Globe Life Inc.

Q3 2024 Earnings Call

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C O R P O R A T E P A R T I C I P A N T S

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P R E S E N T A T I O N

Stephen Mota - Globe Life Inc – Sr. 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 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 third quarter, net income was $303 million or $3.44 per share, compared to $257 million or $2.68 per share a year ago.

Net operating income for the quarter was $308 million or $3.49 per share, an increase of 29% from a year ago.

On a GAAP reported basis, return on equity through September 30 is 22.4%, and book value per share is $54.65. Excluding accumulated other comprehensive income or AOCI, return on equity is 15.3% and book value per share as of September 30 is $83.92, up 13% from a year ago.

In our life insurance operations, premium revenue for the third quarter increased 4% from the year-ago quarter to $819 million. Life underwriting margin was $387 million, up 29% from a year ago, with the increase in life underwriting margin due primarily to a remeasurement gain related to the unlocking of assumptions. Tom will have more in his comments on this remeasurement gain. 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 4.0% and 4.5% at the midpoint of our guidance and life underwriting margin to grow between 12% and 12.5%. As a percent of premium, we anticipate life underwriting margin to be around 41%.

In health insurance, premium revenue grew 7% to $354 million, and health underwriting margin was down 10% to $87 million due primarily to a remeasurement loss related to an unlocking of assumptions.

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 be flat and, as a percent of premium to be around 27%.

Administrative expenses were $88 million for the quarter. The increase is primarily due to higher information technology costs relating to maintaining IT software and services, employee-related costs, and legal expenses. For the full year, we expect administrative expenses to be approximately 7.3% of premium.

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

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

Thank you, Frank.

First, at American Income Life, here, the life premiums were up 7% over the year-ago quarter to $428 million, and life underwriting margin was up 22% to $221 million. In the third quarter of 2024, net life sales were $97 million, up 19% from a year ago, primarily due to the strong growth in agent count.

The average producing agent count for the third quarter was 12,031, and this is up 10% from a year ago. This growth is due to the ongoing recruiting efforts as well as improvement in new agent retention. This agency continues to generate positive momentum.

At Liberty National, the life premiums were up 6% over the year-ago quarter to $94 million, and life underwriting margin was up 63% to $45 million. Net life sales increased 1% to $24 million, and net health sales were $8 million, down 6% from the year-ago quarter.

The average producing agent count for the third quarter was 3,794, and this is up 14% from a year ago. Liberty National continues to generate strong agent count growth, which is driven by our investments in technology and the growth in middle management.

Despite the flat sales for the quarter, I am very pleased and optimistic with the trends at Liberty. The strong middle management growth has resulted in an emphasis on recruiting and training and is reflected in the continued and meaningful agent count growth for this division. This bodes well for future sales growth. As I have discussed before, agent count growth is a leading indicator for future sales growth. We focus on year-over-year growth in sales and agent count and recognize that quarter-to-quarter results may fluctuate as the agency operations switch focus between recruiting and sales throughout the year. In addition, I would also point out that we had a difficult comparable this quarter as Liberty had a 31% increase in life sales and a 19% increase in health sales in the year-ago quarter.

Now on to Family Heritage. Here, the health premiums increased 8% over the year-ago quarter to $108 million, and health underwriting margin declined 4% to $34 million. Net health sales were up 16% to $29 million due to an increase in agent count and agent productivity.

The average producing agent count for the third quarter was 1,429, and this is up 8% from a year ago. I am pleased to see that this agency's efforts in recent quarters to emphasize recruiting and middle management development are now driving agent count growth, which bodes well for growth in 2025.

In our Direct to Consumer Division at Globe Life, the life premiums were down 1% over the year-ago quarter to $246 million, while life underwriting margin increased 40% to $88 million. Net life sales were $24 million, down 9% from the year-ago quarter. As we previously mentioned, the decline in sales is primarily due to lower customer inquiries as we have reduced our marketing spend on certain campaigns that did not meet our profit objectives. Our focus in this area is having a positive impact on our overall margin as we 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. Now the value of our Direct to Consumer business is not only those sales directly attributable to this channel, but the significant support that is provided to our agency business through brand impressions and sales leads. We continue to invest in our capability to generate significant lead volume that translates into sales for our agency business.

During 2025, we anticipate we will generate over 750,000 leads, which will be provided to our three exclusive agencies from the Direct to Consumer Division. The value contributed to the agencies by the Direct to Consumer Division will continue to grow as we expect to see steady growth in our omnichannel marketing approach for the Globe Life brand.

Now on to United American General Agency. Here, the health premiums increased 9% over the year-ago quarter to $150 million, driven by strong prior year sales growth of 23%. Health underwriting margin was $14 million, down $1 million from the year-ago quarter due to higher claim costs as a result of higher utilization. Net health sales were $16 million, down 1% over the year-ago quarter.

Now I would like to move on to discuss projections.

Now based on what we are seeing and the experience with our business, we expect that average producing agent count trends for the full year of 2024 to be as follows: at American Income, an increase of around 11%; at Liberty National, an increase of around 14%; and at Family Heritage, an increase of around 5%. Net life sales for 2024 are expected to be as follows: at American Income, an increase of around 16%; Liberty National, an increase of around 4%; and Direct to Consumer, a decrease of around 8%.

Net health sales for 2024 are expected to be as follows: Liberty National, an increase of around 1%; Family Heritage, an increase of around 11%; and United American General Agency, an increase of around 10%.

Now let's discuss 2025.

At the midpoint of our 2025 guidance, we expect sales growth for the full year of 2025 to be as follows. For life sales, we expect American Income for high single-digit growth; Liberty National, low double-digit growth; and Direct to Consumer, low to mid-single-digit growth and on the health sales side, we expect Liberty National, Family Heritage, and United American General Agency to all have low double-digit growth.

Now, before I turn the call back over to Frank for investment operations, I would like to make a few brief comments regarding the inquiries made by the SEC and the DOJ that we have previously discussed. There have been no material developments and while these inquiries are still open, we have responded to the requests received to date. Neither organization has asserted any claims or made any allegations against Globe Life or AIL, and we are not aware of any actions being contemplated by the SEC or the DOJ. To the extent there's further information to share, we will update you accordingly.

As we previously disclosed regarding data privacy and the threat actor extortion attempt, we are working with federal law enforcement in an active investigation. As you can understand, out of respect for this process, we will not be getting into specifics and have nothing further to add beyond what was included in our 8-K filing last week. While these investigations are ongoing, there has been no material impact on the Company's systems and business operations.

I will now 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 $40 million, up $6 million from the year-ago quarter. Net investment income was $285 million, up 7% or $18 million from the year-ago quarter. The increase is largely due to the 5% growth in average invested assets over that period.

In addition, higher interest rates also contributed to the higher growth rate. Required interest is up 5.3% over the year-ago quarter, slightly higher than the 5% growth in average policy liability. For the full year, we expect net investment income to grow between 7.5% and 8.0% due to the combination of the favorable interest rate environment and steady growth in our invested assets, while required interest is anticipated to grow around 5%. This combination of our net investment income growing at a higher rate than our required interest results in the growth of excess investment income by approximately 25% to 27%.

Now regarding our investment yield,

In the third quarter, we invested $82 million in investment-grade fixed maturities, primarily in the financial and industrial sectors. These investments were at an average yield of 6.2%, an average rating of A- and an average life of 30 years. This amount is lower than normal this quarter as we invested approximately $120 million in commercial mortgage loans and limited partnerships with debt-like characteristics and an average expected cash return of approximately 9.6% and contributed $200 million into a new Company-owned life insurance program, which is expected to provide enhanced risk-adjusted, capital-adjusted returns over time. None of our direct investments in commercial mortgage loans involve office properties. These non-fixed maturity investments are expected to produce additional cash yield over our fixed maturity investments while still being in line with our conservative investment philosophy.

For the entire fixed maturity portfolio, the third-quarter yield was 5.25%, up 6 basis points from the third quarter of 2023, but down 1 basis point from the second quarter. As of September 30, the portfolio yield was 5.24%. Including the cash yield from our commercial mortgages and limited partnerships, the third quarter earn yield was 5.43%.

Now regarding the investment portfolio,

Invested assets are $21.5 billion, including $19.1 billion of fixed maturities at amortized cost. Of the fixed maturities, $18.5 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 investment portfolio has a net unrealized loss position of approximately $743 million 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 48% from the year-ago quarter. This percentage is now at its lowest level since 2007. The portion of our fixed maturity portfolio comprised of BBB securities has declined in recent periods as we have been able to find better relative value and higher-rated securities given current spreads. While this ratio is still high relative to our peers, a reminder that 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.

The below investment grade bonds remain at historical lows of $556 million compared to $493 million a year ago. The percentage of below investment grade bonds to total fixed maturities is 2.9%.

At the midpoint of our guidance, for the full-year 2024, we expect to invest approximately $1.1 billion to $1.3 billion in fixed maturities at an average yield of 5.8% to 5.9% and approximately $400 million to $500 million in commercial mortgage loans and limited partnership investments with debt-like characteristics at an average expected cash return of 8% to 10%. Also at the midpoint of our guidance, we expect the average yield earned on the fixed maturity portfolio to be around 5.25% for the full year 2024 and slightly lower at approximately 5.24% for the full year 2025. With respect to our commercial loans, limited partnerships, and Company-owned life insurance, we anticipate the yield impacting net investment income to be in the range of 8% to 9% for 2024 and 7% to 8% for 2025.

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 share repurchase program, available liquidity, and capital position.

In the third quarter, the Company repurchased approximately 5.8 million shares of Globe Life Inc. common stock for a total cost of just over $580 million at an average share price of $100.34. To date in the fourth quarter, we have purchased approximately 190,000 shares for a total cost of approximately $20 million at an average share price of $104.74, resulting in repurchases year to date of 9.9 million shares for a total cost of $930 million at an average share price of $93.57. For the quarter, share repurchases were higher than anticipated as we took the opportunity to accelerate and increase share repurchases given the favorable market conditions and the additional capital raised during the quarter as the net proceeds from refinancing the term loan and the issuance of the senior note were about $100 million higher than previously assumed.

Including shareholder dividend payments of $22 million for the quarter, the Company returned approximately $602 million to shareholders during the third quarter of 2024 and has returned approximately $995 million year to date for 2024. We anticipate distributing approximately $21 million to our shareholders in the form of dividend payments for the remainder of 2024.

The Company's excess cash flow, as we define it, results primarily from dividends received by the Parent from its subsidiaries, less the interest paid on debt, and is available to return to shareholders in the form of dividends through share repurchases. At this time, given the acceleration of share repurchases during the year, we anticipate using our remaining excess cash flow to reduce our commercial paper balances to more normal levels. As such, at the midpoint of our guidance, we do not anticipate additional share repurchases.

Now let me provide an update on a couple of initiatives to increase available capital.

During the quarter, we executed two external reinsurance transactions. The first, amended an existing financial reinsurance agreement; and the second is a reinsurance agreement to reinsure approximately $460 million of our in-force annuity reserves, which is anticipated to be effective on November 1. These transactions are expected to provide $100 million of additional excess cash flow at the Parent by the end of the year. In addition, we continue to evaluate the opportunity to manage capital under an economic framework available in Bermuda, and we expect to conclude this work in 2025.

In terms of Parent liquidity, the Parent began the quarter with liquid assets of approximately $35 million and ended the quarter with approximately $85 million of liquid assets. We anticipate ending the year with liquid assets within our targeted range of $50 million to $60 million.

Our goal is to maintain our capital at levels necessary to support our current ratings. Globe Life targets a Consolidated Company Action Level RBC Ratio in the range of 300% to 320%. As discussed on previous calls, our Consolidated RBC Ratio was 314% at the end of 2023. For 2024, we currently estimate that no additional capital is needed to maintain our consolidated RBC target of 300% to 320%.

Now with regards to policy obligations for the current quarter,

As we discussed in prior calls, we have included within our 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 each year, we update both our life and health reserve assumptions. The remeasurement exhibit provides details on the overall impact of the assumption changes by distribution channel. For the quarter, the overall remeasurement gain of $61 million reflects a $46 million gain from life and health assumption changes and a $15 million gain from experience fluctuations in the quarter.

For the quarter, the life remeasurement gain of $71 million resulted in lower life policy obligations; $57 million was related to the assumption changes. This is higher than what we had anticipated and reflects recent experience trends for mortality and lapses. The health remeasurement loss of $10 million resulted in higher health policy obligations and was primarily related to assumption changes. These updated health assumptions anticipated higher future claims as a result of product changes, primarily at Family Heritage Life and AIL designed to enhance the value of these policies to our policyholders.

Now 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 $12.20 to $12.40. The $12.30 midpoint is higher than our previous guidance and reflects the recent favorable underwriting income results and the higher share repurchases than previously anticipated for the year.

With regards to 2025 guidance,

For the full-year 2025, we estimate net operating earnings per diluted share will be in the range of $13.20 to $13.90, representing 10% growth at the midpoint of the range. At the midpoint of our guidance, we anticipate premium revenue growing at 4.5% to 5.0% for life and 7.5% to 8.5% for health. We anticipated underwriting margins as a percent of premium to be in the range of 39% to 42% for life and 26% to 28% for health. In addition, we anticipate net investment income to experience flat to low single-digit growth next year and required interest to grow in the range of 3.0% to 3.5% due to a reduction in assets and policy reserves related to the annuity reinsurance transaction.

Although 2024 statutory results are not final for the year, at this time, we anticipate Parent excess cash flows available to return to shareholders in 2025 will be approximately $575 million to $625 million. This is higher than 2024 due to the anticipated increases in statutory earnings in 2024 over 2023 and reflects the favorable impact of statutory valuation changes.

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

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

Thank you Tom. To sum up our comments, I am very encouraged with the Company's overall operational performance and financial results this year, and I believe that we are well positioned for strong growth in 2025. With that, we will now open up the call for questions.

QUESTIONSANDANSWERS

Jimmy Bhullar - JPMorgan Chase & Co. Inc. - Analyst

Hi, good morning. So first, just a question on life margins. If we take out the remeasurement gain, the margin is still better than it has been in a while. And so wondering if it is just an aberration and normal volatility in claims experience or are you seeing anything that would suggest that claims are maybe declining, COVID or non-COVID claims?

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

Yes, Jimmy, thank you for the question. I think we are seeing claims improve. So I think we are seeing continued favorable claims. And so we would like to see that continue for a few more quarters but are pleased with kind of where it is right now.

Jimmy Bhullar - JPMorgan Chase & Co. Inc. - Analyst

And then on the -- I thought, overall, your results were pretty strong just the higher lapses in AIL and in Direct Response. Any color on what is going on there, and what your expectations are for those businesses?

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

You know, I think it is important to note that lapses fluctuate from quarter to quarter. And we are actually fairly pleased with the resiliency of the business in face of all that we have been going through. And actually, I think we are seeing an impact of some of the continued general economic conditions to our customers.

So I think at AIL, in times of economic stress, we do see some higher lapses. And I think the AIL results are fairly consistent with the lapse rates we have seen in times of economic stress. So that is kind of where -- kind of the way that we are thinking about it right now, Jimmy.

Jimmy Bhullar - JPMorgan Chase & Co. Inc. - Analyst

Okay. And then just lastly, on your guidance, you mentioned no additional share buybacks. I am assuming you are mentioning -- you are talking about 2024, but what is the buyback assumption embedded in your 2025 EPS guidance?

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

We will give more guidance on the buyback assumption in our next call. But with -- we did give guidance on the excess cash flows, which is up about $200 million, which is indicative of some additional buybacks that we would anticipate next year as well.

Jimmy Bhullar - JPMorgan Chase & Co. Inc. - Analyst

And the cash flow number you are referring- $600 million is the number you are referring to, right?

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

Yes.

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

Yes and Jimmy, I would say that just to confirm that Tom's comment did relate to just for the remainder of 2024, so we do have the excess cash flow anticipated at the $575 million to $625 million for 2025. And again, absent some other use of those funds, we would anticipate that we would be using those for buybacks. We will anticipate going back to our normal process of, hey, we have got excess cash flow coming in throughout the year. We are going to evaluate the use of those funds and absent some better alternative uses, using those -- continuing to use those to fund buybacks.

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

And then Jimmy, I was going to say you are correct. Q4, no more planned other than the $20 million that we have completed so far.

Jimmy Bhullar - JPMorgan Chase & Co. Inc. - Analyst

Thanks, again.

Wes Carmichael, Autonomous Research.

Hi, thanks. Good morning. On the unlocking related to the assumption review in life, can you just talk about what drove that in terms of the assumptions? I think you mentioned mortality and lapse? But is there also any impact to go-forward run-rate?

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

Well, I think the -- clearly, the assumption unlocking is related to our views -- our latest views of mortality and lapse. And that does actually impact a bit of a more favorable run rate from a policy obligation perspective. So that is reflected in the guidance I gave you as far as our underwriting margin ranges. That is fully reflected within those ranges.

Wes Carmichael - Autonomous Research LLP - Analyst

That makes sense. I guess I just think about, there has been a string of kind of -- favorable remeasurement gains. But with the assumption unlocking, does that kind of reset that to where you would not really expect any more favorable kind of remeasurement gains coming through the P&L?

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

Yes. It does reset that. The assumptions reflect our latest estimates for mortality, morbidity, and lapses. And they are based on our observable long-term trends and not just the last couple of quarters that have been favorable. So as we update and get additional experience, we will continue to update those assumptions.

So I think, clearly, the mortality expectations have improved, and in the last couple of quarters, near-term results have been favorable, right. So if they continue, then we are likely to see those being more favorable than our long-term assumptions and would result in remeasurement gains. So I think if the near-term results continue, we could see some favorable remeasurement gains relative to the assumptions, and what I would say is, again, our guidance anticipates -- the range of the guidance anticipates what we believe would be variations within that.

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

Yes. Wes, I think it is really important to think about the assumptions that are getting reset are really based on overall long-term assumptions and the modeling that we have based on our book of business. And while the really -- the recent results are input into that model, you do not, each year -- just reflect those assumptions based on really what we are seeing in the last few quarters.

So it is based on a much longer view of that, and we are seeing some really favorable results right now. And while clearly, the long-term assumptions, we think they are improved from where we were a year ago, as Tom said, if we continue to see some mortality at the level that we are -- we have been experiencing in the last couple of quarters, we very well could have some remeasurement gains still in the future.

Wes Carmichael - Autonomous Research LLP - Analyst

Got it, that is all really helpful. Thank you. And then my last question, I guess, I think you filed an 8-K in the quarter regarding the EEOC, and I think the issue perhaps relates to your agents and whether they should be classified as independent contractors or employees. But can you maybe just talk about where that issue stands and any other recent developments there?

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

Do not have any significant update from what we put in there. But just as a reminder, the EEOC's investigation findings are not binding, and there’s administrative processes that could lead to a resolution on that. And we do have a long history of successful outcomes where courts have previously agreed with our position and determined that American Income sales agents are independent contractors. And as we noted in the 8-K, three of the individual complainants that have asserted Title VII claims against us, in private litigation, each of those claims have been dismissed with prejudice.

Wes Carmichael - Autonomous Research LLP - Analyst

Thank you.

John Barnidge - Piper Sandler Companies - Analyst

Good morning. Thanks for the opportunity. Maybe on the actuarial assumption review, with recent headlines talking about obesity levels having peaked, are you now factoring impact from GLP-1 drugs into your forward assumptions on mortality? Thank you.

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

John, we are not factoring in the forward improvement in our mortality assumptions from those drugs.

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

I think that is an area that we continue to really look at and study and we will see how those actually emerge. As Tom said, we will not try to build those in from a future view. And once we really start seeing the impact, that is how it will really be taken into account.

I think one of the challenges that we have is for our particular insured population, it is always getting -- as we have talked about on previous calls, getting access to those types of drugs, and having the affordability and availability to them. And so we want to make sure that it is hitting our insured base before we start working those in.

John Barnidge - Piper Sandler Companies - Analyst

That makes sense, and my follow-up question on 2025 guidance, does that include a view on freed-up capital through a Bermuda platform? And how do you view the total addressable market for that platform with Globe's liabilities? Thank you.

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

John, it does not include anything related to any final conclusions on Bermuda. We are still in the evaluation phase. We expect to conclude that in 2025. And then one of the benefits of Bermuda -- is it does take a little bit of time to get the benefits through reciprocal jurisdiction status that is required. So it will be overtime that if we conclude to move liabilities to Bermuda that we see benefits to it.

John Barnidge - Piper Sandler Companies - Analyst

Thank you.

Andrew Kligerman - TD Cowen - Analyst

Hey, good morning. So I am looking at the average -- I am sorry, the quarterly average producing agent count, and American Income, up 10; Liberty, up 14; Family Heritage, up 8. Could you give a little backdrop? I mean, I know you have touched on middle management, but how sustainable is that without giving guidance? And can you keep adding middle management? Can you keep adding producers? Are these numbers that are one-off, or are they potentially sustainable over the next few years?

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

Well, what we like to see is that growth in the middle management count, because that really is the sustainable growth going forward. It is those middle managers that are out in the field recruiting, training, and onboarding new agents. And so that is one of the key metrics we generally look at. And so as we reflected more so on the sales guidance, kind of have to have strong growth on the agent count side to support that.

But my guidance for 2025 on the sales growth in the agencies, I think it is all very robust. And you look at -- we have had quarter-over-quarter agent count growth that has been sustainable, particularly at American Income and Liberty. If I go back to the last quarter, in Q2, American Income had 13% growth in agent count, and Liberty had 16% count -- agent count growth. And in Q1, American

Income had 15% growth, and Liberty had 14% growth.

So those are all, in my mind, very sustainable going forward because it is supported by double-digit management count growth underneath that, and so that is why we kind of look at that agent count growth as a leading indicator to our future sales growth. So we like the momentum that we are seeing on the agent count side that should translate well into 2025.

Andrew Kligerman - TD Cowen - Analyst

Very helpful, and then just shifting over to the health margins with Globe writing a lot of Medicare supplement, I imagine that is really what's getting hit on the margins. Could you talk about your ability to reprice that book and what you would need to go through with regulators to change the pricing.

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

Yes. We actually look at rate increases, look at the medical trend each year, and we actually go through our book and file rates -- rate increases, if needed, with regulatory authorities. We have had really good results as far as getting those rate increases through. And so we are right in the middle of that process right now, and we would expect those rate increases to become effective in 2025. There is a little bit of a lag sometimes between when we see the experience and when we get the rate increases. So we are playing a little bit of catch-up right now, but we anticipate getting appropriate rate increases for next year.

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

Yes. Andrew, the one thing I would just add to that is just a reminder that on that Med supp business, it does have that 65% minimum loss ratio that we need to see over time. And then that is where our team is really, as Tom mentioned, very active and just trying to make sure that we will get our annual reviews and rate increases, you know put in.

You can have a little bit of a lag. So if we had to have a little bit higher claims, let's just say in this year, you put in your rate increases. You should make it up next year and then just-- kind of depending on how then the utilization and cost trends take place in the following year.

Andrew Kligerman - TD Cowen - Analyst

Super helpful. Thanks.

Elyse Greenspan - Wells Fargo Securities LLC - Analyst

Hi, thanks. Good morning. My first question, I guess, goes back to the capital discussion. You guys were considering M&A earlier in the year before the stock pulled back. Is there a certain level where you would consider transactions again? And then on the capital side of things, is the intention that you guys will start buying back your stock once -- at the start of the first quarter of next year?

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

Yes. Let me start with the M&A discussion. Historically, we focus and have been pretty selective on things that are properties in our target market area. We like properties that have exclusive distribution or distribution that we think that we have expertise in being able to grow as well as products in the market, that middle income market that we compete in, and so that is how we kind of think about it.

Those opportunities come along, every so often, and we evaluate those. And so we would continue to do that in the future to the extent that it met those criteria around our strategy from an acquisition perspective. And then I think as we mentioned earlier, related to the question on stock buyback, we would go through next year and more so our ratable process where we typically execute that throughout the year.

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

Yes, and I would anticipate that we would start that in the first quarter. And then we will -- you know it's kind of our cash management process that we have throughout the year that we release that, and we are getting dividends up, we will start getting dividends, ordinary dividends from the subsidiaries in Q1. And then that will -- again, as we evaluate that, and absent another better alternative, I would see us starting those again in Q1.

Elyse Greenspan - Wells Fargo Securities LLC - Analyst

Thanks, and then you know have you guys said how much of your fixed income investments are in floating rate securities, and as we start to see interest rates perhaps move down a bit more, would you guys in 2025 expect to invest more in some of those other investments like commercial mortgage loans, limited partnerships, et cetera?

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

Yes, so pretty much all of our commercial mortgage loans and limited partnerships are in floating rate investments, and so that is a little bit over $1 billion that we have in those floating rate assets. Currently, those total -- I may call it the alternatives to fixed investment or fixed income securities, it is about 7.3%. We would anticipate probably, I think in 2025, 25% or 30% of our total investments, acquisitions that we would be making over the course of the year, and we would probably-- somewhere close to $1.5 billion that we would look to invest in 2025. So, again, roughly 25% or 30% of that we would anticipate being in the CML and the LPs. And so we would be growing our exposure into those a little bit in 2025 as well.

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

Yes, and just on the liability side, we do have floating rate debt as well. So our commercial paper and our term loan are both floating rate debts that kind of offsets with lower financing costs if rates were to come down a little bit.

Elyse Greenspan - Wells Fargo Securities LLC - Analyst

Thank you.

Wilma Burdis - Raymond James Financial, Inc - Analyst

Hey, good morning. Could you guys just go a little bit more on what drove the negative health remeasurement gain? I thought you talked about something about product changes? Was it a little bit underpriced? Can you just kind of talk in more detail about that? Thanks.

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

Sure Wilma. So a couple of things drove it. We have had some pretty favorable health experiences over the last couple of years, particularly during the pandemic. So we want to make sure that our customers are receiving good value from their health products. And so we are making some product changes to enhance the value to the policyholders.

The other piece of that is on Family Heritage. Largerly those products have a return of premium benefit, and that return of premium benefit is net of claims paid. So given we have got favorable claims experience, the return of premium benefit is also a little bit more valuable. So we have updated our assumptions around that as well.

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

Yes. One thing I just probably want to clarify is that that adjustment really is on those supplemental health products underwritten by Family Heritage, a little bit from Liberty, and then American Income. It does not impact any of the Medicare supplement products that we have at United American.

Wilma Burdis - Raymond James Financial, Inc - Analyst

Okay thank you, and then could you talk a little bit about what you guys' plan to do with the leverage over time? Is there a target to get back to the lower 20% range? And I guess sort of related to that, is it possible to call out the amount of the valuation manual change that will be reflected in 2025 cash flow? Thanks.

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

Yes. Well, we are still targeting 23% to 27% debt cap ratio. That is kind of the range that we have historically targeted. So no change in that, and then the valuation manual changes, you know we estimate in excess of $120 million of benefit.

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

Yes, and Wilma, I think we kind of project we would be at the top end of that range. That is kind of our target range at the end of 2024. And then just through normal growth, that would tend to come down a little bit over 2025, and so then we will continue to look at that as that drops and how we think about our leverage ratios going forward.

Wilma Burdis - Raymond James Financial, Inc - Analyst

Okay, thank you.

Suneet Kamath - Jefferies Financial Group Inc. - Analyst

Yes, thanks. Good morning. I know you are still contemplating use of a Bermuda -- I guess subsidiary Bermuda solution. But if you decide to sort of pull the trigger on that, should we think about that capital need as sort of being a potential use for some of that $575 million to $625 million cash flow to the holding Company?

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

We do not -- I would say no. I think-- our opportunity with Bermuda is to move towards an economic valuation framework, which is likely to release the need for capital, so lower asset requirement than what we need in the States. So we feel that as-- really an opportunity to raise capital rather than use capital.

Suneet Kamath - Jefferies Financial Group Inc. - Analyst

Yes. I thought you had mentioned something about -- it might take some time or there might be a lag before you start to see the benefits, that is why I was asking the question.

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

Yes. The lag is just as you move business to Bermuda, you need to make sure that you have appropriate collateral for reserve credit. And so Bermuda has what is called a reciprocal jurisdiction status, but it takes a few accounting periods to be able to qualify for that status.

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

Yes, and so we would not anticipate that -- well, one is that included in the $575 million to $625 million is no anticipated benefit from any Bermuda transaction. And I think specifically to your question, it really shouldn't take from that anything that we are going to do or that we may do in Bermuda.

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

I was just going to say and if we did move forward, as Tom mentioned, we would be completing that analysis in 2025. So the lag on the benefit is more likely in a 2026 timeframe.

Suneet Kamath - Jefferies Financial Group Inc. - Analyst

Okay and then I guess, I just want to come back to the guidance. Are you assuming that you get additional remeasurement gains embedded in that 2025 guidance? And if you are, is there a way to think about how much of that 10% growth, midpoint to midpoint, is from remeasurement?

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

What I'd say is that our range of underwriting margin results really reflects kind of our view of obligation results, which clearly, we will have fluctuations during the course of the year. And as I mentioned earlier, if our near-term results -- mortality results over the last few quarters continues, we are likely to see remeasurement gains. And so we have tried to incorporate that view in the range of our underwriting margins in the guidance.

Suneet Kamath - Jefferies Financial Group Inc. - Analyst

Got it, and is it sort of like bottom end of the range is no incremental remeasurement and the top end of the range has -- is that the right way to think about it?

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

I think that is a good way to think about it.

Suneet Kamath - Jefferies Financial Group Inc. - Analyst

Great. Thank you.

Tom Gallagher - Evercore ISI - Analyst

Good morning. First question, just on the Bermuda capital possibility potential. Are we talking about a few hundred million dollars of capital that might get freed up? Or do you think it might be much larger than that? I just want to get a broad sense for how consequential that might be.

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

That is exactly the work that we are going through right now, is just what is the opportunity there. Our liabilities are long, and in an economic framework, sometimes the requirements with regards to long-duration liabilities and an asset portfolio that's a little bit shorter. Those benefits aren't as big as what might be expected. So that is really where the evaluation is what is the potential there, and that is kind of the decision point as far as whether we move forward or not.

Tom Gallagher - Evercore ISI - Analyst

Got it. So that is still -- you are not far along enough in the process to really get a sense for the range just yet. Is that fair?

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

Correct, correct. Right in the middle of valuating, yes.

Tom Gallagher - Evercore ISI - Analyst

Okay. So as we think about what your new assumptions are after going through the actuarial review, are you still assuming some level of excess mortality persist here or have you pretty much eliminated that now? Are you assuming we are back to pre-pandemic level going forward?

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

Yes, we are not really back to pre-pandemic levels at this point. We see causes that continue to be higher than pre-pandemic levels. So we have not -- we do not necessarily have an explicit assumption for excess mortality. What we have tried to do is build into our assumption our current best views as far as mortality and lapses at this point in time based upon long-term experience that we have had, and we will continue to update as near-term experience emerges.

Tom Gallagher - Evercore ISI - Analyst

Got you, and then just two other quick ones, if I could. So if I heard you correctly, to answer Wilma's question, it sounds like, we will call it, the sustainable amount of free cash flow that you expect to emerge in 2025 would be in the high $400 million range, maybe like $480 million after you back out the benefit from the valuation changes. Is that about the right level to think about right now?

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

I think we are maybe a little higher than that just because of -- I think the valuation changes will have continued benefit in 2025 that will carry into 2026. So I do think that there are some -- I think they will be diminished over time, but I think there will be some additional benefits in the future.

Tom Gallagher - Evercore ISI - Analyst

Got it. So there's a little bit of a tail on that that persist?

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

There is.

Tom Gallagher - Evercore ISI - Analyst

Okay and then finally, just how much is the term loan pay down that you expect to do in Q4?

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

I do not think it is a term loan paydown just looking at reducing some of the commercial paper balances. So as you see, that had popped up in Q3 as we were using that to, I am going to say, prefund some of the repurchases into Q3. So we would anticipate bringing that down in that $50 million to $100 million.

Tom Gallagher - Evercore ISI - Analyst

Got you. Okay, thank you.

Ryan Krueger - Keefe, Bruyette & Woods, Inc. - Analyst

Hey, thanks. Good morning. On the admin expenses, it seems like they were pretty elevated in the quarter. I think it looks like they're going to be higher in the fourth quarter too. Can you comment on what exactly is driving that, and what is your expectation for 2025?

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

Yes. So admin expenses were higher than what we had anticipated. We are seeing a little bit higher employee costs, including benefit costs, a little bit more technology costs as we move to software as a service as well as a little bit higher legal expenses that we have seen in the third quarter, and we would expect to continue in the fourth quarter as well. So those are kind of some of the reasons why we are a little bit higher than what we had anticipated.

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

One thing I would add to that, Ryan, is when we think about -- IT is a big driver of that, and we have really been making a lot of investments over the last few years, last couple of years, especially, as we do think around improving our data analytics capabilities and data management and a lot of that is moving offsite to cloud. And so then the costs of that are running higher as we think of that software as a service and renting space out there, if you will.

But then we are really focused on- in our admin area around improving our customer experience and the digital experience. And so we have had a lot of software and applications, and hardware involved with that and our policy administration, improving our customer service. Several of those things came online here in 2024, and so that is what is kind of really driving a fairly decent portion of the bump as we think of 2023 to 2024.

If we look forward to 2025, we do see it probably growing. I think the admin as a percentage of premium still being around that 7.4%, so roughly the same as where we have, so roughly kind of growing, if you will, with premium growth. That is really what our goals are is to make sure we are keeping that as manageable as possible as we kind of -- and making sure that we are realizing the value from some of these investments as well.

Ryan Krueger - Keefe, Bruyette & Woods, Inc. - Analyst

Got it thanks, and then on the reinsurance you mentioned, was it -- I guess, is there any costs we should be considering of doing so? And do you see any additional opportunities for reinsurance?

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

I do not -- there are not any clear costs that I think should be reflected. I think we will just continue to evaluate reinsurance as we look at managing capital, managing risk overall for the organization.

Ryan Krueger - Keefe, Bruyette & Woods, Inc. - Analyst

Okay, great. Thanks.

Jimmy Bhullar - JPMorgan Chase & Co. Inc. - Analyst

Hi. I just had a couple of other questions. One is on the Med supp business. It seems like claim levels for many senior products -- senior health products have increased for a number of your peers in health insurance. And there’re going to be high disenrollment from Med Advantage plan. So are you seeing any of that? And should -- if that does happen, should this help sales of Med supp plans?

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

Well, to the extent -- I think we have seen that in the past. To the extent there is some disruption on the Medicare Advantage side, there's typically a benefit for the Medicare supplement market. As you continue to see some of that disruption currently, we think that could be a tailwind for us over the coming period. So a little bit of wait and see, that market, as you know, definitely volatile. But to the extent you see disenrollments there, it could benefit us on our Medicare supplement side.

Jimmy Bhullar - JPMorgan Chase & Co. Inc. - Analyst

And then just lastly, you have had elevated legal expenses, not as part of operating but in net income. Fair to assume that that continues in the short term, and if it does, I am assuming that that is not included in your free cash flow numbers.

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

Yes. I mean, I do think, Jimmy, that it probably will. We do anticipate that it is probably going to continue at some elevated levels here at least for the short term. There really has been kind of a change in just how some of the legal cases are being worked and they are becoming more complex in the system and just taking longer to resolve and adjudicate, which is driving up some of those costs as well. And so it is actually reflected in our overall thoughts around our excess cash flows.

Jimmy Bhullar - JPMorgan Chase & Co. Inc. - Analyst

Okay. All right, thank you.

Operator

There are no further questions on the line, so I will now hand you back to your host for closing remarks.

Stephen Mota - Globe Life Inc – Sr. 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.