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Horace Mann Educators Corp. (HMN)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Horace Mann First Quarter 2019 Investor Conference Call. At this time, all participants are in a listen-only mode. A brief 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, Heather Wietzel, Vice President, Investor Relations. Thank you. You may begin.

Heather J. Wietzel
Vice President-Investor Relations, Horace Mann Educators Corp.

Thank you, Christine, and good morning, everyone. Welcome to Horace Mann's discussion of our first quarter 2019 results. Yesterday, we issued our earnings release and investor supplement. Copies are available on the Investor page of our website along with our investor presentation which was posted this morning.

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, Property and Casualty; Bret Benham, Executive Vice President, Life and Retirement; and Ryan Greenier, Vice President, Corporate Finance, 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 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.

I'll now turn the call over to Marita.

Marita Zuraitis

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

Thanks, Heather. Good morning, everyone, and welcome to our call. Yesterday evening, we reported first quarter core earnings per diluted share of $0.63. That's a 24% increase over prior year. Our results were strong across all lines. Without the outsized catastrophe losses of the past few quarters overshadowing underlying results, you can more clearly see the strategic value of our multi-line business model and what it means to our company moving forward. We reported solid profitability for P&C and continued growth in our Life and Retirement segments. We're confident that our strategic initiatives will get Horace Mann back to a double-digit return on equity.

The first quarter's results were not only a strong start to the year but illustrate how well positioned we are in the education market as we work to finalize our acquisition of National Teachers Associates. NTA will add in-demand supplemental insurance products to our suite of solutions deepening our customer relationships, complement our agency force with additional trusted points of distribution experienced in worksite marketing, and diversify our revenue and earnings base. We are working diligently to complete the acquisition and continue to expect it to close mid-year.

Moving on to our quarterly results, our Property and Casualty segment produced a solid profit in the quarter with a combined ratio of 95.5%, an improvement of 3.4 points over prior year. This is largely due to the improved profitability of our auto line. Auto loss ratio improvement is a significant driver of ROE and we have targeted 5 points of improvement by 2020. The progress we made this quarter puts us well on track to achieving that 5-point objective on schedule.

In our most profitable geographies, we are ramping up P&C growth. At the same time, in the less profitable geographies, our focus is on preferred educator business. We are comfortable that our current rate plan in the mid-single digits in both auto and property will allow us to continue on our current profitable path for the full year. We have several exciting initiatives planned in P&C this year. This quarter, we are launching our safe driving, HMDrive telematics app in a number of states. Although most of our educator customers are preferred risks, we are always interested in gaining further data to refine and segment our book.

The HMDrive app gathers data about driving behaviors and scores trips based on facts like speeding, hard braking, cornering, phone distraction and harsh acceleration. Drivers received personalized dashboards, score trends, trip details and personalized driving tips. They can also compete for spots on city, state and school district leaderboards. We see this gamification approach as a draw for technologically savvy educators. Long term, this data further enhances our pricing segmentation.

In the Retirement segment, we continue to make positive strides with Retirement annuity sales up 9% for the quarter. Net investment income increased slightly for the quarter almost entirely due to favorable alternative returns. Retirement earnings were up slightly due to favorable DAC unlocking. We closed on our acquisition of

Benefits Consulting Group early in the quarter. If you will recall, in announcing this transaction last year, we outlined three reasons for this purchase.

First, BCG improves our products by providing plan design and administration capabilities that are key to being competitive in the B2B space. Second, BCG brings a new well-respected and established network of distributors. And finally, BCG improves our infrastructure with an efficient and scalable ISO 9001 compliant platform that delivers solutions in a way that our employers prefer them. We are migrating our Retirement Advantage accounts to BCG's platform and should finish that project this quarter. This will improve ease of doing business and customer experience.

In the Life segment, our sales continue to be robust with a first quarter result consistent with a strong prior year. We are encouraged by the strong growth in our reoccurring premium products such as the 35% growth in our indexed universal life product year-over-year. This quarter's results reflect a culmination of a focused multi-year plan to build the products, distribution and infrastructure needed to provide educators with financial solutions at each stage of their lives. We now have the products that educators want, tailored to meet their unique needs.

Our distribution channels align with the way our customers want to do business, and we have made major infrastructure improvements that improved ease of doing business for both agents and our customers. Adding NTA products, distribution and infrastructure to our strong foundation will allow us to accelerate our pace of growth and introduce our unique brand to their educator households.

At the same time we are advancing our strategic agenda, we also believe that having a strong social purpose is an integral part of who we are. We continue to prioritize being a good corporate citizen. Our first recent corporate social responsibility report was named to the list of the top 100 annual reports worldwide by the League of American Communications Professionals who cited the quality of the message and the creativity and clarity of information as differentiators.

To close, our first quarter results were a strong start to the year. They highlighted the earnings power of providing tailored solutions to a niche market built on customer-friendly infrastructure and delivered through trusted distribution channels. As we work to bring NTA on board, I'm excited about where this combination of respective strengths will take us.

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

Bret A. Conklin

Executive Vice President & Chief Financial Officer, Horace Mann Educators Corp.

Thanks, Marita, and good morning, everyone. First quarter core earnings were $0.63, a $0.12 increase over last year. First quarter annualized core return on equity was 8.8%. The results illustrate the substantial progress we are making on strategic initiatives to drive consistent performance, long-term profitable growth, and a return to double-digit ROE. Earnings drivers in Q1 were largely consistent with our expectations. As a result, we remain comfortable with our full year 2019 EPS guidance of $2 to $2.20 without any contribution from NTA.

So, let's look briefly at investment results before turning to the specific drivers of each of the businesses. In the first quarter, the annualized pre-tax portfolio yield was 5% with net investment income up $900,000 primarily due to better-than-expected alternative investment returns. As you know, these returns typically vary from quarter to quarter. Our alternative portfolio had a fair value of $330 million at March 31. That said, we still expect full year 2019 net investment income to decline about $5 million to $6 million from what we reported for full year 2018.

Our new money rate of 4.3% remains below our current portfolio yield and we expect lower prepayment activity compared to 2018. Our portfolio strategy also remains unchanged with the overall credit quality of the portfolio steady at A+. We continue to believe our prudent investment positioning will serve us well to avoid significant impairment and credit losses in the challenging environment we expect over the next several years. At March 31, our book value excluding AOCI had risen slightly from year end to $29.47.

Turning to Property and Casualty segment, for the quarter, core earnings were $15 million versus $9.7 million with the combined ratio at 95.5% versus 98.9% in last year's first quarter. The significant rate increases we have implemented were the primary factor driving better underlying underwriting performance.

Net written premiums rose modestly on the higher rate and we continue to expect rate increases will drive a low single-digit increase in total net written premiums for the year. These increases, largely already filed and approved, average in the mid-single digits across the book.

In the few markets that aren't yet meeting our profitability targets particularly in the southeast, we continue to shed monoline auto and non-educator business. In many of these cases, we are placing these customers with partner carriers allowing us to maintain the household relationship. At the same time, in geographies that are outperforming, we are working with agents to support their sales efforts. We are beginning to see positive trends in new business count and expect it will accelerate over time.

In Property, rate increases are tied to the higher cat and non-cat weather we saw in many geographies over the past few years. We continue to expect the full year underwriting property loss ratio to improve three or so points over 2018. Auto rates being filed are keeping us ahead of loss costs. We continue to see the trends of recent quarters continuing with elevated severity, although the increases have moderated somewhat, and lower frequency.

We expect auto to be profitable on an underlying basis by year-end with a cumulative five points of improvement in the underlying loss ratio since 2017. That loss ratio improvement is a key driver of ROE. Underwriting results benefited from $2 million in favorable reserve releases evenly divided between Property and auto primarily from accident year 2018.

Cat losses for the quarter were up slightly from last year's first quarter due to the more frequent Midwest storms in January and February but within the parameters we expected. Our estimate for 2019 catastrophe losses is $45 million to $55 million, or 7 to 7.5 points, up 20% from what we had initially included in 2018. We are more heavily weighting more recent years in our forecasting to reflect the impact of sustained elevated catastrophe loss trends. Looking at those historic loss trends, we typically had incurred about half of our annual cat losses in the second quarter.

Our target range for the expense ratio is to be a 0.5 plus or minus of 27% and the first quarter ratio was right in line at 27.2%. In last year's first quarter, the ratio benefited from an expense recovery that lowered the Auto expense ratio by about 2 points. Our target for the combined ratio for the P&C business for the full year remains at the high 90s.

Turning to the Retirement segment, we completed the purchase of Benefit Consultants Group on January 2. The sales and expenses of their retirement plan and recordkeeping business are now included in our Retirement segment results beginning this quarter. As a result, we've made a few updates to the way we show the segment data in the release and financial supplement. The changes help distinguish between managed assets and assets under administration, which only generate fees.

As you'll recall, acquiring BCG was a strategic move. They bring infrastructure capabilities through their efficient and scalable ISO 9001-compliant platform which delivers solutions in the way that employers prefer them. As Marita said, we are actively working to integrate our existing Retirement Advantage accounts on to BCG's platform to gain efficiencies and improve the customer experience. Said another way, BCG's capabilities bolster the value proposition we provide to school districts nationwide. While their contribution to Retirement net income is expected to be immaterial for the next several years, they will be integral to achieving our growth objectives.

Turning back to Retirement results, annuity sales were up 9% for the quarter and continue to be an important part of our product set as they appeal to the financial objectives identified by our customers while complementing our growing suite of fee-based products. Positive DAC unlocking for the quarter was due to favorable equity market performance reversing a portion of the negative DAC unlocking in the fourth quarter of 2018. As anticipated, core earnings excluding DAC unlocking were down about $1 million for the first quarter to $11 million due to the lower investment spread. We remain on track to our full year guidance of earnings on the same basis in the range of $39 million to $41 million.

Turning to the Life segment, our agents continue to introduce educators to the right products to address their financial needs while leveraging our recently introduced ease of doing business initiatives to cross-sell more policies into our existing customer base. First quarter sales were solid and even with last year's equally strong first quarter. We expect growth throughout the remainder of the year as we help more of our customers see how life insurance can contribute to the financial well-being of their families.

Mortality costs rose in line with the growth and aging of our in-force policy book and expenses were up slightly. As a result, core earnings were $3.3 million compared with $3.8 million last year. For the full year, we continue to expect earnings excluding DAC unlocking of $15 million to $17 million with full-year sales growth in the double digits.

In summary, we are making important progress in the key drivers of ROE improvement, in particular, improving underlying performance in our P&C business. We believe the results of the first quarter bode very well for the remainder of 2019 and beyond even before we take into account the opportunities that NTA brings. As Marita discussed, NTA will strengthen our ability to meet the product, distribution, and infrastructure needs and expectations of the nation's education market. We expect our progress will continue and we're very excited about what the future holds for Horace Mann. Thank you.

And, with that, I'll turn it back to Heather for Q&A.

Heather J. Wietzel

Vice President-Investor Relations, Horace Mann Educators Corp.

Thanks, Bret. Christine, we're ready to take questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now be conducting a question-and answer-session. [Operator Instructions] Thank you. Our first question comes from the line of Matthew Carletti with JMP Securities. Please proceed with your question.

Matthew J. Carletti
Analyst, JMP Securities LLC

Q

Hey. Good morning.

Bret A. Conklin
Executive Vice President & Chief Financial Officer, Horace Mann Educators Corp.

A

Good morning.

Matthew J. Carletti
Analyst, JMP Securities LLC

Q

Just a couple of questions. I think, Marita, maybe to start with, you touched a little bit on NTA but I was hoping you might be able to expand a little bit on, a, if there's any update on kind of when do you expect the close. I know you said midyear but do you expect Q2, could it be Q3? And bigger picture, can you just talk a little bit about – four months have kind of passed since the deal was announced, I'm sure you've had some time to progress your plans. Is the thinking still that Horace Mann agents pretty quickly should be able to sell the NTA products? It might take a little bit longer for NTA agents to sell some of the Horace Mann P&C products. And then maybe if you could talk a little bit about, just if I'm understanding it right, how historically Horace Mann has had a pretty rural footprint. NTA is a bit more urban. Can you talk about that opportunity a bit?

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

A

Yeah. As usually Matt, you know us well. I think you answered your own question there but I can try to give you a little more color. I'm not sure how much more detail we have than what we've already shared. The transactions pending approval we're waiting for New York and Texas although those conversations with the department are going extremely well and we do anticipate that we will close at that midyear timeframe that we have already given you.

In the time that has passed since we announced, it's actually given us even more time to plan so that we can hit the ground running as you can imagine. Our first strategic priority has always been our Horace Mann agents selling NTA products. So, it's given us time to kick off that training and get our agents well trained so that literally at the day of close, these agents already have schools and appointments lined up to begin to sell those products. So we feel good that they'll be able to hit the ground running but also some time to build some of the future plans as to what the other cross-sell opportunities will be as we round out the households but that's clearly where we're starting.

We had talked early on about the lack of significant overlap between our agents and theirs. Obviously, there's a few places where they're both strong and we're strong and we're working through how those agents can effectively work together but those are really few and far between. Pretty much across the board, they're very strong in some places where we're not and we're very strong in some places where they're not which we think gives us considerable you know opportunity as we work through those long-term cross-sell plans. So again, I feel that the more time we spend together the more time it convinces us that this is going to be a good clean fit and really gets us ready to hit that ground running upon close. I feel even more confident now than I did when we announced the acquisition.

Matthew J. Carletti
Analyst, JMP Securities LLC

Q

Great. That that's really helpful. And then maybe one other question, this might be for Bill Caldwell. Just looking at the P&C segment both auto and Property, I mean, and particularly auto, I mean, the accident year, loss ratio recovery has been you know great to see and accelerating. I guess the question is now that you can kind of see profitability in sight and you know definitely getting traction, how do you start to think about balancing kind of the rate increase levels with what's needed for profitability and with kind of stabilizing the PIF count or is PIF something that you're not overly focused on and you just want to get the pricing and the returns right and that will fall out where it is?

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

A

Yeah, Matt. This is Bill. We think about both obviously and we're where we expected to be. Just a reminder, as we went through the cycle in the third and fourth quarter of last year, we took over 3 points of rate in those two quarters combined or each. And when you think about it in a normalized environment, that's typically 1 to 1.25 points. In fact, in the first quarter of this year, we took 0.8 rates. So, it gives you a little bit of color around how much rate was in the back half of the year. And that works through the system, we're mostly six-month policies. So, through June, we expect those policies to renew. So, you're seeing a little bit of hit to retention.

Certainly, as we come out of June and we're in a more normalized environment, we expect growth to emerge in profitable markets. We are starting to see that now. Unfortunately, it's overshadowed by some of our defensive actions in unprofitable markets. But things like telematics, we are offering a discount in preferred markets for the use of telematics that will help accelerate growth. And also, we have Guidewire being launched in October in our pilot state of Illinois with four additional big states coming in in 2020. So, I'm very optimistic about growth. And then, certainly, we're focused on both. We're very pleased with the underlying improvement that we saw in auto this year.

Matthew J. Carletti
Analyst, JMP Securities LLC

Q

Great. Thanks a lot. Very nice start to the year, and best of luck for the rest of it.

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

A

Thanks, Matt.

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

A

Thanks, Matt.

Operator: Our next question comes from the line of Gary Ransom with Dowling & Partners. Please proceed with your question.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC

Q

Yes. Good morning. I wanted to follow-up on the PIF growth question, maybe a longer-term one. And if I look back over the last 10 years or so, there hasn't really been any period of PIF growth of any significance. It was sort of a decline in the – right after the credit crisis then flattish and now we've had this last decline. And I just – is the things you're talking about now, whether it's Guidewire or telematics, and is that really the solution or is there some other – what I'm thinking in the back of my mind is that we've got a lot of competition out there and you've got a teacher who's been helped by your retirement plans and your life insurance and they learn from you how to save money and then they decide to go call up GEICO when they're doing their homeowners or auto. And I just – is what you're doing enough is kind of what I'm asking for. And is there is there more you might be thinking about to turn that PIF growth around?

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

A

Yeah. Gary, I think it's an excellent question and I would say that you started to get to the answer there. I think the strength in our Retirement segment and the products that we've built in Retirement and the traction there, I think the life back in our Life segment and what you've seen there, I think the – bringing on another 150,000 households with NTA, that without the overlap there that there's a fair amount of those households that aren't with Horace Mann today that we will be able to eventually cross-sell our auto products to, all of those things give us more opportunity with a captive audience to cross-sell our auto.

But I think Bill's previous answer is right. I think restoring the profitability to our auto line, getting to a more stable rate environment, giving our agents the tools and solutions and ability to have more reasons to be in that school in the marketplace gives us more at-bats and with more at-bats with a relatively consistent conversion rate in our book. I think it is about quoting more and you'll begin to see that PIF growth emerge.

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

A

Yeah. And Gary, this is Bill. I'll just add a little bit more about Guidewire because it does it does enhance more than just our rate capabilities. We'll be able to segment better. The access to data will be more robust. But also from a customer experience perspective, there'll be more online servicing, more digital capabilities. So again, the number of at-bats continue to increase.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC

Q

Just on the telematics product, is that – I'm not sure I heard it right, are you using that pricing or are you using that in just customer experience more or less at this point?

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

A

Both.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC

Q

In this first rollout.

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.
A

Both. We're offering a discount for those who sign up in preferred markets where we're at rate adequacy. But in other markets it will be available for more of the gamification and education perspective.

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

And then in the long term, that data certainly helps with pricing segmentation as it does for other for other markets.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC
Q

Are you a believer that the gamification changes behavior?

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

I'm a believer that certainly the placebo effect, if nothing else, is helpful. Those that sign up for this tend not to be those people who know that they don't want people having their data. So, there certainly is at least a placebo effect and because these aren't deep discounts and because we're thinking about this in a homogeneous set of auto customers that we've had for a long period of time, it allows us to watch the data and be able to determine the answer to that question for ourselves.

William J. Caldwell
Executive Vice President, Property and Casualty, Horace Mann Educators Corp.
A

And Gary, we've tested this internally for quite some time. And I will say there is an impact to knowing – it's a very cool application and it gives you very detailed information, along your route, where you picked up your phone, where you're speeding, just that information and the score that comes out every day. We joke we're all tied to our watches and what our watch tells us. It's similar with application and the people that have tested it have reported back that they work to improve their scores.

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

And in the past, we've talked to you about the distracted driving education that we're bringing to our school districts and how much time and attention we've spent with both students and educators educating on the effects of distracted driving. This is one more way in which through the gamification, through presenting these game boards and these score cards, it draws attention to that distracted driving factor that we all know isn't good for long-term results over time. So, I like an additional spotlight on that, put your cell phone down kind of approach.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC
Q

Right. Okay. That's helpful. Just another little small item on the development, on the favorable development. I realize it's not that big of a number, but I was just observing that you basically did zero in all of last year and I might describe that as holding your loss picks. And I'm just wondering if you look at that shift to more favorable development as some manifestation of better loss trends that you were describing in your ongoing book.

Bret A. Conklin
Executive Vice President & Chief Financial Officer, Horace Mann Educators Corp.

A

Gary, this is Bret Conklin. Let me take that. Let me just start off by saying our reserving philosophy has not changed. We continue, as we have in the past, to hold our reserves at the upper end of our independent actuarial range. We watch our reserves closely and have remained conservative in our loss picks, particularly with elevated auto loss levels that we've had over the past few years. And like you said, we actually had a small amount, about $300,000 of favorable loss reserve development last year. In the last two years prior to that, we're about $2.5 million and $7 million.

So, I wouldn't weigh into the favorable development too heavy. I mean, we book it when we see it. As I mentioned, we're on the conservative end of the spectrum. And I think as I communicated it last year and going into our guidance for this year, we do not factor in any significant loss reserve development in our guidance. So, like you said, it's only $2 million. It was $1 million in auto and $1 million in Property. So, I wouldn't read a whole lot into that.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC

Q

All right. Thank you. At the risk of overstaying my welcome, can I ask something about the Retirement growth also? When I look at your numbers, I see a shift toward more deposits going into variable versus fixed in your supplement disclosures. Are we seeing the change in product in those numbers? Is that basically what we're seeing there?

Bret L. Benham
Executive Vice President-Life & Retirement, Horace Mann Educators Corp.

A

Hey, Gary. This is the other Bret. Overall, I mean, I probably wouldn't read a whole lot into that just off the first quarter. We still continue to see pretty much the same types of flows. And certainly, if the market is up you're going to see a little bit more attention there. But overall, we're just pleased to have both the fee-based business and the variable annuity and fixed business growing as well at the same time.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC

Q

Actually, it wasn't so much the first quarter. It's sort of the sweep of the last 12 months or so. I think it's been much more has been going into variable, but I can follow up on that later. That's fine.

Bret L. Benham
Executive Vice President-Life & Retirement, Horace Mann Educators Corp.

A

Sure.

Gary Kent Ransom
Analyst, Dowling & Partners Securities LLC

Q

Thank you very much then. That's it for me.

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

A

Thanks, Gary.

Operator: [Operator Instructions] Our next question comes from line of Christopher Campbell with KBW. Please proceed with your question.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hi. Good morning. Congrats on the quarter.

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

A

Hey, Chris. Thanks.

Bret A. Conklin
Executive Vice President & Chief Financial Officer, Horace Mann Educators Corp.

A

Thanks.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

All right. I guess kind of my first question is given the strong P&C result, the retirement income with the DAC benefit, I'm just surprised the guidance didn't increase. So, I guess just any color on why you didn't up the guidance this time?

Bret A. Conklin
Executive Vice President & Chief Financial Officer, Horace Mann Educators Corp.

A

Chris, I think as I mentioned briefly even in my prepared remarks, I mean, the quarter performance all in was pretty consistent with our overall expectations. So, really all segments, even ex DAC unlocking, yes, we had a $2 million benefit from the quarter, but that's totally market performance-driven, but all in, it's one quarter. It doesn't make a year. Yes, we're happy with the solid results of the first quarter, but obviously, our business is seasonal. But here again, it was relatively consistent with what we expected for the first quarter.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. And then just I have a few kind of on like the Retirement segment, I'll get outside of my wheelhouse for a little bit. But I guess just when you have the $39 million to $41 million guidance, what underlying spread and interest rate movement assumptions do you have built into that guidance? And then just as those move, how would you review those assumptions over time?

Bret A. Conklin
Executive Vice President & Chief Financial Officer, Horace Mann Educators Corp.

A

So Chris, this is Bret Conklin. With respect to the spread, the guidance that we gave going into 2019 was in the mid-140s and actually where we ended the first quarter was basically in about 142. So we're in that we're in that zone with respect to that. So, as we communicated at year-end, I think we ended last year at about 170 and the decrease really driven by lower prepayments is a significant piece of that. Obviously, we took our new money rate assumption up to 450 for this year. In my prepared remarks, we're running a little bit below that at 430 for the quarter but obviously, we were anticipating over a $10 million decrease in prepayments which is the big driver.

So, I mean, the new money rate will impact the Retirement segment but not as significantly as that reduction in the prepayments that were part of the guidance that we issued. But our guidance for the full year was mid-140s.

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

A

Yeah, Chris, the only thing – this is Marita, the only thing I would add is if you remember when we outlined the three strategic levers for improving our ROE, we talked about number one being the improvement in our underlying performance driven primarily by auto and you're seeing that coming through and we obviously expect that to continue and are right on track with what we said we needed to do with that lever. We talked about expenses and we continue to run this place efficiently and continue to look for ways to tighten our belts as it relates to expenses. You did see some acquisition expenses come through but for those, we are right on track with where we said we needed to be from an expense ratio perspective.

And then that last lever was about fee income and what I'm excited about in the Retirement space, not only with the acquisition of BCG but across our portfolio, is an increase in fee income predominantly driven by that Retirement Advantage product. So for me, all three of those levers and the strategic vision around some very intense focus around that, I feel comfortable working towards restoring that double-digit ROE.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Got it. And then, just kind of a follow-up question on BCG. I'm looking at page 9 in the supplement where you have the – where you've added a few lines for like the brokerage and advisory assets, and the recordkeeping assets under admin for BCG, so a big spike up in those. Where in the financials are the results of BCG coming in? I mean, I see kind of a bump up in other income to $2.4 million from like $1.7 million, $1.8 million. You had a run rate there. Is that where that's getting? Is that where the [indiscernible] (36:30)

Bret A. Conklin
Executive Vice President & Chief Financial Officer, Horace Mann Educators Corp.

A

Chris, the results of BCG are actually embedded in the Retirement segment. So, I'm going to oversimplify this, but as it relates to BCG, kind of the revenues are being offset by the expenses. I think I mentioned in my remarks that the next couple of years will be not a significant boost to earnings and the ROE. But that business, if you will, is part of the Retirement segment. And we're going to, as we weave through time and experience in this, this was our first foray, if you will, to disclosing some of the metrics that we're going to be looking at as it relates to the fee-based business. So, over time, as this becomes a bigger part of us, we probably will break out more information. But right now, it's resident within the Retirement segment.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Got it. And then just I mean in terms of like now that you've broken out some of the assets that are being driven, like what are your plans for asset growth in that segment and then when does it start becoming – when do you start getting positive operating leverage like what do the what does the AUM have to be in those driven by that business so that it's NPT positive?

Bret L. Benham
Executive Vice President-Life & Retirement, Horace Mann Educators Corp.

A

Yeah, this is Bret. I'll try to take a stab at that. Their business is much more you know on a fee basis so we tend to look in terms of do we see growth in participants and that's something that we'll be monitoring. Right now, it's a little too early although, as Bret said, we expect it to be a net neutral to earnings results. But we're already starting to see some of the opportunities to grow that business but also to extract some of the benefits we thought that would come from the acquisition, migrating our existing platform over which we think we'll have done here by midyear hopefully by then end of Q2. And then we've actually already introduced our stable value which is our fixed account into their portfolio and have had our [indiscernible] (38:42) sell on it. So those are where we really start turning that from a neutral to sort of positive earnings and flows but that's how we're looking at it right now.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay, great. And then just one last one on the NTA acquisition. Have you guys nailed down your financing plans just what the mix of like cash, debt, all that'll be so we can update the model?

Bret A. Conklin
Executive Vice President & Chief Financial Officer, Horace Mann Educators Corp.
A

Yeah, Chris, this is Bret Conklin. We're obviously working diligently on that but, no, we have not finalized that. I would say very active in that space. As we communicated at yearend, we can execute the transaction with cash and incremental debt issuance. But there is obviously alternative finance arrangements that we look at constantly. But that will be forthcoming. It will all come to a head here hopefully by the time of the close which, as Marita communicated earlier, mid-year is really where we're targeting that to happen.

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

And the only thing I'd add is it's coming together well and we feel really good about where we are.

Christopher Campbell
Analyst, Keefe, Bruyette & Woods, Inc.
Q

Okay. Well, great. Thanks for all the answers. Best of luck on second quarter.

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

Thank you.

Bret A. Conklin
Executive Vice President & Chief Financial Officer, Horace Mann Educators Corp.
A

Thanks.

Heather J. Wietzel
Vice President-Investor Relations, Horace Mann Educators Corp.
A

Thanks, Chris.

Operator: Thank you. It appears we have no further questions at this time. So, now I'd like to turn the floor back over to you for closing comments.

Heather J. Wietzel
Vice President-Investor Relations, Horace Mann Educators Corp.

Thank you, Christine, and thank you, everyone, for joining us today. I think we're off to a great start for 2019. We look forward to talking to you as the year progresses. And we're available in the office if there are follow-up questions, feel free to touch base. So, thank you, all.

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