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PRESENTATION

Operator

Good day and thank you for standing by, and welcome to the CNO Financial Group First Quarter 2022 Earnings Results. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand a conference over to your speaker today, Jennifer Childe, Vice President of Investor Relations and Sustainability. Please go ahead.

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

Thank you, Operator. Good morning everyone and thank you for joining us on CNO Financial Group's First Quarter 2022 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 Q&A 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 Investor's section of our website and was filed in a Form 8-K yesterday. We expect to file our Form 10-Q and post it on our website on or before May 6th.

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 statement. Today's presentations contain a number of non-GAAP measures, which should not be considered as substitutes for the most directly comparable GAAP measures. You'll find a reconciliation of the non-GAAP measures to the corresponding GAAP measures in the appendix. Throughout the presentations, we will be making performance comparisons and unless otherwise specified, any comparisons made will be referring to changes between first quarter 2022 and first quarter 2021.

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

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

Thank you, Jennifer. Good morning everyone and thank you for joining us. Before we get started, I would be remiss if I didn't address the ongoing conflict in Ukraine. Our thoughts and prayers continue to be with the people of Ukraine and everyone impacted by this senseless war.

Turning to Slide 4 in our first quarter performance, I'm pleased with our continued progress, advancing our strategic initiatives. We reported solid sales growth, particularly within our direct-to-consumer business and generated significant improvements in agent productivity. Our longstanding

strategy to focus on agent productivity helped to offset the continued recruiting headwinds due to the tight labor market. In addition, we experienced increased recruiting traction in the latter portion of the quarter, which has carried over into April.

Operating earnings per share, excluding significant items, were down \$0.17 or 29% compared to the prior period. Normalizing for various factors, which Paul will discuss in a few moments, our margins and earnings were quite healthy. We returned significant capital to shareholders in the quarter, reducing our share count by another 11% while ending the quarter at targeted capital levels.

Turning to Slide 5 and our growth scorecard. 4 of our 5 growth scorecard metrics were up compared to the first quarter of 2021 and most production metrics continue to exceed pre-pandemic levels. Total NAV was up 2% for the quarter. Life sales momentum remained strong, up 5% over the prior year. This was offset somewhat by lower Health sales, which were down 3% for the quarter, reflecting a continuing shift by consumers away from Medicare Supplement toward Medicare Advantage products.

Total collected Life and Health premiums were down 2% for the quarter. We are providing additional detail on this slide to give insight into the distinctions within our Life business. We offer single premium, whole life policies that are often purchased for estate planning purposes and are paid as a lump sum. While these policies typically comprise around 2% of Life sales, they tend to be larger so even a small move can cause volatility in our reported collective premiums. We saw a spike in sales of these policies in the first quarter of 2021 as compared to the first quarter of 2022.

Excluding single premium policies traditional Life collected premium were up 3.5%. Annuity collected premiums were up 13% for the quarter, our sixth consecutive increase. Client assets in brokerage and advisory grew 16% year-over-year, to \$2.8 billion. Fee revenue was up 25% for the quarter to \$40 million, reflecting significant growth in our distribution of third-party products, expansion of our broker, dealer and registered investment advisor, and continued growth in our Worksite fee business.

Turning to our Consumer division on Slide 6, Life sales were up 3% for the quarter, driven by continued strong direct-to-consumer sales. Direct-to-consumer sales were up 16% on top of the 38% growth in direct-to-consumer sales that were generated in the year ago period. This channel continues to benefit from investments in opportunistic advertising spend, self-directed applications, direct mail campaigns and enhanced distribution through third-party partnerships.

Life sales generated by our exclusive field agents were down 16% as the tight labor market as slowed recruitment of first-year agents who tend to sell a higher proportion of life policies. We expect our agents-sold life insurance to rebound as agent recruiting levels normalize.

Health sales were down 1% with strong supplemental Health and Long-Term Care sales offset by continued weakness in Medicare Supplement. As discussed in previous quarters, our market is experiencing a secular shift away from Medicare Supplement and towards Medicare Advantage. We continue to invest in both our Medicare Supplement and Medicare Advantage offerings to ensure we remain well positioned to meet our customers' needs and preferences. As a reminder, later this year, we plan to launch a new Medicare Supplement product that aligns well with current consumer preferences.

Third-party Medicare Advantage sales were up 14% in the first quarter, which follows on the heels of our fourth quarter increase of 20%. We attribute the strength in our third-party Medicare Advantage sales to our high touch model, which blends the digital capabilities of our growing online Health platform, myHealthPolicy.com, with the personal support of our tele agents and local bankers' life agents.

Annuity collected premiums were up 13% compared to the prior year, and the average Annuity policy size rose 8%. Client assets in brokerage and advisory grew 16% year-over-year to \$2.8 billion in the first quarter, driven by an increase in new accounts. Combined with our Annuity account values, we now manage more than \$13 billion in assets for our clients. This has fundamentally shifted the relationship we have with our customer base. Unlike some insurance products, which can be transactional in nature, investment products typically create deeper and longer lasting customer relationships.

In recent years, we've proactively shifted our agent recruiting strategy to focus more heavily on targeted recruiting agent approaches, and strategies to boost the productivity levels of our existing agent base. We intentionally recruit fewer new agents, emphasizing quality over quantity. Therefore, the new agents that we do appoint are more likely to succeed and stay with us over time. Agent productivity remains strong and is up in all cohorts

versus historical levels. In addition, veteran agent retention is stable. This is especially important as these agents typically generate higher premiums for policy.

Of course, we always need to recruit new agents. The tight labor market continued to impact us during the first quarter and our total producing agent count declined 11% as we recruited fewer first-year agents. That said, the recruiting environment improved steadily over the course of the quarter and that momentum has carried over into April. We are cautiously optimistic that our recruiting challenges have bottomed, although the pace of improvement remains unclear.

Turning to Slide 7 and our Worksite division performance. We continue to see steady improvement in this business despite the prolonged COVID disruption. Worksite sales were up 8% in the first quarter, reflecting both the expansion of our vertical sales strategy and our recent focus on dormant accounts. In the first quarter, we rolled out our new hybrid enrollment tool that will enable our career agents to reach employees wherever they are. It provides appointment setting functionality to allow employers to schedule either face-to-face or video enrollment sessions in the language of their choice, and then facilitates the video sessions. It all also offers communication campaigns that are designed to increase employer engagement and participation.

Retention of our existing employer customers remain strong and employee persistency within these employer groups continues to be stable. We expect the pace of Worksite recovery to continue to improve in the coming quarters as COVID disruptions subside. Our producing agent count was down 14% year-over-year, largely as a result of ongoing labor market conditions. Similar to our Consumer division, we saw steadily improving agent recruiting over the course of the quarter, particularly from our field agent referral program. We have also seen significantly higher productivity across all agent groups, including first-year agents. As (inaudible) indicates in recent quarters, retention and productivity levels among our veteran agents remain stable.

The integration of our fee-based businesses is progressing well and we continue to generate cross-sales success. Fee revenue within Worksite was up nearly 40% in the quarter, of which 10% was due to organic growth. The average client size for our benefits administration business grew 10%. We continue to see healthy growth in our per employee, per month counts.

Turning to Slide 8, we returned \$16 million to shareholders in the first quarter, including \$100 million in share buybacks. Our capital allocation strategy remains unchanged. We intend to deploy 100% of our excess capital to its highest and best use over time. While share repurchases form a critical component of our strategy, organic and inorganic investments also play an important role.

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

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

Thanks, Gary. And Good morning, everyone. Turning to the financial highlights on Slide 9, we generated operating earnings per share of \$0.42 in the quarter, which is down 29% year-over-year, excluding significant items in both periods. Results for the quarter, benefited from solid underlying insurance margin performance and disciplined expense and capital management. This was more than offset by 4 things.

Number one, reduced variable investment results which were down \$15 million year-over-year. Keep in mind the yield on alternatives was elevated the last 6 quarters, and in the first quarter of this year, returned to a level that we think is more in line with a long-term run rate expectation. Number 2, largely noneconomic impacts to our Annuity margin from recent market volatility, which impacted our annuities by \$10 million. Third, moderating net favorable COVID-related impacts of \$6 million. And fourth, higher non-deferrable advertising expense of \$6 million, which generates profitable life insurance sales but as the expense is non-deferrable, pressures current period earnings.

The income was up 36% year-over-year, largely reflecting margin improvement from the sale of third-party Medicare Advantage policies. The sum of expenses allocated to products and not allocated to products, excluding significant items, was up modestly versus the first quarter of 2021, consistent with the outlook we provided back in February. This reflects operating efficiency, coupled with continued targeted growth investments.

Our effective tax rate was up 240 basis points to 24.8%, driven by a change in Illinois state income taxes. We deployed \$100 million in excess capital on share repurchases, reducing weighted average shares outstanding by 11%. For the 12 months ending March 31st, 2022, operating return on equity was 11.2%, or 10.7% excluding significant items.

Turning the Slide 10, insurance product margin, excluding significant items, was down \$20 million or 10% in the first quarter as compared to the prior year period. Adjusting for the market impacts on our FIA margins, COVID impacts across all of our products and the increase in non-deferred advertising expense as referenced on the slide, total margin was up about \$2 million, reflecting the stable underlying dynamics of the business. As usual, there were some puts and takes by product line. Adjusting for these items, our Annuity margin was down about \$2 million, reflecting a more pronounced decline in the yield on the invested assets allocated to these products as compared to our other product lines, due to greater turnover in the assets. We expect this will moderate over time.

Our Health margin, adjusting to these items, was up about \$8 million, \$5 million of this is on the LTC block. We do not believe that this is a real impact in the underlying, but rather due to a refinement in our method for estimating the COVID impacts on LTC. The remainder is due to growth in sub Health and the benefit of rate increases on Med Sup.

Finally, our Life margin, again adjusting for these items, was down about \$4 million, reflecting some less favorable persistency in the current period, but within normal variation of experience.

Turning Slide 11, the investment income allocated to products was essentially flat as the impact from growth in the net liabilities and related assets was offset by a decline in yield. Our new money rate of 3.73% in the quarter was up 6 basis points sequentially, reflecting higher yields, and our continued up-in-quality bias.

The rate was higher later in the quarter, and we would expect it to be higher in the second quarter based on prevailing market conditions. Investment income not allocated to products, which is where the variable components of investment income flow through, decreased \$15 million or 34% reflecting still solid, but moderated performance within our alternative investment portfolio. Our new investments comprised \$940 million of assets with an average rating of A-minus and an average duration of 10.3 years. Our new investments are summarized in more detail on Slides 23 and 24 of the earnings presentation.

Turning Slide 12, at quarter end, our invested assets totaled \$27 billion, up 2% year-over-year. Approximately 95% of our fixed maturity portfolio at quarter end was investment grade rated with an average rating of single A, reflecting an up-in-quality bias. The allocation to single-A rated or higher securities is up 310 basis points year-over-year while the triple-B allocation is down 250 basis points year-over-year and 10 basis points sequentially. The remaining 5% of the fixed income portfolio at year end was rated below investment grade, which is down 60 basis points year-over-year.

Turning to slide 13, free cash flow conversion was strong in the quarter, though the absolute level of dividends out of the operating companies in the quarter declined year-over-year, driven largely by the impact of market volatility on [stat] capital and incremental capital absorbed by the new FABN program.

Turning to Slide 14, at quarter end, our consolidated RBC ratio was 365%, 10 points below our target RBC of 375%, which equates to approximately \$50 million of capital. Our holding company liquidity was \$192 million, which is \$42 million above our \$150 million minimum HoldCo liquidity target. Taken together, we were essentially in line with our target capital levels. Over time, as markets stabilize, we will look to manage back to the individual targets, 375% consolidated RBC and \$150 million HoldCo liquidity.

Turning to Slide 15, in most respects, our outlook for the year has not changed much since the outlook we shared in February. We still expect continued positive sales momentum and continued strong free cash flow conversion relative to our peer group, recognizing cash flow may be pressured in a given quarter, as we absorb and/or respond to adverse market conditions. Our directional earnings expectations with respect to COVID impacts, investment income, fee income and expenses have not changed materially.

On the other hand, we did not anticipate at the beginning of the year, the market volatility that adversely impacted our results in the first quarter; specifically equity markets down, equity market volatility up and interest rates up. If these conditions persist, as they have second quarter to date, those impacts would also persist. If they reverse, the impacts would also reverse. Higher interest rates of course are good for our business in the long run as higher new money rates would over time improve the overall yield on the portfolio, reversing the adverse trend of the last several years.

Another change relative to our circumstances at the beginning of the year that we are now at, target capital and HoldCo liquidity levels taken together, as opposed to managing closer to those levels, which reduces our share repurchase capacity to be going forward.

Finally, the increase in our effective tax rate this quarter was driven by an Illinois state income tax law that we expect will significantly limit our use of NOLs in Illinois in 2022 and 2023, triggering retaliatory taxes in other states. We are working on strategies to mitigate the impact, but for the time being, you should expect the higher rate to persist.

Before I turn it back to Gary, turning now to Slide 16, I'd like to provide a brief update on where we stand with our progress in adopting ASC 944, also known as the long duration targeted improvement standard. First, as a reminder, the accounting change will have no impact on statutory accounting or the capital required by regulators; no impact on cash flows, and no impact on lifetime gap profits, although it does modify when the profits will emerge over time. We expect the most significant impact on the January 1st, 2021 transition date to be the requirement to update the discount rate assumption used to determine the value of the liability for future policy benefits with a rate that is generally equivalent to a single A yield matched to the duration of our liabilities. Based upon the modified retrospective transition method, we currently estimate the new discount rate impact is likely to result in a decrease to AOCI in the range of approximately \$1.8 billion to \$2.2 billion, resulting in a balance approximating zero at the transition date.

We also estimate that the transition date impact on retained earnings will be a decrease in the range of approximately \$100 million to \$200 million, primarily due to certain cohorts of older Long-Term Care policies having negative margins. The overall margin on our Long-Term Care block continues to be positive. In addition, our estimate of the transition date impact on retained earnings includes a small impact of carrying our recently issued lifetime income riders on certain fixed index annuities at fair value. We have made significant progress toward the January 1st, 2023 adoption of the standard and expect to be able to begin to provide more quantitative impacts in the second or third quarter.

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

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

Thanks, Paul. We are pleased with our performance in the quarter and the progress we've made against our strategic priorities. While the global environment remains uncertain, the earnings and cash flow generating power of the company remain robust. We remain confident in our long-term strategy and believe CNO is well positioned to deliver significant value to all of our stakeholders in the years ahead. We thank you for your support of, and interest in CNO Financial Group. We will now open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ryan Krueger from KBW.

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

My first question was, could you go through a little bit more detail on some of the key drivers that reduced [CRBC] ratio in the quarter?

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

Sure. Good more morning, Ryan, it's Paul. So just to provide some context, we go through a process every quarter, sort of mid quarter, where we project out where we expect to end the quarter. And then we plan on dividends out the OpCos solving for the target, 375%. In this instance, mid quarter, we actually reduced our dividends out of the OpCos by about \$35 million in the context of, then current conditions. In hindsight, we should have reduced them by another \$50 million in order to end the quarter at 375% versus 365%.

There were really 3 primary drivers of the actuals versus what we projected mid quarter. The first was the fact that the S&P 500 index was down about 2 points in the last couple days of the quarter, so that increased the impact that down equities have on the dynamic between the fixed index annuities, carbon reserve and the fair market value of the coal options. When markets – equity markets are down significantly, the value of the assets decreases more than the value of the liabilities, using the carbon reserve methodology. So that was the first thing. The second thing was that Life COVID mortality was a bit more elevated than we'd anticipated mid quarter.

And then the third thing is really a very unique circumstance. We have 6 Russian energy company bonds with a par value of about \$24 million. And we marked those to market at the end of the quarter with an adverse market, \$14 million pretax. Those bonds were also of downgraded to NAIC 6 which attracts, as you know, a much higher capital charge. The combination of the mark to market and the downgrade had about a 4 point impact on RBC. In hindsight, we should have seen that coming. On first blush, we thought \$24 million par value wouldn't have much of an impact. It's really immaterial in the context of the overall investment portfolio. But the combination again of the mark and the downgrade had a meaningful impact on the margin to stat capital and RBC.

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

Thank you. That was really helpful. And then the follow-up is, I guess, how are you thinking about shared repurchase capacity going forward? Do you feel like – would you expect to return all free cash flow generation from here between buybacks and dividends, or would you hold back some to build back up the RBC ratio first?

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

So, with respect to capacity, certainly, the capacity is diminished given that we're now back at target capital without – we're not sitting on excess capital or we're not holding excess capital as we have been for the last several quarters. So that by itself reduces capacity. The absolute levels of earnings and free cash flow, as we've indicated in our outlooks for the last several quarters and as we saw in the first quarter, are moderating, given the moderating levels of net favorable COVID impacts and alternative investment returns. That also reduces earnings and free cash flow and therefore, share repurchase capacity.

Beyond that, Ryan, we haven't really changed how we think about deploying free cash flow. On the margin we deployed on share repurchase, but we also consider alternative uses of that capital.

Operator

Your next question comes from the line of Erik Bass from Autonomous Research.

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

First to follow up on Ryan's questions, just as we think about free cash flow going forward, I think it was around \$60 million this quarter, and recognizing there can be volatility, do you view that as a reasonable run rate to think about going forward?

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

Yes. Good morning, Erik. I don't know if it's a reasonable run rate. I mean, as you know, there's so many moving pieces that determine free cash flow, at the operating company level, on a statutory basis, intercompany cash flow is between the OpCo and the HoldCo. So I wouldn't want to represent anything as sort of a fixed run rate. Because just by its nature, a fair amount of volatility.

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

Got it. And then appreciate the LDTI disclosure that you gave. I was just wondering if you have any sensitivity you can provide on how, under LDTI, changes and interest rates will affect the carrying value of the liability relative to the movements in your investment portfolio. So I guess if we were to roll forward to the end of 1Q '22, your AOCI balance has come down a lot from where it was at the transition date due to higher rates, but I imagine the liability value will also have been reduced. So any sense of, would those [impacts of offset], or would you expect AOCI balance to be negative or positive at this point?

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

Yes, so we don't – we'll have a much better sense for the sensitivity as we roll forward the balance sheet from 1/1 '21 through to the end of this year. That remains a work in progress. I would say conceptually, directionally that I would expect our AOCI balance will be around zero with some reasonable range, plus or minus. As you know, while the assets and liabilities will move more consistently, certainly under LDTI, they'll not move in tandem all the time, for really 2 main reasons. Number one, not all blocks are part of LDTI. And number 2, the liability discount rate prescribed under LDTI does not align perfectly with the specific asset credit and spread qualities of our portfolio.

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

Got it. Thank you. I'm sorry, if I could sneak in just one more on the tax rate, I think you said to expect it to sustain the higher rate in '22 and '23. Just, I was wondering, is this a cash – does it have an impact on cash taxes as well, or is it just a GAAP impact?

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

It's cash taxes. I mean, the driver is that Illinois declared that companies could not use Illinois NOLs in '21, '22 and '23. We actually had tax credits that offset that in '21. We're working on strategies that will mitigate it in '22 and '23. But for the time being, I think we, and you, should assume that the effective tax rate that is provided in the outlook is what will hold, with some potential upside if we identify strategies that are effective.

Operator

Your next question comes from the line of Dan Bergman from Jefferies.

Daniel Basch Bergman - Jefferies LLC, Research Division - Equity Analyst

I guess, first, I just wanted to see if you could give a little more color on the trends in life insurance persistency, which it sounded like declined somewhat in the first quarter. Do you think of that as a, mostly a normalization from elevated persistency in recent periods due to COVID? And then just, are you seeing any pattern in persistency concentrated in any particular vintages or channels of policy sold, direct versus agent?

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

Good morning, Dan. Yes, we think of it mostly as a normalization. It was a bit elevated in the prior period. It's a bit lower perhaps than long-term trend in the current period, but within normal range of variation. So I think it's sort of stayed tuned as to how that evolves, but our expectation is that it remains in a normal range based on historical experience.

Daniel Basch Bergman - Jefferies LLC, Research Division - Equity Analyst

Great. And then separately, I just wanted to see if there's any more color you could provide around the acquisition of the minority interest in Rialto Capital that announced last week. Any more detail around the strategic rationale, how much of the portfolio you'll be investing with them and the amount you paid or any impact on your capital levels would be very helpful.

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

Sure. So we've got Eric Johnson here with us and he can provide more color, but in terms of the amount we paid, it was around \$60 million and we're intending to deploy sort of \$400 million or so in the various strategies. So Eric, I'll defer to you to provide some additional color.

Eric Ronald Johnson - CNO Financial Group, Inc. - CIO

Yes. Good morning, Paul and everybody. Rialto Capital I think is a really good opportunity for us as a company to take a very targeted level of risk while increasing our overtime and in an all-weather, since our exposure to commercial real estate, which is underweight and has been for some time. And it's also a good chance to invest through some bespoke structures that will have capital efficiency and generate good returns relative to the capital required. Rialto has about \$13 billion of assets under management and a very, very strong track record over a long period of time. They're well regarded in the marketplace. They're a good partner for us, should generate pretty heavy cash income.

Paul mentioned the \$450 million that we think that we are going to allocate to the Rialto strategies. North of half of that will be in – or probably 2/3 of it will be in capital efficient strategies that will be diversified portfolios of floating and fixed rate loans that should produce a nice, steady cash income stream.

And in regard to our minority interest in the company, we're happy to have it, it's a strong cash generating vehicle and that should generate returns that are pro-cyclical. And we think that our interest has all the adequate corporate governance protections such that it should be, I think, in the long term, a good investment for the company and a lot of good intellectual capital opportunities as well. So very, very excited about it and look forward to, with the passage of time, it really doing good things for us.

Operator

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

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

Long-term care claims just don't seem to be coming back. Do you have a theory on stubbornness on why that hasn't come back?

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

Hey, John, it's Paul. I don't know that we have a theory, all we can do is respond to the claims experience that we're seeing. I understand that we seem to be out of sync with what other companies are experiencing. I presume that that's a reflection of the demographic profile of our policy holders versus others. But beyond that, I think it's sort of speculation.

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

Okay. And then my follow-up, prepayment income had been a tailwind investment income, really moderated in 1Q '22. Any directionality on how we should be thinking about that?

Eric Ronald Johnson - CNO Financial Group, Inc. - CIO

Yes. Why don't you – Paul, if you don't mind, I'll do this one.

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

Please.

Eric Ronald Johnson - CNO Financial Group, Inc. - CIO

Yes. Thanks. Prepayment income, if you look back 3 or 4 quarters, prepayment income is consistent with what we – the same experience we had in early '21, the first couple quarters. We had 2 very big quarters third and fourth quarter of last year, when you had a rate-driven experience. With rates moving up, what your – the rate incentive is greatly diminished. And so what you're basically left with is turnover in valuation, prepayments affecting our commercial mortgage loan portfolio. Very few – haven't seen a lot of bond calls in the recent quarter. So as rates go higher, you're – the rate incentive diminishes and that would be a way of thinking about it.

So the level we're at now, I think is a reasonable level to think about it. It's one we've experienced in the past. It's actually more normal than what we've had the last couple of quarters, which were really driven by rate incentive. Good – puts and takes here, because to the extent that you have a higher prepayment experience in the commercial mortgage loan portfolio, that obviously affects book yields negatively. So there's no free lunch with the level of prepayment and call income, but I think the level you're seeing now, \$5 million, \$6 million, \$7 million a quarter is a reasonable expectation for the next couple of quarters ahead, given where interest rates seem to be going.

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

And then lastly, do you have a pro forma RBC for the LDTI impact at all?

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

Hey, John, it's Paul again, I don't expect LDTI will have any impact on our target RBCs. So we would continue to target 375%. Keep in mind that LDTI is purely a GAAP standard. It doesn't change anything in stat, so operating dividend capacity won't be impacted by it.

Operator

Your next question comes from the line of [Russo Hogg] from Evercore ISI.

Unidentified Analyst

So with the higher level of interest rates, can you provide a sense for how your new money yield compares to the runoff yield? I mean, is there still a pretty sizeable gap between the 2 or with the move higher in rates, are we closer to spread compression not really being a headwind?

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

Sure. I can take a first crack at this, Eric, and if you want to provide color. So at a very high level, the portfolio yield in the quarter was [4.60%]. The new money rate was [3.73%], so there's still clearly a gap. A lot of that 3.73% was put on in the early part of the quarter and certainly was higher in the latter part of the quarter and is currently, so that gap is narrowing. I think if interest rates continue in the direction that they're in currently, it's certainly conceivable that we reach an inflection point here where we're putting new money rate – new money to work at rates at or above the current portfolio yield. And what has been a headwind for the last several years becomes a tailwind. And we certainly look forward to that dynamic.

Eric, would you provide any other – share any other color?

Eric Ronald Johnson - CNO Financial Group, Inc. - CIO

Paul, just to reinforce what you said, that looking back to the first quarter, rough [justice], 75% of the new money that we – that was generated for investment came to us during the first half of the quarter; and when the ten-year was probably 100 basis points lighter and credit spreads were probably 30, 40 basis points tighter as well. And at that point, for the – during that period, I think new money rate was around [3.50%]. During the second half of the quarter when we didn't really have a lot of new money to invest, basically after the middle of February, the new money rate was north of 4%. And then subsequent to quarter end and up to now, you're looking at a much higher number, which is, I would say north of [4.50%].

So with a portfolio – with a book yield average yield of around [4.60%], I think it would be – it's reasonable for you to conclude from what I'm saying, that for the bulk of our lines of business, we are probably standing on that crossover point right about now. And some of those really longer lines, like Long-Term Care and Life have higher book yields. But with some of the Health lines and fixed annuities are in the lower 4s. And so we've crossed over those.

So in general, and on average, I think we're probably pretty much there now. But again, we are not just grabbing yield. We're also wanting quality and to have a good asset liability match. And so, I think that we're – in the balance of all of those factors, you're going to see our portfolio continue to go up in quality, trend up in quality, stay on our – keep our asset liability match, in good balance. And I think this quarter, perhaps you will see the new money being tailwind rather than a headwind, certainly the second part of the quarter. So I think – I hope that helps you with that question.

Unidentified Analyst

Got you. I appreciate the color on that. And then apologies if I missed this, but on the LDTI impact, do you have any sense of, directionally or otherwise, the earnings impact from LDTI you'd expect?

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

Yes, we don't yet. So the only thing we've disclosed here is the estimated impacts on the balance sheet at transition. The next step in this process is to roll that forward and to disclose the earnings impact in subsequent quarterly balance sheets as we move from 1/1 '21 through '21 and '22. That's currently a work in process. When it's to a point where we're ready to disclose it, we will. That'll be sometime in the second or third quarter. I think more than likely it'll be in September. But we feel very good about where we are in that process, just based on our own assessment, also based on insight from consultants in the industry who have a good understanding of where the industry is broadly.

Operator

(Operator Instructions) There are no questions over the phone. Presenters, please continue.

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

Thanks operator. Thanks everyone for joining us today and we look forward to speaking with you again soon.

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

Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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