First Quarter 2021 Conference Call

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Corporate Participants

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Conference Call Participants

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Presentation

Michael C. Majors - Globe Life Inc. - EVP of Administration & IR

Thank you, good morning everyone. Joining the call today are Gary Coleman and Larry Hutchison, our co-Chief executive Officers, Frank Svoboda, our Chief Financial Officer, and Brian Mitchell, our General Counsel. Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our earnings release, 2020 10-K and any subsequent forms 10-Q on file with the SEC. Some of our comments may also contain non-GAAP measures, please see our earnings release and website for discussion of these terms and reconciliations to GAAP measures. I will now turn the call over to Gary Coleman.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Thank you Mike, and good morning everyone. In the first quarter, net income was $179 million or $1.70 per share compared to $166 million or $1.52 per share a year ago. Net operating income for the quarter was $160 million or $1.53 per share, a decrease of 12% per share from a year ago.

On a GAAP reported basis, return on equity as of March 31 was 8.6% and book value per share was $75.10. Excluding unrealized gains and losses on fixed maturities, return on equity was 11.4% and book value per share was up 9% to $54.36. In the life insurance operations, premium revenue increased 9% to $708 million. As we have noted before, we have seen improved persistency and premium collections since the onset of the pandemic. Life underwriting margin was $137 million, down

24% from a year ago. The decline in margin is due primarily to $38 million of COVID-related claims.

For the year, we expect life premium revenue to grow around 7% and underwriting margin to grow 4% to 6%. At the midpoint of our 2021 guidance, we assume approximately $50 million of COVID claims. In health insurance, premium revenue grew 5% to $294 million, and health underwriting margin was up 14% to $72 million. The increase in underwriting margin was primarily due to improved persistency and lower acquisition expenses. For the year, we expect health premium revenue to grow 5% to 6% and underwriting margin to grow 7% to 8%.

Before continuing, I am pleased to note that this is the first quarter in company history in which total premium revenue exceeded $1 billion. We appreciate the efforts of our agents and our employees in achieving this milestone.

Continuing the first quarter results

Administrative expenses were $66 million for the quarter, up 4% from a year ago. As a percentage of premium, administrative expenses were 6.6%, compared to 6.8% a year ago. For the full year, we expect administrative expenses to grow 7% to 8% and be around 6.7% of premium, due primarily to higher pension costs, IT and information security costs as well as a gradual increase in travel and facilities costs.

I will now turn the call over to Larry for his comments on the first quarter marketing operations.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Thank you Gary. We experienced strong growth in life sales during the first quarter, and we continue to make progress in the areas that drive recruiting and sales activity. I will now discuss current trends at each distribution channel.

At American Income Life, life premiums were up 11% to $335 million, while life underwriting margin was down 2% at $98 million. The lower underwriting margin is primarily due to COVID claims. Net life sales were $70 million, up 11%. The increase in net life sales is primarily due to increased agent count. The average producing agent count for the first quarter was 9,918, up 30% from the year-ago quarter and up 3% from the fourth quarter. The producing agent count at the end of the first quarter was 10,329. The American Income agency has adapted exceptionally well to the virtual environment and continues to generate positive momentum.

At Liberty National, life premiums were up 4% to $76 million, while life underwriting margin was down 48% to $10 million. The lower underwriting margin is primarily due to COVID claims. Net life sales grew 30% to $16 million, while net health sales were $6 million, down 2% from the year-ago quarter. The increase in net life sales is due to an increased agent count and improved agent productivity. The average producing agent count for the first quarter was 2,734, up 3% from the year-ago quarter and up 1% from the fourth quarter. The producing agent count at Liberty National ended the quarter at 2,727. We are encouraged by Liberty National's continued growth.

At Family Heritage, health premiums increased 8% to $83 million, and health underwriting margin grew 12% to $22 million. The increase in underwriting margin is primarily due to improved persistency and lower acquisition expense. Net health sales declined 4% to $16 million due primarily to a decline in agent productivity during the first quarter. The average producing agent count for the first quarter was 1,285, up 5% from the year-ago quarter, while down 12% from the fourth

quarter. The agent count at the end of the quarter was 1,235. The drop in average agent count for the fourth quarter is not unusual, as Family Heritage typically sees the decline in recruiting activity in the first quarter of the year. We have seen an increase in recruiting activity and productivity over the last several weeks and expect this will continue going forward.

In our Direct to Consumer division at Globe Life, life premiums were up 11% to $244 million, while life underwriting margin declined 78% to $9 million. Frank will further discuss the decline in underwriting margin in his comments. Net life sales were $40 million, up 22% from the year-ago quarter. We continue to see strong consumer demand for basic life insurance protection across all channels of the Direct to Consumer distribution in the first quarter.

At United American General Agency, health premiums increased 6% to $117 million, and health underwriting margin increased 19% to $19 million. The increase in underwriting margin is primarily due to improved persistency and lower acquisition expenses. Net health sales were $13 million, down 11% compared to the year-ago quarter. It is always difficult to predict United American sales as the Medicare supplement marketplace is highly competitive.

It is still difficult to predict future activity in this uncertain environment. I will now provide projections based on trends we are seeing and knowledge of our business. We expect the producing agent count for each agency at the end of 2021 to be in the following ranges: American Income, 7% to 17% growth; Liberty National 1% to 16% growth, Family Heritage 1% to 9% growth.

Net life sales for the full year 2021 are expected to be as follows: American Income Life, an increase of 11% to 15%; Liberty National, an increase of 16% to 20%; Direct to Consumer, a decrease of 5% to an increase of 5%. The net health sales for the full year 2021 are expected to be as follows: Liberty National, an increase of 16% to 20%; Family Heritage, an increase of 4% to 8%; and United American Individual Medicare supplement, a decrease of 3% to an increase of 7%.

I will now turn the call back to Gary.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Thanks Larry. Excess investment income, which we define as net investment income less required interest on net policy liabilities and debt, was $61 million, a 3% decline over the year-ago quarter. On a per share basis, reflecting the impact of our share repurchase program, excess investment income grew 2%. For the full year, we expect excess investment income to be flat, but up 2% to 3% on a per share basis.

As to investment yield

In the first quarter, we invested $299 million in investment grade fixed maturities, primarily in the industrial and financial sectors. We invested at an average yield of 3.41%, an average rating of A minus and an average life of 34 years. We also invested $61 million in limited partnerships that invest in credit instruments. While these investments are expected to produce incremental additional yield, they are in line with our conservative investment philosophy.

For the entire fixed maturity portfolio

The first quarter yield was 5.24%, down 15 basis points from the first quarter of 2020. The portfolio yield as of March 31 was also 5.24%. Invested assets were $18.7 billion, including $17.4 billion of fixed maturities at amortized cost. Of the fixed maturities, $16.6 billion are investment grade with an average rating of A minus and below investment grade

bonds are $802 million, compared to $841 million at year end 2020. The percentage of below investment grade bonds to fixed maturities is 4.6%, excluding net unrealized gains in the fixed maturity portfolio, below investment grade bonds as a percentage of equity is 14%.

Overall, the total portfolio is rated A minus, compared to BBB plus a year ago. Bonds rated BBB are 56% of the fixed maturity portfolio, compared to 55% at the end of 2020. While this ratio is inline with the overall bond market, it is high relative to our peers. However, we have little or no exposure to higher risk assets such as derivatives, equities, residential mortgages, CLOs, and other asset backed securities. Because we invest long, a key criterion utilized in our investment process is that an issuer must have the ability to survive multiple cycles. We believe that the BBB securities we acquire provide the best risk-adjusted and capital-adjusted returns due in large part to our ability to hold securities to maturity regardless of fluctuations in interest rates or equity markets.

Lower interest rates continued to pressure investment income.

For 2021, the average fixed maturity new money yield assumed at the midpoint of our guidance is 3.6% for the full year. While we would like to see higher interest rates going forward, Globe Life can thrive in a lower for longer interest rate environment. Extended low interest rates will not impact the GAAP or statutory balance sheets under the current accounting rules, since we sell non-interest sensitive protection products. Fortunately, the impact of lower new money rates on our investment income is somewhat limited as we expect to have an average turnover of less than 2% per year in our investment portfolio over the next 5 years.

Now I will turn the call over to Frank for his comments on capital and liquidity.

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Thanks Gary.

First, I want to spend a few minutes discussing our share repurchase program, available liquidity, and capital position.

The Parent began the year with liquid assets of $290 million. In addition to these liquid assets, the Parent Company will generate excess cash flows in 2021. The Parent Company's excess cash flow, as we define it, results primarily from the dividends received by the Parent from its subsidiaries, less the interest paid on debt and the dividends paid to Globe Life's shareholders. We anticipate our excess cash flow in 2021 will be in the range of $360 million to $370 million, higher than previously indicated and reflective of our final 2020 distributable statutory earnings.

Thus, including the assets on hand at the beginning of the year, we currently expect to have around $650 million to $660 million of assets available to the Parent during the year. In the first quarter, the Parent Company repurchased 944,000 shares of Globe Life Inc.'s common stock at a total cost of $90 million at an average share price of $95.47. So far in April, we have spent $13 million to repurchase 132,000 shares at an average price of $99.18. Thus, for the full year through today, we have spent $103 million to purchase 1.1 million shares at an average price of $95.92. Excluding the $103 million spent on repurchases so far this year, we will have approximately $550 million to $560 million of assets available to the Parent for the remainder of 2021.

As I will discuss in more detail in just a few moments, this amount is more than

necessary to support the targeted capital levels within our insurance operations and maintain the share repurchase program. As noted on previous calls, we will use our cash as efficiently as possible. We still believe share repurchases provide the best return to our shareholders over other available alternatives. Thus, we anticipate share repurchases will continue to be the primary use of the Parent's $360 million to $370 million of excess cash flows during the year. It should be noted that the cash received by the Parent Company from our insurance operations is after they have made substantial investments during the year to issue new insurance policies, expand our information technology and other operational capabilities, as well as acquire new long duration assets to fund their future cash needs.

Our goal is to maintain our capital at levels necessary to support our current ratings. As noted on previous calls, Globe Life has a targeted consolidated company action level RBC ratio in the range of 300% to 320%. At December 31, 2020, our consolidated RBC ratio was 309%. At this RBC ratio, our insurance subsidiaries have approximately $50 million of capital over the amount required at the low end of our consolidated RBC target of 300%.

This excess capital, along with the $550 million to $560 million of liquid assets that we expect to be available at the Parent, provide sufficient capital to fund future capital needs. As we discussed on previous calls, a primary driver of potential additional capital needs from the Parent in 2021 relates to investment downgrades that increase required capital. To estimate the potential impact on capital due to changes in our investment portfolio, we continue to model several scenarios and stress tests. In our base case, we expect approximately $500 million of additional NAIC one notch downgrades over the course of the year. We do not anticipate any significant credit losses, although some credit losses would normally be expected from time to time.

With this amount of downgrades, our insurance companies could require up to $70 million of capital to maintain the low end of our targeted RBC ratio of 300%. In addition to the potential capital needed from further investment portfolio downgrades, changes in the NAIC RBC factors related to investments, commonly referred to as C1 factors, could create the need for additional capital for 2021. At this time, we do not know what the final factors will be. However, we believe the worst-case scenario is that additional capital related to the new factors would not exceed $125 million to $150 million. It is important to note that Globe Life statutory reserves are not negatively impacted by the low interest rates or the equity markets given our basic fixed protection products. In the aggregate, our statutory reserves are more than adequate under all cash flow testing scenarios.

Bottom line is that the Parent Company has ample liquidity to cover any additional capital that may be required and still have cash available to make our normal level of share repurchases. Once we get -- once we are able to get comfortable that our investment downgrades have returned to normal levels, and we are able to determine the amount of additional capital required to support the new C1 factors, we will reevaluate our Parent Company retained assets. We will first determine the appropriate amount of liquid assets that should be retained at the Parent. We will then determine the best use of any excess amounts that remain.

Depending on available alternatives, we would likely return such excess cash to our shareholders through additional share repurchases. At this time, we anticipate holding our higher level of liquid assets through the end of this year.

At this time, I would like to provide a few comments relating to the impact of COVID-19 on our first quarter results.

As noted by Gary, total life underwriting margins declined in the quarter primarily due to an estimated $38 million of COVID death claims incurred in the quarter. This amount was actually slightly less than we anticipated for the quarter. The total COVID death benefits include approximately $20 million in COVID death benefits incurred in our Direct to Consumer division, or approximately 8% of its first quarter premium income, approximately $8 million of COVID death benefits incurred at Liberty National, over 10.5% of its premium for the quarter, and approximately $9 million at American Income or 2.7% of its first quarter premium.

It is important to note that of the total COVID benefits paid through March 31, only 71 claims comprising slightly over $600,000 related to policies sold since the beginning of March of 2020. This is a very small percent of the roughly 2 million policies sold in 2020. In addition to the COVID obligations occurred in the quarter, we also saw adverse developments in non-COVID claims relating to both medical and non-medical causes of death, primarily those related to heart and other circular conditions, Alzheimer's, and drug overdoses. This is a continuation of some adverse development that began to emerge last year. While not directly a COVID claim, we believe the elevated deaths are related to the pandemic due to the difficulties many individuals have had in receiving timely health care as well as the adverse effects of isolation and stress.

Increases in non-COVID death since the start of the pandemic have also been noted by the CDC and the National Center for Health Statistics for the U.S. population as a whole. While we experienced higher obligations from non-COVID causes in each of our distributions, the impact of these higher non-COVID deaths has been more evident in our direct to consumer channel, who’s insured more closely represent the broader middle-income U.S. population than our other distributions.

In addition to COVID deaths, the adverse experience related to non-COVID death also contributed to the lower underwriting margin in the quarter. We anticipated a lower margin as a percent of premium, given the significant number of U.S. deaths expected in the quarter and since evidence of the higher non-COVID deaths had started to emerge last year. As with COVID, we currently believe this adverse claims experience will moderate over the remainder of the year, and that the underwriting margin for the direct to consumer channel will be closer to 17% to 18% of premium in the second half of the year.

Finally, with respect to our earnings guidance for 2021.

While first quarter earnings were substantially lower than recent quarters due to higher COVID and non-COVID policy obligations, the first quarter operating earnings per share were very close to our expectations, since we fully anticipated 200,000 COVID deaths in the quarter. We now believe we have seen the peak of COVID claims and anticipate a sharp drop off for the remainder of the year. As noted last quarter, at the midpoint of our guidance, we anticipated approximately 270,000 U.S. COVID deaths over the course of 2021. We still believe that is a reasonable estimate, with substantially all of the remaining deaths occurring in the second quarter. As in prior quarters, we continue to estimate that we will incur COVID life claims of roughly $2 million for every 10,000 U.S. deaths. With respect to the higher obligations from non-COVID causes of death, we believe these will also revert to more normal levels over the course of the year as disruptions in health care cease, the economy recovers, and people are able to socialize again. As compared to our

previous guidance, higher policy obligations from non-COVID causes are expected to be offset by favorable health claims experience, higher premium income, and the favorable impact of share repurchases. As such, we are keeping the midpoint of our guidance for 2021 at $7.36, while narrowing the overall range to $7.21 to $7.51 for the year ended December 31, 2021.

Those are my comments. I will now turn the call back to Larry.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Thank you Frank. Those are our comments. We will now open the call up for questions.

Question and Answers

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

Thank you. Your direct to consumer sales guide for life, conflicts with what was put up in 1Q, 2021. Can you add some color there? Was there like a one-time uplift last year that you do not think is following through this year?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

I do not think it is a one-time uplift. If you look at last year, we had a real increase in our sales percentages in Q2, 3 and 4. Q1 is a fairly easy comparable because we were flat in the first quarter of last year, and that was pre-COVID. So while we had a 22% increase in sales in the first quarter, against those comparables in Q2, 3, and 4, we think our guidance of negative 5% to plus 5% is reasonable for 2021.

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

Okay. And then my follow-up, given your comment about substantially all the remaining COVID deaths being in 2Q, 2021 is there any way to give us a sense of what we have seen in the first half to what it might run rate for the quarter? Thank you.

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. I think -- so in the first quarter, there was around 200,000 COVID deaths. Right now, we are anticipating around 55,000 COVID deaths in the second quarter of the year and then about 15,000 over the remainder -- over the second half of the year.

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

Thank you very much.

Jamminder Singh Bhullar - JPMorgan Chase & Co, Research Division - Senior Analyst

Hi good morning. There is a big echo on your call it is not on my line though but anyway. On your comment on life margins ex-COVID. I think you are assuming in your guidance that they might stay elevated. My question is more if you look beyond COVID, is it reasonable to assume that some of these continue? Because I think you said people having difficulty getting care. Obviously, that improves or that goes away

as hospitals are less burdened and stuff. But if it is related to opioids and stuff it is easier to get on them, but harder to get off. So could that continue to be a drag for your results beyond the pandemic as well at least a little bit?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes, Jimmy. We are seeing -- while we are seeing some elevation in the opioids and some of the other, I would say, non-medical causes, really, the more that we are seeing is on the medical side with respect to whether it be, as I said, really heart and circulatory is really 1 of them that we have seen the larger increase over historical trends, if you will. So I think that is what gives us a little bit more comfort that while we have seen some increases in multiple causes of death, including some of those from non-medical. As the medical and access to the medical procedures opens back up and has opened back up now for several months that, that will subside, and we will be able to get back to more normal levels in those areas.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

And Jimmy, I was -- the medical claims that Frank has talked about, the non-COVID piece. Over 80% of those are medical claims. Whereas the drugs and alcohol would be less than 10% of those claims.

Jamminder Singh Bhullar - JPMorgan Chase & Co, Research Division - Senior Analyst

And then on your sales, obviously, we have seen a big step-up in your sales and recruiting because of the pandemic, and I think you have had an easier time recruiting because of the problems with the services industry. Do you think you will retain the agents you have hired over the past year? Or if the economy opens up and things go back to normal that you could actually see a lot of agent departures and a big sort of decline in the agent count, maybe not all the way back, but many of these, like, what do you think about your ability to retain a lot of the agents that you have hired over the past year?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

I think recruiting will continue to increase in Q2, Q3, and Q4 of 2021, given the middle management growth last year, particularly in American Income, I think we will continue to see the recruiting activity. I think it is doubtful that most of the new agents would return to their previous jobs. Remember, we recruit the underemployed who are looking for a better opportunity. And again, given our sales increases, particularly in American Income, we believe many of these agents want to stay with the company. Also during 2018 and 2019, when unemployment levels were extremely low or historically low, all 3 agencies continued to recruit and grow the number of producing agents.

Jamminder Singh Bhullar - JPMorgan Chase & Co, Research Division - Senior Analyst

Okay. And then just lastly, on your sales being strong. Have you been -- I am sure you have enacted and you have talked about this in the past as well, enacted processes to avoid adverse selection in the pandemic. Can you talk about whether you have seen -- or what level of claims you have seen from policies you might have sold over the past year?

And what some of the processes are to avoid adverse selection?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes, Jimmy, we do take a look at and really do a lot of monitoring on the various policies that have been issued and especially in direct to consumer, but across all the different lines. The – we are looking at, is there a change in the number of applications by age, are we seeing -- especially with respect to the pandemic, where we have higher exposure to some of the higher ages, we are really looking at -- are we seeing any changes in the applications and the net issues. From before the pandemic and what we are seeing in the last year, we are looking at, are they trying to apply for higher face amounts, are we seeing changes in geographies or maybe there has been a little bit more incidences. And we are really monitoring that, and we are really seeing no distribution shift toward older adults. We are not seeing really any significant change by state groupings. And again, we are not seeing a shift to overall higher face amounts.

And then we have also done some limiting between both marketing as well as just in our underwriting, putting some limitations on the amount that they can -- older individuals cannot purchase at American Income, there is some limitations and some changes on some of the policies there for individuals over 60. So both through the underwriting and the marketing process, doing some things to try to limit our exposure there. And I think as we look at the actual experience, again, I mentioned in my notes that since -- for policies that have been issued since March 1, 2020, we have only seen 71 claims so far that have totaled about $600,000.

And so that is -- and that is both inclusive of American Income and Liberty and all the different distributions. So it is a very small percentage of the overall policies. And of course, the additional -- the incremental -- those come in at a very small incremental marketing costs. So we expected there to be a little bit of additional mortality, but it is more than paid for through additional profits on that business.

Larry Hutchison - Globe Life Inc. - Co-Chairman & CEO

I want to add to that, in addition, while the sales increases in direct to consumer are across all channels and products, the sales of the juvenile product have increased at a higher rate than adult life insurance and that gives us further confidence we are not experiencing anti-selection. Since the highest incident of serious illness mortality is at the older ages.

Jamminder Singh Bhullar - JPMorgan Chase & Co, Research Division - Senior Analyst

Good thank you.

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

Hi thank you, sticking on the life business. I was hoping you could give a little bit more detail on your margin expectations by the business line for kind of the remainder of the year. And then what would you think is kind of a normalized underwriting margin target for the 3 main businesses?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

On -- as we think about life as a whole, and then I will talk about some of the individual businesses, we are -- we saw about 19% in the first quarter. We do see that gradually improving over the course of the year, seeing at a -- for the full year being somewhere around probably 25% for life as a whole. And what we are really seeing is that by the time we get to some of the non-COVID claims and in addition to the non-COVID claims, we have had – we have talked about some of the lapses, and that has an impact on policy obligations as well and makes that a little bit higher. And that will, again, be, I think, tend to -- we think, will tend to normalize over the course of the year.

At American Income, we anticipate that the margin for the full year will be closer to 32%, for direct to consumer around 13%, and for Liberty National around 21%. So again, in each one of those lines, we see the overall underwriting margin improving over the course of the year and really anticipating by the fourth quarter that we are able to get back to pretty close to normal margin percentages as a percentage of premium.

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

Got it. And should we look to 2019 as being a pretty normal margin level to think about, hopefully, returning to in 2022?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

That is what we are anticipating when we think about it, it is about at those levels.

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

Thank you and then maybe on the health side, can you just talk about any changes you are seeing in terms of benefits utilization? And have you seen any pickup in activity as kind of we have had a reopening and more people are getting vaccinated?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. So far, I mean, we are starting to see pretty normal levels of utilization, both on -- especially in the Med Supp lines we are seeing pretty normal levels of activity at this point in time.

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

Got it. So the favorable margin is more -- the better persistency and lower amortization?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

That is correct. That is what's really driving most of that.

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

Okay thank you.

Andrew Scott Kligerman - Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Hey good morning, and thanks for the thoughtful answers around mortality. I want to drill down a little bit more. I was wondering how many policies does Globe Life have outstanding in the life insurance area. I was doing some math around unfavorable claims. And I guesstimated something around a 350 to 400 policies above kind of what would have been normal. So the second part of the question, is that a decent assessment? And just how many policies do you have inforce in the life area?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes, I believe..

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

I -- as I say, --- and I do not have exact numbers in front of me. I think we have around 13 million policies inforce - life policies.

Andrew Scott Kligerman - Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

13 million inforce, and so would you have any type of like a standard deviation that you might apply to this to say, how far out of the normal range is this? I mean, is this really unusual. I mean, the first quarter of last year actually was modestly favorable, if I recall correctly. So any way to kind of -- other than the dollars, which we know, how unusual was this?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

And you are just talking about the general COVID claims or with respect to some of the non-COVID?

Andrew Scott Kligerman - Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

No, I am talking all non-COVID. I am sorry when I was estimating close to 400 policies, it is non-COVID outside of the norm.

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes, I mean, I think -- I mean, it is a -- we tend to think about claims activity and kind of growing overall with the size of business. I mean, definitely, what we have seen here over the last few quarters is an increase in that activity, we just -- and it is -- I do not have the percentage right off the top of my head, but it is not – you know it comes from time to time. You will see those fluctuations where you will have that on occasion. It is a little bit higher than what we would maybe have typically seen in some of the normal fluctuations. But -- and we can see that in just some of our overall claim numbers, but it is not something that is terribly, I am going to say, way out of the ranges that you might see from time to time.

Andrew Scott Kligerman - Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Yes I mean -- and let me just run another thought by you. I mean, if this were a trend, then shouldn't we have seen that in the third quarter and fourth quarter as well. It just seems like it

has come out of nowhere and could very well reverse. Am I thinking about that the right way?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Well, and I do think the timing of it corresponds here with the pandemic, and that is the way we are kind of looking at it –it has really popped up here toward the end of -- we started seeing some of the claims emerging. And as we get a little bit more experience, obviously, we have always talked about, there is a 2 or 3 month lag from what we are really seeing in our claims data; to being able to get back and see that. And some of these claims that were actually -- we're paying we are seeing where the death did occur in late 2020. But we are seeing -- and that is what gives us some indication that it is more of a fluctuation relating to the overall pandemic.

You may recall that just kind of to your point, and I forget exactly the year 2016 or 2017, we went through a really short period where we ended up having some higher non-medical causes of deaths as well and then those tended to subside and drop back down over periods of time. So that will take place from time to time.

Andrew Scott Kligerman - Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Very helpful. And then just 1 last one. I was intrigued, a competitor of yours did an acquisition of a Medicare insurance oriented Insuretech company. And as I look at your direct to consumer operation, Medicare supplement is a tiny fraction of your life sales through that channel. Is that a vertical that you might want to build out more extensively? Is it something where you could sell on behalf of another carrier as opposed to Globe Life providing the underwriting?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

The channel direct to consumer is currently group sales and group sales are hard to predict. We continue to try and expand that channel. In the past, we have tested individual sales through our direct to consumer channel and have not been very successful with that. We have had greater success, obviously, with our agency operation. Through our branding efforts as we go forward, should they work – we are exploring how to expand those direct to consumer health sales and particularly in Medicare supplement. So I do not think we will look at other carriers to try to distribute on behalf of other carriers that would detract from our life sales and our agencies, but we will continue to explore direct to consumer individual Medicare supplement sales.

Andrew Scott Kligerman - Crédit Suisse AG, Research Division - MD & Senior Life Insurance Analyst

Excellent thank you so much.

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

Hey good morning I may have missed this but. Did you disclose the amount of -- the dollar amount of non-COVID excess mortality that you saw in the first quarter and also your expectations for the full year?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes for the first quarter, it probably ran about $13 million higher than what we anticipated, so roughly about 2% of premium just from that in the first quarter. And for the full year, we anticipate around $18 million more than what we had kind of anticipated initially. I think for-- totally inclusive for the entire year, including our expectations, if you will, is that it will be about $50 million for the full year, and it was about $25 million in the first quarter. So again, about half of what we kind of anticipate of total extra obligations, if you will, will have occurred in the first quarter. And so that is why I think in the first quarter, you kind of look at -- it was probably a drag of about 3.5% of premium due to some -- the higher obligations and then about 1.8% or so, between 1.5% and 2% is kind of what we expect now for the full year.

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

Got it thanks. You mentioned that higher buyback was a partial offset to this. Can you give some updated commentary on your level of buybacks that you expect in 2021?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. So at the midpoint of our guidance, again, we are looking at that excess cash flow in that $360 million to $370 million. And so that is kind of the level that we have around on that. And then we look at some different average prices over the course of the year. That is -- but that is a little bit higher than where we were back in January and kind of at the midpoint, our expectations were not as -- was not quite that high for overall share repurchases. And then actually, in the first quarter, we were able to -- we purchased just a little bit more. That was not -- but it is actually a little bit lower price than what we had kind of built into the midpoint of our prior projections. So and kind of the benefit of that -- and so we bought back a few more shares than what we had anticipated. That just helps getting the benefit of that over the course of the year as well.

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

Thanks and then just the last one. Do you -- are you still thinking that $50 million is your target for Parent Company liquidity? So as you get to the end of this year, you will determine how much you might need downstream for the updated C1 factors, but beyond that, anything that is above $50 million could be available for buybacks in 2022?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes, I think that is kind of where we were thinking. Again, we will take a look at that and the situation as we get closer to the end of the year, probably, and a little bit as this comes more into focus, but I think that is likely kind of that target that we would be looking forward to retain.

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

Great thank you.

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

Hi, just a follow-up to Ryan's last question on capital management plan. So the -- with the $550 million of total resources balance, minus the $50 million would imply $500 million. And I know I presume some of that is going to be used through the balance of the year. There is timing issues with getting dividends out. But realistically, are you looking at using some meaningful portion of that for additional buybacks? I mean, are we looking at, I do not know, an extra $200 million to $400 million of buybacks in 2022? Or are you thinking about staggering that out more when you think about capital deployment?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. So when you think about the $500 million, $550 million or what have you, and as you kind of mentioned you are pulling out, let us just say for $50 with $500 million for the remainder of 2021, if our share buybacks, let us just say, at the high end of that excess cash flow range of $370 million. We have already bought back $100 million. So you got about $270 million that is remaining for this year, then that is where we will have to look. And that -- so that is really leaving about $230 million remaining out there for various capital needs. So we will see what type of capital needs we have from C1 and how the downgrades progress over the year.

Now that is in excess, clearly where we -- north of what we think would have -- would be necessary. And so -- but depending on where that is, Tom, I think, depends upon if that is something that -- and how much clarity we have, if we end up with a bigger chunk that we are able to return, it probably would come back over a period of time and tail clearly into 2022. I think we would probably be trying to do it earlier than spread it out over the entire year.

But I think we would probably focus on returning it sometime early in 2022. At the very end of 2021, depending on how much there is.

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

Okay. That is helpful. And then just in terms of the, I guess, the philosophy of $50 million holding company buffer. I think your annual interest expenses are over $80 million now. And I think your common dividend is over $80 million. I guess standard industry practice seems to be holding 1x coverage for interest and common dividends, which would be $160 million plus for you. Is that not -- is it the stability of your cash flows that would give you confidence to not hold that much, but just curious why you would be able to hold a lot less than annual interest expense?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes Tom, Gary here. I would say I think you got the answer it is the stability in free cash flow that we have and the consistency over the years. But the $50 million is something we had -- we adjusted that level several years ago. And we really had no issues. This past year, we did raise some additional liquidity not knowing what the COVID world was going to be like. And as it turns out we raised a lot more than we needed. So I do not think Frank is saying it is going to be $50 million. We will evaluate that as we go along, but it is –but I do not think that we would see the need to keep as much as you are talking about.

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. And I would agree. It really is, when we look at having that comfort of having the $350 million, plus or minus some each and every year in our excess cash flow so after the payment of those interest and dividends that you mentioned, gives us great comfort as we go over that -- that we will have the funds, and that creates a new pool of liquidity every year that we can access if we in fact needed it.

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

Okay, and then the final question, just on I just want to make sure I understood it. The non-COVID -- sorry, the indirect-COVID mortality, you said it was negative $13 million in 1Q?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. That was higher than what we had kind of anticipated. So we had anticipated higher. We had seen some of the trends at the end of the year. And again, we anticipated the higher COVID deaths. So we anticipated a decent amount of higher obligations in the first quarter, but we did see about $13 million more than what we had anticipated.

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

Okay, got it. So that was relative to expectation. But if I say relative to returning to normal, I was estimating like $20 million to $25 million. And if -- does that sound about right?

Frank Martin Svoboda - Globe Life Inc. - Executive VP & CFO

That does sound about right. Correct.

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

Okay thank you.

Operator

We have no further questions in the queue at this time.

Michael C. Majors - Globe Life Inc. - EVP of Administration & IR

All right. Thank you for joining us this morning. We will talk to you again next quarter.