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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to today's CNO Financial Group Third Quarter 2020 Earnings Call. (Operator Instructions). I would now like to turn the call over to your speaker today, Jennifer Childe, VP of Investor Relations. 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 Third 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 several 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 November 6.

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 presentation, we will be making performance comparisons and unless otherwise specified, any comparisons made will be referring to changes between third quarter 2019 and third 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 very pleased with our record third quarter financial performance. These results underscore the continued strength of our model and the resiliency of our business during these unprecedented times.

When I look back at what we've accomplished over the past 10 months, I am extremely proud of our associates, agents and leadership team.

In January, we announced our enterprise transformation and began the process of realigning our 3 segments into 2 divisions. Even before COVID, changing consumer behaviors and expectations drove this decision. As part of our long-term plan, we knew we needed to adjust our model to enable us to better reach consumers how and where they want to do business.

CNO has a unique set of capabilities and our 5,000 agent strong exclusive distribution force and our top 5 direct-to-consumer business. It's the combination of these businesses that allows us to pursue our current strategy.

COVID-19 accelerated a shift in consumer buying behaviors that was already underway and sparked other changes that we could not have predicted. Many of these changes may prove to be permanent. The pandemic also accelerated our transformation.

In March, we deployed enhanced technology tools and training to enable our agents to continue to serve customers through virtual consultations and digital insurance applications.

In response to new customer and worksite employer needs, we began advancing our own strategic plans and technology investments. By fast-tracking various digital direct-to-consumer and cross-channel collaboration programs, we accomplished in about 6 weeks, what was originally expected to take more than 6 months.

Throughout this unprecedented year, our teams have pulled together to support our agent force, rebuild sales and drive productivity and efficiency gains, all while serving our customers with minimal disruption.

I'd like to take a moment to thank the customers that put their trust in us every day, and our agents and associates that work so tirelessly to deliver on our promises.

This quarter, CNO was certified as a great place to work in our first year of participating in the survey. We are very proud of this recognition. Our people truly make CNO a great place to work.

Turning to Slide 4. We continue to operate from a position of strength. Operating earnings were up 63%, and operating earnings per share were up 76%. We're seeing continued sequential improvement in nearly all of our key metrics and premium collections continue unabated across both divisions. The overall product margin in the quarter was robust due primarily to fewer health claims as consumers deferred medical care. Even excluding these and other factors, which we believe are largely temporary, our insurance product margin remained strong, up \$3 million or 1%.

Discretionary spending was strictly controlled, and our capital and liquidity positions remain solid. We ended the quarter with an RBC ratio of 428% and \$236 million in cash at the holding company. These levels are after returning \$67 million to shareholders, including \$50 million in stock buybacks.

Turning to our growth scorecard on Slide 5. 3 of our 5 metrics were up year-over-year. Life sales were up a solid 19%, fueled by both continued strong direct-to-consumer growth and exclusive field agent sales.

Health sales showed significant sequential improvement but remained down 16% over the prior year. Overall, life and health sales were essentially flat this quarter relative to the prior year period, which reflects a marked improvement over last quarter sales.

Insurance collected premium growth accelerated to 3.3%, driven by continued strong persistency and cumulative sales growth over the past year in life and health.

Turning to our consumer division on Slide 6. The COVID-19 crisis continues to draw attention to the critical need for insurance products among our consumer base. Sales of life insurance remained strong in the third quarter, while supplemental health and long-term care rebounded nicely. Our Medicare supplement sales remained challenged.

Life insurance sales were up 25% for the quarter and up 19% year-to-date. Direct-to-consumer life sales were up 23%, which comprised just over half of our total life sales. Life sales generated by our exclusive field agents were up 29%, the highest growth rate we've experienced in several years.

As you know, our consumer channels have managed as a single division since February. Our third quarter results demonstrate the strength of this unified distribution model and the synergies that are being unlocked. Direct-to-consumer leads are being shared with field agents earlier in the sales cycles. Customers are now choosing whether to transact with us online or with a phone, in-person with a local agent for more personalized service, or some combination of the 3.

This integrated blend of digital and local agent service allows us to build deeper, more meaningful relationships with our clients and establish a level of trust that is difficult to replicate. As a result, a growing portion of our field sales are coming from consumers who contacted us for a direct purchase, did not buy a policy upon initial contact, but later opted to purchase a plan from one of our exclusive agents in their community. This ability to flex our resources has translated to higher lead conversion rates and lower marketing costs per application rate. The same dynamic applies to our health business.

We are implementing various initiatives on the health side to provide consumers with a similar unified multichannel sales and service experience. One example is our recently launched online health insurance marketplace, myHealthPolicy.com, focused on helping Medicare beneficiaries enrolled in Medicare Advantage and prescription drug plans.

For the past few years, senior preferences have been shifting from Medicare supplement to Medicare Advantage products. While we have been selling third-party MA products for some time, our new program leapfrogs our previous efforts. Our new platform leverages our direct-to-consumer experience with the strength of our local exclusive agent force.

During this year's Medicare annual enrollment period, consumers can purchase Medicare products from us online or from one of our 2,800 telesales and local exclusive field agents who are certified to sell Medicare plans. Our agents now have the ability to sell our own Medicare Supplement plans and third-party Medicare Advantage and prescription drug plans. We believe we have the largest exclusive agent force certified for MA sales.

We've seen steady sequential improvement in our producing agent counts since the start of the pandemic. During the second quarter, at the height of the pandemic, our producing agent count was down as much as 26%. It has since rebounded nicely, up 9% sequentially, driven by higher retention and an uptick in new agent recruiting.

Turning to Slide 7 in 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 significant sequential improvement in our worksite sales in the third quarter, with sales up 48% over the second quarter. Relative to the year ago period, however, sales were down 56%.

Given recent increases in COVID infection rates across the country, we continue to expect a steeper path to recovery in the worksite business. As workplace dynamics have changed, we've been focused on helping our existing clients navigate through COVID. We have made significant progress enhancing our digital capabilities to offer enrollment by telephone, video conference or online. These virtual programs drove almost 30% of our sales in the quarter. Web benefits design continues to play a key role in accelerating these initiatives.

We recently launched several pilots to deliver more holistic employer solutions, including leveraging third-party products and targeted marketing to specific sectors. We are also accelerating the training of our veteran worksite agents on WBD technology to enable them to sell benefits technology and enrollment services. This cross-selling activity provides a more complete solution to our employer clients and provides additional scale to WBD.

While still early, we are encouraged by the initial reception to the pilots. Similar to our consumer business, as various initiatives move from pilot to scale, we will provide additional updates.

Turning to Slide 8. We returned \$67 million to shareholders in the third quarter, including \$50 million in share buybacks. Year-to-date, we have deployed \$100 million on buy backs. With our higher cash balance and RBC ratio, we have the capacity to repurchase significantly more shares

during the quarter. We made a conscious and well-considered decision to take a measured approach. We expect to have the continued capacity to repurchase shares in the fourth quarter and will remain prudent as we carefully monitor the evolving circumstances.

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. I'll begin by providing a bit more detail on our third quarter results and then share our outlook for the balance of the year.

Turning to the financial highlights on Slide 9. As Gary mentioned, operating earnings per share were up 76%, benefiting from favorable health margin due to customer deferral of care, strong net investment income and strict expense control.

Earnings were also favorably impacted by our continued strong free cash flow, funding share repurchases that reduced our share count by 9% year-over-year. Allocated and unallocated expenses decreased by 4% in the aggregate, driven by general expense discipline as well as decreased travel and marketing-related expenses.

Fee income declined by \$2.2 million compared to the prior year quarter, driven by \$3.3 million of expenses related to our myHealthPolicy.com online marketing initiative. Operating return on equity, excluding significant items was 11.9% through September 30, 2020, which compares to 10.6% in the prior year period both on a trailing 12-month basis.

Turning to Slide 10 and our product level results. Our margin in the third quarter included a net favorable impact of \$42 million related to COVID. The annuity margin reflects an unfavorable impact of approximately \$7 million from higher persistency related to COVID. This drove volatility in the accounting for the embedded derivative reserves in our fixed index annuities.

The health margin included approximately \$58 million of favorable impacts related to COVID driven by the release of prior period claim reserve redundancies due to claim levels continuing to trend below pre-COVID levels. And our life margin in the third quarter included approximately \$9 million of unfavorable impacts related to COVID.

Insurance product margin, excluding all COVID impacts, was up \$3 million or 1%, which reflects the strength of our underlying business and the benefits from our diverse product suite.

Turning to Slide 11 and our investment results. Investment income allocated to products was essentially flat as the impact of the 4% increase in net insurance liabilities and related investments was largely offset by an 18 basis point year-over-year decline in the average yield on those investments to 4.88%. Sequentially, the average yield declined 4 basis points, consistent with our prior guidance. Investment income not allocated to products increased \$9 million year-over-year to \$43.7 million, driven by strong alternative investment performance.

Our new money rate of 4.08% was down 58 basis points year-over-year and down 41 basis points sequentially. This reflects \$582 million in funds invested in assets with an average rating of A minus and an average duration of 12 years.

Turning to Slide 12 and an overview of our investment portfolio. At quarter end, our invested assets were \$26 billion, up 6% year-over-year. As you can see from the slide, approximately 96% of our fixed maturity portfolio is investment-grade with an average rating of single A. The BBB allocation comprised 41% of our investment-grade holdings, consistent with the prior quarter.

As you can see on Page 24 of our earnings presentation, we remain underinvested in most 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 13. We continue to generate strong free cash flow to the holding company in the third quarter, with excess cash flow of \$95 million or 84% of operating income this quarter and \$280 million or 79% of operating income on a trailing 12-month basis. As Gary mentioned, we returned \$67 million to shareholders in the quarter, including dividends of \$17 million and share repurchases of \$50 million.

Turning to Slide 14. At quarter end, our consolidated RBC ratio was 428%, up from 405% at June 30, reflecting the very strong operating results in the quarter. This represented approximately \$140 million of excess capital relative to the high end of our targeted range of 375% to 400%.

Our Holdco liquidity at quarter end was \$236 million, which represents \$86 million of excess capital relative to our target minimum Holdco liquidity of \$150 million.

We have intentionally maintained a more conservative posture in the context of the ongoing uncertainty, particularly as new COVID cases continued to increase sharply across the country.

Turning to Slide 15 and our outlook for the remainder of the year. We most recently updated our forecast in October, applying base and adverse scenarios that are generally aligned with certain rating agency assumptions regarding COVID-19 infection rates and death rates and related economic impacts.

From a top line perspective, in our base case, we expect a continuation of the positive momentum we demonstrated in the third quarter as additional data points through the third week in October. First, direct-to-consumer sales were up 3%. While this reflects a deceleration relative to recent sales levels, it is due almost entirely to a planned reduction in advertising spending because of higher ad costs close to the election.

Our approach to marketing spending has always been to put our foot on the gas when pricing is opportunistic. And to pull back when pricing is less attractive. Second, consumer life and health sales in total were up 20%. Third, annuity, collected premiums were up 9%. And fourth, worksite life and health sales in total were down 47%.

From an earnings perspective, in the fourth quarter of 2020, we expect the COVID impact on insurance margin to be net favorable though to a lesser extent compared to the impact in the third quarter as health care claims are exhibiting a trend toward more normal levels.

Our base case scenario assumes that a COVID-19 vaccine will be available in the middle part of next year and that infections will persist through the early part of 2022. We have revised our estimated COVID mortality impact across all of our products, both life and health, to \$68,000 per 1,000 U.S. deaths, down from \$130,000 per 1,000 U.S. deaths in our prior forecast.

The difference reflects refinements to our model. We shifted from a per policy focus to a focus on the face amount for our life business. We also applied a factor to our life blocks to adjust for certain underwriting characteristics.

Expenses in total are expected to be up in the fourth quarter compared to the prior year period, driven by an acceleration of various digital and technology investments to better position the company for the future. Consistent with our prior guidance, this will result in total expenses for the second half of 2020, flat to 2019, adjusting for the significant items in the fourth quarter of 2019.

From a capital and liquidity perspective, even the adverse case, we expect to maintain our capital and liquidity targets, maintain our quarterly dividend to shareholders and have the capacity to continue share repurchases.

We'll provide more color on our outlook for 2021 on our fourth quarter earnings call as our outlook today remains cloudy due to lack of visibility in a number of areas.

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

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

Thanks, Paul. I'm very pleased with the steady operating improvement we've delivered and the solid execution of our strategic priorities to what continues to be a very challenging environment. When we announced our strategic transformation in January, we could not have predicted what would follow over the subsequent 10 months.

Unifying our channels continues to unlock value for CNO and strengthens our position to navigate the pandemic. When coupled with the steps we have taken in recent years to reduce our long-term care exposure, derisk our investment portfolio and diversify our product suite, CNO is well prepared for the economic challenges that lie ahead. I'm confident that we're on the right path to successfully grow our business, help secure the future of middle-income America and drive further enhancements to shareholder value.

I can't conclude our call today without acknowledging that it's Election Day. Over the last 3 months, we've encouraged our associates to exercise their civic right to vote. I extend that encouragement to everyone on the call as well. I hope you'll vote today if you haven't done so already. 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) Your first question comes from Humphrey Lee from Dowling & Partners.

Humphrey Lee - Dowling & Partners Securities, LLC - Analyst

Just looking at the health sales kind of year-to-date for the growth and then also kind of into the enrollment period for the fourth quarter, like, how should we think about the sales outlook for supplemental health and Medicare supplement? And also kind of by extension, like, given the weakness in sales year-to-date, is there going to -- are we going to see some headwinds in terms of top line and maybe bottom line impact for 2021?

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

Yes. Humphrey, this is Gary. So first of all, thanks for joining us, and thanks for the question. Before I continue, I just want to make sure you can hear me okay?

Humphrey Lee - Dowling & Partners Securities, LLC - Analyst

Yes. Loud and clear.

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

Okay. Great. All right. Good. So first of all, as you know, the biggest factors in our health sales really have to do with our Medicare supplement. We have seen a shift in recent years in terms of consumer preferences, where they really start to prefer or not start, but have been preferring Medicare Advantage over Medicare supplement. So we've seen that trend continue and it's -- as best we can tell is going to continue for the foreseeable future. And that's part of the reason we launched our myHealthPolicy.com platform. So we expect to see some good results in terms of our Medicare Advantage products because of those efforts and because of what we see happening with consumers, the offset to that or the other side of that is that, that will continue to put pressure on our Medicare supplement sales.

Now I frankly would prefer that we sell more Medicare supplement because, as you know, we manufacture Med Supp, whereas on Med Advantage, we only distribute it. And by virtue of being a manufacturer, we would get both the margin from the underwriting as well as the distribution.

In Med Advantage, we only get the distribution income. However, Medicare products in general are a very important part of us getting into the household. So the next best thing is for us to sell the Medicare Advantage. And we're comfortable with the progress we see on that. So when you boil all that together, you should see us continue to do reasonably well on health sales in the aggregate. You should continue to expect some pressure on the Medicare supplement sales. Now right now, where we are on Med Supp, we're always trading price, profit and market share. I'm comfortable with the current level. But after we get a look at how the myHealthPolicy.com offering does and how well our Medicare Advantage sales do, we may want to come back and revisit that. But at the moment, I remain comfortable on that. So you'll see -- continue to see some pressure there, but you should see offsets with the Med Advantage. Humphrey, does that answer your question?

Humphrey Lee - Dowling & Partners Securities, LLC - Analyst

Yes. But I guess when we think about the earnings outlook, given the continued pressure on Med Supp, we see any kind of potential headwinds to premiums, at least for 2021?

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

On the Med Supp? Yes, you will see headwinds to Med Supp premiums for 2021. Now I do want to emphasize one thing. We're literally in the middle of the annual enrollment period right now. So we'll have much more visibility in about 6 to 8 weeks because we're right in the thick of it right now to see how all these things do. But we're anticipating more top line pressure on Med Supp, and we're anticipating more progress, meaning more sales on Med Advantage.

Humphrey Lee - Dowling & Partners Securities, LLC - Analyst

That's helpful. And then my follow-up question is, looking at the strong underwriting results. And I think in Paul's prepared remarks, you talked about there are some prior periods reserve releases. Can you size the impacts of kind of the actual deferral of care, so good kind of claims experience in the quarter as opposed to reserve releases that came through in the quarter?

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

Sure. Humphrey, it's Paul. The vast majority of the favorability in our health care products in the quarter were driven by the release of redundant claim reserves.

Operator

And your next question will come from John Barnidge from Piper Sandler.

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

How should we be thinking about continuation in claim utilization favorable tailwinds? I know it's -- the view is it's temporary in nature, but do you see any signs emerging that it could be permanent from people that go to the doctor from the social aspect, just not doing that anymore?

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

Yes, John, I would reiterate that, it's Paul, that the outlook is really pretty cloudy. We can argue this on either side as to which direction it will go. So we're declining to project out beyond the end of this year. In the fourth quarter, as I mentioned, we expect that there will be still some net favorable impact from COVID so more favorable in health care than unfavorable in life. But beyond that, I think we need to see how things evolve before we have a clearer view as to how this will play out beyond the end of this year and into next year and beyond.

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

John, this is Gary. I would agree with Paul. The one thing I would add, and our Chief Actuary, Karen DeToro actually made this point when we were talking about and trying to think about how to anticipate what people's behavior is going to be in the future. One indicator is the relatively strong persistency of our policies, our long-term care policies and our health insurance policies, people are continuing to pay the premiums. And if they really thought they weren't going to, at some point in time, get back to using those, they would probably stop paying the premiums. But the fact they have it would suggest that maybe the behavior reverse. Now whether it reverts in '21 or '22 or when? Well, your guess is as good as mine. But I think the main thing I would say is I really agree with Paul's point. We are having real trouble with visibility, but there are some other common sense indicators that would suggest that eventually behavior reverts to normal. Well, what used to be normal. I'm not sure what that is in the future.

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

That's helpful. A follow-up question. There have been a lot of block transaction in the annuity industry in recent weeks. Given the low rate environment, have you thought about pursuing maybe a risk transfer transaction?

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

So I'll answer that in, I guess, a real simple way. We are open to anything that's going to maximize shareholder value. We have not pursued anything aggressively at the moment. So we haven't gone after that. We're certainly open to it. All that said, I would tell you that I remain really skeptical that such a transaction could be offered to us that would make sense.

And the reason I have that skepticism is, number one, I think you've got to take a look at the transactions that have happened recently. They've all been around variable annuities. We don't manufacture variable annuities. Second, the transactions that have been announced have primarily -- I shouldn't say all, most of them were variable annuities. Second, the transactions that have been announced were tended to be for older blocks of business. Our FIAs, relatively speaking, are newer. So we didn't have some of those product features that were added over the last decade or so where there was really an arms race going on.

The next issue to remember, if you look at our products, RFIs, they've always been relatively modest because they reflect what the needs of our consumers are. Remember, we serve a middle class consumer. They never wanted all those fancy bells and whistles and all those things that really ramped up the risk.

So even though our products are newer, the design also just didn't have all those fancy things on it. For all of those reasons, we're very comfortable with the risk profile. And I would remind you, as a company, we spent several years derisking the company, culminating in the long-term care transaction, which resulted in us getting investment-grade ratings. So we're really comfortable with our risk profile and the specific nature of our FIA book, I think, makes it highly unlikely that there would really be an economically attractive transaction offer to us. All of that said, we're open to it. I just don't see it happening for those reasons. John, did I lose you?

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

No, you didn't. It was a good answer.

Operator

Your next question will come from Erik Bass from Autonomous Research.

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

I was just hoping you could talk about some of the dynamics that will affect Med Supp margins going into 2021. And certainly not looking for guidance, but just wanted to get an understanding of kind of what are the implications of the favorable experience this year on pricing? And then what happens if kind of the level of utilization normalizes next year? Does that mean you would be at sort of a normal margin? Or does the pricing reflect kind of favorable experience from this year continuing?

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

Erik, it's Paul. So I'd point out first that rate increases have already been filed for 2021. And are expected to be around 4% on average once we get all the regulatory approvals. With respect to the claims experience this year, the second thing, the second point I'd make is that Med Supp is price utilizing lifetime loss ratio expectations.

So while the favorable experience in 2020 does create downward pressure, the lifetime loss ratios would not be materially impacted. So you can sort of take that off the table. And as to how things behave and perform next year, it will obviously ultimately depend on the claims experience. And as we discussed just a minute ago, the COVID impact on that, I think, remains unclear, and we'll see how things evolve over the next couple of months and as we get into next year. But presuming that they get back to normal levels, yes, we would expect to return to sort of normal levels of profitability in the book.

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

Got it. That's helpful. And then on the life sales side, mean we've seen a surge in demand for life insurance across the industry, and you've certainly been well positioned to capitalize on that. Do you have any sense from kind of your discussions with consumers and distributors how long that tailwind of demand may continue? I guess any perspective there would just be interesting.

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

Yes. So Erik, I guess, the direct answer is we don't have a specific study we can point to where consumers have indicated how long -- or given us reason to believe how long this demand will last. I would point to you a couple of interesting things that I think give us a lot of optimism. First of all, the level of direct-to-consumer sales we've seen, specifically in our market segment, meaning the Middle Americans, has been very, very strong. And that really represents a material evolution or progress in that behavior buyings to see that much life insurance buying on a direct-to-consumer basis. That's a pretty significant consumer shift.

The second thing I would point to is we had a growth and I believe the number was 29%, Paul, correct me if I got it wrong, but 29% in our agent-based life insurance sales, that's one of the strongest sales numbers we've had in a long time. So even there, there's strength.

Now if you look at both of those and the other thing that's really, I think, encouraging is the persistency. Now the real test of that will be a couple of years from now because everyone is still really focused on the pandemic. But in all of our lines of business in our Middle American consumers, we're seeing very strong persistency levels, frankly, to an extent, in some of our lines of business that surprised us. It was stronger than we expected it to be.

So I think some of these changes in behavior that benefit our business. It's hard for me to predict how long they're going to stay. But when I look at things like persistency, when I look at fundamental buying habits, when I look at the way technology is getting used, when I look at the way

they're interacting with our agents and how many other products they're also buying when they interact with our agents, all of those lead me to a trend that is more sustainable than not. In other words, I don't think all of this is a flash in the pan. It may go down or moderate a little bit, but I think most of it is going to hold. And if you ask me for detailed analytics, we don't have those, but we're looking at these other factors I shared.

Operator

Your next question comes from Ryan Krueger from KBW.

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

I had a question on expenses. They've been pretty favorable year-to-date. I know your guidance implies some uptick in the fourth quarter from growth related investments. I guess as you look beyond the fourth quarter will -- I guess, does the fourth quarter capture a lot of those accelerated digital and other investments that you plan to make? Or should we expect some continuation of that into next year?

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

Ryan, it's Paul. I don't want to give specific guidance about '21, but I will say directionally that we continue to be very focused on being disciplined with our expenses driving efficiency in our platform. And so our goal is to certainly continue to drive a decline in our overall expenses. Recognizing, however, that we're trying to strike this balance between that goal on the one hand and making appropriate investments to position us for the future, particularly in the context of the acceleration of all things digital and virtual. So we'll continue to try to strike that balance. And again, as we get into the early part of next year on our fourth quarter call, we may provide more specific guidance.

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

And then I don't think this is the case, but I just wanted to clarify. So in certain health products, companies have given some premium refunds, I guess, and -- also in auto insurance that -- I assume that, that concept doesn't really gist in the Medicare supplement market, that your competitors would provide any sort of premium refund for the recent decline in claims?

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

Yes. So the short answer, Ryan, is I don't think so. And to provide some context, lifetime loss ratios for Med Supp for an entity have to be greater than 75% for individual business for an insurance company. So each of our operating insurance companies. We don't expect to flirt with that threshold on a lifetime basis. So again, the experience of 2020, given the impact of COVID, puts pressure on that. But on a lifetime basis, we don't think it will have a material impact, and therefore, not introduce the risk that I think you're referencing.

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

Ryan, one other thing. We're certainly not in the auto insurance business, but we were reading recently that some of those auto insurers have actually had to pull back on those refunds because while it's true that the frequency claims have gone down, the severity has gone up. And I mentioned that, again, not because we're auto insurance experts, but only just to illustrate the difficulty of really trying to project what's going to happen in 2021 and how some of these trends are going to continue to evolve.

Operator

(Operator Instructions) Your next question comes from John (sic) [Tom] Gallagher from Evercore.

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

This is his brother, Tom Gallagher, I'm kidding. But the -- just wanted to ask a follow-up on Med Supp here. Just so I can wrap my arms around what's going on here. Would you guys -- is it utilization on wellness visits by seniors that you think have dropped dramatically here? Or have you guys unpacked why the claims trends are so low? And also just relatedly, if you're still seeing, I would say, the reduced claims trends, I presume that's going to be sustained into at least the earlier part of next year. Any thoughts on that?

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

Tom, it's Paul. So we look for clues to what's driving the utilization in our claims data. We also look to outside research. There's been some good research on this topic from Kaiser. And it's really a combination of the provider behavior and the consumer behavior that seems to be evolving over time. Where it goes from here? Again, I think is anyone's guess. It will depend a lot on how the pandemic evolves, how both provider and consumer behaviors evolve. And again, we think it contributes to a net favorable impact from COVID for CNO in the fourth quarter. And we'd like to revisit this on our fourth quarter call as with respect to 2021 because we just think that there's a lot of uncertainty, and we'll certainly have better information than we have now.

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

Got it. And just on -- and I'm not asking for a specific number, but when you mentioned that there could -- you're expecting some pressure on earned premium in Med Supp, are we talking about a large reduction, a more modest reduction? Just anything directionally would be helpful.

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

Yes, Tom, I said, I wouldn't want to put a number on it, but it's just a simple math of the decline in sales in 2020 will put some earnings pressure on 2021 just by virtue of fewer policies in the in-force book generating margin.

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

And then just with regards to how strong your statutory or the increase in RBC was for the quarter, was that all driven by kind of underlying strength in health margins within the statutory financials? Or is there anything else that contributed to the strong increase?

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

So generally speaking, it was driven by the operating earnings -- stat operating earnings in the quarter, which certainly were very much driven by the strong health results. There was very little impact on RBC from investments, roughly 4 points favorable. So it -- yes, I don't know if that answers your question, Tom, but it's really the operating earnings driven by health, certainly.

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

Got you. And just final one, if I could sneak it in. Annuity earnings came down a bit. And I know part of that was a persistency related charge. Can you talk about where you see that business trending? I presume there's going to be some pressure on spreads if interest rates remain where they are. Yes, any thoughts on where you see that business going?

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

Sure. So certainly, there was some noise in the quarter related to persistency and how that impacts the accounting for the embedded derivative reserve and our fixed index annuities. In terms of where we go from here, I mean, it remains an important part of our product suite. We've got some momentum in the sales from 2Q into 3Q, and I think that will continue. Yes, directionally, there's pressure on spread. We manage that with adjusting the participation rate. But nevertheless, with interest rates where they are, and new money rates where they are and perhaps where they're trending, that will be a bit of a headwind.

Operator

Your next question will come from Dan Bergman from Citi.

Daniel Basch Bergman - *Citigroup Inc., Research Division - VP*

I guess to start with the increased pace of buybacks this quarter. Is there any additional color you can provide on how you're thinking about your capital deployment priorities in the current environment? Is there any potential appetite for acquisitions? Or should we expect share repurchases to be the main form of capital deployment in the near or medium term?

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

This is Gary. As you know, we've refrained from providing specific buyback guidance. We've said -- referred it back to providing our capacity and then ask people to judge us by our actions. So that's the first comment I'd make.

In terms of what you should expect and how we're thinking about it? I guess I'll put it very plainly. I think the market's had it wrong for quite some time. I think that when I look at the attractiveness of our stock and where it trades relative to book and relative to the strong cash flow, our stock represents a very compelling value, and you've seen that in our actions over the last several quarters. So we continue to feel that way. We continue to look carefully.

I do think that this pandemic will present certain M&A type opportunities. I'm a personal fan of potentially some bolt-on type opportunities. I think this market will present those. But anything that we look at like that has a pretty high hurdle rate in terms of competing with our own stock buybacks. So we're very cautious about that. We also -- and you've seen this in our RBC and our cash balance. We're also taking a very conservative approach right now just because of the lack of visibility.

So I know you're not going to get the specific answer there that you want. But again, I'd ask you to judge us by our actions. We continue to have strong cash flow. We continue to believe our stock is undervalued. Recent quarters continue to demonstrate that we're willing to put our money where our mouth is. And we'll continue to take the same analysis. But if a good bolt-on M&A opportunity presents itself, we're looking close at that as well. So we're constantly balancing those things.

Daniel Basch Bergman - *Citigroup Inc., Research Division - VP*

Got it. And then just shifting gears a little bit, just building on the earlier question around the potential for a fixed annuity deal. I just wanted to see if there's any update on the level of interest or activity from third parties for potential reinsurance solution for some of your remaining in-force long-term care block. Just any updated thoughts on that market? And how you're thinking about that possibility would be great.

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

We haven't had any further, what I'll call, substantive conversations. We occasionally get inquiries with people expressing interest, but nothing really of substance. We like the risk profile of the business. But again, just as I said before, because it's our job, if somebody comes in and makes us a really attractive offer, we would, of course, consider it. But we don't feel like we have any compelling need to pursue it, and there are no substantive conversations that have happened.

Operator

I have no further questions at this time. I turn the call back over to the presenters for closing remarks.

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

Thank you all for joining us today. We look forward to speaking with you again soon.

Operator

Thank you, everyone. This will conclude today's conference call. You may now disconnect.

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