

Horace Mann Educators Corporation NYSE:HMN

FQ4 2023 Earnings Call Transcripts

Thursday, February 8, 2024 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.67	0.91	▲35.82	0.70	1.36	1.74	▲27.94	3.02
Revenue (mm)	393.33	402.90	▲2.43	396.50	1482.33	1491.90	▲0.65	1629.37

Currency: USD

Consensus as of Feb-08-2024 10:04 PM GMT

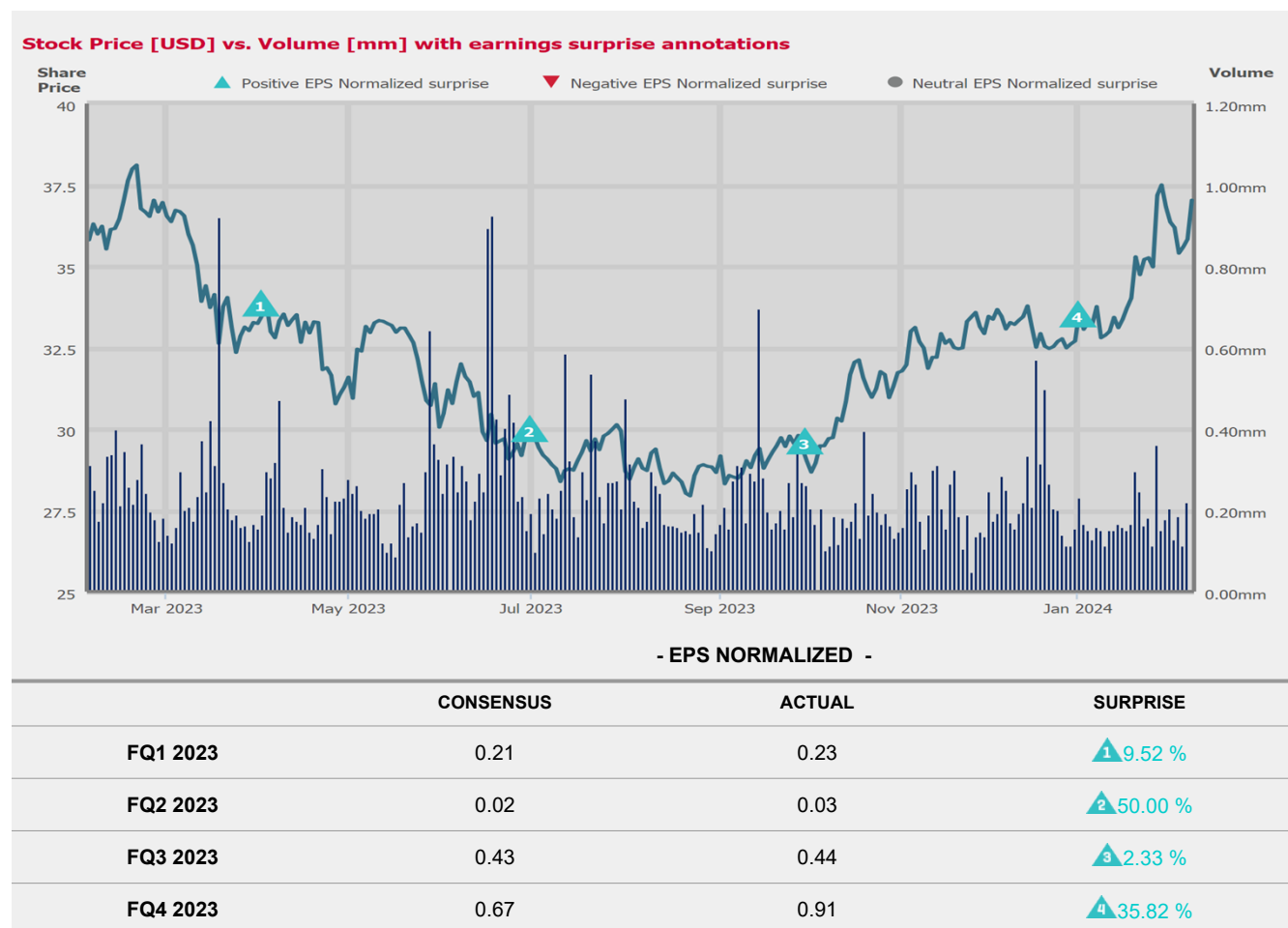


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Call Participants

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Presentation

Operator

Hello, and welcome to the Horace Mann Fourth Quarter and Year-End Results Conference Call. [Operator Instructions]

I would now like to hand the call to Heather Wietzel, Vice President of Investor Relations. Please go ahead.

Heather J. Wietzel

Vice President of Investor Relations & Enterprise Communications

Thank you. Welcome to Horace Mann's discussion of our fourth quarter and full year results. Yesterday, we issued our earnings release, investor supplement, and investor presentation. Copies are available on the Investor page of our website. Marita Zuraitis, President and Chief Executive Officer; and Bret Conklin, Executive Vice President and Chief Financial Officer, will give the formal remarks on today's call. With us for Q&A, we have Matt Sharpe, Steve McAnena, Ryan Greenier, and Mike Weckenbrock. Mark Desrochers had an unavoidable conflict and is not on the line today.

Before turning it over to Marita, I want to note that our presentation today includes forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. The company cautions investors that any forward-looking statements include risks and uncertainties and are not guarantees of future performance. These forward-looking statements are based on management's current expectations, and we assume no obligation to update them. Actual results may differ materially due to a variety of factors, which are described in our news release and SEC filings. In our prepared remarks, we use some non-GAAP measures. Reconciliations of these measures to the most comparable GAAP measures are available in our investor supplement.

I'll now turn the call over to Marita.

Marita Zuraitis

President, CEO & Director

Thanks, Heather, and welcome, everyone. Yesterday, we reported full year 2023 core earnings of \$1.54, which included fourth quarter earnings of \$0.84. We are clearly seeing the value of our strategy to diversify earnings, to drive market share growth and to support a sustainable double-digit ROE.

I'll give an update on our strategic progress in a moment, but let me start with a look at 2023 across all three of our segments. Sales for the year were strong. Total revenue rose 8% for the year, with net premiums and contract deposits up 6% in total, including 11% growth in full year P&C premiums. All segments benefited from the 11% increase in net investment income to a record \$445 million.

Looking more closely at the results by segment. In P&C, there were many signs of progress. For the fourth quarter, segment earnings were \$9 million. We saw average written premium growth that reflects the actions we've taken since the beginning of 2022. In auto, the cumulative rate impact of 23% through year-end, including almost 19% in 2023 drove 16.7% growth in fourth quarter average written premiums over the prior year.

In property, the cumulative impact of rate actions and inflation adjustments of 25% through year-end, including about 15% in 2023, drove 13.2% growth in fourth quarter average written premiums. We continue to see auto earned premium growth ahead of loss cost growth and inflection point we reached in the third quarter, and weather activity in the quarter was more typical.

For the full year, results were in line with our updated guidance, reflecting the elevated weather losses experienced in the first 9 months of 2023. Life & Retirement was a solid contributor in 2023, delivering earnings of \$72 million, ahead of our updated guidance on strong net investment income. Net annuity contract deposits were up 6% for the year. Educators continue to begin their relationship with Horace Mann through 403(b) retirement savings products which provide encouraging cross-sell opportunities.

Life sales were consistent year-over-year. Worksite agents enrolling educators and others who serve their communities in individual supplemental products are continuing to cross-sell our life products, contributing nearly 15% of sales for the full year. Supplemental & Group Benefits segment full year net income was \$55 million at the top end of our updated guidance, providing valuable earnings diversification. Benefit ratios for both the worksite direct and employer-sponsored product lines still reflect lower than historic utilization, but continue to move closer to our long-term targets.

Total segment sales were up 63% with improved persistency. Our relationship with the International Association of Firefighters remained strong with sales in this segment almost doubling from 2022. In addition, our momentum with group business has started

to show signs of acceleration as we saw the total number of covered lives increased by more than 6% in 2023, and we introduced Horace Mann Group benefits to over 65 new school districts, about half of which came from a newly developed relationship with an association of districts.

In summary, we are pleased with the progress we saw throughout the year and are very confident with what comes next. Although Bret will discuss details of our 2024 outlook later in the call, let me give you a high-level overview. First, we expect the business to deliver core earnings of \$3 to \$3.30, more than double this year. This takes into account an incrementally higher level of interest expense of \$5 million because of our new senior debt.

Second, full year core ROE should be around 9% on track to achieving a sustained 10-plus percent ROE in '25 and beyond. Year-over-year improvement in the P&C segment is the key to our continued progress. Rate and non-rate actions already implemented or approved as well as stabilizing auto loss trends gives us a high level of confidence in our outlook for this segment. Both auto and property are on track to underwriting profits in 2024 and to our target combined ratios in 2025.

Our filing plan for 2024 adds 10% to 15% of additional rate for both auto and property, and we will continuously review emerging trends and adjust appropriately, just like we did in 2023. In property, there will also be 4% to 5% of additional premium impact from the change in coverage amounts related to this year's inflation factor. The most significant non-rate impact in 2024 will be our roof rating schedules, a change occurring across most of the industry to mitigate the volatility of convective storm activity. We've already introduced our roof schedules in both Minnesota and Texas, and we will continue to roll out in other states throughout the year.

Once in place, roof claims are settled using a predetermined schedule based on the age and construction material of the roof. About 1/3 of the ultimate benefit of this change will be earned in 2024. In addition to introducing the roof settlement schedules in our most wind-prone states, we will be increasing all peril deductibles and requiring percentage-based wind deductibles in selected markets. We are also leveraging some of the insights from more advanced modeling to take specific underwriting actions or very aggressive price increases at a local market level. Taken together, the impact of these non-rate actions will be important to reaching our targets in 2024 and beyond.

With a profitable P&C book on the horizon, we're very excited about the ways we're working to increase our share of the educator market. First is the strength of our exclusive agent network. In the schools, online or in their communities, our agents help us reach and retain educator customers. Auto quote activity from our agents was up more than 15% in the fourth quarter over last year as we are encouraging more sales-driven activity in states where we have a clear line of sight to target profitability.

And importantly, more than 95% of our 2023 P&C new business has been in these geographies. Combined with our multiline approach, our EA distribution model allows us to work with our agents in more challenging markets to maintain their focus on educator clients as well as shift their focus to life and retirement opportunities. Our agent's role as trusted financial adviser in the schools and districts they serve, clearly distinguishes them from the agents representing many of our peers and aligns well with our advancing digital strategy.

Among his many contributions, Steve McAnena and his team are focused on improving our digital capabilities to align with customer preferences. Research shows that about 60% of the time, consumers prefer to speak with a trusted adviser before making insurance-related financial decisions, although many consumers opt to explore options online first. One of the first areas of emphasis for Steve's team is funneling educators interested in our solutions to our exclusive agents. And when appropriate, we can also send interested educators to our inside sales team to build on the successful sales to service initiatives of the past several years.

The team recently enhanced the Horace Mann website. Although it's still early, we have seen an uptick in the number of people who start a quote online. Among the changes are enhanced ways to learn about our broad suite of product offerings as well as the value-added offerings of our Educator Advantage program. A recent update alerted customers to add a discounts on home monitoring and security products.

The Worksite Division is also enhancing digital capabilities, rolling out the WISE Benefits website several months ago. This site addresses the information needs of districts and municipal representatives, working with brokers and benefit consultants, these decision-makers investigate Horace Mann offerings to learn more about our suite of employer paid or sponsored products and our company, the new website enhances their experience.

And finally, another reason why I'm confident in continued acceleration of our growth momentum is the success we're seeing in agent recruiting across the business. Retail agent recruiting was up 30% in 2023 as we are successfully bringing on board a diverse group to our unique value proposition. Our multiline product offering and homogeneous customer set are attractive to potential retail agents. And on the worksite side, we've added new relationships with key brokers and benefit consultants as well as increased our individual supplemental agent team by over 20%, which bodes well for continued strong sales growth in this segment.

As we look into 2024 and beyond, we're very confident in our outlook for each segment and the value of our multiline business model. Property & Casualty is on track to return to historic profitability. Life & Retirement to continue to provide a solid earnings contribution. And Supplemental & Group Benefits to deliver the diversification value we have created. Further, we're augmenting the way educators can interact with us. Making certain we're meeting the needs with solutions that help them protect what they have today and prepare for a successful tomorrow. We will continue to strive to offer a fair price through varied market conditions, creating long-term value for our customers and for our company.

But our work goes even further. Our representatives continue to provide financial wellness workshops on topics like student loan forgiveness and state teacher retirement systems. They also help our customers create financial plans which places our representatives firmly in the role of trusted adviser. On a larger scale, we also support administrators and municipal employers looking to augment recruiting and retention by bolstering benefit packages with employer paid and sponsored coverages.

As we continue to meet the needs of customers and all of our stakeholders, the strength of our value proposition, combined with the outlook for each segment gives us confidence that we will reach our targets in 2024 and beyond.

Thank you. And with that, I'll turn the call over to Bret.

Bret Alan Conklin
Executive VP & CFO

Thanks, everyone, for joining our call today. Marita highlighted the value of our diversified business model and the momentum that we are seeing across our businesses. Now I'd like to walk you through the details of the business segment performance and specifics of our outlook for 2024.

Starting with P&C. Including a profit of \$8.8 million in the fourth quarter, the P&C segment's 2023 results were in line with our recent guidance, which reflected the elevated cat and non-cat weather activity in the first 9 months, although weather activity was more typical in the fourth quarter. Cat losses for the full year contributed 15 points to the total combined ratio. Our guidance for 2024 includes a cat load of approximately \$80 million or about 11 points on the combined ratio.

This estimate is in line with our 5-year average. It clearly shows the impact of the inflation-driven increases in weather-related losses over the past several years. It also reflects the expected benefit of our new roof schedules and other underwriting actions we are taking to mitigate convective storm volatility. As a reminder, our cat losses tend to be weighted to the second quarter, which typically represent about half of our annual cat losses.

For 2024, we are expecting a segment combined ratio near 100% with segment earnings of \$36 million to \$41 million. Both auto and property continued to benefit from our rate and non-rate underwriting actions and are on track to achieve underwriting profitability in 2024. Let me walk through a few details for each line, along with the factors driving our confidence and our outlook for 2024.

For auto, net written premiums rose 11% in 2023 with retention flat versus 2022. The underlying loss ratio improved 1.1 points for 2023 and a solid 15.1 points in this year's fourth quarter versus a year ago. Those improvements reflect our cumulative rate increases over the past 2 years of 23% with an additional 10% to 15% currently anticipated in 2024. As those rates earn in during 2024, keep in mind, about 2/3 of our auto book is on 6-month policies, we're confident we can reach our targeted combined ratio of 97% to 98% in 2025. As we noted last quarter, earned premium growth moved ahead of loss cost growth in the late summer of 2023.

Turning to property, net written premiums rose 10% in 2023, with retention improving slightly versus 2022. The cumulative 2-year premium impact of our rate increases and inflation adjustments was 25% through year-end 2023 and we are also planning an additional 10% to 15% in this line in 2024 to address the loss environment. The underlying loss ratio improved 3 points in the fourth quarter over last year's fourth quarter, but was up slightly in 2023 over 2022 due to the elevated non-cat weather losses during the first 9 months of 2023.

Weather frequency was 10% higher in 2023 than the 10-year average. As rates earn in, along with the additional benefit from this year's inflation guard change, we're confident we will reach our target property combined ratio of 92% to 93% in 2025. Just a quick note that the renewal process for our 2024 property cat treaty was more orderly this year. Our 2024 retention is slightly higher at \$35 million about in line with our 1- in 10-year model event as well as inflationary trends. Risk-adjusted reinsurance costs are up about 1.7% for 2024 versus 2023.

Turning to Life & Retirement. The segment continues to deliver a strong performance with 2023 core earnings of \$72 million. Our guidance is for the segment earnings of \$77 million to \$81 million in 2024. Net investment income increased by 9% compared to 2022, benefiting from the higher returns on floating rate securities.

The 2023 net interest spread on our fixed annuity business declined to 218 bps compared to 246 bps in 2022. It remains near our longer-term targeted range of 220 to 230 bps. The spread was affected by lower limited partnership returns as well as higher FHLB borrowing costs as credit spreads tightened year-over-year. The net dollar contributions from our FHLB funding agreements remained stable compared with 2022 with FHLB borrowing costs reflected in interest credited.

Our 2024 outlook anticipates the spread will be above our targeted range. Commercial mortgage loan returns are expected to exceed our historic averages driven by higher floating rates and stabilized valuations while limited partnership returns are expected to move back toward their historic averages. For the segment, total benefit expenses, the total of mortality costs and change in reserves was stable in 2023 versus 2022. Results reflect the relatively modest impact of the required LDTI assumption review. In 2024, our outlook reflects mortality rising modestly from the levels of the past several years.

For the Retirement business, net annuity contract deposits were up 6% to \$456 million at year-end 2023. Persistency in our core 403(b) account portfolio remains very strong, with total cash value persistency stabilizing at a solid 91.5%. We also had another good quarter for Retirement Advantage, the fee-based mutual fund platform that we believe creates long-term opportunity for this business segment. Life annualized sales and persistency remained consistent with 2022. We continue to look for life sales as a way to initiate and solidify educator relationships, and we are very pleased with the progress.

Now let me turn to Supplemental and Group Benefits segment, where we are continuing to see the earnings diversification value of this higher growth, higher ROE and less capital-intensive business.

Full year 2023 premiums and contract charges earned were \$260 million with total segment sales of \$26 million, up 63% over 2022. Full year earnings were \$55 million at the top end of our guidance range with the blended benefit ratio at 36%. The benefit ratios for both the worksite direct and employer-sponsored product lines, continue to reflect utilization below historic levels.

For 2024, we expect core earnings to be between \$47 million and \$50 million, taking us another step closer to our blended long-term benefit ratio target of 43% compared with 2023. We also anticipate full year 2024 pretax profit margin for the segment at a strong 20% to 21%. However, this segment does have a fair amount of seasonality, both in sales and benefit costs. The first quarter of any year can be expected to be the highest sales quarter for employer-sponsored products to align with the start of annual benefit years, but is potentially the lowest earnings quarter because of the timing of benefit utilization in our market.

The benefit ratio for employer-sponsored products should typically be at its lowest in the third calendar quarter. For this segment's business lines, 2023 sales in our worksite direct business, the supplemental products were up 64% to \$15 million. We expect growth to continue in 2024 and beyond. For the employer-sponsored business line, full year 2023 sales were up 61% to \$11 million. We continue to make progress gaining more access to districts and schools through our distribution partners.

For 2023, total net investment income rose 11% and net investment income on the managed portfolio increased 14% ahead of recent guidance due to strong fourth quarter results. The full year increase reflected the benefit of the higher interest rate environment on floating rate investments, which benefited all segments. Pretax investment yield on the portfolio, excluding limited partnerships, was 4.74% for 2023, rising to 4.94% in the fourth quarter, with new money yields continuing to exceed portfolio yields in the core fixed maturity securities portfolio.

The A+ rated core portfolio remains concentrated in investment-grade corporates, municipals and highly liquid agency and agency MBS securities, positioning us well for a potential recessionary environment without sacrificing income.

Looking to 2024, we expect total net investment income to increase to between \$465 million and \$475 million and between \$360 million and \$370 million for the managed portfolio. The increase reflects the continued benefit of the higher interest rate environment and our expectations for limited partnership and commercial mortgage loan portfolio returns. At year-end 2023, adjusted book value was \$36.29. Adjusted book value adjust for both unrealized investment losses and net reserve remeasurements attributable to discount rates and shows the intrinsic value of our business.

We use adjusted book value when we talk about core return on equity. The ratio of debt to capital on a similarly adjusted basis was 26.9% at year-end. It remains at a level appropriate for our current financial strength ratings even after the issuance of \$300 million of 5-year fixed rate senior debt in September of 2023.

As a reminder, we used \$249 million of the proceeds from that issue to pay down the outstanding balance on our floating rate revolving credit agreement. The remainder was downstream to our P&C subsidiaries as we generally do not keep significant excess capital at the holding company. The new senior debt does result in a \$5 million increase in interest expense in the corporate segment, which is about \$0.10 per share.

In summary, we're pleased with the progress we've made in 2023, putting us on track to our long-term target of sustainable double-digit ROEs. Fourth quarter 2023 core earnings of \$35 million or \$0.84 per share offered a look at the earnings potential of the business.

Adjusted book value at year-end 2023 was \$36.29. Net premiums written and contract deposits reached a record \$1.5 billion for the year. Sales grew in all operating segments. Supplemental & Group Benefits and Life & Retirement segments made solid contributions, and managed net investment income rose by 14%. Taking into account the \$0.10 of incremental interest expense, our full year 2024 EPS guidance of \$3 to \$3.30 is solidly in line with current Street expectations.

Our guidance also shows our confidence in our outlook with earnings expected to be about twice what we reported for 2023 and on track to our long-term objectives. More significantly, we continue to expect our progress toward our objectives will accelerate over the coming quarters as we remain focused on providing strong returns to shareholders.

We're excited about Horace Mann's future. Thank you. And with that, I'll turn it back to Heather.

Heather J. Wietzel

Vice President of Investor Relations & Enterprise Communications

Thank you. Operator, we're ready for questions.

Question and Answer

Operator

We will now begin the question-and-answer session. [Operator Instructions] Today's first question comes from Meyer Shields with KBW.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Sorry, a little hiccup there. I know we've talked about this in the past. I want to go through the question that we've discussed in -- from a slightly different perspective. I know you've talked about the ability to either act as an agent for third-party insurers or retain business on the Horace Mann balance sheet really based on this expected profitability. And I was wondering, given, I guess, two things. One, the significant volatility that we've seen maybe twice in the last decade in particularly auto insurance. And second, the differentiated multiples that investors need to attach to distribution companies instead of underwriters, the long-term -- whether there's any change in the long-term thought of where Horace Mann should participate in the risk transfer.

Marita Zuraitis

President, CEO & Director

Yes. Thank you, Meyer. It's Marita. I appreciate the question. And you've asked that question from several different angles, and I really appreciate it. I mean, for us, I think it starts with at the very core, we're an educator company. We're not just a P&C company, and that's how we think about ourselves. So for us from the very beginning, it's been about household acquisition, how do we attract and retain educators, and now others who serve the community to the Horace Mann value proposition. And for us, we have many, many ways now to do that.

I mean you saw us build product and build solutions. We've done that. You've seen us acquire capabilities with NTA and MNL. You've seen us partner with other carriers like what you're talking about with our third-party strategy. And we've done that in many ways, and I still think there's more ways to do it. When you think about progressive for motorcycles and boats, you think about Chubb for higher-valued homes, those were products that made a lot of sense for us not to manufacture, right? But there's other uses as well, and you've seen some of that this year and clearly in the fourth quarter.

Our approach in Rhode Island because it was small, difficult to get to scale, not a lot of volume. You can think about geographic concentrations and how you think about places where you might want to thin and use those capabilities strategically. So our third-party strategy makes a lot of sense. But for us, it really is not about that. It's about finding more educators and retaining more educators and I think we've done a really good job in that evolution, if you will.

I mean, if you look at the investor deck, we've reached 1 million educator households. That's a lot more than we had just 2 or 3 years ago. And roughly 15% or so market share of the K-12 educators in our footprint. So we've used a lot of levers. But for me, it really is about finding more, winning more and keeping more. We've got good sales momentum in the fourth quarter. We have solid retention and persistency, we're not a distributor, but we certainly can use those capabilities to find more, win more and keep more. I get your comment about multiples.

We are building a nice bucket of fee income. It's not yet to the point where we would think about that the way you're asking the question, but I'll take those fees all day long as we build that as well.

I don't know if there's anything, Steve, you want to talk about as it relates to our momentum and some of the things we're doing to expand that momentum.

Stephen Joseph McAnena

Executive VP & COO

Yes, sure. Thanks, Marita, and thanks for the question. I think what I'd like to do is just really provide a little context and then sort of address the issue Marita raised. So context, most of our new business, the majority within retail comes from our agency force. And that's important to know because we think our agency force is very healthy. We navigated through -- continue to navigate through a challenging market. And one of our guiding principles was let's insulate our agents as best we can from the effects of what I would say, profit restoration.

When you look at the numbers, I actually think we have a pretty healthy engaged agency plant. We look at things like new business production, growth in the number of agents and growth in agency income. And so for me, I look at this and say our starting point, our current position is quite strong.

Now as we look to the future, we're making investments in both the agency force, and in what I would call digital/lead management capabilities, and I'll just give you a little color for the agency plan, we're going to keep doing what we're doing. So that means, as Marita spoke earlier, we're going to continue to appoint new agents. We'll continue to thoughtfully enhance our incentive plans to drive new business growth. And obviously, we'll advance our analytic capabilities, helping agents to be even more effective than they are today, and they're quite effective today.

At the same time, we're going to build new capabilities to allow educators to work with us when and where they want. And so in terms of the things we're building, I'd break it down into three areas: first, building out lead generation or marketing capabilities driving educators to Horace Mann. Second, we're upgrading our digital quote capabilities to capitalize on educators that really come to us digitally and want to interact with us digitally. And lastly, we're building analytics and process to ensure that we get educators to the channel of their preference when it comes time for them to buy.

And so we think these capabilities we're building are important because we obviously know that consumers want to -- most of them shop online, but they actually want to buy off-line. So building bridges, providing seamless interactions across all the channels, we think is critical. That's really a win-win for all parties. And so easy to kind of get caught up in the details. And what I'll do is just summarize by saying, I think we have a really good set of agent-based tactics that are tried and true that are going to get us growth but we're also building a digital presence that we think will be integrated with the agency channel and should further bolster our ability to drive sustained profitable growth as we move forward.

Meyer Shields

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That was very helpful, very thorough. Second question, and I apologize if I missed this. But we're in the sort of weird situation right now where the level of earned rate increases changed dramatically over the course of the year just because of the pace of written increases. And I'm wondering if we take out catastrophe losses, how much of a differentiator was that in the seasonality of the underlying loss ratios in auto and home?

Marita Zuraitis

President, CEO & Director

Yes. I mean, Meyer, you know typically, the second quarter is our largest cat quarter. I think for us and the industry, when you look at 2023, it may have been slightly touched in all the quarters, if you will. I mean, just think of the amount of hail, which is why roof scheduling across the industry is so important and a bigger lever for us and many others. I don't think there was a quarter other than maybe the fourth quarter that was lighter for the industry in 2023. It did seem you get sick of listening to the evening news and get worked up, but there was a fair amount of water where there isn't normally a lot of water and certainly heightened hail that the industry has been talking about and writing about.

So I think what you see as it relates to cats for us and the industry, kind of spread out a little bit more than you might normally see. But historically, the second quarter is still our highest quarter, and that's how we planned in 2024 as well that we would expect that to be a higher quarter.

It will be interesting in 2025. with the full impact of rate, the roof schedules in the majority of places where you need roof schedules with broader use of deductibles and percentage, wind deductibles, what that will look like prospectively for the second quarter for us, but that's how I'd answer that question.

Bret Alan Conklin

Executive VP & CFO

Yes. And Meyer, just looking at the actual cats, to echo Marita's comment, the second quarter of 2023, we have like basically \$41.5 million of cats of the total of \$97.6 million for the year, and it was the highest quarter of the 4 this year. So it played out as we thought. I mean, in total, the cats were higher than we planned, but here again, the lion's share came through the second quarter.

Marita Zuraitis

President, CEO & Director

You also have a bucketing issue of cats and non-cat weather since we use a PCS definition and not our own. So that also plays into how you think about cats versus non-cat weather. But clearly, for the industry, a very heightened weather year.

Operator

The next question comes from Matt Carletti with JMP.

Matthew John Carletti

JMP Securities LLC, Research Division

Marita, I was hoping you could, I guess, best ways, maybe just give us an update on kind of the integration of kind of the worksite business following acquisition. And just when we think about kind of that, it is a very unique puzzle piece in terms of distribution feels like it should kind of raise awareness, open some doors, cross-sell opportunities, all that kind of stuff that comes with it. Just maybe an update on where we are and how pleased you've been with -- how that process has gone?

Marita Zuraitis

President, CEO & Director

Yes, Matt, great question, and use your words, really pleased. You used the word integration, and that seems like an awful long time ago for us since I think we did it extremely quickly and hit the ground running, understanding the meaningful diversification of earnings that this business was going to pull.

I mean I would say from the very beginning these acquisitions, both NTA and MNL that eventually formed our worksite division, if you will, it was about the strategy. It was about the PDI, relevant products to our educators, strength of distribution, improved infrastructure in these businesses, and it clearly brought all three. I mean, these acquisitions, as we've talked about before, were accretive right out of the chute. But the most important thing is they gave us the earnings diversification that we planned for, and certainly in 2023, that was important considering the state of the P&C industry across the board.

So I'll turn it over to Matt, but I want to say publicly that Matt Sharpe and his team are executing extremely well on all fronts, and we're very pleased with the team and what this business has brought us. Matt?

Matthew Peter Sharpe

Executive VP of Supplemental & Group Benefits and Corporate Strategy

Thanks, Marita and thanks, Matt, for the question. I'll give you a little bit more color. So overall, as Marita said, we couldn't be more pleased with the performance of the Supplemental & Group Benefits segment, including all the team members that support it, both from a growth perspective, and the earnings diversification these businesses bring to Horace Mann, as Marita commented on. But not only are we happy with this year's performance. We're also very excited about the outlook of these businesses. We expect these to be among our fastest-growing businesses over the next several years.

Let me give you a little bit more color on our performance for the worksite direct sales team, which is our individual products division. We grew the individual supplemental agency by 23% in 2023. The growth of the team directly correlates to our sales results. You can see this clearly in our production. More specifically, the agents we appointed over the last 2 years in 2022 and 2023, accounted for just south of 38% of our total sales in 2023.

So in 2024, we continue to focus on the growth of this team and have added additional resources to sustain our momentum in that -- in the individual division. Worksite continued to make progress in cross-selling as well, contributing a modest 13% of the overall 2023 Horace Mann life sales, but we're really just getting started there.

On the employer side of the business, Matt, we're seeing similar results. The momentum in our growth business has started to show signs of acceleration. We continue to be really pleased with our distribution partners and how we align our mutual growth objectives couldn't be tighter there. The total number of covered lives increased over 6%. We introduced the Horace Mann voluntary group products to over 65 new school districts in the past year. And across all lines of business in supplemental and group, we grew our covered lives by just under 50,000 participants, bringing the total lives that we cover as of December 31 of last year to just under 800,000 lives with our group products.

School sales represented about 51% of our new sales in 2023, and the rest, we predominantly -- others who serve the community also, we also typically refer to it as other public. Looking ahead in 2024 and beyond, we continue to focus on expanding our benefit broker and consultant relationships to maintain our growth momentum.

So overall, very happy with our results for '23. Very excited by the growth prospects for '24 and beyond as we expand our distribution relationships and further our cross-sell capabilities. And that kind of gives you the color that I think you were looking for. Is there any follow-up?

Matthew John Carletti

JMP Securities LLC, Research Division

No, that's great. The only follow-up is a numbers question, which I think is for Bret. Really just trying to understand kind of what's in a number that I guess reported. So in the Supplemental & Group Benefits segment, there's like an other income that's been negative for -- not big numbers, small number, but negative for a couple of years. It's getting to be -- it's a smaller negative, it's kind of trailing off and just trying to understand what's in there, what's flowing through? And how should we think about that going forward?

Bret Alan Conklin

Executive VP & CFO

Sure, Matt. This is Bret. Obviously, there is a nuance with an item that does flow through the P&L in that line item. But to be specific, under the terms of the sale of Madison National. We did agree to assume a block of runoff specialty health business for IHC, which was their former parent company. And IHC in turn, basically agreed to indemnify us for that block covering any loss or gain.

So obviously, the premiums, the losses, the expenses flow through the P&L as you would expect them to. However, they have had underwriting profits the last 2 years since we've owned them. And in essence, it's a zero-sum game as we're being indemnified good or bad of the results and it's really that offset since they had income, an underwriting income, we offset that by booking an expense in the other income line item. That isn't a runoff state. So that will continue to become smaller as we get to '24 and beyond.

So I guess the key takeaway, Matt, is it is a zero-sum game. There is no P&L impact as it relates to that. But the geography is a little different. And like I said, it will run off over time.

Matthew John Carletti

JMP Securities LLC, Research Division

Perfect. Very helpful. That makes sense.

Marita Zuraitis

President, CEO & Director

Yes. And Matt, we really appreciate your worksite question. And to recap that, when you think about it, with P&C on track to get back to historic profitability for us, our L&R business producing consistent earnings and the ballast that it's been for decades combined with the Supplemental & Group Benefits diversification benefit, strong positive earnings contribution, and then you look at sales momentum across the board, we enter 2024 in a very optimistic place about the earnings power of this company going forward.

Operator

The next question is from John Barnidge with Piper Sandler.

John Bakewell Barnidge

Piper Sandler & Co., Research Division

With the improved property casualty outlook, it suggests generating excess capital prospectively. Should we be thinking about more active share repurchases again? Or how do you think about the inorganic or product development opportunity set within the company given the growth outside of the traditional educator.

Marita Zuraitis

President, CEO & Director

Yes, good question. I don't think our capital management approach has changed, right? We think about using the capital that we're generating and remembering -- remember this year, we return to more positive capital generation. First use is for growth. I mean you saw the growth in the fourth quarter. We're optimistic about the group growth that we've planned for 2024. So having positive excess capital generation of these businesses and the power that we see to use that for growth. First priority and excited about being back in that position again. Then we think about uses like share repurchases which we have done consistently in the past as well.

I don't know if you have anything to add to that, Bret.

Bret Alan Conklin
Executive VP & CFO

Yes. I think Marita summarize it well, first and foremost, it's profitable growth. And I would say, first and foremost, it's returning the P&C segment, the profitability in generating that typical level of excess capital. I think Ryan and I probably repeated on numerous calls. When we are operating at our targeted profit levels, we will generate \$50 million of excess capital on top of the dividends that we pay. So we feel very good of what we see with the turnaround in the P&C segments.

It's in our investor presentation, the delta between the loss of this year and the income of next year, that is the lever of our increase in our earnings for this year. So I would echo the same thing. The priorities for that excess capital remain unchanged.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

My follow-up question, you talked about being on track to reach sustainable double-digit ROE by 2025. With the outlook for 2024 EPS, \$3 to \$3.30, and then your adjusted book value, does that suggest we're returning to an earnings power approaching \$4 again?

Bret Alan Conklin
Executive VP & CFO

Yes, John, I think you're spot on with respect to that.

Marita Zuraitis
President, CEO & Director

No, we agree with your math. Yes.

Operator

The next question is from Greg Peters with Raymond James.

Sidney Schultz
Raymond James & Associates, Inc., Research Division

This is Sid on for Greg. Wanted to focus on the PIF count in the P&C segment. I believe in your prepared remarks, you mentioned auto quotes were up 15%. And just with your combined ratio guidance of around 100%. Can you help frame how we should think about growth in policy counts moving forward from here?

Marita Zuraitis
President, CEO & Director

Yes. I don't think -- I don't think it ever changes for us, right? We are not the type of company that thinks about a growth lever is on or off. We're not the type of company that's going to close down or say we're open. We clearly have targets. We're happy that the majority, by a lot, 95% of new business right now is coming from places where we feel we can achieve and sustain that target profitability that we have clearly stated and demonstrated.

So for us, we like the fact that we saw strong momentum in both PIF and premium in the fourth quarter and are very optimistic about our ability to grow that P&C line in 2024 and beyond. But we really don't, again, think about this as an on and off switch. Go back to that original question about third parties. Clearly, in places where it makes sense for us to rely on good third-party partners, we can and we will. But we're always thinking about attracting and retaining new educator and others who serve the community customers.

Operator

This concludes our question-and-answer session. I would now like to turn the call back to Heather Wietzel for closing remarks.

Heather J. Wietzel
Vice President of Investor Relations & Enterprise Communications

Thank you, everyone, for joining us on the call today. I look forward to additional conversations, if anyone has any follow-up questions and do want to remind everyone, we will be at AIFA, I'm happy to work with you on scheduling. Sometimes that event can be busy. So just reach out. Or if you're not going to be there or your schedule is full, reach out, we'll find another time to get together. So thank you again.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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