Q4 2021 Earnings Conference Call

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Corporate Participants

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

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

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Conference Call Participants

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

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

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Presentation

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

Thank you. Good morning everyone. Joining the call today are Gary Coleman and Larry Hutchison, our Co-Chief Executive Officers; Frank Svoboda, our Chief Financial Officer and Brian Mitchell, our General Counsel.

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our earnings release, 2020 10-K and any subsequent forms 10-Q on file with the SEC. Some of our comments may also contain non-GAAP measures. Please see our earnings release and website for discussion of these terms and reconciliations to GAAP measures.

I will now turn the call over to Gary Coleman.

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

Thank you Mike, and good morning everyone. In the fourth quarter, net income was $178 million or $1.76 per share compared, to $204 million or $1.93 per share a year ago. Net operating income for the quarter was $172 million or $1.70 per share, a decline of 2% per share from a year ago.

On a GAAP reported basis, return on equity was 8.8%, and book value per share was $85.97. Excluding unrealized gains and losses on fixed maturities, return on equity was 12.3% and book value per share is $58.50, up 10% from a year ago.

In our life insurance operations, we continue to see improved persistency compared to pre-pandemic levels. In the fourth quarter, premium revenue increased 8% from a year ago

to $733 million. Life underwriting margin was $146 million, down 11% from a year ago. The decline in margin is due primarily to higher COVID related claims, which Frank will discuss further in his comments.

In 2022, we expect life premium revenue to grow 6% to 7%, and at the midpoint of our guidance we expect underwriting margin to grow around 29% due primarily to an expected decline in COVID claims.

In health insurance, premium revenue grew 8% over the year-ago quarter to $313 million, and health underwriting margin was up 12% to $81 million. The increase in underwriting margin is primarily due to increased premium and improved claims experience. In 2022, we expect health premium revenue to grow 6% to 7%, and underwriting margin to grow around 3%.

Administrative expenses were $70 million for the quarter, up 11% from a year ago. As a percentage of premium, administrative expenses were 6.7%, compared to 6.5% a year ago. For the year, administrative expenses were 6.6% of premium, same as last year.

In 2022, we expect administrative expenses to grow 9% to 10% and be around 6.8% of premium due primarily to higher IT and information security costs, employee costs, a gradual increase in travel and facilities costs and the addition of Globe Life Benefits division.

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

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

Thank you Gary. I will now discuss each distribution channel. At American Income, life premiums were up 11% over the year-ago quarter to $364 million, and life underwriting margin was down 3% to $102 million. The higher premium is primarily due to improved persistency and higher sales in recent quarters. In the fourth quarter of 2021, net life sales were $74 million, up 4%. The increase in net life sales is due to increased productivity. The average producing agent count for the fourth quarter was 9,530, down 1% from the year-ago quarter, and down 4% from the third quarter. The producing agent count at the end of the fourth quarter was 9,415.

At Liberty National, life premiums were up 7% over the year-ago quarter to $79 million, while life underwriting margin was down 12% to $12 million. The decline in underwriting margin was caused by higher claims expense. Net life sales increased 4% to $19 million and net health sales were $8 million, up 7% from the year-ago quarter due to increased agent productivity. The average producing agent count for the fourth quarter was 2,724, up 1% from the year-ago quarter, and up 1% compared to the third quarter. The producing agent count at Liberty National ended the quarter at 2,804. While 4% sales growth may not appear dramatic, we are very pleased with the ability of both Liberty and American Income agencies to build on the significant increases we saw a year ago. Fourth quarter sales for 2021 at Liberty and American Income are higher than the fourth quarter of 2019 by approximately 29% and 25%, respectively.

At Family Heritage health premiums increased 8% over the year-ago quarter to $89 million, and health underwriting margin increased 16% to $25 million. The increase in underwriting margin is due to increased premium and improved claims experience. Net health sales were down 13% to $18 million due to a lower agent count. The average producing agent count for the fourth quarter was 1,194, down 18% from the year-ago quarter, but up 4%

from the third quarter. The producing agent count at the end of the quarter was 1,157. We will continue to focus on sales and recruiting at Family Heritage in 2022.

In our Direct to Consumer division of Globe Life, life premiums were up 6% over the year-ago quarter to $237 million, while life underwriting margin declined 47% to $12 million. Frank will further discuss the decline in underwriting margin in his comments. Net life sales were $34 million, down 14% from the year-ago quarter. We expected this sales decline due to the high level of sales growth experienced in the fourth quarter of 2020. Although sales declined from the fourth quarter of 2020, we are still pleased with this quarter's sales results, as it was 13% higher than the fourth quarter of 2019.

At United American General Agency, health premiums increased 12% over the year-ago quarter to $130 million. The health underwriting margin increased 7% to $20 million. The increase in underwriting margin is a result of increased premium. Net Health sales were $27 million, up 19% compared to the year-ago quarter. It is difficult to predict sales activity in this uncertain environment, but I will now provide projections based on trends we are seeing and knowledge of our business.

We expect the producing agent count for each agency at the end of 2022 to be in the following ranges: American Income an increase of 3% to 8%; Liberty National an increase of 3% to 18%; Family Heritage an increase of 12% to 30%. Net life sales for the full year 2022 are expected to be as follows: American Income an increase of 2% to 10%; Liberty National an increase of 8% to 16%; Direct to Consumer a decrease of 6% to an increase of 4%.

Net health sales for the full year 2022 are expected to be as follows: Liberty National an increase of 7% to 15%; Family Heritage an increase of 3% to 11%; United American Individual Medicare Supplement a decrease of 1% to an increase of 7%.

I will now turn the call back to Gary.

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

Thanks Larry. We will now turn to the investment operations. Excess investment income, which we define as net investment income less required interest on net policy liabilities and debt, was $59 million, down 4% from a year ago. On a per share basis, reflecting the impact of our share repurchase program, excess investment income was flat. For the year, excess investment income in dollars declined 2%, but on a per share basis was up 1%.

In 2022, we expect excess investment income to decline around 3%, but to grow around 1% on a per share basis.

As to investment yield

In the fourth quarter we invested $271 million in investment-grade fixed maturities, primarily in the municipal, industrial and financial sectors. We invested at an average yield of 3.49%, an average rating of A+, and an average life of 31 years.

We also invested $45 million in limited partnerships that have debt-like characteristics. These investments are expected to produce additional yield and are in line with our conservative investment philosophy. For the entire fixed maturity portfolio, the fourth quarter yield was 5.17%, down 12 basis points from the fourth quarter of 2020.

As of December 31, the portfolio yield was 5.17%. Invested assets are $19.2 billion, including $17.8 billion of fixed maturities at amortized cost. Of the fixed maturities, $17.1 billion are investment grade with an average

rating of A-, and below investment grade bonds are $702 million, compared to $841 million a year ago.

The percentage of below investment grade bonds to fixed maturities of 3.9%. Excluding net unrealized gains in the fixed maturity portfolio, below investment grade bonds as a percentage of equity are 12%. Overall, the total portfolio is rated A-, same as a year ago.

Bonds rated BBB are 54% of the fixed maturity portfolio. While this ratio is in line with the overall bond market, it is high relative to our peers. However, we have little or no exposure to higher risk assets such as derivatives, equities, residential mortgages, CLOs and other asset backed securities. Because we invest long, a key criterion utilized in our investment process is that an issuer must have the ability to survive multiple cycles. We believe that the BBB securities that we acquire provide the best risk-adjusted, capital-adjusted returns and that is due in large part to our unique ability to hold securities to maturity regardless of fluctuations in interest rates or equity markets.

For the full year 2022 at the midpoint of our guidance, we expect to invest approximately $900 million in fixed maturities at an average yield rate of around 3.9% and approximately $200 million in limited partnership investments with debt-like characteristic at an average rate of around 7%.

We are encouraged by the prospect of higher interest rates. Higher new money rates will have a positive impact on operating income by driving up net investment income. We are not concerned about potential unrealized losses that are interest-rate driven since we would not expect to realize them. We have the intent and, more importantly, the ability to hold our investments to maturity.

In addition, our life products have fixed benefits that are not interest sensitive. While we would clearly benefit from higher interest rates, Globe Life can continue to thrive in an extended low interest rate environment.

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

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

Thanks Gary.

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

In the fourth quarter, the Company repurchased 1.6 million shares of Globe Life Inc. common stock at a total cost of $145 million at an average share price of $90.97. The Parent ended the fourth quarter with liquid assets of approximately $119 million. For the full year, we spent approximately $455 million to purchase 4.8 million shares at an average share price of $95.11. The total amount spent on repurchases included $85 million from excess liquidity at the Parent. To date, in 2022, we have repurchased 230,000 shares for $23 million at an average price of $101.17.

In 2021, the Parent had approximately $450 million of excess cash flows available to be returned to shareholders. Of this amount, $80 million was paid to shareholders in the form of dividends, and $370 million was returned through share repurchases. Including our total share repurchases and the shareholder dividends, the Company returned $535 million to its shareholders in 2021.

For 2022, while 2021 statutory financials have not been finalized, we expect around $465 million to $470 million in cash flow to be available to the Parent before the payment of

interest on its debt and dividends to its shareholders.

After payments of interest on its debt, the Parent should have around $380 million to $385 million available to return to its shareholders either in the form of dividends or through share repurchases. This amount is lower than 2021, primarily due to higher COVID life losses incurred in 2021, and the nearly 15% growth in our exclusive agency sales, both of which result in lower statutory income in 2021 and thus lower dividends to the Parent in 2022 than were received in 2021.

Obviously, while an increase in sales creates a drag to the Parent's cash flows in the short term, they will result in higher operating cash flows in the future. As noted on previous calls, we will use our cash as efficiently as possible. We still 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 a primary use of the Parent's excess cash flows after the payment of shareholder dividends.

As previously noted, we had approximately $119 million of liquid assets at the end of the year as compared to the $50 million to $60 million of liquid assets we have historically targeted. We currently expect that approximately $25 million to $30 million of this amount will be needed for additional insurance company capital in 2022.

We will continue to evaluate the potential impact of the pandemic on our capital needs. And should there be excess liquidity, we anticipate the Company will return such excess to the shareholders in 2022. In our earnings guidance, we anticipate between $325 million and $350 million of share repurchases will occur during the year.

With regard to our capital levels at our insurance subsidiaries

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%. For 2021, since our statutory financial statements are not yet finalized, our consolidated RBC ratio is not yet known. However, we anticipate the final 2021 RBC ratio will be near the midpoint of this range.

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

For the year, the Company incurred approximately $140 million of COVID life claims, including $58 million in the fourth quarter. The claims incurred in the fourth quarter were approximately $23 million higher than anticipated primarily due to elevated levels of COVID deaths in both the third and fourth quarters, likely due to the impact of the Delta variant.

The Center for Disease Control and Prevention, or CDC, reported that approximately 115,000 U.S. deaths occurred due to COVID in the fourth quarter, a little higher than the 100,000 projected on our last call. In addition, after the end of last quarter, and based on actual debt certificates received by the agency, the CDC revised their estimate of third quarter deaths upward by approximately 28,000, indicating the impact of the Delta variant in the third quarter was worse than they originally reported. This is consistent with the adverse claims development we experienced related to the third quarter, the impact of which is included in our fourth quarter results.

Based on data we currently have available, we now estimate COVID losses on deaths occurring in the third quarter were at the rate of $3.9 million per 10,000 U.S. deaths, and

approximately $3.7 million per 10,000 U.S. deaths occurring in the fourth quarter. This is at the higher end of the range previously provided.

For the full year 2021, our losses averaged approximately $3 million per 10,000 U.S. deaths. The fourth quarter COVID life claims include approximately $27 million in claims incurred in our Direct to Consumer division or 11.5% of its fourth quarter premium income; approximately $10 million at Liberty National or 12.9% of its premium for the quarter; and approximately $16 million at American Income or 4.5% of its fourth quarter premium.

To date, we have experienced low levels of COVID claims on policies sold since the start of the pandemic. The vast majority, roughly 68%, of COVID claim counts come from policies issued more than 10 years ago and approximately 3% from policies issued in 2020 and 2021. For business issued since March of 2020, we paid 394 COVID life claims with a total amount paid of $5.2 million. The 394 claims comprised only 0.01% of the nearly 4 million policies issued by Globe Life during that time.

As noted on past calls, in addition to COVID losses, we continue to experience higher policy obligations from lower policy lapses and non-COVID causes of death. The increase from non-COVID causes of death are primarily medical related, including deaths due to heart and circulatory issues and neurological disorders. The losses we are seeing continue to be elevated over 2019 levels due at least in part, we believe, to the pandemic and the existence of either delayed or unavailable health care.

In the fourth quarter, the policy obligations relating to the non-COVID causes of death and favorable lapses were in line with projections at approximately $16 million. For the full year, we incurred approximately $78 million in excess policy obligations with about $46 million of those related to higher reserves due to lower policy lapses and $32 million related to non-COVID claims.

With respect to our earnings guidance for 2022.

We are projecting net operating income per share will be in the range of $8.00 to $8.50 for the year ended December 31, 2022. The $8.25 midpoint is lower than the midpoint of our previous guidance of $8.35, primarily due to higher non-COVID policy obligations related to better expected persistency and health underwriting income being slightly lower than previously anticipated.

We continue to evaluate data available from multiple sources, including the IHME and CDC to estimate total U.S. deaths due to COVID and to estimate the impact of those deaths on our in-force book.

For 2022, we estimate that we will incur COVID life claims at the rate of $3 million to $4 million per 10,000 U.S. COVID deaths. At the midpoint of our guidance, we estimate we will incur approximately $50 million of COVID life claims, assuming approximately 145,000 COVID deaths in the U.S., most of which are expected to occur in the first half of the year.

Now I would like to take a few moments to comment on some qualitative impacts of the new long-duration accounting standard that will be effective in 2023.

We anticipate being in a position to discuss the more quantitative impacts of the standard on our book of business after the second quarter of this year once we finalize and properly test our models, our assumptions, and the determination of current discount rates. To the extent we are in a position to discuss the quantitative impact sooner, we will do so.

Remember, nearly all of our business is impacted by the new rules, and we are required to apply historical data and future assumptions

on every one of our 16 million policies subject to the rules. Given the volume and complexity of computations, we need to ensure the computations have been validated with proper controls in place before discussing the quantitative impacts.

In general, this accounting change will have no economic impact on the cash flows of our business. Meaning it will not impact our premium rates, the amount of premiums we collect nor the amount of claims we ultimately pay. In addition, it will not influence us to change our business model of providing basic protection oriented products to the underserved and low- to middle-income market.

The accounting change will also not impact our capital management philosophies as this is a GAAP accounting change and will not impact the capital required by our regulators to be held at our insurance subsidiaries or the amount of dividend cash flow to the Parent, both of which are driven by statutory accounting rules. The accounting standard simply modifies the timing of when the profits emerge on our insurance policies.

With respect to the impact on earnings, overall, we anticipate our reported GAAP net income and net operating income to increase under the new standard. With respect to our reported underwriting income, we expect a relatively small change to our overall policy obligation ratios and expect the amortization of our deferred acquisition cost to be significantly lower in the near and intermediate term. This significant reduction in amortization is primarily due to the requirement to stop interest accruals on DAC asset balances and to unlock lapse assumptions, which will generally extend amortization periods beyond current schedules.

Both of these changes will result in less amortization being incurred as a percent of premium. Thus, we anticipate our reported underwriting income and our underwriting margin as a percent of premium to increase due to these changes. A portion of the expected increase in underwriting income will be offset by a reduction in excess investment income relating to the elimination of interest accruals on our DAC asset.

With respect to the potential impact to our equity, under the standard, we will elect a modified retrospective approach as of January 1, 2021. This standard requires a much more granular view of reserve sufficiency. For certain blocks that have embedded policy reserve deficiencies, we will be required to increase the policy reserve balance as of the transition date or January 1, 2021. We do not expect this adjustment to cause a significant change to equity, excluding AOCI, upon adoption of the standard.

We do, however, expect that our reported GAAP equity, including the effects of AOCI will be significantly reduced upon adoption. This is primarily due to the requirement to use current discount rates to re-measure the policy liabilities for AOCI purposes, which are lower than our current valuation rates that are based on historical investment strategies and assumptions.

Since current rates are lower than the rates assumed in valuing our policy liabilities for income statement purposes, we will have an unrealized interest rate loss that is recognized through AOCI. This is especially relevant for Globe given the high persistency of our products and the fact that we have many policies still on the books that were sold 30, 40 or even 50 years ago, when the interest rate environment was much higher than today.

While the required methodology requires the unrealized interest rate loss to be reflected in AOCI, it ignores the unrealized gains from underwriting margins on future premiums

that are available to fund future policy benefits and changes in interest rates, which has the effect of overstating the policy liability that will be reflected on the balance sheet upon adoption.

Given our strong persistency, this exclusion is especially impactful to Globe, due to our strong underwriting margins and low policy obligation ratio. The lower the ratio, the more future gains from future premiums that are excluded from the computation of the new liability.

Finally, as the average duration of our policy liabilities is over 20 years, the amount of the AOCI adjustment is expected to be larger than the AOCI market rate adjustment on our fixed maturity portfolio, will be sensitive to changes in interest rates, and will have the potential to be volatile going forward when the current interest rate used to determine the reported policy liabilities is reset each quarter.

Should interest rates decrease from period to period, we will see a decrease in our reported AOCI. If interest rates increase, we will see an increase in our reported AOCI. Again, none of these interest rate changes will impact the amount of claims we will pay in the future.

In summary, we expect the new guidance will be a positive to our net -- our GAAP net income and net operating income, and will initially result in a significantly lower GAAP equity, including AOCI due to the adjustments required in computing the policy liabilities to reflect current interest rates. While the new guidance will likely lower GAAP equity, including AOCI as of the transition date for many life insurance companies, we expect the impact will be amplified for Globe and other companies like Globe, that have a substantial portion of their business subject to the new guidance, reserves on policies issued many years ago, policy liabilities with long duration, and strong underwriting margins.

Following the transition date, we expect GAAP equity, including AOCI, to be more volatile as market rate adjustments impacting our policy liabilities will be greater than those impacting our fixed maturity assets. Given the non-economic impact on our business operations from these market adjustments due to our intent and ability to hold assets to maturity and the non-interest sensitive nature of our liability cash flows, we still believe that equity, excluding AOCI, will be a superior and more meaningful measure of Globe's financial condition going forward.

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

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

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

Question and Answers

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

Hi thanks, good morning. So first, just a question on claims on the life side. You mentioned non-COVID claims being high. Do you think some of those are related to the pandemic as well indirectly? Or are they independent of that and could stay elevated even once COVID abates?

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

We do think that a good portion of those are indirectly related to the pandemic. Seems to be just looking at trends that we are seeing across the U.S. would give an indication that some of these are -- at least can be attributed to either delayed in care or delay in care. So we do anticipate these starting to subside somewhat in 2022. And we anticipate that they will start to be less impactful over the course of 2022 but we do anticipate that we will still at least see some elevated levels throughout the year.

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

Okay. And has your view on margins being like longer term changed at all because of what is happened with COVID either because of any potential sort of adverse selection in your sales or just long-term health effects of the pandemic?

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

You know at this time Jimmy, it is really hard to determine what that impact will be. Right now, our views are not -- have not been changed with respect to that. Whether it has some potential negatives due to COVID and, if you will, the long COVID that's being talked about, having an adverse impact on mortality. There is also the possibility of some positive impacts to mortality in the future, whether that be through improved vaccines, the use of this particular vaccine, and other type of factors that might normally cause some better mortality.

So at this time, it is a little bit early. We will continue to look at the data and see what's out there and take that into consideration.

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

Okay. And just lastly, can you talk about like recruiting and retention, how that is, given the tight labor market? And how much of a tough environment it is given the market?

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

Sure. The new agent recruiting was down as expected in part because of the seasonality we experienced in the fourth quarter of this year and really the seasonality of last year. Our agent retention has actually increased over the last 2 years, particularly American Income because of the flexible work-at-home schedule. I would say that the -- we are seeing more candidates look at the agent opportunity. There is just so many available jobs in this labor market, it has been a little bit difficult to attract and also retain new agents. But I know we can grow our 3 agencies going forward.

Historically, we have been able to do that. And as an example, the economic downturn of 2008 to 2010, following that American Income had strong agency growth. And in 2018 and '19, where we had record low unemployment, American Income, Liberty, and Family Heritage all had strong growth. Jimmy our ability to grow the agencies, it really depends on growing middle management, expanding through new office openings and providing additional sales tools to our agents. And during 2022, we are going to open new offices in the 3 agencies. We will increase the number of middle managers in all 3 agencies, and are also providing additional sales technologies to support our agents. So as COVID declines, we expect to see the recruiting and agent counts pick up during the end of the first and the second quarter of this year.

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

Thank you.

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

Hello, can you hear me?

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

Yes.

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

Yes

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

Thank you for taking the question. You mentioned $27 million of the COVID claims came from direct to consumer. Any concern around that? Is it something to lead into that being as the biggest component of the COVID claims and not the biggest component of premium?

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

No, the -- it has a little bit more of an impact on DTC, kind of given their -- one, their simplified underwriting, their -- they tend to have a mortality that mirrors a little bit more closely that of the general U.S. population. And then just remember that their policy obligations are a much greater percentage of their premiums. And so we expect higher mortality just in general, within our DTC line than we do in our other agency lines. One of the things that we do look -- we look at what percentage of their claims are being paid related to COVID versus kind of the average for the entire company, and it is in line when you look at total claims, we also take a look at just what levels of increased activity we are seeing on our COVID claims versus what would be expected when looking at COVID deaths across the U.S. And again, we are comfortable that our risk profile really has not changed with respect to DTC.

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

Got it. And maybe just a quick follow-up on the recruiting question. As we looked at the American Income agents down 3% year-over-year, and the Family Heritage agents down 21%. The points were great as to the ability to grow. But why not in 2021? Why the drop off, particularly at Family Heritage?

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

I think 2021 is an extraordinary year in that we had COVID and I think in all 3 agencies, there was an equal or maybe a greater emphasis on production rather than recruiting. At Family Heritage, -- Family Heritage is a life insurance company -- excuse me, a health insurance company versus a life insurance company. And I think it was much more difficult to recruit health insurance in 2020 and 2021 than it was life insurance because of the extraordinary demand for life insurance. But in addition, Family Heritage is a much smaller -- or has much smaller

agencies than either Liberty National or American Income.

So middle managers at Family Heritage are much more involved in production then in recruiting. In the larger agencies of American Income and Liberty National the managers are primarily focused on recruiting rather than production. I think the last challenge at Family Heritage is that if you think about life insurance agencies have leads, we support virtual contact and presentations. And so it was easy to recruit through those virtual presentations. A health agent usually contacts health insurance without the benefit of leads, and those tend to be in-person, in-home presentations versus virtual. So again, it was more difficult to recruit with that situation.

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

Got it. And then just maybe lastly, real quickly on persistency. You highlighted that it was very good. Premium was up a terrific 8% in the quarter. Do you feel good about that from a claims standpoint going forward? Some have suggested a variety of insurance companies that there could be persistency anti-selection. How do you feel about the greater persistency in terms of the profitability going forward?

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

Well, Andrew, we are seeing the improvements in persistency both in the first year and renewal year. And -- but we have not seen anything to cause us to have concern that we would have anti-selection. I think it is -- again, it is more of the -- what we have talked about before that the pandemic has raised the awareness of the need for protection. And our policyholders, that is why they buy is for the pure protection. And so we have not seen indications there could be anti-selection. We really do not expect it. Now the persistency may not hold at the higher levels, higher than pre-pandemic levels for a longer period of time, that we do not know. The persistency this year is just a little bit less than it was for 2020, but we are still higher than pre-pandemic level. At some point, it could go back to pre-pandemic levels, but we do not expect there to be any extreme as far as anti-selection or things like that.

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

Awesome thanks so much.

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

Thank you. Can you maybe talk about average age of COVID deaths in 4Q '21 versus 3Q '21 for your insurance?

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

Yes. What we saw in the -- in our paid claims was about the same. It is -- we had about -- overall, about 62% of our deaths are over age 60. And that was a little bit about the same overall is what we really saw in Q2. What we are starting to see -- because a lot of those COVID deaths still are kind of hitting a little bit of the younger ages than what we had seen earlier in the pandemic. And of course, we also saw kind of more in the South in those paid claims in both Q3 and Q4. Q4 was probably about the same as

far as the geography was concerned as well, probably just a little bit more even in the South as we caught up on some of those deaths that had occurred in the third quarter.

When we kind of tried to sift through the numbers and look at more of our incurred claims, we are seeing just a slight trending upward on that average age. I do not have what that exact -- the exact age is. We are seeing a little bit more trend toward higher ages, which gives us an indication for the future anyway that we may be seeing the average age move forward a little bit as some of the younger ages get more vaccinated.

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

Great and then my follow-up question, with the employment market hot it makes it more challenging for commission like job recruitment. Can you maybe talk about the tools that are being brought to existing producing agents to drive productivity gains? Thank you.

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

Well, I think that it is not necessarily tools, but we obviously have additional technology we have entered or we have given the agents from 2019, '20 and '21, so they can better recapture leads and are more efficient with the virtual presentations in terms of more presentations and it is a lower cost to them because it does not have the travel involved.

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

Thank you.

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

Hi, thank you. I think you mentioned one of the factors in your changing your guidance range was a reduction in the health underwriting margin outlook. So I was just hoping you can give some more color there on what you are seeing.

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

Yes, Erik, we are just looking at what we were seeing in October and what we were projecting back at that point in time versus revised outlook here, was just slightly higher. It is a little bit in several different things, maybe a little lower premium, a little higher acquisition expenses, and a little higher claims as well. So -- and I think it is a combination of all those.

For the most part, we are looking at our health margins to gravitate back toward 2020, 2019 levels. 2020 was that -- we had some very favorable claims -- just experience, I should say. And we are really just kind of anticipating those to move back a little bit more towards the more normal levels. You think about our underwriting margin on the health side, still think of it about between 24% and 25%, but maybe a little bit closer to 24% as a percentage of premium than what we had anticipated back in October.

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

Got it. That is helpful, thank you. And then just another question on sort of the ties between recruiting and sales and obviously, a pretty wide ranges for both. And should we think of those 2 things being linked so that -- I mean if you come in towards the higher end of the agent count growth that would push you towards the higher end of the sales range and vice versa? Or are those 2 things not as directly tied?

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

They are connected and there is a connection over a long period of time. In the short run, you can have a decrease in recruiting the new agents but actually have an increase in production because there is -- you know veteran agents are much more productive than new agents. So with less training time involved with middle managers, as you have more veteran agents, you can increase your production because the percentage of agents submitting on a weekly basis can go up. The average premium written for agent will also go up in the short run.

The long-term success is obviously tied to an increase in the agent count. So if you look at long periods of time, there is a correlation that is very close between agent growth and sales growth and premium growth for each of the agency companies.

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

Got it. So the sales ranges for this year are more a function of productivity rather than the number of agents.

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

It is productivity, but it is also -- those sales ranges are based on the impact of COVID and when COVID declines -- if COVID declines quickly, we would expect sales to be in the upper side of those ranges. If COVID continues with this new variant, I would expect the sales activity and the agent count would be in the lower side of those ranges.

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

Got it, thank you.

Michael David Zaremski - Wolfe Research, LLC - Research Analyst

Hey great, thanks. Maybe one question on pricing. Just given the continued uncertainty regarding the pandemic, would -- are you using pricing as a tool or is the industry using pricing as a tool to kind of maybe increase pricing and combat some of the margin pressure? I feel like you guys are in a unique position to -- since your sales are mostly captive.

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

Yes, Mike, I would say that our pricing is not so much to combat the COVID and changes in mortality. We have not really viewed the mortality, I kind of mentioned before, the long run, long-term mortality assumptions very differently. We did have some pricing increases in 2021, but that was more for regulatory changes that went into place as well as the lower interest rate environment. So that is where we had some premium increases. And given our captive agency, we are able to put in some

premium increases from time to time for those purposes. But I would not say that we are really seeing any for -- directly related to the COVID.

Michael David Zaremski - Wolfe Research, LLC - Research Analyst

Thanks.

Operator - -

And we have no further questions at this time. I would now like to turn the call back to Mike Majors for closing remarks.

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

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