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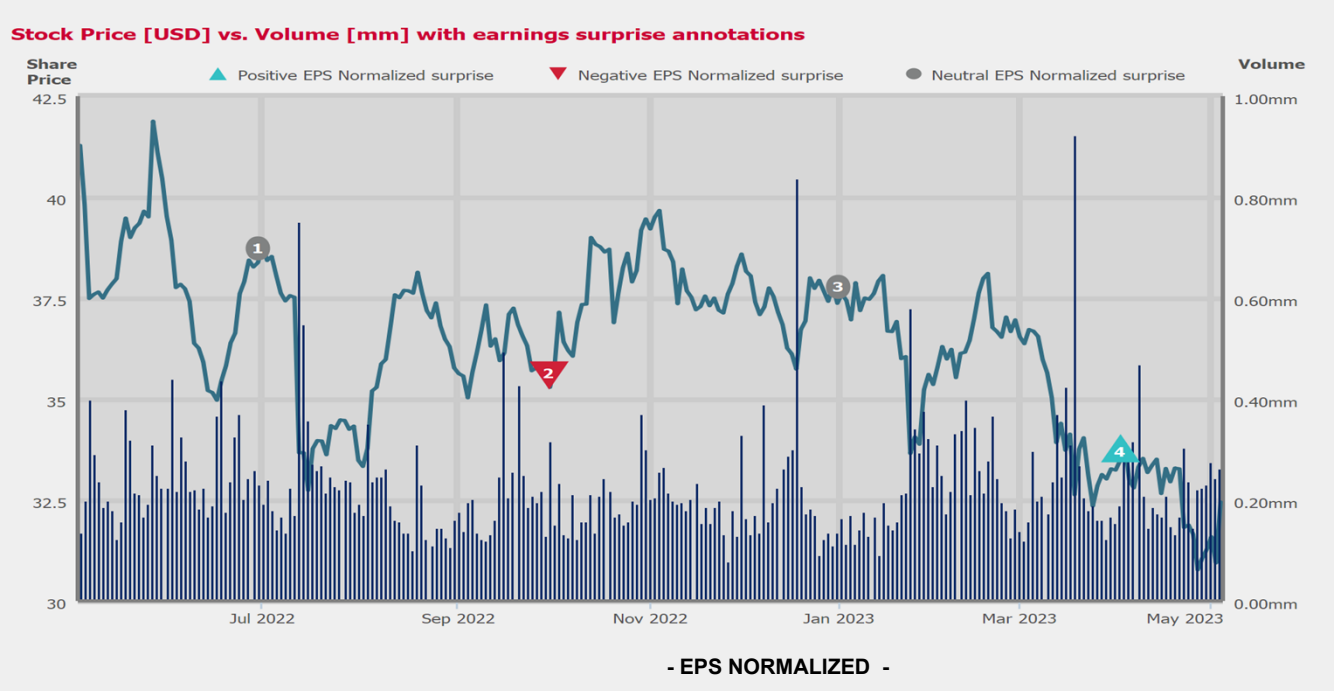
Horace Mann Educators Corporation NYSE:HMN FQ1 2023 Earnings Call Transcripts

Wednesday, May 3, 2023 4:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2023-			-FQ2 2023-	-FY 2023-	-FY 2024-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS	GUIDANCE
EPS Normalized	0.21	0.23	▲ 9.52	0.45	1.98	NA	NA
Revenue (mm)	367.40	353.90	▼ (3.67 %)	375.03	1489.60	NA	NA

Currency: USD
Consensus as of May-03-2023 8:46 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2022	(0.12)	(0.01)	NM
FQ3 2022	0.62	0.57	▼1 (9.52 %)
FQ4 2022	(0.10)	(0.11)	NM
FQ1 2023	0.21	0.23	▲2 9.52 %

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Table of Contents

Call Participants 3
Presentation 4
Question and Answer 9

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Call Participants

EXECUTIVES

Bret Alan Conklin
Executive VP & CFO

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

Marita Zuraitis
President, CEO & Director

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

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

Michael Brandon Weckenbrock
Senior Vice President of Life & Retirement

ANALYSTS

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

John Bakewell Barnidge
Piper Sandler & Co., Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

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Presentation

Operator

Good day, and welcome to the Horace Mann First Quarter 2023 Investor Call. [Operator Instructions] Please note this event is being recorded. I would 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 discussion of our first 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, 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 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. Last night, we reported first quarter core earnings of $0.23 per share, in line with our preannouncement. As we noted then, outsized catastrophe losses affected our quarter's bottom line, consistent with the experience of others in the industry. The first quarter results also confirm that we remain on pace toward our business objectives for the year. In particular, we are very pleased with our top line sales momentum across all segments as well as what that growth momentum means for our progress towards increasing educator household acquisition and gaining a larger share of the education market.

Bret will talk about the details later in the call, but at a high level, we continue to expect core EPS in the range of $2 to $2.30 for the full year with lower first quarter P&C net investment income being offset by higher-than-expected supplemental and Group Benefits first quarter earnings. Today, I want to talk about the progress we are seeing as a result of the transformational actions we've taken over the past few years. Our diversified business model provides more stable earnings and revenues in a quarter like this one, but more importantly, it broadens the solutions and value we can provide to educators and school districts. In the year since we integrated the Worksite division, our team has made substantial progress building a solid foundation for growth by serving educators through their school district employers. This provides value not only to the educators who receive more coverage, but also to school districts that can provide more robust benefit packages to attract and retain staff.

While the sales pipeline in this business is longer than in the retail division, we're seeing positive outcomes. This year, we expect the supplemental and Group Benefits segment to contribute 25% of our total earned premiums and contract deposits. The segment's worksite direct line of business saw the highest quarterly sales since 2019. In the employer-sponsored line, we are seeing success building relationships and winning business with new districts and associations. This business continues to grow and participation rates within those areas are on the high end of our expectations. We continue to receive good feedback from our school district customers about our enrollment services, including an option for one-on-one enrollment support.

In the Retail division, we're seeing momentum within the priorities that underlie our strategy to serve a larger share of the education market. Across the country, school access is improving, our agency force continues to grow. One of the key programs to which we attribute this growth is an agency mentor model, where a new agent works in an established office before opening their own. What sets Horace Mann apart is that our exclusive agents have distinct territories. So there's cooperation among our agency force that's beneficial for everyone. Our established agents share best practices and resources with our newer agents. In fact, we recently returned from one of our first retail agent leadership trips since the pandemic began. It was a great opportunity to discuss the business in person, and we're seeing a lot of optimism in the agency force looking towards the future.

With that said, back to the retail results. sales of life products increased 22% over prior year, in part benefiting from sales by worksite representatives during enrollment activities. We also have been focusing additional retail agent training and support around our

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indexed universal life and cash value term products as educators may be more interested in these options in a higher interest rate environment. In addition, retirement results remain solid. Property & Casualty net written premiums were up 7%, primarily due to the impact of rate and non-rate underwriting actions taking effect. We are on track to meet our profitability goals in this business, including our target of 18% to 20% cumulative points of rate in Auto nationwide by the end of 2023.

Of note, over the weekend, we received notice that California has approved a 6.9% auto rate increase for the smaller of our underwriting companies in the state. We are confident that we have demonstrated our rate need and expect to see approval in the coming weeks for the other, which represents about 80% of our premiums in the state. We expect our actions will lead to an auto combined ratio between 97% and 98% in 2024. In property, we expect rate increases and non-rate actions to contribute to nationwide premium increases of 17% to 20% over the course of the year. If loss trends exceed our current expectations for property or auto, we will adjust our pricing or underwriting plans as needed.

For the quarter, auto average premiums increased 8% over last year and average property premiums increased almost 10%. So far, our retention is holding. We believe there are 3 reasons for this. First, property and casualty carriers are implementing similar rate increases to address the impact of high inflation, all aspects of settling claims, including labor, materials, litigation and medical care cost more than they did a year ago. Second, we provide more value to educators than just an insurance policy. Many of our P&C customers have retirement plans with us or a student loan solutions account or they know their local agent as a trusted school partner. Our diversified business creates stronger customer retention. Our auto retention is more than 10 points stronger with customers who have 4 lines of business with us than with monoline customers.

Finally, we're working to help our agents understand the rate environment so they can answer policyholder questions proactively. We respect our customers, and we care about our customers. We want to be transparent about what's happening in our business because we want to maintain those relationships. When it makes sense, we retain the business, but we can place customers with trusted third-party carriers when that is more appropriate. To sum up, we're confident in our 2023 outlook and are excited about the growth we're seeing across the business. After addressing the profitability of the property and casualty business over the course of the year, we expect to be near our long-term targets in 2024.

We believe this, along with growth across our businesses will contribute to a 2024 core EPS nearing $4 and a double-digit return on equity. Before I turn the call over to Bret, I want to talk about our commitment to corporate social responsibility. We recently released our 2022 reporting that details how we address the issues that are important to our stakeholders, while ensuring we run our business ethically, minimize our environmental impact and support our educators, employees and communities. To touch on a few of the highlights. In 2022, we successfully reached our objective of cutting our Scope 1 and Scope 2 carbon emissions in half and plan to further reduce our carbon footprint going forward.

We increased our corporate transparency by providing new disclosures on business ethics, data security and privacy and responsible product offerings. We identified $160 million in public service loan forgiveness opportunities for educators, bringing the total for Horace Mann student loan solutions program to more than $600 million in forgiveness opportunities identified. And we completed hundreds of financial wellness workshops in schools across the country, providing free sessions for educators on topics like state teacher retirement systems, classroom crowd funding and financial literacy. The need for these financial resources for educators is clear, more than 1/3 of educators say finding a trustworthy financial adviser is an obstacle to their financial security.

Many don't think they can afford one by providing complementary financial education and convenient formats, we're helping more educators become financially secure, which leads to more educators staying in the profession they love. These commitments to educators and other stakeholders are not separate from our business as a mission-centric organization it's part of who we are. A good example of this is the activities we've undertaken this week, which is Teacher Appreciation Week. Our agents are hosting events for teachers. Employees are calling our customers to thank them for all that they do. And this week, we will be honoring top educators both locally and nationally. While we are more than happy to share in appreciation events this week, we make it a point to thank educators all year long for their important role in helping prepare our children for the future.

Before I wrap up, as you may have seen, we announced the hiring of Steve McAnena as our Chief Operating Officer. Steve most recently served as President of Personal Lines; and earlier, President of Distribution Life and Financial Services for Farmers Insurance. Before that, he was at Liberty Mutual Group for more than 25 years. His initial focus will be supporting market share expansion in the retail division. He is starting next week, and we will introduce him on our second quarter call. Thank you. And with that, I'll turn the call over to Bret.

Bret Alan Conklin
Executive VP & CFO

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Thanks, everyone, for joining our call today. As Marita described, 2023 has started very well for Horace Mann despite the early arrival of some spring storms. I want to turn to the details of the segment performance and how we adjusted segment guidance to reflect first quarter results even as we continue to expect full year core EPS in the $2 to $2.30 range. So let's start with P&C. Catastrophe losses were $22.4 million for the quarter, in line with our preannouncement and the primary reason for the segment's quarterly loss. In addition, segment net investment income was below the prior year, largely due to the negative return on the limited partnership portfolio in the first quarter.

Cat losses for the quarter contributed 14.7 points to the combined ratio versus 4.8 points from last year's first quarter. The 23 cat events in the period included 2 severe storms very late in March that combined to contribute more than 1/4 of the cat losses in Q1. Over the past 10 years, second quarter events have typically resulted in almost half of full year cat losses and first half events have resulted in almost 60% of the total. With April cats coming in below our historic average, we think timing is definitely a factor in the above average first quarter cat losses. We're continuing to use a cat loss assumption that equals about 10 points on the full year combined ratio in our 2023 guidance. As we said at year-end, 10 points is our 10-year average and also aligns with the calculation based on historical frequency and a modeled increase in severities due to inflation, partially offset by a modeled decrease in exposures.

Turning to the underwriting results. Total written premiums rose 6.8% this quarter compared to the fourth quarter's 4.7% 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 further over 2023 and 2024 with earned premium growth following.

Turning to auto. The year-over-year increase in average written premiums was 8.1% in the first quarter, up from 4.8% in the fourth quarter. Rate actions averaged almost 10% countrywide over the past 5 quarters. As anticipated, first quarter underlying loss costs continued to be impacted by higher severity due to the inflation of the past year. We expect frequency to stabilize near 2022 levels for the full year, but it rose in the quarter over a year ago, impacted by the severe weather. However, we did see frequency return to expected levels in April. And as Marita noted, if loss trends exceed our current expectations in auto or property, we will adjust our pricing or underwriting plans as needed.

The auto rate plan for 2023 is targeting rate increases of 18% to 20%. Achieving that rate plan only requires a single round of approvals in California, one of which we received over the weekend, as Marita noted. Bolstered by nonrate 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. Turning to property. The year-over-year increase in average written premiums was 9.8% in the first quarter. Rate increases countrywide since the beginning of 2022 have been bolstered by inflation adjustments to coverage values. The first quarter property underlying loss ratio improved to 50.2% with fire losses lower than a year ago. Our 2023 rate plan for property adds another 12% to 15% over the course of the year 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 an underwriting profit in 2023 and getting us back to our targeted 92 to 93 combined ratio in 2024.

Taking into account the various factors, but recognizing the lower net investment income in the first quarter P&C 2023 segment core earnings are expected to be between breakeven and $5 million, 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 target for the segment of 95 to 96. Results for both our Life and Retirement and supplemental and Group Benefit segments reflect our adoption of LDTI as of the first of the year with an implementation date of 1/1/21. As we've said, the standard did not change long-term earnings, underlying economics or cash flow. Furthermore, it has no impact on statutory accounting. However, it did require cash flow assumptions, underlying policy reserves to be reviewed and those reserves to be revalued using current discount rates.

We'll see the LDT impact in 3 areas in reported results and in the recast results for the past 2 years. First, it made the liability for future policyholder benefits more variable, largely due to changes in discount rate assumptions. Second, it added a new benefit liability called Market Risk Benefits, or MRBs, which adds volatility to the benefit expense in retirement business. And third, it eliminated the shadow DAC equity adjustment. So let's look at these segments.

Turning to Life and Retirement. The segment performed largely as expected with adjusted core earnings of $14 million with net investment income up 4.4%, reflecting a higher contribution from floating rate investments, including commercial mortgage loan funds. The net interest spread on our fixed annuity business was 206 bps in the first quarter. Interest on FHLB funding agreements, which is included in interest credited, rose more rapidly than investment income due to the timing of rate resets. For the full year, we continue to expect the spread on our fixed annuity business to be in the range of 220 to 230 bps.

For the segment, total benefit expenses declined. Life mortality experience improved over a year ago that offset a modestly higher unfavorable MRB adjustment for the retirement business. For the Retirement business, net annuity contract deposits were $109

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million for the first quarter. Cash value persistency was 93.1%. Outside of our core 403b accounts, we may be seeing a bit of an impact from the external headwinds facing the retirement savings sector, including inflationary pressures on consumers. 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 22.2% year-over-year with persistency remaining strong. We continue to look for life sales as a way to initiate and solidify educator relationships, and we are very pleased with the progress. We continue to expect Life and Retirement core earnings will be between $67 million and $70 million for the year. Now let me turn to the supplemental and Group Benefits segment, where we are beginning to reap the rewards of the investments we have made and will continue to make in diversifying into this higher growth, less capital-intensive business.

For the segment, first quarter core earnings were $14 million as the benefit ratio remains very favorable. First quarter premiums and contract charges earned were $66 million, about evenly split between the Worksite Direct and employer-sponsored businesses. We expect this segment will represent about 25% of total premiums and contract charges earned for the year. Segment sales of $8.2 million for the year reflected sales levels in our Worksite Direct business, the supplemental products acquired in the NTA transaction in 2019, approaching pre-pandemic levels. They also include strong sales of employer-sponsored products as we gain traction with our distribution partners together gaining more access to districts and schools.

We generally expect the first quarter to be a good sales quarter for employer-sponsored products, but also expected to be the highest quarter for the employer-sponsored products benefit ratio as benefit utilization for these products typically as highest early in the calendar year in our market. With benefit utilization and therefore, the benefit ratio lower than anticipated in the quarter, we expect seasonality will be less pronounced this year. We now expect the benefit ratio in the third and fourth quarters will be higher than originally anticipated but expect the full year benefit ratio to be below our long-term target for this business of 50%.

The benefit ratio for the Worksite direct business remains low as utilization remains below pre-pandemic levels, although the ratio is slowly moving closer to our long-term target. As expected, the expense ratio rose from a year ago as we invest in the infrastructure for this business. Looking into 2023, we now expect core earnings to be between $45 million and $49 million, taking into account the strong first quarter results. Total net investment income was $74.7 million, 2.3% above last year's first quarter as a higher contribution from floating rate investments, including commercial mortgage loan funds more than offset lower LP returns.

Pretax investment yield on the portfolio, excluding limited partnership interests, rose to 4.72%, 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 net unrealized investment loss position of the fixed maturity securities portfolio decreased to $453.3 million pretax at quarter end compared to $571.9 million at year-end 2022, primarily due to moderate stabilization of the interest rate environment experienced during first quarter 2023.

Realized investment losses were well below last year and continue to reflect portfolio repositioning activities to improve book yield as well as the declines in the fair value of equity securities. Full year net investment income from the managed portfolio is now expected to be between $325 million and $335 million. We are clearly benefiting from the higher interest rate environment in our core portfolio, and we're monitoring our commercial mortgage loan exposure closely. In the portfolio, we are underweight office and remain committed to a high-quality portfolio, so we would take action quickly, if appropriate.

Due to first quarter results, we now assume full year limited partnership returns will be below 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, despite the cat losses, the first quarter clearly demonstrated 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 educator market, putting us back on the trajectory to sustainable double-digit ROEs.

As we return to our longer-term profitability targets in the P&C segment, we continue to expect 2023 core EPS will be in the range of $2 to $2.30. In 2024, we believe ROE will be at 10% with core EPS approaching $4. Our Life and Retirement and supplemental and Group Benefits segments are a stable source of earnings and capital, which clearly mitigates the volatility of P&C. When we have returned to our targeted profitability across the segments, we know that Horace Mann is capable of generating approximately $50 million in excess capital above what we pay in shareholder dividends. Our priority for excess capital will remain on growth.

However, we are committed to using available excess capital for steady shareholder dividend increases, the Board raised the dividend by 3.1% in March and opportunistic share repurchases. We purchased approximately 157,000 shares at a total cost of $5.3 million since the beginning of the year. At the same time, we are committed to maintaining our financial leverage and capital ratios at levels

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appropriate for our current financial strength ratings. We expect our progress toward our objectives will accelerate over the coming quarters as we remain 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

Thank you. [Operator Instructions] At this time, we will call momentarily to assemble our roster. Our first question comes from Matt Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

You guys gave a lot of great color on the rate actions you're taking and I thought there were some really slides in the deck on that and kind of how that will flow through. My question is, can you talk a little bit about what non-rate actions you might be taking to kind of address the issues in auto and home to the extent you are taking any that are noteworthy?

Marita Zuraitis
President, CEO & Director

Yes, Matt, it's a great question. I'll turn it over to Mark Desrochers for in a minute. But one of the things I would say upfront is I think this is clearly a place where our distribution helps us. Remember, we have captive distribution. And right now, our distribution runs about 80% educators. Our ability to say to our agents now is the time where you should proactively focus on educators. And right now, they're not soliciting a lot of non-educator business. It's a time when we can talk about our non-rate actions to our agents. And quite frankly, for those agents who follow the script, which the majority of them do, we're good to go. For those that don't, we can restrict their writings. We can talk to them about what they can and can't do.

So I think the control issue over the distribution, and that's very different than independent distribution and how you would control non-rate underwriting actions there is something that is very helpful to us as we navigate this kind of environment. That, combined with our third-party strategy where we have good third-party strategies that we can lever as well and good partners. Now we're not naive. We know that we're all in the same soup here. Everybody is pushing rate, everybody is tightening the underwriting on their book appropriately in this type of environment. So our third parties have some of those same constraints as well, and we would probably leverage those third parties more in a softer environment, but they're still there, and we still use them just not to the same extent that you would see when times are different. But I'll turn it over to Mark, and he can talk specifically about some of those non-rate underwriting actions that have been underway for quite some time.

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

Sure, Marita. Matt, in addition to what Marita mentioned around using our distribution plan to help us manage the business we're writing. There are several things we have in play. First, there's a lot of work that's being done around both discount verification and mileage verification. So in a lot of States, mileage is a big rating factor, and we've got a pretty aggressive program to go back and revalidate that mileage. And while that's not necessarily a rate increase, it is a premium level increase as we make adjustments to either the discounts or the mileage factors that are being used.

Also, from a renewal underwriting standpoint, our underwriters are taking a more aggressive view of folks with poor driving experience, accident experience, and we've increased our nonrenewal rate a little bit above what we might normally do in our marketplace. And lastly, there's several claims initiatives that we've been working on to try to improve the indemnity outcomes of claims, most notably trying to drive more appraisals to our more preferred methods, whether it be internal adjusters or to our preferred direct repair shops.

Marita Zuraitis
President, CEO & Director

Mark, that was very clearly said. And you didn't ask this, Matt, but despite our clear laser focus on P&C rate and profitability, we're really firing on all cylinders. I'm very excited about our long-term strategic plan to diversify our earnings stream to focus on total household acquisition. And maybe they're not all starting by driving through the garage. We have other levers to start that educator household acquisition with the company. And I think that our plan is working, and it's working out pretty close to as we had expected despite the fact that we're laser-focused on P&C rate and profitability.

Matthew John Carletti
JMP Securities LLC, Research Division

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That's very helpful. And you led me right to my second question, which was a household question. As you -- the past several years, you've gotten kind of all the pieces of the puzzle together. And I see in the slides, you've got about 1 million households, and it sounds like you view the market as being about 7.5 million or so in total. As you look out long term, now that you have kind of the product board filled and as you think about kind of the presence of the size or the right fit for Horace Mann in that market, how should we think about where Horace Mann could end up in that broader 7.5 million total? And I'm not asking to put a time frame on it, just kind of what's kind of your fair share as you view it now with what you have?

Marita Zuraitis
President, CEO & Director

Yes, Matt, I think that's absolutely the right question in how we think about it as well. Going to the conversation that we just had, one of the first things I think about, and I'll ask Mike to talk about life insurance in a minute because I think it's a perfect example is our ability for our agents to pivot a little bit. I mean we take a total account approach to educators acquisition. When we get them, we're really good at cross-sell. And when we have the cross-sell, you see it in the retention numbers. So starting that household acquisition, whether it's with auto or something else is important. And Mike has been driving an awful lot in the life space about potentially starting with life potentially pushing on the retirement side of the house, and you're seeing good solid results in retirement. You're seeing big increases in the life space and even a little cross-sell on the supplemental and group benefit side with life.

So I think that ability for our captive distribution to pivot is a key lever for us that maybe others don't have. The other thing is that 7.5 million, I round it to 8 million, and Heather gives me a hard time, at least in the K-12 public space, I don't think about it as 8 million. When you think about the worksite division, the strong relationship that we have with firefighters, the building relationship we have with others who serve the community, I think about that number broader than our K-12 public educator space. And as we build out this divisional focus, you're going to see that begin to push on the worksite side. And then the question for us is going to be what participants within that worksite business have similar attributes to educators, and we can push on the retail side, and I really think about that as a big future growth lever for Horace Mann. But Mike, do you want to talk a little bit about the success we're seeing in life and some of the pivot you've seen.

Michael Brandon Weckenbrock
Senior Vice President of Life & Retirement

Sure. I appreciate it. Just starting off, 22% up in the Q1 over last year, we've really hit the ground running coming off a strong finish in '22. Just another piece that Marita mentioned around cross-sell and integration with our acquisitions, 15% of that is coming from our worksite division. And so that says a lot about the opportunity of expanding life distribution. I got to give a lot of credit to our team, Krystian, who is really focused on the fundamentals. The life insurance is undersold or undervalued by some of our educators and it's our job to get out there and express the need that they have. And so that's what we're doing. That's what we're focusing on. It's the protection that needs to be in place. And so a lot of emphasis on life, making sure they get the right protection in place and working with our partners to expand that opportunity.

Marita Zuraitis
President, CEO & Director

And Matt, if your next question was why other than hard work and focus, which I do think our strategic plan really drives us here. A lot of this has to do with access post pandemic, combined with lessons learned during the pandemic, our agents are much better prepared for household acquisition than they were pre-pandemic, and we're seeing that come through. Look at recruiting on the agency side, the speed to productivity, the mentoring programs that I mentioned in the script. You think about our Head of Sales and Distribution, Heather Cabra, she joined us a few months before the pandemic hit. This is the first year where she is actually physical with her distribution. This is the first time that we're able to hold meetings in large groups with our agents and really see the benefit of a strong team that she's built and what this company looks like when we're firing on all cylinders.

I think about the supplemental and group benefit space and the teacher shortage that we see and that you read about and see on the television almost every night, it's a great retention tool for districts to build out robust benefit plans and really provide financial support in seminars and state retirement conferences that we build. So we're invited in because those schools desperately want to keep the teachers they have and want us help educating the new replacements that they have to hire to fill the seats. So we feel good about our relationships with the districts and they're only growing with this 2 divisional structure that we've built.

Operator

Our next question comes from John Barnidge with Piper Sandler.

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John Bakewell Barnidge
Piper Sandler & Co., Research Division

My question is around the meaningful lift in covered lives and employer sponsored. I know there's a first quarter weighting to this given kind of open enrollment and stuff like that. But can you talk about the ability to capture that lift in covered lives in cross-sold products and how quickly that can get addressed?

Marita Zuraitis
President, CEO & Director

John, it's a great question, and I think I started to answer it, but I'll leave some of the specifics to Matt, who's on the line and who runs that worksite division. Matt?

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

Sure. Let me start by just kind of reminding everybody how we go to market. So we go to market in 3 distinct ways. The first piece is the employer paid side of the house, which was the acquisition we made of Madison National that closed January last year. Our worksite direct channel, which is the former NTA channel. That's also the channel that also sells the Horace Mann life product that Mike referred to a minute or 2 ago. And then we have the employer-sponsored side of the house, which is our voluntary group product. That's actually a joint venture between the 2 sales channels, and that's how we bring that product to market and we cross-sell it within our distribution teams.

So when you think about the -- how those teams interface or interact, that's where we get to how we think about the covered lives or the number of participants or a number of folks that we have to see every year in order for us to be able to obtain the sales plans that we have. And you can see in the first quarter in the way that the sales came through in the first quarter, we've been gaining momentum all the way through last year and into this year, you started to see that momentum play through. So we hit on both divisions, both the employer-sponsored side of the house and on the worksite direct side of the house, we doubled sales between the same time period of the prior year. So we have really strong momentum, and that momentum continues, and it is in line with our expectations that we outlined last year.

So on the employer-sponsored side, our business is a little bit lumpy. That's just kind of how it works. And we've had some key wins in the quarter, and we continue to build that momentum as the year goes, thanks to our key distribution partners and their continued and expanded support. And we expect that momentum to continue along with the voluntary product adoption. On the individual side, very proud and thankful of the team. The sales results reflect our continued confidence and significant progress to build back to the prepandemic levels. And significantly, policy count is growing for the first time since the onset of COVID.

So that's a huge momentum shift for us. So as we add employers, as we add eligibles as we add the opportunities for us to make our case, we're having great success.

Marita Zuraitis
President, CEO & Director

Yes, Matt, that's right on. Plus when you think about the amount of folks that we're adding and the building of the sales team and the investment that you're making in this business, it's intentional, and we're seeing it come through the numbers.

John Bakewell Barnidge
Piper Sandler & Co., Research Division

So thanks, Matt. My follow-up question, I can't help but notice the hiring of a COO role, market share expansion in the retail channel called out and then you talk about firefighters. If we kind of talk about immediate adjacencies, how do you size that 7.5 million going higher? And what are some of these adjacencies besides firefighters potentially?

Marita Zuraitis
President, CEO & Director

Yes, a good question. I mean, the hiring of Steve in the COO role, make no mistake, when you look at that resume, we're talking about an accomplished leader here with some pretty significant technical expertise. When you think about the background, P&C, life, financial services, distribution, it's kind of ideally suited to who we are at Horace Mann. We have a solid long-term strategy. We've got the right priorities in place. We're excited about the future. And I think Steve is the guy to help us accelerate our momentum. It is

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more about the strategies that we have in place and not new strategies. It's more about hands-on deck because of the opportunities that we see in front of us because of that strategy.

So when I think about this, I obviously think that although his short-term focus is retail and the priorities that we have in retail and building out complementary distribution and our third-party strategies and some of the things beyond how we had historically done business in P&C. But I also think it's about working with Matt in doubling down on the cross-sell opportunities between worksite and retail. You mentioned firefighters. That's a really good example of future growth as we peel back the onion, but there are other pockets of folks who are similar to educators in wage, in dedication and financial needs that we certainly can tap into. And we see some of that in the benefit space. It will be hard work to determine what and if. Across that, we can leverage into the retail space. And I think Steve will be front and center in a lot of that work with Matt.

We obviously have opinions of what those buckets are. We obviously have opinions of how high we could -- what the numbers look like there. And we'll talk about those as we build them into part of the long-term strategy, and they're not just in the design phase, if you will.

Operator

Our next question comes from Derek Han with KBW.

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

Just going at the personal auto. I think I was a little surprised to see that the planned auto rate increases haven't changed since last quarter, just given what's going on with other peers' severity trends. Can you just talk about what you're seeing and maybe why you're different from peers, maybe just your preferred driver base or whatever else you think might be explaining the differences.

Marita Zuraitis
President, CEO & Director

Yes. Good question. Some of that has to do with our assumptions and our picks, obviously, but I can turn it over to Mark for a little more of the detail.

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

Yes. I mean I think when we look at the frequency and severity trends for the quarter, would the exception of frequency in the month of March, which was elevated a bit from our assumptions and over last year, and we attribute much of that to the severe weather we saw over the latter part of the quarter. But when we step back and we look at overall frequency and severity with that one exception, everything is very much in line with what our assumptions were coming into the year. We had assumptions that overall loss costs would remain above the long-term average, but would that rate of increase in loss costs would start to temper from what we saw throughout the year in 2022.

And so far, everything is pretty consistent with those expectations, obviously, with the one exception of March, which, again, seems like an anomalous event due to some of the weather. And in fact, our early read of April frequency is right back on level with what our expectations were. So we'll continue to watch that. And if anything changes, we'll adjust our rate plan as necessary. But right now, we're not seeing anything that gives us any strong indication that we need to veer off our current plan.

Marita Zuraitis
President, CEO & Director

Yes. Thanks, Mark. That's really helpful. Mark mentions the more normalized frequency in April. That's one of the benefits we have at this point in the call. We know with April "in" the bank what it looks like and frequency certainly mitigated in April. We also saw that from a cat perspective. We did get some questions regarding why didn't you think about annualized cats and changing that number as many in the industry did. Well, we had the benefit of seeing our April results and whether those storms occurred on March 27 or 28 or occurred on April 2 or 3, it really is that spring storm activity that we count on, if you will, in our second quarter plan. And what we saw in March is our actual cats were less than what we would put in the plan for an April number.

So we'll wait until after the second quarter to take a look at that full year cat number. But for us, it really is about spring storms, not whether they occur on the last day of March or the first day of April.

Dong Yoon Han

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

Okay. That's really detailed and helpful. My second question is on supplemental you had really good earnings there and you raised the full year guidance as a result of that. I think you previously talked about benefit ratio kind of moving towards 43%, which is the longer-term average. But do you see any enduring changes post pandemic that you might find sticky and maybe allow you to see a lower benefit ratio going forward?

Bret Alan Conklin
Executive VP & CFO

Let me start. This is Bret. Obviously, in that space, we did guide at year-end to a higher benefits ratio. And I think Matt has mentioned in prior calls that the first quarter, I think we even headed in our talking points for the color commentary that traditionally, the first quarter certainly for the employer-sponsored is typically higher. We finished, as we said, better or a lower benefits ratio. I would say similar to Marita's comments on cats, it's 1 quarter, so we don't want to get overly excited about that remaining at that lower level for the year. As you acknowledged, we did increase our guidance $5 million in that segment. But both the worksite direct and employer-sponsored components of that segment are certainly performing at lower benefits ratios as we would expect. We've been saying this for the past couple of years, we would anticipate the further we get out of the pandemic, those ratios will revert to a more normalized ratio, if you will. So here again, we will look at those ratios at the end of the second quarter and see if we need to adjust the guidance. But certainly, we took $5 million of credit and increased our earnings in that segment.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Heather for any closing remarks.

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

Thank you, and we appreciate everyone making time on a busy earnings day available through the remainder of the week, if there's any additional follow-up questions. We do have plans to be meeting with investors over the next couple of months. Feel free to reach out. But we do hope to connect with everyone and talk again. Thank you.

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

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