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Horace Mann Educators Corp. (HMN)

Q1 2017 Earnings Call

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Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Matthew J. Carletti
Analyst, JMP Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to Horace Mann First Quarter 2017 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ryan Greenier, Vice President of Investor Relations.

Thank you. Mr. Greenier, you may begin.

Ryan E. Greenier
Vice President-Investor Relations, Horace Mann Educators Corp.

Thank you, Doug, and good morning, everyone. Welcome to Horace Mann's discussion of our first quarter 2017 results. Yesterday, we issued our earnings release and investor financial supplement. Copies are available on the Investors Page of our website.

Our speakers today are Marita Zuraitis, President and Chief Executive Officer; and Bret Conklin, Executive Vice President and Chief Financial Officer. Bill Caldwell, Executive Vice President of Property and Casualty; and Matt Sharpe, Executive Vice President of Life and Retirement are also available for the question-and-answer session that follows our prepared comments.

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 press release and SEC filings.

In our prepared remarks, we may use some non-GAAP measures. Reconciliations of these measures to the most comparable GAAP measures are available in the supplemental section of our press release.

And now I'll turn the call over to Marita Zuraitis.

Marita Zuraitis

President, Chief Executive Officer & Director, Horace Mann Educators Corp.

Thanks, Ryan, good morning everyone and welcome to our call. Before we turn to the quarterly results, I want to congratulate Bret Conklin on his appointment to Executive Vice President and Chief Financial Officer.

Bret brings over 30 years of insurance industry experience with more than half of those at Horace Mann. Bret, has also been a strong contributor to the executive leadership team and I know he'll continue to build upon the solid foundation that both he and Dwayne have already established.

Turning to the results, the first quarter of 2017 included an unprecedented level of catastrophe losses for both Horace Mann and the industry. The mild winter resulted in an early spring and much of the convective storm activity that generally occurs in April and May impacted the first quarter, particularly in March.

The National Weather Service reported over 500 tornadoes in the first quarter, a level not seen since the 2008 and 2011 tornado seasons. That said, the elevated level or tornado activity appears to have moderated in April with lower than average storm counts in the month. These national statistics mirror claim patterns that we've seen and while it is still very early so far our April storm losses appear to be at levels below historical averages.

This elevated level of convective storm activity generated $17.2 million or 10.8 points of catastrophe losses which was a record for the first quarter of cat losses at Horace Mann. And weather also impacted our non-cat loss ratio which increased nearly 5 points compared to the reported results and the first quarter of 2016. Basically, the first quarter of 2016 had a high-level of catastrophe losses, but favorable non-cat weather. However, in 2017, we saw significantly higher weather events in both cat and non-cat.

Based on broader industry data, we believe our losses are in line with market share in impacted geographies. We analyze claim data and do not see any indications of over concentration or problematic underwriting. What we do see is widespread convective storm activity across the Midwest and Southeast, as well as impacts of significant amount of rain in January in California.

We, like the broader industry are experiencing historic levels of weather related losses and clearly seeing a troubling weather trend, more severe convective storms continue to increase in frequency. While this data works its way into pricing over time, we are keenly focused on ensuring that our rate plan includes adequate increases to account for this volatility and incorporates recent trends in our pricing models.

We target a low 90s combined ratio for our property book which includes over 20 points of catastrophe losses. Despite the elevated catastrophe activity in 2016, we achieved that target and we're focused on ensuring that we do the same in 2017. Our rate plan of mid single-digit increases in property is on track and we continue to refine our claim practices with an eye to further improve operational efficiencies.

Obviously, with the amount of weather we experienced in the quarter, our operating earnings were $0.37, lower than the prior year. This quarter's result included $0.27 of catastrophe losses and on an underlying basis, we estimate non-cat weather related losses pressured auto and property loss ratios by 2 to 3 points which equates to roughly $0.10 per share.

The underlying auto combined ratio was 105.3, essentially in line with full-year 2016 auto results, despite the impacts of a very active weather quarter. While the impact of non-cat weather is difficult to quantify, we've unpacked and analyzed claim data. We saw an increase in weather related accident counts that appear to correlate with geographies that experienced a disproportionate share of adverse weather in the quarter.

This analysis was reinforced by relatively strong auto loss results in January and February, two months that clearly had more typical first quarter weather patterns. Overall, P&C loss trends continue to be stable and this now marks the third quarter in a row of stabilization.

Including adverse weather, frequency was up in the mid single digits. And excluding weather, we're seeing a low single-digit increase and severity is flat. Therefore, when we look past the adverse weather that occurred late in the quarter, we are confident, we remain on track to improving auto profitability.

From a rate plan perspective, we are making good progress to achieve our original auto rate plan of 8% and we believe we may end the year slightly higher than we originally planned. At the end of the first quarter, we have approvals on nearly 60% of the planned 2017 rate increases and have implemented over a third.

We set our pricing to cover loss cost trends and we identified and reacted to the increases – the increase in trends early. As a result, this is the third cycle of elevated rate increases and we will continue to take increases until we get on our long-term target of a high 90s combined ratio for the auto business. While, we believe it is still too early to declare victory, we are encouraged by the early indicators that we may have turned the corner and we're confident we will see a point of improvement consistent with our original 2017 earnings guidance in the underlying auto combined ratio on a full-year basis.

Retention continues to hold despite our rate plan which we believe reflects the stickiness of our book. Our cross sell rate is nearly double the industry and our educator customers have a high degree of loyalty to brand. P&C sales increased 9%, reflecting increases in both auto and property.

Despite the challenging loss trends impacting the entire industry, we have identified geographies and segments where growth is clearly accretive to our loss ratio and are focusing our marketing efforts on these pockets of business. We remain confident in our ability to profitably grow our P&C book and believe that the rate actions that many carriers are now taking create an opportunity to attract more educators to our unique value proposition.

The Retirement segment continues to perform well. Operating earnings increased 9% and sales grew 4%. Net investment income was up 9% benefiting from favorable investment returns, continued prepayment activity and a higher asset base. Assets under management grew 9% to $6.6 billion from a year-ago.

In early April, we launched a suite of new individual annuity products called Personal Retirement Protector as well as a new custodial IRA platform. Similar to the new group products we launched last year, our new individual offerings feature a revised agent compensation structure, now as a percentage of assets under management, eliminating upfront commissions.

In addition, these offerings feature a best of breed selection of third-party mutual funds and subaccounts, reflecting our continued focus on increasing client value and reducing overall costs. This launch completes our preparation for a DOL compliant product lineup and sales process, which as it stands today is required effective June 9.

But, as we've said before, the evolution we've made to our retirement products, distribution and infrastructure wasn't done in response to the DOL regulations, but instead represents the culmination of more than 3 years of efforts to build a holistic, goal-based financial planning model to help educators achieve their retirement goals.

We've completely modernized our group and individual product offerings and we have designed an innovative solution for the 403(b) market. From a distribution perspective, we've worked with our agency force to deepen their skills and provide them with tools and simplified sales collateral that they need to have these important conversations with their customers.

And we've modernized our infrastructure to improve the customer experience, but more importantly to ensure we have appropriate entry points for these customers that may not choose to begin their process with us through an in-person meeting with our agency force. This quarter, we launched additional complementary direct channels and now allow an educator to enroll in a group plan by phone or online.

We now can provide interactive, real-time enrollment experience for an educator based on their preference. Our online enrollment option offers a simple, user-friendly design that can get a participant started quickly, while also providing robust educational content for those users that want to spend more time researching their options, and phone enrollment can be completed in a matter of minutes.

These two options provide an efficient new way for us to capture enrollment and significantly modernize our sales process. These approaches align well with millennial preferences and while it's important to provide customer options to begin their customer relationships, we also know that these customers will gravitate towards our agent channel as their needs become more complex.

As you would expect, given the recent launch, we are currently focused on agent training and optimizing these new enrollment processes for both our individual and group offerings. We're confident, we're on the right track with our innovative retirement product suite and expanded distribution options. Our agents are excited about the launch of the individual products and on the group side, our institutional team continues to introduce Horace Mann to a more diverse set of 403(b) sponsors, as well as deepening connections with consultants that assist with 403(b) provider selection.

Our institutional RFP pipeline continues to grow as we expect to increase the number of school districts that have our new Horace Mann Group Retirement Advantage product over the course of 2017.

In the Life segment, earnings continued to be solid and sales continue to grow at a strong pace. Total sales increased 57% and premiums and contract deposits increased 11% to $26.5 million. We continue to see a significant opportunity to grow at a double-digit pace as our target markets significantly is underinsured in this line. Many educator households across the country, whether they're Horace Mann customers or not, rely on non-portable group coverage or simply go without individual life insurance because they overestimate the cost.

From a strategic initiative standpoint, our systems modernization efforts in both P&C and retirement are going well. We're investing to improve online functionality, enhance the customer experience, and widen the operational pipes to efficiently support greater volumes of business. And on the distribution front, we are seeing signs of growth in both the traditional agency channel, as well as sales volume in our direct channel.

We've increased the number of distribution points during the quarter, ramping up agent recruiting and we are also implementing a more comprehensive training program. We enhanced our curriculum to provide 3 months of classroom and field sessions, as well as one-on-one coaching and mentoring on our sales process.

In addition, this enhanced training aligns with our new proprietary education tool that provides personalized product recommendations to help customers achieve their retirement goals as well as providing recommendations on the appropriate P&C and life insurance coverages.

In addition to these improvements, new recruits are expected to meet certain minimum requirements which accelerate over time in order to retain their agency appointment. In short, we've replicated what has made our most productive agent successful, distilled into our training curriculum and establish clear sales goals for new appointments.

We believe these enhancements will improve agent success over time and we are pleased to see sequential agency growth in the first quarter, a quarter where agency count historically dipped due to seasonality in hiring.

Our recruiting efforts should result in continued increases in points of distribution as we move through 2017. Our new agent appointments are focused on profitable geographies and areas where we have underutilized 403(b) payroll slots. In total, we believe modernizing agent training, improving agent recruiting and enhancing our direct channel and sales tools, will drive increased sales momentum over the course of 2017 and beyond.

Before turning the call over to Bret, I want to reiterate that this quarter's results were in line with expectations when you look past weather impacts. Underlying P&C results are on track. We're clearly seeing strong results in Retirement and Life. And those strong results provide ballast in a volatile weather quarter and showcased the benefits of earnings diversification of a true balanced multiline model.

We continue to make progress on our strategic investments in product, distribution and infrastructure. These investments are building upon a strong foundation and are the right strategies to accelerate our growth momentum over time and we are seeing signs of success. We continue to attract more educators to our unique value proposition, while also retaining existing customers at industry-leading levels.

Our solutions orientation appeals to both school districts and educators, and we will continue to focus on the driving force behind our success, our relentless focus on putting the educator at the center of everything we do, by solving for the issues that educators face, we are becoming their preferred insurance and financial services company.

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

Bret A. Conklin

Acting Chief Financial Officer, Chief Accounting Officer, Senior Vice President & Controller, Horace Mann Educators Corp.

Thanks, Marita, and good morning, everyone. First quarter operating income of $0.37 per diluted share was $0.25 lower than the prior year quarter with nearly all of the difference related to the higher weather related losses in the P&C segment. Offsetting higher loss cost was a tax related benefit of $0.06, which reflected the impact of adopting the new share-based accounting pronouncement related to restricted stock-based compensation distributions.

P&C after-tax income of $2.7 million was about $11 million lower than the prior year quarter. On a reported basis, the combined ratio was 105.5, catastrophe losses were 2.5 points higher, the expense ratio increased 1 point, largely related to non-capitalized systems modernization expenses and favorable prior development was 0.7 points lower.

Prior accident year property reserves continue to develop favorably and accounted for all of the releases in the quarter. On an underlying basis, the loss ratio of 55.8 increased nearly 6 points, but if you recall, we strengthened auto loss reserves first quarter of 2016 by over 4 points over the course of 2016.

As a result, the underlying loss ratio in the first quarter of 2017 for all of P&C is about 2 points higher compared to how the first quarter of 2016 developed, and that increase is largely related to non-cat weather impacts in both property and auto. Within auto, we're seeing loss trends stabilize, the underlying combined ratio was 105.3 very similar to our full-year 2016 results despite the first quarter of 2017 having significant higher weather related losses.

The underlying combined ratio for property of 74.5, a profitable result, allows us to absorb quarters with a high-level of cat losses when they occur. P&C written premiums increased 4% to $153 million primarily reflecting rate actions. Sales increased 9% in the quarter with auto up 9% and property increasing 5%. And despite the rate increases, we continue to take in both auto and property, retention remains high at 83% in auto and 88% in property.

In the Retirement segment, operating income excluding DAC unlocking was $11.7 million, a $1 million increase compared to the prior year quarter. The annualized net interest spread of 183 was consistent with prior year quarter, but 10 bps lower on a sequential basis. The result reflects a higher level of alternative investment returns compared to the prior year.

Prepayment activity was similar to the level we saw in 2016, but below the elevated level we saw in the fourth quarter. In addition, we saw a $2.6 million increase in operating expenses compared to the prior year, related to the planned strategic investments we're making in retirement. Including, expenses related to system modernization, the build and launch of our new retirement product suite and proprietary education tool, the institutional team and digital and customer experience improvements. This increase is on track with our expectations built into full year 2017 earnings guidance.

Assets under management increased 9% compared to a year-ago, reflecting continued strong persistency was well as healthy level of deposit and sales. Single premium and rollover deposit sales increased 4% compared to the prior period.

I would like to mention that we change our basis for measuring sales on recurring retirement products beginning in 2017. Historically, we annualized new recurring deposit sales that occurred during the quarter and reported that as a sales number. Going forward however, we now report the total recurring deposits collected in the quarter. This change aligns our sales reporting metrics with the way agents are compensated.

Instead, for new sales, we now compensate them based on assets under management. All prior periods have been restated in the supplement to provide data on a similar basis. Life segment operating earnings excluding DAC unlocking were $3.8 million and consistent with the prior period. Mortality costs in both periods were in line with actuarial models.

Consolidated net investment income increased $6 million to $90.7 million mainly due to higher asset balances in the Retirement segment and prepayments. Alternative returns were favorable to the prior year, but slightly below our expectations. We continue to find opportunities in conservative asset classes like investment-grade corporates, taxable municipals and high-quality structured securities.

And although we saw a decline in interest rate and spreads in the quarter, we achieved our target new money reinvestment rate of 4%. Overall, on a reported basis, book value per share increased to $32.60 compared to year end. The net unrealized gain position on investments was $351 million, an increase of nearly $40 million in the quarter, largely due to tighter spreads.

We continue to build book value excluding net unrealized gains on investments and compared to a year-ago, book value per share excluding net unrealized gains on investments increased to $27.71. And in addition to growing book value, we are committed to the return of capital to shareholders via regular dividend increases.

In the first quarter, we increased our quarterly dividend 4% to an annualized dividend of a $1.10 per share. Despite some quarterly earnings volatility, as a result of weather related losses, our long-term shareholder value creation metrics remain strong. On a 5 year basis, our compounded annual growth rate in Horace Mann's adjusted book value per share plus dividends was 10% through the first quarter. In summary, we are confident that the investments we are making today will result in accelerated sales growth, which over time will result in improved ROEs as we add scale.

We're seeing good sales results in the P&C segment, retirement sales continue to be solid and we are encouraged by a growing institutional RFP pipeline and our Life segment is clearly performing well with another quarter of very strong double-digit sales. I'm confident, we remain on the right track for continued profitable growth and we are successfully executing our vision to be the preferred insurance and financial service provider for the nation's K-12 educators. Thanks.

And now I'll turn the call back over to Ryan to start the Q&A.

Ryan E. Greenier

Vice President-Investor Relations, Horace Mann Educators Corp.

Thanks, Bret. Doug, please open up the line to begin the Q&A portion of the call.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Meyer Shields with KBW. Please proceed with your question.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thanks. Marita, you mentioned that you're still on track for 1 point of auto underlying improvement. That sounds pretty optimistic, given the impact of non-cat weather in the quarter. Am I thinking about that the right way that you're now anticipating, if we exclude non-cat weather even more improvement?

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Yes, I mean, I – when we unpack the weather in the quarter and we remove both the cat and non-cat effect on auto, we still see our way clear to that 1 point of improvement that we have previously announced in our guidance. We've done the math. And like I said, based on what we saw in January and February when we saw more typical, more normal weather, we liked the results that we saw in those months and we're pretty confident that when you strip out these really outsized numbers, we're right on track with where we thought we'd be.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, fantastic. Second question, I guess, we saw a little bit of a bump in the P&C expense ratio. Are we still targeting 27.5% for this year?

Bret A. Conklin
Acting Chief Financial Officer, Chief Accounting Officer, Senior Vice President & Controller, Horace Mann Educators Corp.

A

Absolutely. This is Bret Conklin. I think we've mentioned on the year-end call our guidance assumes the mid 27s, 27.5%. And just to put things in perspective, our first quarter in 2016, actually the first quarter was the highest quarter of the year. So, there is some seasonality and bumpiness in the expenses, but we are still targeting 27.5% expense ratio on P&C.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

And I'd follow-up by saying that this is a company that has had a very disciplined expense track record and focus, and despite some very targeted strategic investments that underlying discipline hasn't changed. So, we've a pretty rigorous drill as you can imagine to keep track of that. So, although we have specifically target some very clear investments, the underlying expense ratio of this place remains very competitive and very disciplined. So, no concern on my part to getting to what we put in our guidance, just as we have in the past.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay, fantastic. Thanks so much.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Welcome.

Operator: Our next question comes from the line of Bob Glasspiegel from Janney. Please proceed with your question.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

Good morning, Horace Mann and congratulations, Bret.

Bret A. Conklin
Acting Chief Financial Officer, Chief Accounting Officer, Senior Vice President & Controller, Horace Mann Educators Corp.

A

Thank you, Bob.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

I want to push Meyer's question a little harder on underlying auto. I don't think you gave the non-cat weather impact isolated to auto, but it sounds like if underlying was even with the year-ago – for the year, it would have been better, if you take in non-cat weather. Are you seeing underlying improvement in auto, is that what you were saying on an apples-to-apples basis?

William J. Caldwell
Executive Vice President-Property & Casualty, Horace Mann Educators Corp.

A

Yes, bob, it's Bill. We did comment that auto non-cat was about 2 to 3 points on the underlying loss ratio. And just to remind everybody when we look at cat, we take the strict definition of TCS which for auto would only be comprehensive claims. So, these are accidents that happened during severe weather or hail incidents.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

So, underlying would have been improved if you take the non-cat 2 to 3 points year-over-year?

William J. Caldwell
Executive Vice President-Property & Casualty, Horace Mann Educators Corp.

A

Yes. Well, if you follow the math, Bret brought us up about 4.5 points. First quarter developed about 4.5 points unfavorably. The starting point of this quarter minus the 3.5 gets us a little bit better than we were in first quarter last year.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

I got it. But, still up versus reported, but down versus adjusted, is that what you're saying?

William J. Caldwell
Executive Vice President-Property & Casualty, Horace Mann Educators Corp.

A

Right where we expect. And as Marita said too, we're very confident in our rate plan, a lot of the rate is frontloaded this year. So, when you think about the quarter, 25% of the time has passed, 35% of our rate has already been implemented and 60% has already approved. Combine that with last year's rate of 6.5%, we're seeing the compounded impact of 6-month policies, 85% of our business on 6-month policies, so we're really starting to see that earned premium line accelerate pretty quickly.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

I got it. Looking out longer term, I mean, your auto book has generally provided long-term superiority in underwriting versus the industry, you know, better loss ratio mix because of your preferred book. And even with your struggle last year, I think you came out ahead of where the industry was. Where do you think your margin on auto should be versus the industry and where are you today as you benchmark versus the industry?

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Bob, I think in your question, you probably gave yourself the right answer and I think you're thinking about this right. I had said earlier on that I felt that when the sum of the tapes were done for 2016 that we would continue that 3 to 5 point differential between the industry that we would run 3 to 5 points better than the industry in an underlying auto loss ratio basis and it looks like it's about that 4 point mark. And I think that's right. I mean, we've talked about the educators that we ensure being a better risk profile. The homogeneity of the book, the 70 year experience of dealing with a common set of predictable patterns and good actuarial data and science around those patterns.

I still think that we should be in that 3 to 5 point better than the industry and then you throw a little more science and a little more data, on top of it. Could it be more? Maybe. But, I think it's at least that historical improvement over the industry. So, when you remove a lot of the catching up to these trends whether it's distracted driving or miles driven or demographic patterns or probably all of the above, we feel like we're right where we should be and where we told the Street we'd be.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

I was going to take the glass up full interpretation and push it even further. I mean, have you done any studies on whether the teacher population does less texting and driving or...?

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Yes, actually as you can imagine, we spend an awful lot of time talking about that and I think you can go back to past scripts where we talked about its hard to believe that the people who teach students not to drink and drive and not to text and drive, wouldn't have a disproportionate less likelihood to get behind the wheel and text. And I still believe that, that is true. Obviously, we look at root causes. We look at when distracted driving and more specifically texting is involved with a claim.

But, as the industry has spent an awful lot of time talking about until police reports, until the stigma of distracted driving reaches that of life – operating under the influence of either drugs and alcohol, it's not an exact science, but I think with all this attention, I mean actually it's Distracted Driving Awareness Week here in Illinois. Just all the rhetoric on the news, all the attention of the industry groups is on this issue. So, rate will be the answer until a more systemic answer is – more a broad based. But, I think you're absolutely right. I think our teacher population would be less likely to have risky behavior behind the wheel, which is probably why our loss ratio is consistently better than the industry.

Robert Glasspiegel
Analyst, Janney Montgomery Scott LLC

Q

Thank you for your answers.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

You're welcome.

Operator: [Operator Instructions] Our next question comes from the line of Matt Carletti from JMP. Please proceed with your question.

Matthew J. Carletti
Analyst, JMP Securities LLC

Q

Hey, thanks good morning. Just wanted to follow up on Bob's kind of questioning on auto. I guess. Marita the question is, as you think about your auto business longer term with the benefit of a few years to let the rate earn through and things like that. If we normalize a normal cat, no development; what do you view is the bogey for the combined ratio for that business? Is it kind of high 90s where it's been in the past, is it breakeven, is it better than that?

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Yes, I mean, we feel very confident in the point we put in the 2018 – or 2017 plan and I think we ran you through that math. And longer term that targeted high 90s combined is probably where we need to be. One of the benefits, the big benefit of Horace Mann is how much we cross-sell on the property side of the house and that these are total accounts. But, even beyond that the multiline model and what we're seeing on the strength of the retirement side and now the strength of the Life side. It's a multiline model where our agents are skilled in that and then you see that come through in the retention.

So, not only attracting those customers, but retaining them at a much higher level in the ballast that our earnings get from that multiline model is quite accretive to us. But, I feel confident that we can achieve that high 90s combined ratio on the auto and with the way the rest of the book is performing, I think that's a pretty good result and drives the targeted ROEs that we've been talking about.

Matthew J. Carletti
Analyst, JMP Securities LLC

Q

Yes, and that makes perfect sense and I agree that's a good target. I guess, my follow-up question to that would just be in terms of – given that dynamic of the bundled product and I think we agree that there is – you have a stickier client set. In terms of pricing in auto, do you feel you're at the point where you're kind of at that edge of elasticity that if you pushed more quicker, you would really start to impact retention or do you think if need be, you have that lever to pull? Because, I think I'm just trying to get a feel for – is this just going to be a – I'm picking a number here, 3 year process, something like that to get sub 100 on that auto combined or if need be can you hit the accelerator a little harder there or do you think it would really impact retention from this point?

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

I mean it's an interesting point in time question. What we think now versus what we thought a year and a half ago is much different. I really look to the amount of rate that we've been able to push in the book and to Bill's commentary are getting in the book with 60% already baked.

We targeted an 8, we're probably getting something closer to a 9. You know, the problem is the trends for the industry continue, other companies and you've seen it and heard it and you'll hear more of it, I'm sure this quarter as well that the companies are pushing hard for a lot more price and are filing a lot more rate increases to cover that trend. So, for us our frequencies are flattening out. When you take weather out of it, like we said in the script, low, mid single-digit. Severity is relatively flat. I think you're starting to see those rate increases earn in and it's starting to work its way through the auto industry.

So, I am optimistic that we can get this book back to where it would more typically perform, but we also take some confidence in seeing ourselves continue to have that margin better than the industry at that 3 to 5 point mark. So, I think your question is more of an industry question than a Horace Mann question, because we continue to keep that delta of outperformance in our auto book. Sure, it's a much higher level, but we continue to outperform the industry and I don't see any reason in the data why we won't continue to do that.

Matthew J. Carletti
Analyst, JMP Securities LLC

Q

Okay. Thank you for the answers and best of luck, rest of the year.

Marita Zuraitis
President, Chief Executive Officer & Director, Horace Mann Educators Corp.

A

Thanks.

Operator: There are no further questions in queue. I'd like to hand the call back over to management for closing comments.

Ryan E. Greenier
Vice President-Investor Relations, Horace Mann Educators Corp.

Thank you everyone for joining us this morning on Horace Mann's first quarter earnings call. If there are any further questions, please don't hesitate to reach out to me or Kristi Niles. Thank you.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.