Globe Life Inc

Q2 2024 Earnings Call

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PRESENTATION

Stephen Mota - Globe Life Inc - Director of Investor Relations

Thank you. Good morning everyone. Joining the call today are Frank Svoboda and Matt Darden our Co-Chief Executive Officers, Tom Kalmbach, our Chief Financial Officer, Mike Majors, our Chief Strategy 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, 2023 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 Frank.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Thank you Stephen, and good morning everyone. In the second quarter, net income was $258 million or $2.83 per share, compared to $215 million or $2.24 a share a year ago. Net operating income for the quarter was $271 million or $2.97 per share, an increase of 14% from a year ago.

On a GAAP reported basis, return on equity through June 30 is 20.8% and book value per share of $58.06. Excluding accumulated other comprehensive income or AOCI, return on equity is 14.5% and book value per share as of June 30 is $82.38, up 14% from a year ago.

Before we continue, we would like to address in advance the status of the independent review conducted by the Audit Committee of Globe Life's Board of Directors regarding allegations levied against the Company by short sellers. On July 22, 2024, Globe Life filed an 8-K addressing this matter. As noted in the 8-K, the Audit Committee of our Board of Directors conducted an independent investigation of allegations contained in various short seller reports.

The Audit Committee was assisted in its review by the law firm WilmerHale and the forensic accounting firm FTI consulting. The scope of the independent review included all allegations that raised specific questions about the accuracy and integrity of the Company's financial statements and disclosures. It also included the Company's process for preventing, identifying, and responding to misconduct.

As stated, the Audit Committee has completed its review and determined that the allegations of financial misconduct were not supported. Additionally, the independent review did not identify any matters requiring adjustments to the Company's previously issued financial statements or related disclosures in its filings with the Securities and Exchange Commission.

We believe the allegations were false and misleading and were designed to drive down Globe Life stock price in an effort for the short sellers to profit at the expense of our long-term shareholders. The Company stands by its financial results and disclosures, which remain accurate and do not require any adjustment.

In addition, the Audit Committee reviewed and confirmed that the Company has policies and procedures in place designed to safeguard the quality of the work experience. Compliance with our code of conduct, both internally and in connection with our third-party relationships is and will continue to be a key focus area for management.

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

In separate, but related issues, we would like to update you regarding the inquiry by the SEC and the requests by the DOJ. As we have previously disclosed, the Company received an inquiry from the staff of the Securities and Exchange Commission. The Company and the Audit Committee have provided information in response to the SEC's request received to date and the Company is cooperating fully and will continue to do so. At this time, the SEC has not asserted any claims against the Company or indicated it intends to do so.

Regarding the DOJ, we continue to fully cooperate in responding to requests related to sales practices by certain licensed insurance agents in the Arias organization who are contracted to sell American Income policies. The DOJ has not asserted any claims or made allegations against the Company or American Income or indicated it intends to do so.

In conclusion, we would like to discuss the questions we have received regarding ongoing litigation and the Company's process for identifying, assessing, and remediating complaints related to alleged misconduct. The various allegations are subject of litigation in a variety of stages, and as you can appreciate, it would not be appropriate for us to comment on terminated contracts or pending lawsuits.

But as we have discussed in prior calls, Globe Life takes unethical conduct and any allegations brought to our attention concerning harassment, inappropriate conduct, or unethical business practices seriously, and we do not tolerate such behavior. The Company has reasonable and appropriate systems in place that are designed to detect and mitigate misconduct and attempted fraudulent activities.

Globe Life has a long history of integrity in our business practices and principles, while providing our customers with financial protection, as well as work opportunities for agents, small business owners, and employees to build financial security.

We are focused on results and the continued strategic growth of Globe Life. Our field force of approximately 17,000 agents and our 3,500 employees are focused and dedicated to helping families make tomorrow better by working to protect their financial futures, and together we strive to act in accordance with the highest levels of ethics and integrity at all levels of the organization.

Now Frank, let us talk about our results with respect to our insurance operations.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Thanks Matt. In our life insurance operations, premium revenue for the second quarter increased 4% from the year- ago quarter to $815 million. Life underwriting margin was $320 million, up 8% from a year ago, driven by the premium growth and lower overall policy obligations. For the year, driven by strong premium growth in both our American Income and Liberty National Divisions, we expect life premium revenue to grow between 4.5% and 5.0% at the midpoint of our guidance and life underwriting margin to grow between 9% and 10%. As a percent of premium, we anticipate life underwriting margin to be in the range of 39% to 41%.

In health insurance, premiums grew 7% to $352 million and health underwriting margin was up 9% to $100 million. For the year we expect health premium revenue to grow approximately 6.5% to 7.0%. At the midpoint of our guidance for the full year, we expect health underwriting margin to grow between 1% and 2% and as a percent of premium to be between 27% and 29%.

Administrative expenses were $82 million for the quarter, up 9% from a year ago. As a percentage of premium, administrative expenses were 7%, consistent with our expectations compared to 6.8% a year ago. For the full year 2024, we expect administrative expenses to be approximately 7% of premium.

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

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Thank you Frank. First, I would like to discuss American Income Life. Here the life premiums were up 7% over the year-ago quarter to $424 million, and the life underwriting margin was up 7% to $193 million. In the second quarter of 2024 net life sales were $95 million, and this is up 16% from a year ago, primarily due to the strong growth in our agent count.

The average producing agent count for the second quarter was 11,869, and that is up 13% from a year ago. We are seeing strong recruiting activity, along with continued improvement in new agent retention. Our new hire pipeline for the second quarter is up 16% from the prior year, and I am very pleased with the sales productivity and agent count trends at American Income.

At Liberty National, the life premiums were up 6% over the year ago quarter to $92 million, and the life underwriting margin was up 9% to $31 million. Net life sales increased to 11% to $26 million and net health sales were $8 million, which is up 4% from the year-ago quarter. Growth in both the life and health sales was due primarily to the increase in agent count.

The average producing agent count for the second quarter was 3,700, up 16% from a year ago. Liberty National continues to generate positive recruiting and sales momentum, and this is driven by our investments in technology and the growth in middle management.

At Family Heritage, health premiums increased 8% over the year-ago quarter to $106 million, and health underwriting margin increased 12% to $37 million. Net health sales were up 7% to $25 million, and this is primarily due to an increase in agent productivity.

The average producing agent count for the second quarter was 1,361, and this is up 1% from a year ago. And as we have said before, we continue to emphasize recruiting and middle-management development at Family Heritage.

I am encouraged as we have started to see middle management growth, which is up 11% from year end.

In our Direct to Consumer Division at Globe Life, life premiums were flat compared to the year-ago quarter at $249 million. While the life underwriting margin increased 13% to $64 million due primarily to favorable mortality and continued efforts to maximize our margin dollars.

Net life sales were $31 million, down 3% from the year-ago quarter. As we have previously mentioned, the decline in sales is primarily due to lower customer inquiries as we have reduced marketing spend on certain campaigns that do not meet our profit objectives. Our focus in this area is having a positive impact on our overall margin.

We will continue to focus on maximizing the underwriting margin dollars on new sales by managing the rising advertising and distribution costs associated with acquiring new business. Additionally, as a reminder, the Direct to Consumer channel provides support to our agency business through brand impressions and the generation of sales leads.

At United American General Agency, our health premiums increased 9% over the year-ago quarter to $149 million. Health underwriting margin was $17 million, up approximately $2 million from the year-ago quarter. Net health sales were $18 million, and this is up approximately $7 million over the year-ago quarter and is due primarily to improved market conditions for our Medicare supplement business.

Now I would like to discuss projections.

Based on the trends that we are seeing and the experience with our business, we expect the average producing agent count trends for 2024 to be as follows. At American Income, low double-digit growth, at Liberty National mid-teens growth and Family Heritage mid single-digit growth.

Now our net life sales for 2024 are projected to be as follows. At American Income, mid-teens growth. Now here, we are raising our guidance at American Income to reflect strong second quarter experience along with the trends we are seeing. Last quarter, we tempered our projections just out of an abundance of caution. Liberty National Sales anticipate low double-digit growth and Direct to Consumer slightly down.

Net health sales for 2024 are expected to be as follows. Liberty National, high single-digit growth and at Family Heritage, also high single-digit growth and United American General Agency, low to mid-single-digit growth.

I will turn the call back to Frank.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Thanks Matt. We will now turn to the investment operations. Excess investment income, which we define as net investment income less only required interest, was $43 million, up $11 million from the year-ago quarter. Net investment income was $286 million, up 9% or $24 million from the year-ago quarter. The increase is largely due to strong 6% growth in average invested assets over that period.

In addition, higher interest rates across fixed maturities, commercial mortgage loans, limited partnerships, and short-term investments also contributed to the higher growth rate. Required interest is up approximately 5.5% over the year-ago quarter, slightly higher than the 5% growth in average policy liabilities.

For the full year, we expect net investment income to grow between 7% and 8% due to the combination of the favorable interest rate environment and steady growth in our invested assets. In addition, at the midpoint of our guidance, we anticipate required interest will grow around 5.0% to 5.5% for the year, resulting in growth in excess investment income of approximately 20% to 25%.

Now with respect to our investment yield.

In the second quarter, we invested $241 million in investment grade fixed maturities, primarily in the industrial and financial sectors. We invested at an average yield of 6.16%, an average rating of A-, and an average life of 35 years. We also invested approximately $115 million in commercial mortgage loans and limited partnerships that have debt-like characteristics at an average expected cash return of approximately 10%.

None of our direct investments in commercial mortgage loans involved office properties. These investments are expected to produce additional cash yield over our fixed maturity investments, and they are in line with our conservative investment philosophy. For the fixed maturity portfolio, the second quarter yield was 5.26%, up 8 basis points from the second quarter of 2023, and up 2 basis points from the first quarter. As of June 30, the portfolio yield was 5.24%, including the cash yield from our commercial mortgage loans and limited partnerships, the second quarter earned yield was 5.44%.

Now regarding the investment portfolio.

Invested assets are $21.3 billion, including $19.2 billion of fixed maturities at amortized cost. Of the fixed maturities, $18.7 billion are investment grade with an average rating of A-. Overall, the total fixed maturity portfolio is rated A-, same as a year ago.

Our fixed maturity portfolio has a net unrealized loss position of approximately $1.6 billion due to the current market rates being higher than the book yield on our holdings. As we have historically noted, we are not concerned by the unrealized loss position as it is mostly interest rate driven and currently relates entirely to bonds with maturities that extend beyond 10 years.

We have the intent and more importantly, the ability to hold our investments to maturity. Bonds rated BBB comprised 46% of the fixed maturity portfolio, compared to 49% from the year-ago quarter. While this ratio is high relative to our peers, we have little or no exposure to higher risk assets held by many of our peers such as derivatives, equities, residential mortgages, real estate equities, CLOs, and other asset-backed securities.

We believe that the BBB securities we acquire generally provide the best risk-adjusted, capital adjusted returns due in part to our ability to hold securities to maturity regardless of fluctuations in interest rates or equity markets. Below investment grade bonds remained low at $564 million, compared to $496 million a year ago. The percentage of below investment grade bonds to total fixed maturities is 2.9%.

During the quarter, we did take the opportunity to extend duration on a portion of our portfolio by selling some shorter maturity bonds and investing in longer-dated securities. While we realized a loss on some of the bonds sold, we were able to extend the average life and improve the overall yield of the portfolio and were able to reduce our exposure to smaller regional banks.

At the midpoint of our guidance for the full year, we expect to invest approximately $1.2 billion to $1.4 billion in fixed maturities at an average yield of 5.7% to 5.9% and approximately $500 to $600 million in commercial mortgage loans and limited partnership investments with debt-like characteristics and an average expected cash return of 8% to 10%.

As we have said before, we are pleased to see higher interest rates as this has a positive impact on operating income by driving up net investment income with no impact to our future policy benefits, since they are not interest sensitive.

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

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Thanks Frank.

First, let me spend a few minutes discussing our available liquidity, share repurchase program and capital position.

The Parent began the quarter with liquid assets of approximately $65 million and ended the quarter with approximately $35 million of liquid assets. We anticipate concluding the year with liquid assets in the range of $50 million to $60 million that we have historically targeted.

In the second quarter, the Company repurchased approximately 3.8 million shares of Globe Life Inc. common stock for a total cost of just over $314 million at an average share price of $81.87, resulting in repurchases to date of approximately 4.0 million shares for a total cost of approximately $330 million at an average share price of $83.17.

Including shareholder dividend payments of $23 million for the quarter, the Company returned approximately $337 million to shareholders during the second quarter of 2024 alone and has returned approximately $375 million year-to-date. The amount of share repurchases during the quarter is higher than usual, as we took the opportunity to accelerate repurchases from the second half of the year, given the favorable market conditions with share prices below our book value per share.

We were able to finance this largely with excess cash flows during the quarter due to the timing of subsidiary dividends and the use of Parent's liquid assets. In addition to the liquid assets held by the Parent, the Parent Company will generate excess cash flows during the remainder of the year.

The Parent Company's excess cash flows as we define it, results primarily from dividends received by the Parent from its subsidiaries, less interest paid on debt. We anticipate the Parent Company's excess cash flow for the full year will be approximately $440 million to $460 million and is available to return to its shareholders in the form of dividends and through repurchases.

As mentioned on previous calls, we will use our cash as efficiently as possible. At this time, we believe that share repurchases provide the best return or yield to our shareholders over other available alternatives. Thus, we anticipate share repurchases will continue to be the primary source sorry, the primary use of the Parent's excess cash flows after the payment of shareholder dividends.

We intend to use 2024 excess cash flows to purchase $350 million to $370 million during the year and distribute $85 million to $90 million to our shareholders in the form of dividends. In addition, during the second half of the year, we anticipate raising additional capital to support accelerating approximately $400 million of additional share repurchases in 2024. So, for the full year, at the midpoint of our earnings guidance, we anticipate approximately $750 million to $770 million of total share repurchases for the full year.

Now with regard to our capital levels at the insurance subsidiaries,

Our goal is to maintain our capital at levels necessary to support our current ratings. Globe Life targets, a consolidated Company action RBC ratio in the range of 300% to 320%. At the end of 2023, our consolidated RBC ratio was 314%.

At this ratio, our subsidiaries had at that time approximately $85 million of capital over the amount needed to meet the low end of the consolidated RBC target of 300%. In 2024, we currently estimate that no additional capital is needed to maintain the midpoint of our consolidated RBC target of 300% to 320%.

Now with regards to policy obligations during the current quarter,

As we have discussed on prior calls, we have included within the Supplemental Financial Information available on our website an exhibit that details, the remeasurement gain or loss by distribution channel.

As a reminder, in the third quarter of 2023, we updated both our life & health assumptions and there have been no changes to our long-term assumptions in the periods since. No assumption updates were made in the second quarter of 2024, and we intend to update life and health assumptions in the upcoming third quarter.

In addition to the impact of assumption changes, the remeasurement gain or loss also indicates experience fluctuations. For the second quarter of 2024, life policy obligations were favorable when compared to our assumptions of mortality and persistency. The remeasurement gain related to experience fluctuations resulted in $12 million of lower life obligations and $3 million of lower health policy obligations.

We continue to be encouraged by the recent short-term trends and policy obligation experience. The range of our earnings guidance encompasses potential future remeasurement impacts, inclusive of assumption changes during the remainder of 2024. Recent and longer-term life and health mortality trends will inform the third quarter 2024 update to assumptions.

And finally, with respect to our earnings guidance for 2024.

For the full year 2024, we estimate net operating earnings per diluted share will be in the range of $11.80 to $12.10, representing 12% growth at the midpoint of the range. The $11.95 midpoint is higher than our previous guidance and reflects recent anticipated improvements in underwriting income results in addition to a greater impact from share repurchases than previously anticipated for the year.

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

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Thank you Tom. Those are our comments, and we will now open the call up for questions.

Q U E S T I O N S A N D A N S W E R S

Jimmy Bhullar - JPMorgan - Analyst

I am assuming that is me. But good morning. So first, I had a question just on lapses. And if you look at first year lapses across the various divisions, they seem like they have increased a little bit in all of them. So, wondering if that is just -- you consider that normal aberration or is there -- is it something related to the economy and just inflation or any changes in sales or service practices on your end that is driving that?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Thanks Jimmy. Yeah, we are really pleased with what we are seeing with recent persistency, particularly in face of the short seller reports and the continued impact of the general economic conditions. I think it really speaks highly and reaffirms the stability of our business and we believe speaks to the nature that the basic protection products that we offer meet the needs for the customers.

As it relates to first year lapses, they were just up at AIL -- up just a little bit over the prior quarter and so it really is in line with our 10-year average as well. So, I think it really is just a fluctuation.

And then DTC, overall first year lapses are in line— overall lapses are in line with expectations. First year lapses were up a little bit over prior quarter, but just slightly higher than Q2, 2023, and that could be related to sourcing. So, we just see a little bit higher lapses at internet sales and internet sales are a little bit higher so that may be driving some of that experience as well.

And at LND first year lapses, they are really consistent with last quarter. So again, we think a fairly good result from a lapse perspective for the business.

Jimmy Bhullar - JPMorgan - Analyst

And then you had a couple of items below the line that affected your net income. I think one of them was related to M&A, and I am assuming that is an expense that should not continue, but the legal expenses, how much of those were really cash expenses versus maybe reserve? And then what are your thoughts about how those numbers will be as you go through this year and the likely impact of that on free cash flow next year?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes, so the legal expenses are related to expenses we have incurred related to the WilmerHale investigation and a short seller -- and investigating the short seller allegations, we would expect some of those to continue a little bit for the rest of the year as we continue to work through those issues.

And then on the M&A expenses, the other expenses there, hard to predict, but at this point, I do not see any of those expenses continuing unless another opportunity emerged that we would pursue.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes, Jimmy, I would just add that, I would not think that they would continue to be material. If you will and have any kind of material impact on our excess cash flows as we are thinking about it from next year's perspective or even on the remainder of this year.

Jimmy Bhullar - JPMorgan - Analyst

And then if I could just ask one more on the accelerated buybacks and the related financing. Are you thinking about pulling forward the activity that you normally would have done next year into the second half, or you think that you have some debt capacity, and you can -- assuming no major changes in the stock price do those, but then next year you get back to your normal schedule?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Exactly. I think we have some debt capacity. Jimmy, we feel like we have some room to finance, in adding $400 million of additional debt will bring our projected debt cap ratios kind of closer to the 25%. And we really kind of like to operate in that 23% to 27%. So it is well within the range of our debt capacity.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yeah, Jimmy, I would probably just add that, as we continue to take a look at that and like Tom said, I think we have got adequate capacity there to be kind of where our normal historical ranges have been. But of course, we are also taking a look and just seeing are there some opportunities around capital management to free up some excess capital within the insurance operations, whether that be through reinsurance or other means and just continuing to look at that as well.

Jimmy Bhullar - JPMorgan - Analyst

Okay. Thank you.

Wes Carmichael - Autonomous Research - Analyst

Hey, good morning and thanks for taking my question. I just had one follow-up on Jimmy's last one. But do you have any idea about the form of whether that is senior notes or commercial paper that you want to use for the financing to finance that accelerated buyback?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

We have not decided on the final form, but my preference would probably be a little bit towards long-term debt but does depend a little bit on the rates that are available in the market. So, we will look at all of our options and select what we think is best for us.

Wes Carmichael - Autonomous Research - Analyst

Got it. Thanks. That is helpful. And just regarding the Audit Committee's investigation, you disclosed that there is no need to restate financials or disclosures, but is there any sort of broader review that is going on regarding some of the short seller allegations, especially around agent behavior at American Income? Or do you not really expect any kind of material organizational change?

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

As we had mentioned, the review also included processes for preventing, identifying, and responding to misconduct. We have been and always do look at our processes and procedures and controls and have a process in place for continuing to evaluate those and enhance them as necessary.

So that would be no different in the future as we think about what has come out of the review, as well as just our normal processes for implementing improvements. As we said, we believe we have the appropriate procedures in place to identify activity that is inappropriate or not in line with our core principles and we take appropriate action as necessary.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

The only thing I would add to that Wes, is that we really do think of this as just kind of part of our overall third party risk management processes. And part of that is evaluating the changing risks in that environment and how that changes from time to time. And so, as Matt said, we will always be continuing to strive for improvement. We will continue to look for ways to enhance what we are currently doing.

John Barnidge - Piper Sandler - Analyst

Good morning. Thank you very much for the opportunity. My first question on June 13, I think you filed an 8-K about a tech issue with an unauthorized access. Do you have an update on that at all -- what the status of that is please? Thank you.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yeah, so with, as we noted in the 8-K that we did initiate a review of potential vulnerabilities regarding some access permissions and user identity management for a Company web portal, that was following an inquiry that we did receive from a state insurance regulator. We have addressed the vulnerabilities from that, and we have initiated a comprehensive investigation into the matter.

At this point, the investigation is still ongoing, and we have yet to determine the full scope, nature, and impact overall. But we do know that there has not been a material impact on the Company's operations. So, we really do not have anything further to disclose at this time, but we will continue to provide any notable updates as they become available.

John Barnidge - Piper Sandler - Analyst

Thank you for that. My other question, I believe at the end of April, there was a share repurchase authorization. It is good through the end of 2025, $1.3 billion from my math that would possibly imply a greater amount of buybacks in 2025 than the normal run rate would imply. Can you talk about the optionality to bring forward 2026 cash flows? Thank you.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yeah, I think that was really consistent with my comments of raising additional financing in the second half of the year to, for the use of additional share repurchases. And then we would have our normal excess cash flows in 2025, which should get us fairly close.

And the other thing Frank had mentioned is we are looking at other options to raise additional capital from our insurance operations through reinsurance and other means. So that would be another potential source that would allow us to purchase some additional shares in either 2024 or 2025.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

I think the one thing, I would add is, still preliminary and we will talk about it more on the next call, as far as our expectations of excess cash flows for what would kind of normally we would expect for 2025 right now, just kind of preliminarily, we do see them being at a higher level than what we have here available in 2024.

So, we do think there is some additional capacity there. Again, we will talk about that more on the next call and I think the last thing I would point out is that it is clear that the authorization is not a mandate. So, we are not, we will take a look at what is there and seek to buy back as many shares as long as it is prudent for us to do so.

John Barnidge - Piper Sandler - Analyst

Appreciate the answers. Thank you.

Suneet Kamath - Jefferies - Analyst

Yeah, thanks. Just wanted to start with the Audit Committee review. So, I just want to make sure I understand. So is it that they went through the review and really did not identify any things that you guys need to do better in terms of monitoring your sales practices, and it's just business as usual, given that -- considering the fact that you already said that, you know, you look at this stuff on an ongoing basis, but there really was not anything incremental that you need to do?

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Well, as we had mentioned the independent review focused on the financial allegations that raised questions about the financial statements and disclosures. Also, it did examine our Company processes for preventing, identifying, and responding to misconduct. So, I will go back to what I said earlier, in that, we always continue to look to areas that we need to enhance.

We continually enhance internal controls around a variety of things, including our sales practices. We always look at our processes and procedures for identifying misconduct and addressing those as appropriate. And so, we will continue to do so as far as evaluating those and continuing to enhance those as appropriate.

Suneet Kamath - Jefferies - Analyst

Got it. And then just sort of relatedly on the DOJ and the SEC. Are those reviews that ultimately will figure, we will hear something about how -- what the conclusions are or is this just if there is nothing to talk about that they just sort of does not like, there is no finality to it. I am just trying to figure out from a timing perspective how we should be thinking about these reviews?

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Sure. Our intent would be to update you as the material developments happen in both of those cases.

Suneet Kamath - Jefferies - Analyst

Okay, and then the last one I had was just on the remeasurement, just so I understand what is going on here because, it looked like you did your assumption review in Q3, you will do another one in Q3 of this year, but the remeasurement gains in the fourth quarter and the second quarter, fourth quarter last year, second quarter this year were quite big.

I mean, I am assuming that seemingly suggests that you could have another favorable assumption review here in the third quarter or are these remeasurement gains really reflecting some of the assumption changes that you did last year?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

The remeasurement gains that we reported in the quarter are relative to the assumptions, our current assumptions for determining reserves, which were established in the third quarter of 2023. So, in essence, I would say yes there. We have seen some remeasurement gains throughout the year on the life business and in the health business.

And so those are indicative of mortality trends that appear to be favorable relative to those valuation assumptions and relative to any endemic assumption that we established back in Q3 of 2023. So that is what we are looking at right now and evaluating is just our base mortality assumptions, as well as what do we think is an appropriate assumption long term for the endemic or short term for the endemic.

And so that is what we are finalizing in Q3, and which will result in an update to those assumptions. We do, given the recent experience, we do anticipate that would be a favorable remeasurement gain on the life business and hence the reason for Frank increasing the range of our -- our underwriting margins to 39% to 41%. So, we do think that those will move up a little bit. Hopefully that --

Suneet Kamath - Jefferies - Analyst

It does. Just the last one on that. So just to be clear, is that embedded in your new EPS guidance, or this would be incremental to the EPS guidance?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

No, it is embedded in our guidance range and we have tried to reflect what we anticipate in the midpoint of that range as well.

Suneet Kamath - Jefferies - Analyst

Got it. Okay. Thank you very much.

Elyse Greenspan - Wells Fargo - Analyst

Hi, thanks. Good morning. My first question in response to some earlier questions you guys mentioned looking into potential reinsurance as a way to free up capital. Can you just expand on what you guys might consider? And then it sounds like this could perhaps be either a 2024, or 2025 event. Do you have a sense of any comments on potential timeframe as well?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes, we are continuing to evaluate reinsurance opportunities, and we have a financial reinsurance program in place right now. So, we are just looking at whether it makes sense to expand that program a little bit. In addition to that, I think there is -- we think there is opportunity to manage overall capital in an economic framework like is available in Bermuda. So, we are evaluating that option and what that might look like, that is probably a little bit longer term as far as capital management approach. But we think that there is some promise in that solution.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes, the only thing I would add. There are a few blocks of business that we are evaluating to see does that make any sense for us and our shareholders to dispose of those books of business. We do not have. We have kind of talked about that before that we do not have a lot of blocks that are necessarily old books of business that are closed blocks and that type of thing, so that there is not necessarily a lot there, but something that we are taking a look at.

Elyse Greenspan - Wells Fargo - Analyst

And then you guys gave us a lot of color on capital. What were the subsidiary dividends in the quarter and embedded within your capital plans? What are the, what is the new guidance for sub dividends for the full year?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

The full year dividends from the insurance subsidiaries are just over $460 million between $460 and $470 million. We have not updated our guidance for what dividends will be to the Parent in 2025. We will look at that later in the year. One of the things that is impacting, that will impact 2025 dividends favorably is there are some valuation manual changes from a statutory accounting perspective that should be favorable to us and we can give you an update on that next quarter as well.

Elyse Greenspan - Wells Fargo - Analyst

Thank you.

Ryan Krueger - KDW - Analyst

Hey, thanks. Good morning. A follow-up on the WilmerHale investigation. I guess, did they investigate actual agent misconduct at all? Or is it really just predominately focused on your own companies' procedures to kind of manage agent behavior?

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

It looked at the Company's processes for preventing, identifying, and responding to misconduct. And the Audit Committee did review and confirm that the Company has policies and procedures in place designed to safeguard the work experience for the agents. As we have mentioned before, we are confident in our controls around identifying agent behavior, along with our processes for investigating issues that we become aware of and remediating those as necessary and taking the appropriate action.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Ryan, they also, as I noted before, they looked at all of the allegations that might have -- that kind of questioned, if you will, the accuracy or integrity of our financial statements and disclosures. So, to the extent that there are agent behaviors that would have impacted our financial statements, our disclosures, let's just say, for instance, sales activities.

Those allegations would have been looked into and seen whether or not there was any reason for any restatements of any of our previously issued financial reports or disclosures. And as we noted before, they did determine that no restatements were necessary, which includes--

Ryan Krueger - KDW - Analyst

Understood. Got it. I guess just one more on this specific topic. So, if in the future, for example, with the DOJ investigation into some of the specific agents, if they do ultimately determine there was misconduct. Do you see that as something that is a liability to you as a Company, given that they are independent contractors or because of that distinction, do you view that almost as a separate issue?

J. Matt Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

I think really, as we evaluate that, it looks like currently, as we said in our statement earlier, they are reviewing the sales activity of just certain agents that were in the Arias organization. And if there is a significant update to that from a scope perspective, we would be sure to disclose and update that. But right now, that is the focus of the inquiries so far.

Ryan Krueger - KDW - Analyst

Thanks. And then just one separate question on free cash flow. You had mentioned a few things that sound like -- that could be positive next year. I think previously you had talked about looking at ways to get the free cash flow conversion higher and I think you had mentioned the possibility of getting it up to 60%, at least over time. Can you just give an update on that? And do you expect to make, I guess, progress towards the 60% in 2025 or is that something that would occur longer-term?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

I would say, it's definitely over the longer term. The things that I talked about actually will, I think will be additive and actually kind of are aligned with getting to that 60%. So, it continues to be something that we are striving towards looking at opportunities to boon. And that is where I think use -- more effective use of for Bermuda regulatory environment could actually really help support getting to the higher cash conversion ratio.

Frank Svoboda - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Yes. And some of those, as we have taken a look into it. I think there are some near-term items that I do think some of our optimism with respect to 2025 free cash flows stems from strong sales, which is following, converting into strong premium growth in 2024. And then the favorable, some of the favorable claims experience that we are seeing, especially on the life side will help with the statutory income in 2024 as well.

So that gives us some optimism that we may have some expanded excess cash flows in 2025. And Tom is right, some of those where it's changing the nature of the conversion ratio, some of that probably tails into 2025, which may not end up materializing until probably 2026 as far as additional dividends and some of that, even though we will take a look obviously and see what it is from -- what we can do from a timing perspective.

Ryan Krueger - KDW - Analyst

Okay. Great. Thanks a lot.

Wilma Burdis - Raymond James - Analyst

Hey, good morning. Would a positive, a very positive 3Q, 2024 review possibly imply higher free cash flow? I think you guys have talked about how the remeasurement gains are very favorable. Thanks.

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

The remeasurement gains or losses are GAAP. So, what drives the free cash flow is statutory earnings. However, as we have kind of as we have mentioned in the past, or I have mentioned in the past is when we see a re-measurement gain relative to our assumptions in GAAP, that is about 25% of what the delta is from our assumptions comes through, and so the full impact of assumption, the differences between assumptions, a good majority of that is going to be coming through in statutory.

So that is one of the reasons why we think that we will have improved statutory earnings in 2024. That will then lead to increased dividends from the subsidiary to the Parent in 2025 and higher excess cash flows. So that is part of it.

The other thing that I mentioned is the change in the valuation manual that has been implemented in 2024, I think that will also result in higher statutory earnings and actually could also increase excess cash flows or dividends to the Parent in 2025 from the subs in -- resulting in higher excess cash flow.

Wilma Burdis - Raymond James - Analyst

Just a quick follow-up on that one. Is there any additional color you can provide on what the valuation manual change relates to?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

It relates to - to the aggregation of mortality assumptions, related to determining principal-based reserves is that -- the change allows and adds some clarity around what level of aggregation you can use. And so, by being able to aggregate larger blocks, there is an opportunity to use a more favorable mortality assumption in the valuation of the reserve.

Wilma Burdis - Raymond James - Analyst

This is a really broad one. But do you think there is anything else you can do to mitigate the DOJ or SEC overhang?

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

Unfortunately, that is an independent process outside of our control. So we are, what we are doing is fully cooperating in both instances, as well as providing any additional information or response to inquiries that we get as quickly as possible. So our desire, of course, is to have those progressed forward as quickly as possible and the best thing we can do is just be very responsive as we work through those processes.

Wilma Burdis - Raymond James - Analyst

Thank you.

Thomas Gallagher - Evercore ISI - Analyst

Morning. Just on the American Income side. Have there been any changes in senior management or sales managers as a result of your review, which, it sounds fairly narrow in scope based on the way I have heard it described focusing on certain agents. But has there been any changes on the management side or have there been any agents that have been let go as a result of this?

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

So, you had several questions there. Let me see if I can address them. Regarding the scope being narrow. The narrowness was related to the DOJ investigation focused on specific agents within the Arias organization. As far as evaluation of the assertions and allegations in the short-selling report that covered very broad, from all of our financial items that were pointed out, as well as just our overall processes and systems for controls.

And I think what -- as we have noted in the past, is some of the agents that have shown up in some of the articles are terminated agents. They are not here any longer and that happened long before the investigation the Audit Committee started.

So, I will just go back to my statement earlier that we do take appropriate action related to misconduct, as well as, I think I had mentioned on our last call is that some of the assertions by the short sellers were based on a -- an executive on the sales management side within American Income that we had terminated for cause. And so we do take appropriate action.

We take these things seriously, and we are confident in our processes and controls. And as I had mentioned, we always continue to enhance that, but it was a pretty broad and wide ranging review and the results of that we have discussed today.

Thomas Gallagher - Evercore ISI - Analyst

But no one from the recent review that was done, no, you have not made any, there has been no terminations of sales management or otherwise as a result of that review. Is that a fair statement?

J. Matthew Darden - Globe Life Inc - Co-Chairman of the Board, Co-Chief Executive Officer

That is not a fair statement, but I am not at liberty to discuss things that are under litigation etcetera, as I had mentioned in my prepared call.

Thomas Gallagher - Evercore ISI - Analyst

Got you. Okay. And then my follow-up, but just back on the remeasurement gains from mortality. So, is mortality still somewhat adverse relative to pre-pandemic levels? Are we or are we back to normal now? Or is it actually trending favorable?

I realize the, it is certainly favorable relative to the conservatism in your assumptions that were implemented as part of LDTI, but I just want to know where we are, like are we all the way back now? Or is it still somewhat adverse?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes, we still see. First of all, mortality has been fairly consistent over the last few quarters, which has been good. We are seeing, like you said, some improvements from where they were at the peak, but we also have causes that continue to be higher than where they were pre COVID.

And I would say heart disease and cancer, although improved, are still a little bit higher than where we were prior to 2019 and one that remains elevated – cause of death is neurological disorders, which would be stroke and Alzheimer's. So, we are keeping an eye on that.

And I think another like a positive is non-medical deaths have improved and those have improved --. Those are actually, I would say, more in line with historical, maybe just a little bit elevated from where they were. So, I think the trends are good, but we are not quite there yet.

Thomas Gallagher - Evercore ISI - Analyst

Got you. So, stroke and Alzheimer's is where you still see somewhat elevation. Okay. All right. That is helpful. Thank you.

Jimmy Bhullar - JPMorgan - Analyst

And so Tom, just on your comments on the stat valuation changes. Can you sort of give us a rough range of, are the expected amount, single digit millions, tens of millions or higher than that, just so we have some idea -- recognize you will give out the exact details next quarter?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

Yes, we will give you the details, Jimmy next quarter. We are still going through all of our work. So, I would not want to -- I want to actually give you a good number. We will be looking to implement it --.

Jimmy Bhullar - JPMorgan - Analyst

The fact that you mentioned it sort of would imply that it's more than just a handful of million dollars, but is that a correct assertion?

Thomas Kalmbach - Globe Life Inc - Chief Financial Officer, Executive Vice President

That is fair, Jimmy. Yes.

Jimmy Bhullar - JPMorgan - Analyst

Okay. We will wait another three months. Thank you.

Operator

Thank you. And that is all the questions we have today. With this I would like to hand the call back over to Stephen Mota for any additional or closing remarks.

Stephen Mota - Globe Life Inc - Director of Investor Relations

All right. Thank you for joining us this morning. Those are our comments, and we will talk to you again next quarter.