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PRESENTATION

Operator

Good morning and thank you for joining us for the CNO Financial Group, First quarter 2025 earnings call. My name is Carlie, and I'll be coordinating the call today.

(Operator Instructions) I'd like to hand over to our host, Adam Auvil. The floor is yours.

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

Good morning and thank you for joining us on CNO Financial Group's first quarter 2025 earnings conference call. Today's presentation will include a 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 8K 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 a substitutes for the most directly comparable GAAP measures. You'll find a reconciliation of the non-gap measures to the corresponding GAAP measures in the appendix.

The rest of presentations we'll be making performance comparisons and unless otherwise specified, any comparisons made we'll refer to changes between first quarter of 2025 and first quarter 2024. And with that, I'll turn the call over to Gary.

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

Good morning everyone and thank you for joining us. CNO is off to a solid start in the quarter, building on strong 2024 performance.

Our first quarter results enable us to reaffirm our full year 2025 and three-year ROE guidance. Operating earnings per diluted share was \$0.79, up 52%, and \$0.74 up 42%, excluding significant items. Our first quarter performance reinforces our commitment to grow earnings while improving profitability.

CNO also delivered our 11th consecutive quarter of strong sales momentum and our ninth consecutive quarter of growth in producing agent count. I'll cover these results in more detail in each division's comments.

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. New money rates have exceeded 6% for nine consecutive quarters now.

Capital and liquidity remain well above target levels after returning \$117 million to shareholders. Book value per diluted share excluding AOCI was \$37.03, up 6%. Paul will go into greater detail on our financial performance.

Most importantly, the core areas of our business continue to perform well, including production. Agent force metrics, policyholder persistency, underwriting margin, capital management, and overall investment management.

Visibility into macroeconomic drivers such as interest rates is deteriorating. However, our track record demonstrates our ability to navigate volatility. As we look to the balance of the year, we remain squarely focused on leveraging our business model to enable sustained profitable growth, executing on our strategic priorities, and driving ROE expansion.

Turning to slide 5, all but one of our growth scorecard metrics were up for the quarter. As a reminder, our growth scorecard focuses on three key drivers of our performance, production, Distribution and investments in capital. I'll discuss each division in the next two slides. Paul will cover investments and capital in more detail during his remarks.

Beginning with the consumer division on slide 6. The consumer division posted another solid start to the year. Our capabilities to reach the underserved middle-income market remain a key differentiator for our consumer business. We marry a virtual connection with local agents who deliver the last mile of sales and service to build lasting relationships with our customers.

This personal interaction is especially valuable to customers during times of uncertainty and market volatility. Our agents maintained positive sales momentum in the quarter with financial and health products continuing their consistent strong performance.

Annuity collected premiums were up 12%, our seventh consecutive quarter of growth. Account values were up 7%, and premium for policy was up 19%. Our strong annuity performance comes on the heels of a record 2024.

Our captive distribution in the long-term relationships that our agents build with their clients enable stability in our block of business. We delivered our eighth consecutive quarter of brokerage and advisory group. Client assets and brokerage and advisory were up 16% for the quarter. New accounts were up 13%, and average account size was up 3%.

Persistency remains strong with our investment clients. When combined with our annuity account values, our clients now entrust us with more than \$16 billion of their assets, up 9%. Sustained growth in brokerage and advisory and annuities reflects a critical but largely unmet need within our market for retirement income solutions.

It has long been our position that middle-income customers need and deserve access to professional guidance and retirement products, as do more affluent customers.

We continue to consider it a great privilege to serve this market. Total nap was flat for the quarter. Health nap was up 9%, the 11th consecutive quarter of growth. Supplemental health map was up 8%. Sustained growth in our health results demonstrates strong consumer demand for ways to cover out of pocket gaps in medical coverage and safeguard against the growing cost of healthcare.

Our Medicare portfolio continues to deliver strong sales growth. Medicare Supplement NAP was up 24%, and Medicare Advantage policies were up 42%. Recall that Medicare Advantage sales are not reflected in that.

As a reminder, we manufacture Meds up products and distribute MA policies from third party carriers. The strategic choice to optimize our Medicare portfolio, adds balance and diversification and enables us to offer more coverage options for our customers' healthcare needs.

With more than 11,000 people in the US turning 65 every day, Medicare is a year-round business for CNL. Persistency in both Medsop and MAdvantage continues to benefit from the client relationships our agents established.

Long-term care app was down in the quarter on a strong comparable, as the current product first launched in late 2023. Long-term care remains a strong product in our portfolio and fills a critical retirement care need.

We continue to see a growing need for practical long-term care solutions within our target market. Live production was down in the quarter, primarily driven by lower lead volumes in our direct-to-consumer business. Lower D2C leads were due in part to elevated TV advertising costs and an intentional pullback in marketing spend to optimize production with expense.

This seasonal fluctuation is consistent with previous 1st quarter results following the Presidential election. Our second quarter results will confirm if the prior trends persist. Over the last several years, we have proactively diversified our non-television direct marketing to include more web and digital channels. Web and digital now accounts for over 36% of sales generated by D2C leads, up 28% year over year.

Looking ahead, we remain confident in our ability to generate direct to consumer sales at an attractive rate of return. We continue to see long term value in our diversified and integrated approach to reach middle income consumers.

Finally, producing agent count was up 2%, marking our ninth consecutive quarter of growth. Our customers look for technology to supplement, not replace human interaction. Investments in technology continue to enable customer experience and drive operational efficiency.

Accelerated underwriting on a portion of our simplified life products remains a prime example. It delivered an 87% instant decision rate on submitted policies in the quarter, up 11% over fourth quarter 2024.

Next, slide 7 and our work site division performance. Our work site division is also off to a solid start to the year. Worksite insurance sales were up 11%, our 12th consecutive quarter of growth. Highlights included. Critical illness insurance up 37%, life insurance up 17%, and accident insurance up 4%.

A critical illness product was launched in the fall of 2023 and still shows strong momentum. We have also experienced steady growth in life sales, which now make up 28% of our total work cycle insurance sales. Strategic growth initiatives also contributed significantly to our work site NAP performance.

Our geographic expansion initiative delivered 32% of the NAP growth in the quarter. This is the 6th consecutive quarter of growth generated by this program. NPA from new group clients was up 134%.

As a reminder, this program helps agents cultivate and acquire new employer groups for insurance sales. Producing agent count was up 8%, marking our 11th consecutive quarter of growth. Agent productivity was up 10%. Over the past year, our work site leadership team has implemented new training and sales technology tools to enhance our agent experience and productivity.

We expect these programs to further bolster the attractiveness of the strong career opportunity we offer. These sales were down for the quarter off a small base. The first quarter is historically a life selling period for our work site fee products.

We expect to see improvement in the second and third quarters. In late February, we introduced a new product called Optimize Clear. Optimize Clear enhances our services offerings in three ways. It brings together our benefits, advocacy, education, and employee communications services into a single package for employers.

Second, it adds new capabilities such as our new Medicare advocacy services. And finally, it offers an enhanced technology experience to help make it easier for employees to navigate their benefits. Optimize Clear can be purchased as a standalone product or in combination with our benefits, administration, technology, and voluntary insurance benefits. Early feedback from our brokers and clients has been positive. 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, operating earnings per share, excluding significant items were up 42% in the quarter, reflecting growth in the business, stable insurance product margins, sustained new money rates above portfolio rates, resulting in increased book yields.

Alternative returns still a bit below our long term run rate expectations, but much improved year over year, and lastly, continued discipline and expense and capital management.

The income was adversely impacted in the quarter by ASC 606 revenue recognition accounting for the sale of third-party Medicare Advantage policies by bankers life agents and our consumer division.

The underlying dynamics of that business are actually quite healthy, as Gary mentioned, the MA policies sold in the quarter increased 42%.

The accounting rules, however, create volatility in the timing of revenue recognition. I expect the adverse impacts noted in the first quarter of this year to be largely offset by anticipated increases in fee revenue recognition in some future periods.

We continue to manage our capital and hold co-liquidity targets. While in the quarter deploying \$100 million of excess capital and share repurchases, contributing to a 7% reduction in weighted average diluted shares outstanding.

On a trailing 12 month basis, operating return on equity excluding significant items was 11.9%. Turning to slide 9, insurance product margin was up across all three product categories, and each of the underlying products, with total insurance product margin excluding significant items up 8%.

The results continue to benefit from growth in the business, solid persistency, and higher investment returns. Turning to slide 10. Net investment income remains strong in the quarter. This was the 11th consecutive quarter of growth in book yield and invested assets.

The new money rate was 6.43%, the ninth consecutive quarter above 6%. The average yield unallocated investments was 4.87%, up 17 basis points year over year. The increase in yield along with growth in the business drove a 6% increase in net investment income allocated to products for the quarter.

Investment income not allocated to products was up considerably, primarily due to improved alternative investment income versus the prior year.

Total investment income was up 16% for the quarter, marking the 6th consecutive quarter of growth. Our new investments in the quarter comprised approximately \$1 billion of assets with an average rating of single A and an average duration of 7 years.

Our new investments are summarized in more detail on slide 22 of the presentation. Turning to slide 11, the market value of invested assets grew 11% in the quarter. With roughly 60% of the increase, a result of growth in the business and market appreciation on the investment portfolio, and the remainder due to recent FABN issuances.

Approximately 96% of our fixed maturity portfolio at quarter end was investment grade rated with an average rating of single A, reflecting our up in quality bias over the last several years. Our portfolio is high quality, liquid, and delivering durable results.

Turning to slide 12. Our capital position remains strong. The quarter end our consolidated risk-based capital ratio was 379%. Available hold co liquidity was \$250 million well above our target minimum. Leverage at quarter end was 32.7% as reported.

Adjusting for the senior notes that will be paid off at maturity in May of this year, leverage at quarter end was 26.1% within our target range of 25% to 28%. Turning to slide 13 and our 2025 guidance. As Gary mentioned, we are reaffirming all guidance announced in February as summarized on this slide.

Certainly, economic conditions today are more volatile than they were back in February, and the outlook is far less certain. That admittedly creates additional risk, perhaps skewed to the downside in the near term, and one can also envision upside scenarios.

The bottom line is our balance sheet and business model position us well to navigate through uncertainty, as demonstrated most recently in the strong performance of our business through the COVID-19 pandemic. In addition, our stress testing indicates that we could absorb the impacts of a severe recession if that were to come to pass without dropping below our target capital and liquidity levels.

Longer term, we remain very focused and committed to improving run rate ROE by 150 basis points over the 2025 to 2027 period from about 10% in 2024. And with that, I'll turn it back to Gary.

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

Thanks Paul. Our financial health is strong, and our business model is resilient. During times of uncertainty, our customers and clients need professional guidance and financial security products more than ever.

Our associates, agents, and independent partners are here to help. Our track record has demonstrated our ability to navigate market events for a position of strength. We remain confident in our capabilities to deliver profitable growth and drive ROE expansion in 2025 and beyond.

Before we open up the line for questions, I'm pleased to share a program update. Starting in June, we will launch a new series of CNO investor briefings. These programs will focus on one area of CNO's business, provide a deeper look at that area's strategy and approach and offer an opportunity for Q&A with members of management and their leadership teams.

Our first investor briefing will feature a one-hour virtual session on CNO investments led by our Chief Investment Officer, Eric Johnson. Program registration will open in May. Event details will be announced soon, so please ensure that you are signed up to receive our email alerts. We thank you for your support of and interest in CNO Financial Group. We will now open it up to questions, operator.

QUESTIONS AND ANSWERS

Operator

Thank you very much. We'd like to open the lines for Q&A. (Operator Instructions) Our first question comes from Wes Carmichael of Autonomous, Wes, your line is now open.

Wes Carmichael - *Autonomous - Analyst*

Hey, good morning. Just on buybacks, they're a bit higher this quarter of \$100 million and just thinking ahead to the second quarter and maybe a little bit of pressure on the stock today, would you expect, kind of in the current more choppy macro environment you might want to lean into the buyback again, or is this maybe a little bit of a time to be more cautious given a potential recession fears and volatility in market?

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

Hey, Wes, good morning, it's Paul. So the short answer is that we're inclined to continue to lean in as you know our share buyback levels have been somewhat elevated the last two quarters, \$90 million and \$0.04 \$100 million in this first quarter.

We're still sitting on \$250 million of cash flow at the Hoo against our minimum of \$150 so that, creates some capacity, that would suggest. The potential for some continuation of these elevated levels.

Wes Carmichael - *Autonomous - Analyst*

It's helpful thanks Paul and just switching to the fee revenue topic that we talked about with Medicare Advantage and the timing there I know you said some of that is likely to reverse in future periods. Is there any color you can share on how the GAAP accounting revenue recognition differs from the cash flow from fees in the period?

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

Sure. So Wes, I think this is a question that's pretty common across all of our sell side coverage and I think probably with our investors as well. So, let me give you a fairly long-winded response just to provide some information and context.

So as I'm sure you appreciate, under ASC 606 accounting, we are required to estimate lifetime revenue and expenses from each issued met Advantage policy that we sell for third parties. And we base that estimate on our experience and the related data that we have with each of the carriers that issue the policies.

We have more experience and related data with three primary carriers of the roughly 21 net advantage carriers that we represent.

The sale of a policy to one of those three primary carriers translates to higher revenue and income than a sale to any of the other carriers, because with those other carriers we apply a constraint on our estimated lifetime revenue and income due to the more limited experience and related data we have with those carriers.

In the first quarter we saw a significant increase in the percentage of new sales with these other carriers and also in the percentage of exchanges where a policyholder is shifting from one of our three primary carriers to one of the other carriers, and this dynamic drove the decline in fee income year over year, notwithstanding the increase in the number of MA advantage policies that we sold and issued in the quarter.

As we develop more credible experience with the newer carriers, we anticipate the assumptions between the three primary carriers and the newer carriers would converge. In other words, we would expect to relax the constraints we are currently applying to the newer carriers. So if it plays out like we expect, we would see a reversal in some future period of some of the adverse impacts we experienced in the first quarter of this year.

The final point I think worth making is that we're not seeing an increase in the number of exchanges as a percentage of the total policies issued. So this is a healthy and growing part of our business, but there's some noise in the timing of revenue and income recognition under GAAP accounting driven by a changing mix of sales between the three primary carriers and the newer carriers. So I'll stop there and I know that was a lot, but hopefully that provides some helpful information and context.

Wes Carmichael - *Autonomous - Analyst*

It does, Thank you.

Operator

Thank you very much. Our next question comes from John Barnidge John from Piper Sandler your line is now open.

John Barnidge - *Piper Sandler - Analyst*

Good morning. Thank you for the opportunity to ask a question. Just kind of following up on that fee income commentary. Paul, you said there'd be a reversal possibly in a future period. Does that reversal like occur possibly in a year or is it over a multi-year period? Thank you.

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

Hey John, it's hard to say. It certainly could. We certainly could see some of that inside of calendar 2025. It could extend beyond that. But the thing I would emphasize, John, is that our guidance hasn't changed, right? We're reaffirming our full year guidance.

Feecom is a small piece of that. Our guidance for fee income was that it would be in '25, a bit below what it was in 2024. Largely because of this dynamic which we foreshadowed back in February, we anticipated this sales mix and the impact that it would have, it's a bit more pronounced, it's actually quite a bit more pronounced than we had anticipated.

And I think that's a dynamic not just with us but more broadly in this market. Again, we haven't seen an increase in the exchanges as a percentage of the total. Sales issues. So in that context it's stable.

So our guidance for fee income hasn't changed. I still expect it to be a bit lower than it was in 2024, maybe by a bit more than we thought back in February, but again, fee income is a small component of the overall earnings, and we reaffirm our full year guidance for earnings in total on a per share basis.

John Barnidge - *Piper Sandler - Analyst*

Thank you for that. And my other question you talked about optimized clear product launch. Can you maybe discuss how you view the opportunities that within that for arguably a customer set that has Demographic tailwis. Thank you.

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

Hey John, this is Gary. So as you might imagine, we're really bullish on this. This really lets us bring together a bunch of services that we have historically offered to the worksite customers and bring them together in one consolidated offering.

Now there's one exception to that. There's a new Medicare advice service that we're also providing and relatively speaking that's new to us. But we're really encouraged by the early reactions. Now it's early, that's why we're sounding a little bit cautious. But we're very encouraged by the early reactions. We think that the demand for this will grow, and we're very bullish on what the future potential is.

John Barnidge - *Piper Sandler - Analyst*

Thank you.

Operator

Thank you very much. Our next question comes from Ryan Krueger of Keefe. We're at inwards. Ryan, your line is now open.

Ryan Krueger - *Keefe, Bruyette & Woods - Analyst*

Good morning. I had a question on direct-to-consumer life sales. Can you, I understand the headwind that you had from the political election and higher ad costs, but I guess at this point is it your expectation that we'll have a bounce back in both ad spend and sales, for direct to consumer for the balance of the year.

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

Ryan, this is Gary. Thanks for the question. I would say at a high level, yes, there's one caveat I'd put on that. There has over the last 3, so this is my 3rd election being here at CNL and over that period of time there's been a broader shift away from broadcast television to streaming and this type of thing. So it's hard for us to tell.

How much of a bounce back we'll have in this traditional media setting given that overlay. If it weren't for that overlay, I would say absolutely yes, that's our expectation. We just don't know how to predict that. Now, on the positive side, because we've seen this coming, us and everybody else, we've been moving more and more of our advertising efforts to other social media.

Channels and you'll recall from my script, I believe I quoted 36% of our sales now come from those non-traditional broadcast television areas. So that's the one caveat I would put on that expectation, but we have been preparing for it and we've been seeing good success in those alternate media channels.

Ryan Krueger - *Keefe, Bruyette & Woods - Analyst*

Got it thanks. And then could you give a little bit more color on the trends you're seeing in consumer agent recruiting and retention, at a good string of growth? Are you still optimistic about continued growth from here?

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

Short answer is yes, we remain optimistic on our ability to give, a good career path to these folks that are interested in this. Historically we've seen that when unemployment pressure rises, our agent recruiting picks up. So if there is going to be an increase in unemployment, we would expect that to help us. But even without that, as you pointed out, we've strung together many quarters now.

So we think we've got an offering and a model here that really resonates with people that are willing to consider this as a career. So we expect our agent counts to grow and we expect our productivity to grow certainly over a longer time frame.

Ryan Krueger - *Keefe, Bruyette & Woods - Analyst*

Great thank you.

Operator

Great thank you very much. Our next question comes from Suneeth Kamath of Jeffrey's. Sonny, your line is now open.

Suneet Kamath - Jefferies - Analyst

Hi, thanks. Maybe just to follow up on Ryan's second question. It looks like the consumer pack was down maybe 3% from the fourth quarter and maybe lower than third and fourth quarter of last year, maybe flat to 2. So I know you just talked about recruiting growth, but What is the outlook for PA in the consumer division? Thanks.

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

I expect this to continue to grow that. I, we experience quarter to quarter fluctuations, so on a sequential basis there may be some bumps in it, but I believe that on an annual basis, if you look similar periods year over year, meaning Q1 to Q1, I expect this to continue to show growth.

Certainly over a longer period, meaning over the full year, absolutely intra quarter or intra a year there may be some bumps here and there, but nothing significant. We're not seeing anything that tells us our models are not holding up in terms of the longer term projections for both agent count growth and productivity growth.

Suneet Kamath - Jefferies - Analyst

Got it. And then maybe just in terms of your target market, how are you thinking about the appetite that they would have for insurance products? I mean, if we do see a bigger impact from tariffs and, costs continue to rise or we go into recession, can you just talk about sort of the health of that market?

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

Overall, look, if we go into a recession, it of course depends on just how deep that is, right? It's very hard to predict that. But the things that don't change in a recession, 11,000 people still turn 65 every day. That doesn't change.

Those people are living longer. The lifespans are growing. Medical costs are going up. And there are fewer alternatives. For those reasons, recession or no, we expect there to be continued strong interest in our products.

Now, are we immune to a recession or an economic downturn? Of course not. We'll be impacted. But I don't think we'll be impacted nearly as significantly as manufacturers of other hard goods as an example or other discretionary purposes purchases.

I think we'll weather that much better than others have, and I would point to recent experiences, not least of which is the pandemic. We came through that, I think, relatively. Well, and even with the period of prior inflation that we had over the last year or two, we came through that quite well.

So I think that supports our view that the demand and need for these products is relatively resilient, not immune, but relatively resilient to some of these macroeconomic pressures.

Suneet Kamath - Jefferies - Analyst

Got it thank you.

Operator

Thank you very much. Our next question comes from Jack Matten of BMO. Jack, your line is now open.

Jack Matten - BMO Capital Markets - Analyst

Hi, good morning. Just a question on your Medicare business. A big health insurer recently flagged some margin issues with Medicare Advantage. I'm wondering if you expect, consumers to shift toward Medicare supplement if there's higher prices on the Medicare Advantage side, and many impacts you could see on your Medicare Advantage the income if those carriers are raising rates.

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

Okay, Jack, thanks for the question. So first, there's been a couple other questions about our Medicare Advantage business, and I just want to emphasize one thing. I would kill to have another quarter like the one we just had.

42% growth in policies and the only bump here was, the timing of that, fee recognition. I want to make sure that really came across loud and clear. I would kill to have another quarter like the one we just had. It was absolutely a fantastic quarter.

Now, to your point, I think that some demand will be impacted. On MA we may see, I don't know if we'll see them shifting back to meds up or other types of plans or it's a little early to call that, but there's been a long secular trend away from MedSub towards Med advantage, and I think that will abate somewhat because I think carriers are going to start reeling in some of the benefits that they had in the MA space. So I do expect to see that.

I don't think that will have a material impact on us. Because our view is that those consumers that may have considered MA to the extent they consider meds up, especially with us, frankly, I'd rather sell a Meds up because we manufacture and collective distribution margin on that, whereas with MA it's just simply a distribution margin.

So we view ourselves as being in a good position if that happens. And remember, if those MA underwriting results worsen. Those don't impact us because we're strictly a distributor on the MA side.

So whatever happens on the shift between that demand, we regard it generally speaking as left pocket right pocket. If they want to buy MA from us, we're thrilled to sell it to them. We like the margin we get on that. It's great. If they want to shift to buy meds up instead, we're happy to sell them that too. We enjoy that product, so we don't see that having a material impact if that transition materializes.

Jack Matten - BMO Capital Markets - Analyst

It's helpful. Thank you. And Just to follow up, in the slide that you referenced a potential RBC ratio variability just wonder if you could elaborate on that like what you're seeing and would you expect any potential impacts in the second quarter given the market volatility we've seen in April.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Sure, hey Jack, it's Paul. I'll take that one. So, we ended the quarter with RBC of 379 against our target of 375. The 379 was impacted by a couple of things that I would describe as timing, that are likely to, reverse or unwind over time.

Now I pointed two things in particular. One is an increase in no admitted assets which will certainly reverse. And the other is the accounting for the statutory accounting for FIAs, which has a dynamic where when equities, equity markets, equity indexes are declining like they did in the first quarter, that has an adverse impact on our stat net income and that capital.

Because the options that we use, the one year call options that we use to hedge our exposure to equities that, comes through the part rate in the FIA product, those are mark to market and that Mark is mostly offset by the change in the liability but not entirely so you have a little bit of a disconnect there from a staff accounting perspective economically it's a nearly perfect hedge.

And so that had an impact in the first quarter, essentially unwinding positive impacts in prior quarters when equities were up because this moves the same way in both directions. So those are the two things Jack that I'd point to in the quarter.

Jack Matten - BMO Capital Markets - Analyst

Appreciate it. Thank you.

Operator

Thank you very much. Our next question comes from excuse me, Wilma Burdis, Raymond James. Wilma, your line is now open.

Wilma Burdis - Raymond James - Analyst

Hey, good morning. Could you give us a little bit more color on the geographic expansion and work site? Thanks.

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

Yeah, so we've, hi Wilma, this is Gary. We've undertaken this now for I think about a year and a half, but we've seen a substantial growth in our sales because of this.

We expect that to continue. We are looking at new geographies, but we're being slow. And how we do that, disciplined is a better word, and we expect that to continue. So we like what we see, we expect the trend to continue in the current new geographies, if you will, the ones that we've already opened, and we are continuing to look at new opportunities.

Wilma Burdis - Raymond James - Analyst

And it seems like you still feel confident on delivering 50 bits of ROE improvement in 2025. Could you talk about what is ongoing there to, just, this year that's going to help improve on the expense side and any risks that you're seeing, to that to that figure? Thanks.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Sure, hey, Wilma, it's Paul. So, as I've said in the past, there's a multitude of things that is contributing to the improvement in our ROE, expenses is one, growth in the business is another, which contributes to, the growth in our insurance product margin, the higher interest rates, we've been putting, new money to work about portfolio yields for the last, several quarters, nine, I think is the number.

You know we're looking at the enforced business and levers we pull there, the pricing of new business, the management of capital, including the capital dynamics of the reinsurance tree with our new Bermuda company.

All of those things are contributing to, ROE improvement in 2025 and we expect we'll continue to drive our ROE improvement over the next couple of years along with other things that you know we're currently contemplating you know to some degree more of the same, but, some other things likely on the margin as well.

So hopefully that's helpful moment. There's not really any single silver bullet, it's all of those things in aggregate.

Wilma Burdis - *Raymond James - Analyst*

Thank you.

Operator

Thank you very much. Our next question comes from Thomas Gallagher of Evercore ISI. Tom, your line is now open.

Thomas Gallagher - *Evercore - Analyst*

Good morning, Paul. Just wanted to circle back on your comment on the drag from the equity market weakness on the FIA on the on the fair value of the derivatives. What kind of magnitude was that? And I'm also asking just because obviously markets are weaker into 2, should we expect similar or a larger drag?

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

Yeah. So the magnitude in the first quarter time was about \$25 million. If we were to have another, say 5%, I think was the equities were down about 5% in the quarter that translated to the \$25 million. Again, mostly that was giving back the benefit that we saw in, previous quarters when the when the markets were up. If we were, we'd have to be down another 15% at a similar order of magnitude impact in the second quarter.

So it, the impact declines, from where we are today versus where we are in December and really depends on kind of where you are. The other thing I would say, Tom, is it's entirely timing, right? The whole thing, nets to zero over the one year, if you're thinking about one option, it would be net zero over the life of that 1 year option. So it's really just timing.

Thomas Gallagher - *Evercore - Analyst*

Got it, Paul. So you, you'll earn some of that back over the balance of the year. Is that the right way to think about it as the options expire?

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

I mean in the context of a single option, yes, in the context of the entire portfolio, it's going to move up and down with equities, with varying degrees of magnitude, but if you put the thing in runoff, yes, it would all unwind to zero. If you're looking at calendar year Q1.

Thomas Gallagher - *Evercore - Analyst*

Guess similar. Gotcha. Okay, thanks. And then similar question for the Med advantage revenue recognition drag on GAAP is there where there are also similar impacts on, cash flows? How should we think about that?

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

Yeah, so the cash flows are, much simpler, right? You sell a policy and the cash flows that you would expect emerge from there. This is just pure accounting, right? You've got to predict, estimate what the lifetime cash flows will be and on that basis, you book your revenue and your expenses and your income.

Thomas Gallagher - *Evercore - Analyst*

So you would have had stronger cash flows then as reported from a GAAP perspective in Q1, is that a fair.

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

Yeah, for sure I mean what's happening in Q1 is by virtue of going from. The three primary carriers, where we don't apply any constraints to smaller carriers where we do, there's an experience adjustment that's translating to, the result that we booked in the quarter.

Thomas Gallagher - *Evercore - Analyst*

Okay, thanks.

Operator

Great, thank you very much. We currently have no further questions, so I'd like to hand back to Adam Orville 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. As a reminder, if you are interested in receiving details on our upcoming investor briefing, please ensure that you are signed up to receive our email alerts. Have a great rest of your day.

Operator

As we conclude today's call, we'd like to thank everyone for joining. You will have disconnect your lines.

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