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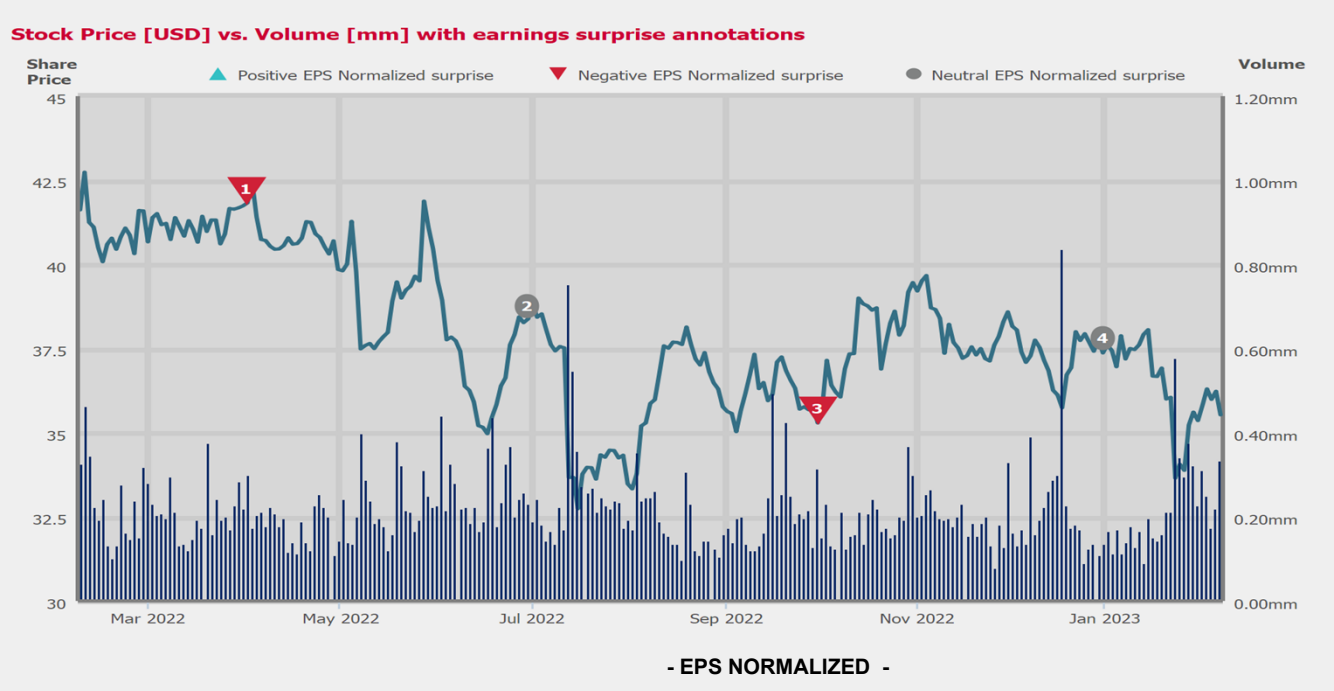
Horace Mann Educators Corporation NYSE:HMN FQ4 2022 Earnings Call Transcripts

Wednesday, February 8, 2023 5:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	(0.10)	(0.11)	NM	0.40	1.10	1.09	▼ (0.91 %)	2.07
Revenue (mm)	346.97	346.80	▼ (0.05 %)	370.23	1383.03	1382.90	▼ (0.01 %)	1494.97

Currency: USD
Consensus as of Feb-09-2023 10:26 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	0.98	0.64	▼1 (34.69 %)
FQ2 2022	(0.12)	(0.01)	NM
FQ3 2022	0.62	0.57	▼2 (9.52 %)
FQ4 2022	(0.10)	(0.11)	NM

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Presentation

Operator

Good day, and welcome to the Horace Mann Educators Q4 2022 investor call. [Operator Instructions] Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Heather Wietzel, Vice President, 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 fourth quarter and full year results. Yesterday, we issued our earnings release, investor supplement and investor presentation. Copies are available on the Investor page of our website.

Marita Zuraitis, President and Chief Executive Officer, and Bret Conklin, Executive Vice President and Chief Financial Officer will give the formal remarks on today's call. With us for the Q&A, we have Matt Sharpe, Mark Desrochers, Mike Weckenbrock, and Ryan Greenier.

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

In our prepared remarks, we use some non-GAAP measures. Reconciliations of these measures to the most comparable GAAP measures are available in our investor supplement. I'll now turn the call over to Marita.

Marita Zuraitis
President, CEO & Director

Thanks Heather, and hello everyone. In line with our pre-announcement, last night we reported full year 2022 core earnings per share of $1.09, which included a fourth quarter core loss of $0.11 per share. Inflation's continued pressure has driven escalated industry-wide loss costs and resulted in disappointing results for our property and casualty business. I'll spend much of my time today unpacking how we are meeting the challenges facing the P&C industry. After that, I want to discuss and pivot to the substantial progress we achieved on the growth initiatives we laid out a year ago in conjunction with adding Madison National and expanding our educator value proposition to fully meet the needs of both educators and school districts.

Sustained growth across both our retail and worksite divisions will be the most accurate predictor of our company's long term success. Over the course of 2022, we made important progress against our plan, leveraging our leadership position in the education market to increase sales and build relationships, in other words to expand our share of the education market. In 2023, we will build on these successes, leveraging our sales momentum and distribution partnerships while resuming our trajectory towards our long term goal of a sustained double-digit return on equity. Bret will discuss the details of 2023 guidance later in the call, but at a high level, we expect core earnings per share to double over 2022 and be between $2 and $2.30 with return on equity rising to 6% as we head towards the double-digit ROE we expect for 2024.

Our guidance anticipates a solid contribution from the worksite business with benefit ratios in that business moving closer to our long term targets: year-over-year improvement in life and retirement business, even as spreads compress, and a return to profitability for the P&C business, a business that is key to our educator value proposition and has been a historically profitable line of business for Horace Mann. In fact, before I turn to the way we're addressing the inflationary environment for P&C, let's look again at how we approach this market a bit differently, because we are not a monoline P&C company, we're an educator company. Horace Mann is built on a deep respect and admiration for our nation's educators. We are proud to take care of the people who take care of our children's futures. Our business strategy is to attract and retain multi-line customers by providing the financial solutions they need at each stage of their lives.

Quite honestly, being an educator is tough right now, and they need someone in their corner. Coming out of the pandemic, there was hope things would, "return to normal" in terms of school schedules and other challenges; however, the pandemic accelerated

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the national shortage of qualified teachers and support staff. Nearly 80% of educators Horace Mann surveyed for a recent study said school under-staffing has either a severe or moderate impact on students' ability to learn and teachers' ability to do their jobs well.

Staffing shortages are requiring educators to take on more work and generate even more stress. That stress is compounded by financial concerns. Although teachers' primary motivation is not a paycheck, generally teachers are paid less than their private sector peers but require more academic credentials. This leads to higher student loan debt and can preclude savings for retirement and other life goals, and that's where Horace Mann can help. Our representatives can provide financial wellness workshops for school staff on topics like student loan forgiveness and state teacher retirement systems. They can work with educators to create a financial plan, becoming a trusted advisor. Further, we can support administrators looking to augment teacher recruiting and retention by bolstering benefit packages with employer paid and sponsored coverages.

All of that is to say that we value our customers and our customers value the relationship with Horace Mann. They know we strive to offer a fair price through varied market conditions, creating long term value for our educators and for our company. Our underwriting, actuarial and pricing teams continually monitor trends in the personal, auto and property markets, and we use their expertise to guide our product pricing and features to achieve our combined ratio targets for auto and property. Similarly, our reserving practices are based on our best estimate of what we believe we will need to pay claims.

However, inflation in a post-pandemic 2022 didn't reflect anything seen in recent decades. Core inflation over the course of the past year has been the highest we have experienced in 40 years. Costs related to supply chain issues, labor, materials, medical care and litigation have all risen at unprecedented levels. As we noted in our preliminary announcement, we also have further accelerated both auto and property rate plans for 2023 to build on increases implemented in 2022. About 70% of our auto business is on 6-month policies, so we will start to see the benefit of these increases in the coming months. We also continue to take other non-rate underwriting actions.

So to break this impact down by line, in auto in addition to the overall 5.4% in rate actions in 2022, we now expect auto rates to increase by 18% to 20% over the next 4 quarters. As these rates earn in and bolstered by non-rate actions, this should result in an auto combined ratio improving steadily to reach 97% to 98% in 2024. We added a slide in the investor presentation to illustrate how we expect the impact of our rate increases to compound over the course of 2023. It's worth noting that state approvals don't adhere to a quarterly schedule, so there will be some fluidity between quarters, but we're confident in the cumulative outcome of 18% to 20% country-wide rate impact implemented over the next 4 quarters.

In property, in addition to the overall 4.9% in rate actions taken in 2022, we expect rate actions in property of 12% to 15% over the next 4 quarters. When combined with the impact of inflation guard, these actions should results in average renewal premium increases of 17% to 20% in 2023. We expect property to generate an underwriting profit in 2023 and be at or near our target combined ratio of 92% to 93% in 2024 and beyond. We are managing these plans towards a segment combined ratio of 95% to 96% in 2024.

We also are aware these actions may have an impact on retention; however, we suspect the impact will be relatively muted for 2 reasons. First, inflation is an industry-wide problem and our actions over 2022 and 2023 will be consistent with the industry over this period. Second, to many of our educator customers, we are more than an auto company. We help them plan for retirement, we help them manage their student loan debt, and we understand the issues they're facing both in and out of the classroom.

Stepping back, if you recall a year ago, I spoke about how Horace Mann planned to leverage our leadership position in the education market going forward. We aligned our operations to maximize our potential to effectively respond to the needs of both educators and school districts. We said we were working to maximize the opportunity presented by our worksite division by bringing together the strength of Madison National's group products and distribution relationships with the supplemental businesses, individual product strength, and customer-centric infrastructure we are delivering on that goal. 2022 worksite sales, including the employer-sponsored products added in the Madison National acquisition, increased more than twofold over 2021.

The strength of their products and the opportunities of the expanded distribution continue to exceed our expectations. In addition, in the fourth quarter worksite direct supplemental sales were the strongest they have been since the beginning of the pandemic and they continued strong in January. In the retail side of the house, we plan to take advantage of industry dynamics to drive sales and to cross-sell existing customers. In both life and auto, we saw strong sales. Our inside sales team doubled their cross-sales of existing customers over 2021, including strong growth in our sales from service initiative which resulted in several thousand new sales over the course of the year. In addition, improved access to schools let us ramp up our agent recruiting, which has shown positive results. We achieved our target for new appointments and also added a strong cadre of new insurance specialists who can support an already in-place agent with a single product focus. The return to a solid agency pipeline that was interrupted by the pandemic is a positive indicator for 2023 and beyond.

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Finally, we have seen the strength of our earnings and revenue diversification strategy firsthand in 2022. I don't want to dismiss the impact of P&C short term volatility on the business, but it is manageable. In addition, we continue to evaluate ways to mitigate volatility while still retaining educator households, such as expanding the use of third party carriers. The strength and value of our multi-line offerings for our niche market will last far beyond these loss cost trends stabilizing.

To sum it up, our focus has never wavered. We want to be the provider of choice for the education market and we want to provide our shareholders with a sustained double-digit return on equity. Those 2 goals have to be achieved together, and that is what we are working towards in 2023. Before I turn the call over to Bret, I have 2 corporate updates to share. First, I'd like to congratulate Ryan Greenier on his recent promotion to Deputy Chief Financial Officer to work with Bret to further build out our strategic finance function and to support initiatives underway across the company. Ryan will continue to serve as our Chief Investment Officer.

Second, I want to note Horace Mann's inclusion in the 2023 Bloomberg Gender Equality Index, which recognizes corporate commitment to gender equality and transparency in gender data reporting. Horace Mann has been included in the index since its inception in 2019. The reference index measures gender equality across 5 pillars: leadership and talent pipeline, equal pay and gender pay parity, inclusive culture, anti-sexual harassment policies, and external brand. At Horace Mann, we strive to nurture an inclusive corporate culture where every employee feels heard, respected and appreciated. We are proud to be recognized for this commitment to diversity, equity and inclusion for the fifth consecutive year.

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

Bret Alan Conklin
Executive VP & CFO

Thanks everyone for joining our call today. Marita gave a thorough summary of the challenges of 2022 and what we are looking forward to achieving in 2023 and beyond, so let me go right into the details by segment, starting with P&C. The loss for the P&C segment for the quarter and the year was in line with our preliminary announcement and largely due to the impact of inflation on loss costs. In addition, net investment income for P&C reflected a total limited partnership return of 7.9% compared to 20.3% in 2021. This year, the contribution from LPs in this segment began trending upward in the third and fourth quarters, in line with the overall recovery in this sector.

Turning to the underwriting results, total written premiums rose 4.7% this quarter compared with last quarter's 1.6% increase as we begin to see the benefits of the rate actions that have been implemented to date. Retention remained very strong, rising for both auto and property with strong auto sales coming largely from states where we're most confident in the outlook for pricing. I'll address the auto and property books in a moment, but we will certainly see the growth rate in total written premiums accelerate over 2023 and 2024 with earned premium growth following.

Full year cat losses contributed 13 points to this year's combined ratio versus 12.7 points in 2021. Fourth quarter cat losses included Winter Storm Elliot, which spanned more than 30 states. For our 2023 guidance, our cat loss assumption equals about 10 points on the full year combined ratio - that's our 10-year average, which aligns with the calculation based on historical frequency and a modeled increase in severities due to inflation, partially offset by a model decrease in exposures. In the investor presentation, we have provided details of our January 1 cat treaty renewal. We increased our retention to 30 million from 25 million, the first time we've raised retention since 2011 and our share of the lowest layer is higher. These changes recognize the impact of rising severity on cat costs as well as the harder reinsurance market.

For 2023, our reinsurance costs will be up about $2 million or about 30 basis points on the combined ratio. Turning to property, the year-over-year increase in average written premiums reached 10.1% in the fourth quarter. 2022 rate increases country-wide were 4.9%, bolstered by inflation adjustments to coverage values over the course of the year. The full year property underlying loss ratio was 50.1%. Both frequency and inflation-driven severity of non-cat water and fire losses were above 2021 levels. Our underwriting teams review every large fire loss, and there is no apparent pattern or underwriting concern in those losses. The full year property loss ratio benefited from $6 million in favorable prior year reserve development.

Our 2023 rate plan for property adds another 12% to 15% over the next 4 quarters on top of another year of inflation guard increases that keep coverage values updated. These will combine for an impact of 17% to 20% in 2023, which should result in underwriting profit in 2023 and getting us back to our targeted 92% to 93% combined ratio in 2024. Turning to auto, the year-over-year increase in average written premiums was 4.8% in the fourth quarter. Rate actions averaged 5.4% country-wide in 2022. Underlying loss costs reflected inflation that drove substantially higher severity, while frequency remained somewhat below pre-pandemic levels, although above what we experienced in 2020 during the height of the pandemic.

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Recognizing the impact on severity of overall inflation, including more severe accidents, higher medical costs, increased usage of medical services, and the current legal environment, the full year auto loss ratio included $28 million in unfavorable prior year reserve development largely for accident year 2021. The auto rate plan for 2023 is targeting rate increases of 18% to 20% over the next 4 quarters. Bolstered by non-rate actions, this should lead to an auto combined ratio between 106 and 107 in 2023 and near our target level of 97% to 98% in 2024. Taking into account the various factors, P&C segment core earnings are expected to be between $5 million and $10 million in 2023, reflecting a combined ratio in the range of 104 to 105, including 10 points from cat losses. In 2024, we should be near our longer term combined ratio for the segment of 95% to 96%.

Turning to life and retirement, the segment performed largely as expected in the fourth quarter with adjusted core earnings for the year at the high end of the range we guided to at the midyear. For the segment, full year limited partnership returns were below historical average compared to the unusually high returns seen in 2021. In addition, commercial mortgage loan portfolio returns declined in 2022 due to rising interest rates. The net interest spread on our fixed annuity business was 246 BPs in 2022 compared to 290 BPs in 2021, remaining comfortably above our threshold to achieve a double-digit ROE in this business. Looking to 2023, we expect the spread on our fixed annuity business to be lower but still above our threshold in the range of 220 to 230 BPs.

For the retirement business, net annuity contract deposits were $429 million for the year and $105 million for the fourth quarter, with cash value persistency strong at 93.7%. We had another good quarter for Retirement Advantage, the fee-based mutual fund platform that we believe creates long term opportunity for this business segment. Life annualized sales rose 6.9% year-over-year with persistency remaining strong and mortality experience improving from 2021. We continue to look for life sales as a way to initiate educator relationships and we are very pleased with 2022 results.

In total, life and retirement core earnings are expected to be between $67 million to $70 million in 2023. When thinking about the outlook for this segment, it's useful to recall that this segment will see an impact from the adoption of LDTI. Now let me turn to the supplemental and group benefits segment, where full year core earnings of $59 million were at the high end of our guided range. After 1 year with Madison National's results contributing, we couldn't be more pleased with the performance of this segment and the revenue and earnings diversification it brings to Horace Mann.

For the segment, full year premiums and contract charges earned were $276 million, of which employer sponsored products represented $154 million. Segment sales of $16.1 million for the year reflected the steady return to pre-pandemic sales in our worksite direct business, the supplemental products acquired in the NTA transaction in 2019, plus the first year sales for Horace Mann of Madison National's employer sponsored products.

Benefits and expenses for the quarter were in line with the third quarter and below the seasonally higher first and second quarters. We also benefited in the fourth quarter from the release of reserves from accounts related to lapsed policies. Looking at 2023, we expect core earnings to be between $40 million to $44 million. The comparison to 2022 is being affected by several factors. First, the blended benefit ratio is expected to be near our long term target of 43% compared with 36.7% in 2022. About half of the anticipated change in the ratio reflects our expectation that utilization will continue to move towards pre-pandemic levels. In addition, there were several one-time favorable reserve impacts in 2022 that we do not expect will recur.

Further, due to our seasonality, the first quarter blended benefit ratio typically may be in the range of 45% to 47%. And that's a good opportunity to reiterate that seasonality will become a permanent fixture of this segment for benefits and expenses, but also for sales, so the first quarter can be expected to be the highest sales quarter for employer sponsored products but also the lowest earnings quarter. This reflects a benefit ratio for the employer sponsored products expected to be its highest in the first quarter due to the timing of benefit utilization in our market. The benefit margin for employer sponsored products should typically be at its lowest in the third and fourth.

In addition, the pre-tax profit margin in 2023 will reflect the investment we're making in infrastructure for this business as well as a higher allocation of corporate expenses to reflect the segment's utilization of shared staff, distribution and other resources. As a result, the expense ratio is expected to rise to the range of 37% to 38% in 2023 and beyond.

Before I turn to investments, I want to give an update on LDTI, beginning with a reminder that the standard does not change long term earnings, underlying economics, or cash flows. Furthermore, it has no impact on statutory accounting; however, for the impacted businesses, it does require cash flow assumptions underlying policy reserves to be reviewed and updated, and those reserves to be revalued using current discount rates. As we said in August and covered in detail in the 10-Qs for the second and third quarters, when we adopt the standard effective January 1, 2023, the transition impact on reported GAAP book value will fall largely in 3 areas: one, an increase in the liability for future policyholder benefits largely due to changes in discount rate assumptions; two, a new benefit liability to be called market risk benefits; and three, elimination of the shadow DAC equity adjustment.

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As a reminder, most of the transition adjustment to shareholders equity that we'll record as of January 1, 2021, has been recouped due to the effect on the discount rate of interest rate increases. After adopting LDTI, we plan to continue to provide an adjusted shareholders equity that excludes these adjustments as well as unrealized gains. In addition, the transition will result in a restatement of net income for the years ending 2021 and 2022 to make those results comparable with 2023 following adoption. We're planning to share those recast values in March.

Full year net investment income and net investment income on the managed portfolio was in line with guidance, with limited partnership returns back in line with historical averages. The Fed's actions on interest rates pressures limited partnership returns, particularly in the private equity portfolio during 2022. Investment yield on the portfolio excluding limited partnership interest remained near 4.25% with new money yields continuing to exceed portfolio yields in the core fixed maturity securities portfolio. The A+ rated core portfolio is primarily invested in investment-grade corporates, municipal and highly liquid agency, and agency MBS securities, positioning us well for a recessionary environment later in 2023.

The realized losses we incurred over the course of 2022 were due to portfolio repositioning to improve book yield and exit positions in the portfolio that are more risky in terms of default and downgrade risk. Due to the significant rise in interest rates, unrealized losses on the portfolio have risen to $572 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.

We expect net investment income on the managed portfolio will rise to the range of $330 million to $340 million in 2023, reflecting stronger returns from our commercial mortgage loan portfolio as well as the benefits of the rising rate environment over the past 12 months. We assume limited partnership returns will be close to their 10-year average. Our guidance for total 2023 net investment income reflects approximately $26 million quarterly from the deposit asset on reinsurance.

In closing, 2022 was clearly a challenging year for Horace Mann as external factors detracted from the progress we are making to leverage the stronger and more diverse organization that Horace Mann has become. We remain confident that the growth we anticipate over the next several years will lead to an increasing share of the education market, putting us back on the trajectory to a sustainable double-digit ROE. As we return to our longer term profitability targets in the P&C segment, we estimate 2023 core EPS will be in the range of $2 to $2.30. As Marita detailed, in 2024 we believe we will return to a double-digit ROE with core EPS approaching $4.

Our life, retirement, and supplemental and group benefits segments are a stable source of earnings and capital, which clearly mitigates the volatility of the P&C segment. When we have returned to our targeted profitability across the businesses, the business is fully capable of generating approximately $50 million in excess capital above what we pay in shareholder dividends. Our priority for excess capital will remain growth; however, we are committed to using available excess capital for steady shareholder dividend increases and opportunistic share repurchases while maintaining our financial leverage and capital ratios at levels appropriate for our current financial strength ratings.

Of note, we repurchased approximately 69,000 shares in late January and early February for a total of $2.3 million. 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 Greg Peters with Raymond James.

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

This is Sid on for Greg. Just wanted to touch on the personal auto side of things. Starting to see used car prices come down a little bit, and understand it's just a portion of loss trends, but maybe you can comment on if you're expecting to see any moderation in severity through 2023 and if that's baked into the 106 to 107 auto combined ratio or if that's just rate increases and underwriting actions getting you to that.

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

Sure, this is Mark. I think as we've gone through the pandemic, it's been quite a challenge to project loss cost trends, both for Horace Mann and the industry. We saw quite an unprecedented level of frequency drop at the height of the pandemic, but as we've all seen, quickly followed by inflation that we haven't seen in probably 3 to 4 decades at the same time, with frequency starting to increase back towards pre-pandemic levels.

With that being said, we have seen some moderation on the physical damage side of things when we compare the first half of the year to the second half of the year, but those trends still remain above what I would view as kind of the long term historical levels, and our expectation going into 2023 is that they will continue to moderate but remain above the historical levels, which is why we've focused a lot of our activity on the rate actions that both Marita and Bret described, and we have a slide in our investor deck on Page 14 which lays out how we think rate's going to flow in country-wide throughout 2023, which is going to produce about an overall 18% to 20% increase throughout 2023, and that's on top of the 5.4% that we raised rates during 2022.

In addition, I would comment on additional non-rate actions that we're taking, whether it be discount verification, mileage verification programs, more aggressive new and renewal underwriting as well as some actions we're taking in claims to ensure that we're utilizing our internal staff and our preferred shops to adjust physical damage claims to get the best possible outcomes.

Marita Zuraitis
President, CEO & Director

Yes, and specifically to your question on used car prices, Mark's pricing models, the team's setting of picks for our coming year would include their anticipated number around used car pricing. It bounced a lot during the 2 years of the pandemic, and certainly last year as well. Information is readily available and we use that in our pricing models, for sure.

Operator

Our next question comes from John Barnidge with Piper Sandler.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

In your prepared remarks, you talked about utilizing third party partners more for P&C. How could this look, and maybe how material of the in-force could it impact?

Marita Zuraitis
President, CEO & Director

Yes, John, good question. I can turn it over to Mark for some of the specifics, but just very high level, if you remember several years ago, not too long after I joined the company, we started a concept called the Horace Mann general agency, and that concept was really around the theory that it didn't make any sense for us to say no to an educator, for example if they had an antique car, if they had a summer cupcake business and needed a BOP policy. If they were a non-standard auto customer, if it really wasn't within the conservative and tight underwriting framework of a Horace Mann, we could rely on other carriers and still keep the customer within the Horace Mann family, especially as it related to P&C, because as we say over and over again, we're not just a P&C company, we're an educator company. So if the independent agent that we would send them to by saying no is any good, that independent agent

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is going to say, when was the last time somebody asked you about your life insurance, can I help you with an umbrella policy, or whatever the case may be.

That early concept got us to a pretty decent size of premium with third party carriers. We leverage a lot of carriers, whether it's high valued home, whether it's non-standard auto, and that worked well for us. The concept has broadened a little bit as we think about is there a way in which we can broaden that in these types of environments when even a standard customer might be a customer that, for whatever reason in a given state, call it scale, we use the example of Rhode Island. When you're writing K through 12 public educators in the State of Rhode Island, that's not a large set of customers, would we be better off relying on industry data and companies that have bigger scale in that state rather than doing it ourselves.

So it really is broadening the concept that we originally had and have done quite successfully to maybe have a larger share of fee income, where we're not taking underwriting risk but have the ability to be Horace Mann first when it makes sense to be Horace Mann first. Do you have anything to add to that, Mark?

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

Yes, the only thing I would add is I think there is opportunities, for instance when we're taking underwriting actions, like we have a standard practice now, if we're going to take underwriting action on a particular risk, right, we're going to look to those third parties automatically rather than just sending the customer off on their own, especially in a tough environment on the property side, where it may be a challenge for them to find other coverage. I think there's going to be, to Marita's point, increased opportunities where places we're pushing a lot of rate, that if we're risking losing that customer, there may be an opportunity for us to keep that customer in the fold by leveraging our third parties.

Marita Zuraitis
President, CEO & Director

And what we've learned with some good partner carriers is the ability to bring that customer back to Horace Mann, when and if that makes sense. We've had a lot of flexibility to do that because we're doing this with a limited number of strategic partners. I'd say with improved process and the improved technology that comes with it, we believe we can probably by the end of next year begin to see a lot more scale than how we had attempted to do this in the early years. Think about if an agent had a customer, they're going to an internal contact center, they're working with our internal people, our internal people are placing that with another carrier. If we have better process and better technology, and we can do that with a smart algorithm and straight through processing, it becomes much easier to scale what I think was a good strategic start to this thought process.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

A follow-up question, other companies have done voluntary retirements or workforce reductions given declines in fees on assets in some of their more AUM-sensitive businesses. Has that been completed, or are there thoughts for that?

Marita Zuraitis
President, CEO & Director

You mean for Horace Mann employees?

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Yes, with markets lower, assets lower as a result, fees on assets can be impacted by that.

Marita Zuraitis
President, CEO & Director

Yes, first what I would say is from an overall retirement standpoint, we had a very strong year last year. I think the nature of our customers again, we can say what we always say, insulated but not immune. If you're asking the broader expense question as it relates to staffing and expenses, our plan remains relatively flat for expenses. We look at it, we focus on it, we'll be thoughtful around it. We've got decent growth in our plan, but we set an expense target in P&C and are very clear about that target, and we'll remain disciplined around expenses, as we always have. Bret, I don't know if you want to…

Bret Alan Conklin

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Executive VP & CFO

Yes, just to add a couple comments, John. To Marita's point, the L&R segment is actually--we even provided the guidance between the $67 million to $70 million, which has certainly increased significantly from the '22 actual. And to Marita's comment about managing expenses, certainly that's something we pride ourselves on here as well as doing strategic spend with some of the growth initiatives we've been talking about for the last couple years. We typically target a percentage of total revenues with respect to expenses, and that actually is remaining around 28% between both our plan for '22-- for '23 and what the actual percentage was in '22.

Marita Zuraitis
President, CEO & Director

Yes, I mean, because of our size, we have to, and it makes sense to remain disciplined on overall expenses. We learned a lot as far as efficiency during the pandemic and didn't run back to the way we always did things, and I think that's really helpful for us to employ those learnings as far as how we interact with folks in the place, how we interact with our agents, how our agents do business as well as lot of the major technology initiatives that we've funded for over the last 3 to 5 years, and those are starting to come through. I mean, building those products but also building the pipes for growth so that as this growth begins to build and we're confident in that, we actually have the pipes that can handle it.

Operator

[Operator Instructions] Our next question comes from Derek Han with KBW.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

My first question is on the supplemental and group benefit segment. Can you talk a little bit more about the infrastructure investments that you're making, and just curious how you're thinking about how these investments are going to contribute maybe through cross-sales or maybe better efficiency.

Marita Zuraitis
President, CEO & Director

Hey Matt, I think it would be a great opportunity for you to talk about what you're investing in and what you're building, the additional sales folks that you've hired, so I'm going to turn it over to you.

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

Okay, thanks Marita. Yes, the investments we're making in the supplemental and group division are primarily people. We do have some systems modifications and system builds to support the distribution model, but mostly it's people, so hiring sales leadership on the institutional side or the employer sponsored side, the key factor we added a bunch of people there, and then growing our direct sales force as well. That's where the bulk of the investment's going.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Got it, that's really helpful. Then my second question is on personal auto. It looks like you're baking in an additional rate increase in California for this year. Is there increasing receptiveness within that state, and are you planning on filing for any additional rate increases aside from the one that you talked about last quarter as well as this quarter?

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

Yes, we have one pending -- well, 2 pending technically in each company, but one pending rate increase for 6.9% that we're actively working with the Department of Insurance. We've answered, we think, all their questions, we think we've justified the rate. We're hopeful that we'll receive an approval soon. They have approved a small number of filings, and if you look at the order in which those filings came in, they all predated this edition of our filing, so we're fairly confident that something will happen soon. And then once we do receive that approval, we do anticipate making another filing because, like everybody else in the industry, the rate is needed; however, we only included the one first filing that we anticipate getting approval soon into our guidance for 2023.

Operator

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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. I look forward to talking to people over the coming weeks and most definitely look forward to seeing as many of you as possible in person when we're at AIFA in early March. So with that, have a great day. Thank you.

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

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