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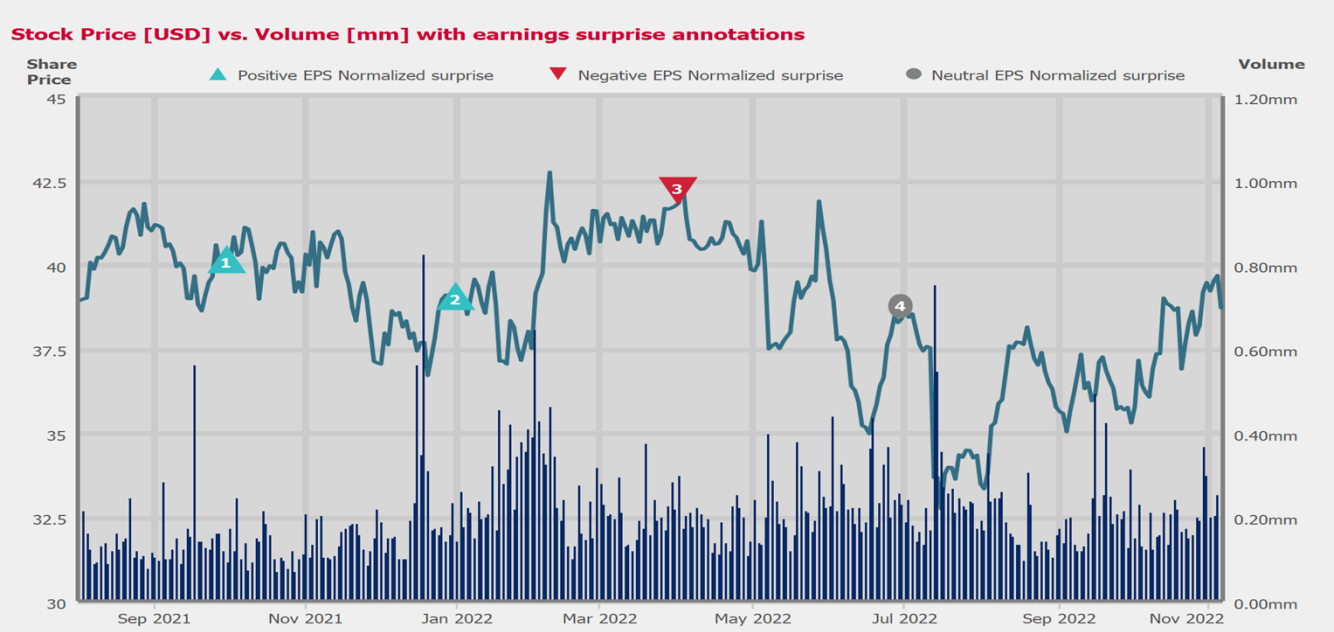
Horace Mann Educators Corporation NYSE:HMN FQ3 2022 Earnings Call Transcripts

Friday, November 4, 2022 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.12)	NA	NA	0.62	2.09	NA
Revenue (mm)	349.70	NA	NA	352.00	1394.40	NA

Currency: USD
Consensus as of Nov-04-2022 6:48 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	0.38	0.50	1 31.58 %
FQ4 2021	0.73	0.97	2 32.88 %
FQ1 2022	0.98	0.64	3 (34.69 %)
FQ2 2022	(0.12)	(0.01)	NM

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Presentation

Operator

Good day, and welcome to the Horace Mann Educators' Third Quarter 2022 Investor Call. [Operator Instructions] Please note, this event is being recorded.

I'd now like to turn the conference over to Heather Wietzel, Vice President of Investor Relations. Please go ahead.

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

Thank you, and Good morning, everyone. Welcome to Horace Mann's discussion of our third quarter 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 on Supplemental & Group Benefits; Mark Desrochers on Property & Casualty; Mike Weckenbrock on Life and Retirement; and Ryan Greenier on Investments.

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 news release.

I'll now turn the call over to Marita.

Marita Zuraitis
President, CEO & Director

Thanks, Heather, and good morning, everyone. Last night we reported third quarter core earnings of $24 million or $0.57 per share, up 14% over last year. In this challenging environment, those results clearly show how we are benefiting from the revenue and earnings diversification of our multiline business model. Providing employer-sponsored coverages, personal lines insurance and savings products enables us to build strong and lasting relationships with our educator customers.

It also makes our company more resilient. Consistent with the external environment, financial market volatility and inflation continued to affect our financial results in the third quarter and we expect them to impact fourth quarter results as well. These effects are most prominent in the P&C segment. But remember that P&C is only a portion of what we do.

And because of educator risk characteristics, our market is insulated, although certainly not immune from the full impact of broader external pressures. Bret will cover the details of guidance later in the call, but at a high level, we now expect full year core EPS of $1.70 to $2. It's a wider than normal range at this point in the year, but this is an unusually variable external environment.

We remain confident, we are properly positioned to address the headwinds and to achieve our long-term objectives of a larger share of the education market and a sustained double-digit return on equity. We expect we'll be back on our trajectory towards that target in 2023 as we leverage all facets of our multiline business and add educator relationships. In fact, we had an encouraging back-to-school season from a household acquisition perspective, which I'll discuss later in my remarks.

But first, as I discussed last quarter, 3 major external factors; severe weather, financial market volatility and inflation are challenging the insurance and financial services sectors in ways not seen in recent memory.

First, weather activity. For Horace Mann, our strategic actions over recent years mean that weather wasn't an outsized factor in the third quarter results. But Hurricane Ian was certainly a problem for the industry and is likely to contribute to the industry's challenges going forward. We do think Ian is indicative of how the increase in weather volatility is a growing concern for our industry.

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Ian was the most destructive U.S. weather event in almost 20 years and one of the largest auto catastrophe events in history. Further, the demand surge related to Ian recovery is likely to intensify already unusually adverse inflationary trends affecting both property and auto carriers.

The second factor is financial markets volatility. Prior to the pandemic, we had seen the longest bull market in history for both equities and bonds. Unfortunately recovering from the pandemic has been choppy with the S&P 500 declining nearly 25% through the first 3 quarters of 2022 before some recovery in October. Investors are having to adjust to significantly higher and less predictable interest rates as well as considerable uncertainty around the underlying trends in inflation and growth, putting valuations under significant pressure.

However, as we said last quarter, our portfolio is certainly well positioned. Nearly 20% of our portfolio is floating rate. Our core portfolio new money rate approached 5% in the third quarter, up nearly 150 basis points from last year, which will certainly be a positive as we invest over the coming quarters. But in the short-term, the uncertainty is having a negative impact with returns below our historical average for our limited partnership portfolio. Further, our Life and Retirement segment continues to experience lower charges and fees on variable annuities and asset-based accounts as well as unfavorable market performance related to DAC unlocking.

And finally, inflation continues to run at a pace not seen since the 1980s. We were in a position of relative strength in auto due to the strategic decisions over multiple years and began 2022 with a solid plan to address what turned out to be just the first wave of inflation impacts.

As the year has progressed, our responses have become more aggressive, both in size and timing as the inflationary trends have worsened. In auto, escalating costs are requiring even further rate increases. In addition to rate action implemented in the first 9 months of 2022, we expect to increase auto rates by approximately 15% to 16% between now and the end of 2023. About 10% to 11% of that rate will earn in during 2023 plus the higher rates will be bolstered by non-rate underwriting actions.

By the end of 2023, we are confident our underlying rate level will be at our targeted pricing in nearly every state. As a result, we expect to be at a seasonally adjusted combined ratio under 100 by the fourth quarter of 2023. Of course if future loss cost trends emerge that are different than our current assumptions, we will adjust our rate plan as necessary.

In property, we expect to increase rates by 8% to 9% over the next 5 quarters. On top of the 7% to 8% in increases we will see from inflation guard, which raises coverage values. The combination should result in an overall average premium increase in 2023 in the mid-teens. Our long-term combined ratio target remains in the low 90s for property.

As we said last quarter, these external events have clearly interrupted our progress towards our long-term goal of a sustained double-digit ROE. But the objective remains unchanged, and our plans will have us back on the trajectory of achieving that objective next year. Our confidence stems in part from the characteristics of the 7.5 million educators nationwide who make up our target market.

They are preferred risks, conservative savers and loyal customers. These factors lead to lower loss costs and higher retention compared to the broader population. That's why we often say that our market is insulated, but not immune from the worst of the external trends.

We've spent most of the last decade positioning Horace Mann to be able to significantly increase our share of this market by expanding our product set, strengthening our distribution and modernizing our infrastructure. Our transformation included the addition of employer-sponsored and voluntary worksite benefits over the past several years, rounding out our product game board. The 2022 back-to-school season was a showcase of all that we bring to the education market with Horace Mann agents returning to school buildings at a level we haven't seen since 2019. With COVID-19 vaccines readily available for students of all ages, schools are generally settling into a post-pandemic cadence.

So in most geographies, our agents are attending more education events, providing more in-school financial wellness workshops and are better able to build new relationships with in-person interactions. We're seeing strong growth in our student loan solutions program. The broader student loan forgiveness discussions in the news have driven increased interest in the topic and in program specific to educators.

We've had about 75% more accounts created in 2022 than in 2021. Since the program's launch in 2016, we've helped educators identify more than $450 million in student loan forgiveness opportunities primarily through the federal public service loan forgiveness program. Our program is complementary for educators increases our brand affinity in our niche market and build strong prospecting opportunities that we can leverage to accelerate household acquisition.

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What's most important, it means that we can help districts retain educators who appreciate support with the intricacies of the forgiveness program. In this year's more normal operating environment, we're also hearing from our independent benefit consultant partners that school administrators are more attuned to addressing staff recruitment and retention challenges.

They appreciate the spectrum of solutions under the Horace Mann umbrella. In fact, this week marked to the first full K-12 district implementation using our new benefit enrollment platform with our team working in partnership with the Benefit Consultant to support the district. Policy application counts, one of our key leading indicators for individual life sales was strong, running above last year's back-to-school season. That growth continued in October.

Further, educators continue to begin their relationship with Horace Mann through 403(b) retirement saving products, including our attractive annuity products. These options continue to appeal to the straightforward financial objectives of our educator customers, while complementing our growing suite of fee-based products. The improved access also contributed directly to the 10% higher quarter-over-quarter sales in voluntary supplemental products.

The momentum continued into October with sales for the month well above last year and at the highest level of any month since February 2020. We see the trend of year-over-year improvements in these sales continuing throughout 2023. Access was a factor in more than 20% growth in sales from new auto customers. This growth is coming largely from states where we are confident in the outlook for pricing.

That said, we're fully aware of the risks inherent in today's competitive auto market. Because we are an educator company, not a monoline auto carrier, we are maintaining our long-term approach. We offer a fair auto price over the life of a customer relationship. These relationships are with educators who are inherently preferred risks. Further, fully 70% of our auto policies are 6 month policies.

I commented during the height of the pandemic that we weren't surprised educators weren't focused on shopping for auto insurance, given their frequently changing work environment and concerns about their own families. Those concerns are now abating. With the vast majority of insurers increasing rates by double-digits, many educators are more likely to consider a new carrier. Our exclusive agents are there, often in the schools, to provide a Horace Mann quote. The result is an increase in sales in states where our pricing is adequate.

Stepping back, whether it is through a new auto policy, a new life policy or any of our other interactions, each new touch point with an educator has the potential to be the beginning of a lifetime relationship. And they often become package customers, not just for homeowners, but potentially also buyers of savings products.

Our customer cross-sold percentage is far higher than the industry average, and our retention rates for cross-sold customers grow the more products they own. Put more simply, the lifetime value of an educator customer with multiple lines of business is higher than a monoline customer.

In summary, while our results in the short-term have been affected by very challenging external factors, we have many reasons to be optimistic about the opportunities to leverage our leadership position in the education market in 2023 and beyond. The addition of the Supplemental and Group Benefits segment provides earnings and revenue diversification and our educator market focus keeps us insulated even if we aren't fully immune from all impacts of external events.

We are seeing improved school access and a growing sales pipeline. We have a strong investment strategy that is aligned with our long-term objectives. And we have a shared dedication to serving this deserving education market. All of these factors will persevere past short-term economic pressures.

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

Bret Alan Conklin
Executive VP & CFO

Thanks, Marita, and good morning, everyone. As Marita mentioned, inflation and financial market volatility impacted our results again this quarter as we reported core earnings of $24 million or $0.57 per share. In light of the results, we made 2 adjustments to our full year segment guidance.

One, we now expect the P&C segment will see a core loss for the year of between $13 million and $19 million. This is below our prior guidance due to third quarter results and our expectation that the fourth quarter will reflect the continued impact of inflation as well as the normal seasonal pattern, where Q4 can be our highest auto loss ratio quarter. Our cat loss expectation for the fourth quarter is unchanged at $5 million, our 10-year average for the period.

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And 2, we now expect the Supplemental and Group Benefits segment will see core earnings between $55 million and $58 million. This is above our prior guidance, reflecting the strength of third quarter results. The net effect of those changes is an update to our full year EPS guidance to a range of $1.70 to $2. On one hand, it's certainly disappointing to see external impacts interrupting our trajectory toward our long-term performance objectives.

On the other hand, this year is clearly demonstrating the value of the earnings diversification that the new work site focused businesses bring. They represented almost 1/4 of revenue in the first 9 months of 2022 and provided $43.6 million in core earnings.

Let's look at the results and outlook for each segment, starting with P&C, where the segment core loss was $2.5 million. Net investment income for the segment continues to reflect lower returns on the limited partnership portfolio, largely due to the equity market volatility. The underwriting loss improved from last year's third quarter due to substantially lower cat losses. The $14.6 million of cat losses were in line with our historical average, although auto losses were a larger portion of the total than we might have expected due to Hurricane Ian.

Total written premiums were up a bit more this quarter than they were last quarter, and we're certainly going to see that rate of increase continue to accelerate. The year-over-year increase in average written premiums for auto policies improved sequentially to 4.4% from 1.6% in the second quarter, while the increase in average written premiums for property policies improved to 9.2% from 7.5%. Policyholder retention continues to rise.

Turning to third quarter underwriting results, excluding catastrophe, first auto, where the underlying loss ratio rose to 78.4% from 76.9% in the second quarter and 70.6% in last year's third quarter. Although frequency continues to trend back up toward pre-pandemic levels as mile driven continues to increase, higher severity is the primary driver of the increase in loss costs.

This reflects the challenges being faced by the entire industry, including the unprecedented level of inflation that is driving higher replacement costs, the trend towards more severe accidents and increased utilization and cost of medical treatments. In the third quarter, we also continued our longstanding approach of a prompt response to trends that have an impact on open claims from prior periods with reserve strengthening, adding $2 million pretax to auto reserves.

In property, the third quarter underlying loss ratio rose to 53.3% from 43.5% last year. Mid-teens increases in severity are having an impact as well as an increase in the number of non-cat water and fire claims, which can fluctuate period to period. The 9-month underlying loss ratio was up only slightly over last year, largely due to higher severity.

As Marita described, in line with industry experience, we have been more aggressive with our rate and other underwriting actions as the environment has worsened. We are confident in our plans to address rising severity in both auto and property.

Turning to Life and Retirement, core earnings were down 33.5%, in line with expectations we discussed last quarter. Similar to P&C, this segment is feeling the impact of lower returns in our limited partnership portfolio and other effects of equity market volatility. However, the net interest spread is in line with our guidance.

We continue to expect the full year spread will be below the 2021 level of 290 bps, but still comfortably above our threshold to achieve a double-digit ROE in this business. Operationally, the third quarter saw solid growth for both Life and Retirement. Life sales rose year-over-year, while persistency remained strong. Mortality costs for the quarter were above last year, but are down year-to-date and remain in line with actuarial expectations.

Net annuity contract deposits increased sequentially, and we had another strong quarter for Retirement Advantage, the fee-based mutual fund platform that we believe creates long-term opportunity for this business segment. Our outlook for full year core earnings for the segment is unchanged at $56 million to $59 million.

Now let me turn to Supplemental and Group Benefits segment. You'll recall that Madison National's results were added effective January 1 of this year, which makes some of the comparisons to 2021 performance less useful. Overall, this business continues to perform very well, and we are excited about its potential in the clear earnings diversification it brings.

We raised our 2022 guidance for this segment to $55 million to $58 million due to the strong performance in the third quarter. For the full segment, third quarter premiums and contract charges earned were $68.3 million, of which Madison National's employer-sponsored products represented $38 million. Segment sales of $4.4 million were evenly split between the voluntary supplemental and employer-sponsored products.

Net investment income for this segment reflected the addition of Madison National portfolio effective January 1. Seasonality also affected the level of benefits and expenses, which were $19 million in the third quarter, down from $27 million in the second quarter and $35 million in the first quarter. We expect the seasonal fluctuations to be a permanent fixture of this segment's results.

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But in addition to seasonality, we benefited by about $1 million from a couple of minor adjustments, for example, updating social security offsets in disability reserves. On an annual basis, our long-term benefit ratio targets remain about 35% for voluntary products and about 50% for employer-paid products.

We continue to expect the ratios will be near those levels for full year 2022. Amortization of intangible assets is expected to be approximately $13 million or $0.30 per share after tax for the year.

Now to investments. Looking at the performance of our consolidated portfolio, net investment income was down slightly, largely due to the 3% annualized return on limited partnerships in the quarter. Private equity valuations were challenging, offsetting solid results in private credit and real estate equity strategies. On a year-to-date basis, LP returns are now slightly below our historical average, which is in the range of 8%.

We expect LP returns will be below historical average again in the fourth quarter. Combined with this quarter's underperformance, this is the primary reason we slightly lowered guidance for net investment income on the managed portfolio to $295 million to $305 million. The new money rate on fixed income investments has continued to exceed portfolio yields this year, although our investing activity for portions of the summer was somewhat limited by the outsized P&C claim activity plus opportunistic share repurchases.

As we mentioned in the earnings release, we are incurring modest realized losses in the quarter, primarily due to portfolio repositioning to improve book yield. Due to the significant rise in interest rates, unrealized losses on the portfolio have risen to $632 million. Changes in unrealized gains and losses do not affect statutory capital or our view of the high-quality securities that make up our core portfolio.

In closing, inflation, financial market volatility and severe weather are clearly making this a challenging year. We're addressing each of these challenges and continue to benefit from actions that have made Horace Mann a stronger and more diverse organization. Our long-term objectives remain the same: first, sustained double-digit ROEs and second 10% average annual EPS growth.

Our Life and Retirement and supplemental and Group Benefits segments are a stable source of earnings, which mitigates the occasional volatility of P&C. This, in turn, creates a stable source of capital, which in a more typical year means we would generate at least $50 million in excess capital above what we pay in shareholder dividends.

While our priority is and will continue to be growth, we are committed to using available excess capital for steady shareholder dividend increases and opportunistic share repurchases. In 2023, our diversified business model will be key in getting us quickly back on our trajectory towards those objectives focused on providing strong returns to shareholders.

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.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I had a question on auto loss trends, maybe that's no surprise. On the severity side, I'm trying to discern how much the trend line has changed in the middle of the year. And you mentioned a few things that might be causing it?

But is this claims that were dormant, say, during the pandemic and, our revived and now look worse than they did before or is there something more recent where you're getting just worse hits and more severe accidents, more attorney representation, those kinds of things. Can you give us some color on that?

Marita Zuraitis
President, CEO & Director

Yes, sure, Gary. There's a lot wrapped up in that question. And before I hand it over to Mark to answer your specific auto question, I do think it's important to put this whole auto question in perspective. And I think it's important to remind us all that we're unusual in the auto space, right? And we talk about it all the time, our homogeneous customer set, the preferred risk characteristics of our educator clients. We've been doing it for a long time.

We have a lot of data. We have long-term relationships, the cross-selling of all of our products, driving high retention. We also have the benefit of our exclusive agents, which I think give us a lot more control in the -- P&C space, more than the broader IA distribution channel, if you will. And it's important to remember, when we make choices, we can leverage the third-party distribution that we've built over a long time where it's appropriate and where it's available.

Our strategy, the way we've always talked about it to offer a fair price over the -- life cycle really has we're sticky. We have long-term relationships. We don't play a market share game where we ramp rates down to drive market share and then ramp them back up and hope that, that retention will hold. It's a different it's a different approach than the broader market. And I do think that context is important when we unpack where we are today as an industry in the auto space.

But make no mistake about it, these inflationary trends and their timing are clearly -- they're unprecedented. They're very, very unique, at least in my -- I hate to say it loud 40 years of doing this. But I'll turn it over to Mark to answer your specific question and probably a little more. Mark?

Mark Richard Desrochers
Chief Corporate Actuary & SVP of Property and Casualty

Yes, sure, Marita, I think before I get to the specific question, I would like to spend a few minutes just kind of unpacking the overall view of where we are in auto and how we're reacting to what we've been seeing. I think as we've come out of the pandemic, we in the industry are experiencing as both Marita and Bret said, unprecedented inflationary changes. And I'd say it's been quite a challenge to project loss cost trends even in the near future periods.

All we can do is evaluate the experience, react with adjustments to our rate and non-rate actions and do the best we can to predict how we think the trends will continue to emerge. I think when we look at this quarter, it's no different. We continue to see the rising repair and replacement costs, increased number and the cost of medical treatments and certainly, I think, some reemerging social inflation issues with court starting to open back up.

And we expect these loss trends that continue to exceed our long-term averages, both in the fourth quarter and I think throughout 2023. To that end, as we mentioned, we're adjusting our rate plans to be more aggressive both in the size and the timing of rate changes in the fourth quarter and through 2023. In Q4, we are actually expecting to increase rates in 16 states, representing 48% of our business by an average of about 7% to 8%.

And in Q1 2023, we're planning increases in 22 states, representing 41% of our business with an average increase of nearly 10%. And when I say is many of these increases were filed several months back. So as the trends have continued to emerge, we're reevaluating

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and I expect, given the continued elevated inflationary impact that in many of those places will take -- look to take additional rate in the second half of 2023.

So in aggregate, we expect auto rate increases will total approximately 20% over the 7 quarters ending through the fourth quarter of 2023. That does reflect rate increases that we've implemented over the last few quarters plus the additional rate we expect to take over the next 5 quarters. In addition to these rate actions, we have continued to make certain that our -- both our new business and renewal underwriting remains appropriately tight.

We've also implemented and will continue to implement non-rate actions such as discount and mileage verification actions as well as looking to maximize the use of our own internal claims team and photo estimating which compared to the use of independent adjusters results in better severity outcomes. We think with these actions, we expect that we'll be rate adequate in nearly all states by the end of 2023.

This includes some rate even in California. We filed for rate in both our underwriting companies in California, and we're confident that we can demonstrate our rate need and that we're optimistic that we'll retain approval in the near future. Because of the position that we're in, and nearly all states being rate adequate by the end of the year, we're comfortable growing new business because we know that even in places we may not be rate adequate yet, we see the line of sight to getting there.

And if we take it there, then we'll slowdown or stop writing new business. And in some cases, we can rely on some of our third-party relationships to continue to serve the educator needs for auto in those places. However, we do acknowledge in the short-term that some of those partners may have some of the same pressures and that may create some availability issues even in those places we look to partner with those third parties.

Lastly, I'd say if the trends emerge differently than we think, then we'll evaluate where we act and we'll make changes. Getting back to your specific question Gary, on kind of the changes that we're seeing from an inflationary standpoint, I think as things were kind of quiet during the pandemic, some of what we had seen coming into the pandemic with some of the social inflation, cost of medical, medical treatments that slowed down.

And it was a little difficult to see at the time how things would emerge. And I think as things had opened back up, we've clearly seen, as I pointed out earlier, the cost of some of these medical treatments going up, the number of medical treatments happening. And certainly, we have seen some return or increase in the level of attorney involvement. I think when we look at our overall loss costs for Q3 we're kind of mid-single digits over where we were for Q3, 2021.

However, this kind of a tale of 2 stories here when you break it down. We've actually experienced frequency that's probably mid-single digits lower than it was in Q3 of 2021. The frequency has been actually running lower throughout the year, probably a little bit lower in the first half, and it's crept up a little bit in the third quarter.

As Bret talked about in the script, but it still is below where we were in 2021. So when we look at that, we're probably seeing overall severity inflation kind of in the high single-digits when compared to Q3 of 2021.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Can we just dig in a little bit on that -- on your frequency comment there that it's down. When I look at industry data, and actually, just if I didn't know anything else other than thinking that the economy is opening up a little bit more people are driving at least '22 versus '21, I might expect frequency to go up. You're obviously seeing some decrease. Do you -- are there pockets of the country or kinds of risk where that's decreasing and just wondered if you had any color there?

Mark Richard Desrochers
Chief Corporate Actuary & SVP of Property and Casualty

No, I don't think I have a lot of specific color, I mean I think the one thing that is a challenge when you look at our book is obviously because we are educator dominant, the patterns can be different especially when you look at where people are returning to school, are they returning to school.

So the timing of changes can be different. Quite frankly it's I think been a little bit of a surprise for us this year that we did see that kind of return earlier in the year where frequency was actually a little bit lower than last year, maybe that could be somewhat gas price related. And as I said, more recently it has been picking up, but remains still below last year if that makes sense.

Operator

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Your next question comes from John Barnidge from Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Could you please talk, Bret mentioned opportunistic buybacks. How should we juxtapose that commentary on the backdrop of macro uncertainty as we think about activity in the market in that regard?

Marita Zuraitis
President, CEO & Director

Yes, thanks for your question. I mean I would answer it with and I'll see if Bret wants to add anything on to this with -- it depends. I mean, it's still a thought -- a part of our thought process, but we think about this holistically as part of the holistic capital management process and strategy, as we've talked about before. I mean for us underlying with the strategic moves we made as a company.

We generate more excess capital than we did before, and that is first and foremost for profitable growth and also our strong increasing dividend position that we've had for a very long period of time. And where it went it makes sense for us to do share repurchases we will, it's still an important part of our capital management thought process.

Bret Alan Conklin
Executive VP & CFO

Yes, I think that's well said, Marita. John, obviously it's a balancing act based on results, based on where the stock is trading, and I think through the third quarter. I think we've shown that when there were opportunistic buying opportunities, we certainly did that within the quarter. I think we bought back about 300,000 shares, which brought the total year to $24 million of share repurchases.

And we haven't hit those levels since 2015 and 2016 and those were around the $21 million, $22 million mark. So obviously with results certainly below where we had originally -- had planned them for, the excess capital is not where we would like it to be, but as we indicated when we get those lines performing at their targeted returns, we will generate that $50 million level of excess capital after dividends.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Great, and then -- the volatility of the business this year, but maybe on the Supplemental Group Benefits business, strong results guidance went higher, Is there any lack to utilization benefit that is a onetime in nature that we shouldn't be thinking about occurring next year, I'm just trying to dimension how we think about the strong sales, hand distribution that showed as margins that are strong too?

Bret Alan Conklin
Executive VP & CFO

Yes, John, this is Bret. Let me take this and Matt may want to chime in here as well but obviously, from both a sales and benefits ratio perspective there is seasonality in this segment more so than our other segments, I mean the other segments do have seasonality, but obviously, with this being a new segment to the Horace Mann Family, we're still learning but if you look at I would say the sales for the year as it relates to kind of the Madison National Group benefits piece.

Those have been steady all year long as well as the seasonality, we've seen has come through in the benefits ratio. I've got them right here in front of me, but the first quarter was 66%, the second quarter was 43%, and as you saw we had a very favorable third quarter which tends to be a better quarter for their business, but I would have you probably focus more on the year-to-date benefit ratio of 45%.

And I think it was either covered in my prepared remarks or Marita's, we would target long-term of about 50%. So there'll be some fluctuation in that, but I think as it relates to Madison National that will have I think inherently more seasonality than the other half being the NTA business.

Marita Zuraitis
President, CEO & Director

Yes, I think that's right, but while we're on the Supplemental and Group Benefits subject we couldn't be more pleased with where we are. I mean we have to remember that we closed on Madison National this calendar year. So it hasn't been part of the family for that

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long and we've said it before that if we bought NTA and Madison National on the same day. This is the structure that we would have put in place and now have in place. It's one division.

So it may be a little bit of a marketing spend but whether an educator buys their products individually or gets them from their school district, we've got them covered and that certainly is playing out broadening our reach within this educator segment that we're in and there is no doubt, and I think this quarter is a good example of that.

It is giving us the earnings diversification that we clearly had strategically planned for. I couldn't be more optimistic about the sales momentum and you're seeing that coming back in as we're back in the schools face-to-face, and I think we're just scratching the surface.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

And then lastly on the premium persistency, it relates to maybe inflation done in this are we seeing persistency declines I mean -- as well.

Marita Zuraitis
President, CEO & Director

John, we can't hear -- we can't hear your question you went in and out. Could you try to repeat it?

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Yes, absolutely, premium persistency for voluntary was 91.3, that's been trending down as the year progressed. Other Supplemental riders have also seen persistency declines, I was curious about, if you could dimension that with inflation dynamics impacting that at all?

Marita Zuraitis
President, CEO & Director

Yes Matt, I don't know if you want to respond from a persistency standpoint.

Matthew Peter Sharpe
Executive VP of Supplemental & Group Benefits and Corporate Strategy

Yes, happy to Marita. So we've seen persistency drop slightly throughout the year. I don't know that we can draw a direct connection between inflation and the premium persistency number more so as an increase in the overall business that we're bringing in into supplemental as -- we start to add new business, the new business has a different persistency metric as the business season.

So I think what you're actually seeing in that number is our new business is kicking up and as our new business kicks up that premium persistency number comes down until we get back to the pre-pandemic sales levels and I think that's what you're seeing that actually making its way through the premium persistency number.

Bret Alan Conklin
Executive VP & CFO

Yes, John, this is Bret. I would just add that were down less than a point year-to-date 91.3 versus 92.2. So still very, very strong persistency percentages.

Marita Zuraitis
President, CEO & Director

Yes, John and I think it's another place when you look at the rest of the market. Those big guys that you're probably referring to, this is another place where we can say that insulated, but not immune comment that you're probably all sick of, but it does play out in our educator space, this tends to be a much stickier segment.

Operator

The next question comes from Matt Carletti from JMP.

Matthew John Carletti

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JMP Securities LLC, Research Division

Bret, I guess first question for you. I'm looking at the book value and adjusted book value and just noticing kind of what a difference a year makes with them kind of inverting what happened with interest rates. And I was hoping you could just help us with kind of maturities time or kind of timing and duration. How should we think about kind of the baked-in losses there kind of accreting back into reported book value as bonds mature?

Bret Alan Conklin
Executive VP & CFO

Yes. Let me start, and maybe Ryan will want to chime in here as well. But obviously we're not alone with a drop in book value as it relates to the increase in the unrealized losses on the portfolio with -- and the rising interest rates. And just to put things in perspective, I believe our unrealized capital loss position at 9/30, is more in the range of I think about $450 million unrealized loss versus a year ago.

We were basically, I think around about a $350 million gain. So the delta between the periods is pretty, pretty large, and I think you're seeing that mentioned really throughout a lot of the earnings releases. I hope that helps and if you wanted to add anything to that, Ryan.

Ryan Greenier

Yes Matt, specifically to your question on duration, we're at about 6.5 year duration that's down about a quarter of the year. Tactically down as I look back a year ago, but you need to remember it's a liability driven investment strategy. So we are, we have liability, we have target liability durations that are in bands that give us a little bit of flexibility and we're moving towards the lower end of those targeted bands and have been over the last year.

But I'll point out you need to remember the asymmetry if you will in the accounting treatment. You see the mark-to-market, if you will on the asset side go through unrealized gain loss through AOCI and impact that total reported book value number, but you don't see the same on the liability side. So my point I think of the portfolio as looking at I think at book value looking at it excluding the unrealized gain loss because of that asymmetry.

And because I don't expect to realize many of those unrealized losses, we have a stable highly liquid portfolio and we have good ongoing new business cash flow. So our profile, our liability profile doesn't force us to monetize those losses from either a claim or surrender activity perspective. So I hope that additional color helps.

Bret Alan Conklin
Executive VP & CFO

Yes, because the book value ex-AOCI is basically flat year-over-year.

Matthew John Carletti
JMP Securities LLC, Research Division

Yes, no it's very helpful that makes a lot of sense. And then the second one if I could Marita just maybe kind of the forest from the trees sort of question, we sit here for several quarters now, you've had all your puzzle pieces in place schools are back open, so you've been able to kind of go through your kind of that cycle. What sort of report card you give yourself on kind of how things are going versus how you would hope they would go your mark down some of the acquisitions and putting the pieces together?

Marita Zuraitis
President, CEO & Director

Matt, it's a great question and certainly a hard quarter to ask that question, so the response might surprise you. We're right where we hoped we'd be. When we talked about our PDI strategy building the products, that, are relevant in this educator space expanding our distribution and our reach, not only to individual educators but in the school districts, as well, as well as funding for modernizing our infrastructure. We are doing those things and are right on track.

The good news is the things that affect us and the industry right, now are clearly fixable. We have the pieces in place to do exactly what we need to do to restore and drive profitability within the P&C space and we have the earnings diversification that we set out to gain by the strategic moves that we've made. I'm very excited about the momentum in the business, we had our first in-person EA meeting with our exclusive agency plant in a long time.

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To kick off our back-to-school and our year, and the interest, the enthusiasm, the energy, you could just feel it and we see it in the numbers. We put the information in the script, so folks could see how much more we're doing in the schools and the really good news is everything they learned over a very strange 2 years has a multiplicative effect on the reach they have and the things that they learn.

So our agents are doing both. Our recruiting numbers are up, whether it's benefits consultants on the Supplemental and Group Benefits side or it's EA's on the retail side, we're seeing a lot of interest in joining Horace Mann, some of that we know is our market niche and folks wanting to be a part of that mission of serving educators, but you can feel the energy in the place and we're very optimistic about being back doing things, the way we do it.

But with a whole new set of learnings for when we can. So I'm very bullish and very excited that all the moves we made were the right moves and pricing in a short tail auto line is something we know, we understand and we've put the pieces in place to rectify it. Everything else is looking like we had hoped it would look and we feel really good going forward, which is why we tried to give you as much information as we could.

Operator

The next question comes from Greg Peters from Raymond James.

Unknown Analyst

This is actually [Sid] on for Greg. Just a quick question on the auto rate increases. Is there an estimated pro forma premium you guys are expecting to come with those rate increases and maybe how are you expecting to see retention trend as the rate increases get a little bit more aggressive?

Marita Zuraitis
President, CEO & Director

So you're talking probably about average premium on auto and the resulting retention. I'll let Mark comment on that. I mean, I think it's important to go back and look at our retention characteristics as a, company which tend to be quite strong and quite frankly have been increasing this year and holding even with the rate increases. Elasticity is something that I think we're all changing our thought process on since we're all in the boat at the same time, but go ahead Mark?

Mark Richard Desrochers
Chief Corporate Actuary & SVP of Property and Casualty

Yes, I think Marita makes a good point on the elasticity side and the impact of retention. Clearly, we've seen our retention come up, considerably over the last couple of years as we've been in a stable rate environment. And in a normal world when you were pushing as much as 20 points of rate over a 7-quarter period time, you'd expect to take some hit to retention.

I'd say that there is 2 things going on right now, that one obviously the market is moving generally in sync so that as customers go out and shop they may not find greener pastures at lower rates in some, place else. The second thing I think just the general dynamic of the country and what people are seeing with price increases and their expectations. So I expect that we will see some very moderate impact on retention.

But it is likely to be less than we have seen traditionally given the size of the rate increases that we're going to have and, therefore, I expected yield, most of the rate that we're pushing through the book, especially, given that it's more across the board as opposed to a small set of customers getting very large increases and a number of customers getting smaller. It's a pretty level playing field here.

Operator

The next question comes from Meyer Shields from KBW.

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

Great, I wanted to dig into a topic we've discussed before and that's basically reinsurance purchasing. I guess now that we have a better sense of what reinsurance rates will look like, and now that we've also gone through and event with maybe some unusual characteristics like the significant flooding that we felt with Hurricane Ian. I was hoping you could maybe wrap that up and share -- with us, how you're thinking about that now?

Bret Alan Conklin
Executive VP & CFO

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Sure, Meyer, let me start, and if Mark wants to maybe add a little color, he can do that as well. But I mean there is no doubt about it, that the reinsurance markets are going to be hardening. Certainly, a lot of things you read as Ian the straw that broke the camel's back probably, but we're obviously still in the process of negotiating. As we do at this time every year, it's too early to pin down what our rate increases would be. I think it's pretty safe that it will be a rate increase.

However, I would say that we have fared even over the past few years better than most just because we're really not costing the reinsurers anything with not hitting the layers on a frequent basis and I think we brought this up when it happened. But I think we have very good partnerships with our reinsurers and you don't have to go too far back for the Camp Fire where we were a very good steward of their capital.

And we didn't sell out the subro rights, but I think last year it's old news, I think most were anticipating a 10% rate increases and ours was south of that. We certainly will negotiate tough just because we retained the majority of those losses. I think for a lot of reasons, we're a very good risk for the reinsurers as well. So I know, I didn't tell you exactly what we think our rate increases were going to be. They will be up from the prior year, but I think we will manage those accordingly.

Marita Zuraitis
President, CEO & Director

Yes and historically as Bret said our reinsurance pricing tends to be better than the market, just because of our experience and our profitability in the line. Mark, I don't know whether you want to comment specifically on auto and flooding. I mean obviously, in Ian, we did see some auto loss from flood losses with vehicles. But again it tends to be pretty, pretty spread out in these events. Any comment on auto and flooding there?

Mark Richard Desrochers
Chief Corporate Actuary & SVP of Property and Casualty

No, I mean obviously for the industry was that, I think going to be a surprisingly large event. I mean we -- did still have some auto exposure in Florida, we did experience some losses, but I think -- Ian as a whole for us on a direct basis is a relatively benign event. I think the bigger concern from our standpoint is what does, it do to potentially cause some demand surge not only amongst what could happen on the property side.

But now you have hundreds of thousands of autos, that where people are going to be out seeking new cars and that's just going to put more pressure, I think in the short-term on some of the potentially used car pricing.

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

No, that's perfect. One last nuance on that if I can. Just I'm trying to get maybe a clear sense of the balance. On the one hand, you're unusually diversified which I think means you can handle a little bit more P&C volatility on the other, or on the other hand maybe you should expect fundamentally more P&C volatility?

Marita Zuraitis
President, CEO & Director

I'm not sure, I'm following you.

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

Oh -- I'm hoping to get a better understanding of how you're thinking about those 2 components. With regard to either raising or lowering maybe reinsurance attachment points for next year, I don't which of those are true?

Marita Zuraitis
President, CEO & Director

Oh, I see, I see what you're saying. I mean you know it's interesting. Every year we look at alternative structures for reinsurance and for the most part, we've said this before, but for the most part, the reinsurers are really good at pricing those alternative structures. So if you don't need them, and you're not looking for balance sheet smoothing, if you will they tend to not make sense over the long haul, and with our property business.

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When you take the appropriate longer-term look at our block of business it's profitable, and has been profitable for us. Obviously, with each year of increasing volatility that changes a bit, and with each year we look at those structures, we price those structures, we make sure that we have the right reinsurance program in place and don't have any immediate plans to change that.

And there was nothing about this cycle and Bret's work with the reinsurers and their pricing that makes us think any differently about the property line. I don't know if you want to add anything to that Mark?

Mark Richard Desrochers
Chief Corporate Actuary & SVP of Property and Casualty

Yes, I would say in those alternatives that are out there, the price of that poker certainly has gone up a lot as we come into the new renewal season versus our traditional cat coverage that we have.

Marita Zuraitis
President, CEO & Director

Yes, I mean, there's no doubt that in this environment we all need more rate and we'll all get more rate, and eventually that helps a lot.

Operator

Due to time constraints, this concludes our question-and-answer session. I would like to turn the conference back over to Heather Wietzel for any closing remarks.

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

Thank you and thank you, everyone, for joining us today. We are definitely looking forward to responding to any questions and having additional conversations. We will be meeting with investors including a variety of conferences, in particular, a virtual event with Piper in the next few weeks and an in-person event with JMP in New York, we will be in New York. So let us know if you want to see us and we'll be glad to talk. Appreciate your time.

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

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