit more insight into that in terms of our outlook for the '25 period.

Ryan Krueger - Keefe, Bruyette & Woods Ltd. - Analyst

Understood. And then just a quick one. With the Fed cutting rates, 50 basis points, in September, I just wanted to make sure I understood if you had much short-term rate sensitivity we should consider for the fourth quarter or if we shouldn't expect much impact from that?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

So Ryan, your question is our sensitivity to changes in rates broadly? Is that the question?

Ryan Krueger - Keefe, Bruyette & Woods Ltd. - Analyst

Really just the short-term rates. You do have within, for example, like unallocated NII with some of the spread lending you do there. Just wanted to see if there's really much impact to short-term rates on a net basis or if it's pretty neutral.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Got it.

Eric Johnson - CNO Financial Group Inc - Chief Investment Officer; President, Chief Executive Officer - 40|86 Advisors

Yes, happy to. Ryan, for the most part, are the assets we hold that our floating rate are in a couple of places and largely matched off against also floating rate liabilities. So there's a substantially offsetting impact as the short end of the curve moves. We do have some floating rate assets that I'll use the term in the general account. For the most part, those are very high in credit quality, sustain their market value. And we have the option and have exercised it from time to time to reallocate those out further out the curve as opportunities develop there and then in the curve steepens.

So you won't see a tremendous amount or really a noticeable amount of impact in our income statement off of the 50 basis points, and you probably wouldn't see if you get another 50 going into the second through the remainder of the year, you probably wouldn't see any significant impact from that either.

Operator

Wilma Burdis, Raymond James.

Wilma Burdis - Raymond James Financial, Inc. - Analyst

Could you give us a little bit of a deep dive on where CNO stands on cutting expenses?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Well, Wilma, that's something that we're always focused on cutting expenses. I've been here for 5.5 years. It's been a very significant focus of every annual planning process that we've gone through. The recent action that we took that I described in my prepared remarks are an example of that. So the overall goal is to be as efficient as we possibly can as an organization so that we free up as much as possible to invest in the growth of the business. So that's how I would describe it at a high level.

Wilma Burdis - Raymond James Financial, Inc. - Analyst

Okay. And then not to ask for guidance, but could you just talk a little bit about the market opportunity for sales over the next, I guess, kind of near term and also maybe next few years. Just looking for some color on the demographics, what you're seeing in the economic environment right now in the areas of potential growth?

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

Wilma, this is Gary. Thanks for the question. The outline I can give you is we remain very bullish. When we look at the primary macroeconomic and demographic factors, virtually all of them are tailwinds. We still have people retiring at a significant level, roughly 11,000 a day. That's not going to change.

If I remember the data right, it's still 5 to 8 years before you see that even begin to slow. So that's very significant. Second, there is, to my way of thinking, no other government type of solutions to the problem these retirees or prospective retirees are facing in terms of income for retirement. The few that have pensions, those aren't growing or getting bigger or getting richer. And if anything, government programs, we've all seen the work on the deficits and so on.

I don't know if these two particular candidates are going to do anything about it. But at some point, somebody is going to have to do something about it, which means that benefit levels certainly aren't going to go up and they probably will have to go down, whether that's means testing or whatever. But in any event, there's not a private solution or a public solution that goes across and satisfy these issues. And health care costs continue to go up.

Even if health care costs moderate and stop going up by 6% or 7% a year, even then, even if they just get down to a 2% or 3% number, that's still a significant issue in the absence of government solution. So when we look at health care costs, when we look at life spans, when we look at number of prospective retirees, when we look at the assets of government solutions, all of those provide a very significant bullish case. The final comment I would make, remember, we focus exclusively on the middle market. There are plenty of deep focusing on the more affluent consumers, and that's wonderful for us.

But we don't see any major new entrants coming into this space. And frankly, if we had to start this business from scratch today focusing on middle income America, we couldn't afford to do it. It's only because we've got this historical critical math that we're able to make the benefit ratios and the cost ratios and so on work. This is a very tough place to come into, so that forms a bit of a natural moat.

So for all of those reasons, we remain very bullish on the prospects. And that doesn't mean that we're going to have everything be rosy all the time. Of course, there are challenges from time to time. But when we look at the big picture, the macro trends, we feel they're all in our favor.

Operator

Suneet Kamath, Jefferies.

Suneet Kamath - Jefferies Financial Group, Inc. - Analyst

I guess just for Paul to start. I think you said your guidance for 2024 assumes fourth quarter VII is in line with your long-term target. As we've been going through these calls, it seems like the companies are suggesting it will still be under some pressure. Is that what you expect to happen? Or should we think about that as more of just a planning assumption?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Yes. It's very much more of a planning convention, Suneet. I think if you asked Eric whether he thinks that's a reasonable expectation for the fourth quarter, I think you'd tell you that there's certainly downside risk. Because that's not the only thing that flows through NII not allocated. Over the last couple of quarters, there have been other things that have kind of picked up the slack. So in general, I think there's probably some downside risk there in the fourth quarter, but it's muted by other things that might go the other way.

Suneet Kamath - Jefferies Financial Group, Inc. - Analyst

Okay. Got it. And then I guess on the ROE. I know we've talked about ROE improvement on these calls for the past several quarters. And you've highlighted multiple levers that you have to improve the ROE. But as we think about those levers in big buckets, would you say that most of them are focused on kind of improving the earnings or sort of the numerator of the calculation? Or are you also contemplating actions to optimize the denominator?

And again, I don't know if you can give us sort of a split between the 2, but if you had to think about which one is more important, if you could provide some color on that, that would be helpful.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Sure. Yes, I think it's fair to say most of the things are focused on the numerator, but not exclusively. There are things we can continue to do that will help move the needle on the denominator as well.

Suneet Kamath - *Jefferies Financial Group, Inc. - Analyst*

And if I could just follow that up real quick. Just in terms of the earnings, again, another sort of drill-down question. Should we think about that more on the like the top line side or more on like the margin side? Just trying to figure out how we start to see this ROE continue to climb.

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

It's really all of the above. There's no silver bullet. But the combination of continued top line sales growth helping to drive better operating leverage, thinking about the trade-off between risk and return inside the investment portfolio in the context of the current rate and spread environment, things we can do with the in-force book, things that we can do with pricing, things we can do to continue to manage expenses. It's really all of those things, which, in aggregate, we're confident will help us improve the ROE over time.

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

Suneet, I'd like to add a little bit of context or detail to Paul's comments. First, I want to just make sure I remind everybody that from our standpoint, this has been a long-term and intentional game plan. First, we needed to get the company on solid financial footing, clean up some capital issues, do some basic things there. Then we needed to get the organization growing consistently and sustainably. We've now done that.

Now we're in the phase where we want to make the organization more efficient. As we look to efficiency, I can assure you that every member of this management team, they are keenly aware of the need to improve ROE. That's been the number one thing we're focused on. We've literally got a list within the management team of a number of different levers, 10 to 20 different levers we can pull.

And there's not one that will give us 100 basis points of improvement on ROE. There's 20 different things that will each give us 5 basis points of improvement on ROE. So where it may sound like we're not being specific, it's actually the converse. We have a lot of specificity within the organization, there's just no one big thing. We're in a place in our evolution where there are 10, 20 different small things, and we've got to pull all of them.

Most of them as Paul points out around the top line. But some have to do with the numerator, some have to do with the denominator as well and continuing to more efficiently use that equity. So we're very focused on this. It is the number one metric that the entire team is focused on.

And we've got a variety of, frankly, small things that we're pulling on to drive that ROE up. We will stay focused on this. I've been talking about this for 4 to 6 quarters now, and I've assured our investors, we will improve the ROE. You're seeing signs of that, and we will continue to drive it.

Operator

Wes Carmichael, Autonomous.

Wes Carmichael - *Autonomous Research US LP - Analyst*

Apologizes my line dropped earlier. But my first question was on advertising spend, and I know that's been pulled back quite a bit related to the election cycle. But when would you expect to reaccelerate that? And how are you expecting that to come through the margins in 2025?

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

Yes, Wes, thanks for the question. So let me first say, since sitting in the chair here at CNO, this is my third presidential election cycle. And this one appears to be following the same exact pattern as the 2 before it. And that is the following. Remember that we manage our D2C business very tightly based on the yield we get from the advertising.

And when we see ad costs go up or the yield go down when we see basically that efficacy deteriorate, we stop spending the money. We're fine letting the volume go away, we're confident that when the ad spend can be done more efficiently, we get the yield we want. We'll step it up again, and we'll see good results again. Now I will say that one of the things that's changed over the last three election cycles that I've been sitting in the chair is the fact that the TV viewing habits of America have changed.

So we are very intentionally relying less and less on TV. I do expect that when the ad rates come back down after the cycle, and I don't know if that will be in 4Q or early 1Q, but it will be sometime in the next one to two quarters. I can't tell you exactly when. When ad pricing comes back down, we will once again step up that TV advertising, but it may be to a degree that's less than it was, say, in the election cycle of 2016.

And that's primarily because we're starting to rely more and more on non-television advertising, a whole 30% of the volume from our D2C leads is now coming from non-television sources, so social media, online and so on. We expect that shift to continue. So again, the TV advertising will be higher than it is through the advertising cycle, but it may not be quite as high as it was, say, eight years ago, primarily because we're adjusting to changes in viewer habits and where the advertising yields the efficacy.

The bottom line to take away is we've got a really good D2C business. We've got a model where we know how to appeal to our target consumer and we continue to pivot and adjust our advertising venues based on where the eyeballs are and where the yield is the best, and we will continue to do that.

Wes Carmichael - *Autonomous Research US LP - Analyst*

Gary, that's very helpful. My follow-up was on the Annuity segment. I think there's a couple of moving pieces this quarter. I think there's a benefit from some reserve releases in the closed block and maybe a little bit of sequential pressure on the fixed index annuity portion of the business. So just hoping you could help us a little bit with how you're thinking about the run rate margin going forward.

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

So it's Paul. I'll take that. So yes, as I said in my prepared remarks, the margins were impacted by higher amortization due to our change in assumption to reflect higher surrenders over the last couple of years. That assumption was taken in 4Q of last year and then additionally in 3Q of this year. So you're seeing that in the year-over-year comparison. The current period, I think, is fairly reflective of run rate.

Operator

Thank you. That concludes the Q&A session. So I will bring you back over to Adam for any further remarks.

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

Thank you, operator, and thank you all for participating in today's call. Please reach out to the Investor Relations team if you have any further questions. Have a great rest of your day.

Operator

Thank you. That concludes today's call. Thank you for your participation. You may now disconnect your lines.

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