

# CNO FINANCIAL GROUP, INC.

## FORM 8-K (Current report filing)

Filed 03/21/13 for the Period Ending 03/21/13

Address	11825 N PENNSYLVANIA ST CARMEL, IN 46032
Telephone	3178176100
CIK	0001224608
Symbol	CNO
SIC Code	6321 - Accident and Health Insurance
Industry	Insurance (Life)
Sector	Financial
Fiscal Year	12/31

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 8-K**

**CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Date of Report (Date of earliest event reported): **March 21, 2013**

**CNO Financial Group, Inc.**

(Exact Name of Registrant as Specified in Charter)

**Delaware**  
(State or Other  
Jurisdiction of Incorporation)

**001-31792**

(Commission File Number)

**11825 North Pennsylvania Street  
Carmel, Indiana 46032**

(Address of Principal Executive Offices) (Zip Code)

**(317) 817-6100**

(Registrant's telephone number, including area code)

**75-3108137**  
(I.R.S. Employer  
Identification No.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 7.01. Regulation FD Disclosure.**

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On March 21, 2013, CNO Financial Group, Inc. issued information to be used in connection with the J.P. Morgan 2013 Insurance Conference, a copy of which is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The information contained in this Current Report on Form 8-K (including Exhibit 99.1) is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities of that Section. The information contained in this Current Report on Form 8-K shall not be incorporated by reference into any registration statement or other document pursuant to the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in any such filing.

**Item 9.01(d). Financial Statements and Exhibits.**

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The following material is furnished as an exhibit to this Current Report on Form 8-K:

99.1 Presentation for the J.P. Morgan 2013 Insurance Conference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

CNO Financial Group, Inc.

Date: March 21, 2013

By: /s/ John R. Kline  
John R. Kline  
Senior Vice President and  
Chief Accounting Officer



Exhibit 99.1

CNO FINANCIAL GROUP

# J.P. Morgan 2013 Insurance Conference

March 21, 2013





# CNO FINANCIAL GROUP

## Forward-Looking Statements

Certain statements made in this presentation should be considered forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. These include statements about future results of operations and capital plans. We caution investors that these forward-looking statements are not guarantees of future performance, and actual results may differ materially. Investors should consider the important risks and uncertainties that may cause actual results to differ, including those included in our Quarterly Reports on Form 10-Q, our Annual Report on Form 10-K and other filings we make with the Securities and Exchange Commission. We assume no obligation to update this presentation, which speaks as of today's date.

## Non-GAAP Measures

This presentation contains financial measures that differ from the comparable measures under Generally Accepted Accounting Principles (GAAP). Reconciliations between those non-GAAP measures and the comparable GAAP measures are included in the Appendix.

While management believes these measures are useful to enhance understanding and comparability of our financial results, these non-GAAP measures should not be considered substitutes for the most directly comparable GAAP measures.

Additional information concerning non-GAAP measures is included in our periodic filings with the Securities and Exchange Commission that are available in the “Investors – SEC Filings” section of CNO’s website, [www.CNOinc.com](http://www.CNOinc.com).

## CNO Fundamentals

- Well positioned in the growing and underserved senior and middle income market
- Track record of strong execution
- Building core value drivers
- Strong risk management
- Well capitalized and generating significant excess capital

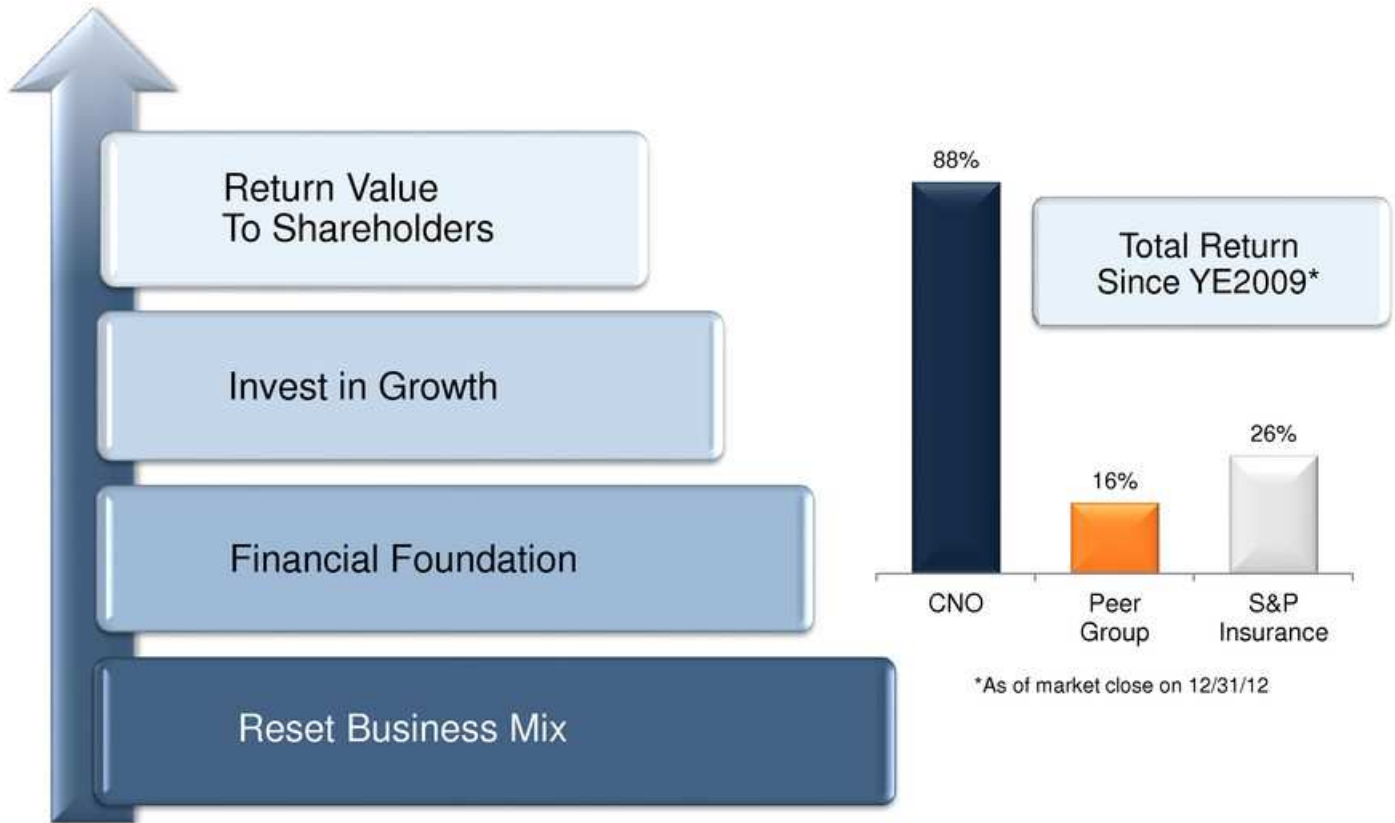
## What Differentiates CNO?

- Focus on serving the needs of our middle-income target market, a market that is fast growing and underserved
- Exclusive distribution
  - Consistent with market focus
  - We have “pricing” influence
  - Track record of stable customer base

### ▪ Alignment



# Track Record of Execution



Peers - AFL, AIZ, AMP, GNW, HIG, LNC, MET, PFG, PL, PNK, PRI, PRU, SFG, SYA, TMK, UNM

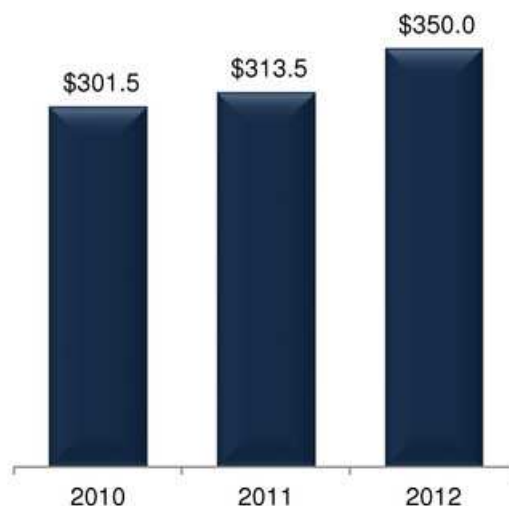
# Investment in the Business

CNO

(\$ millions)

Core Sales Excluding Bankers Annuities\* - 8% Consolidated CAGR Since 2010

- Investing in productivity and growth of the agent force
- Expanding presence by adding new locations and geographies
- Developing and launching new products to meet the needs of our target market
- Increasing direct advertising
- Sales excluding Bankers Life annuities up 12% for the year

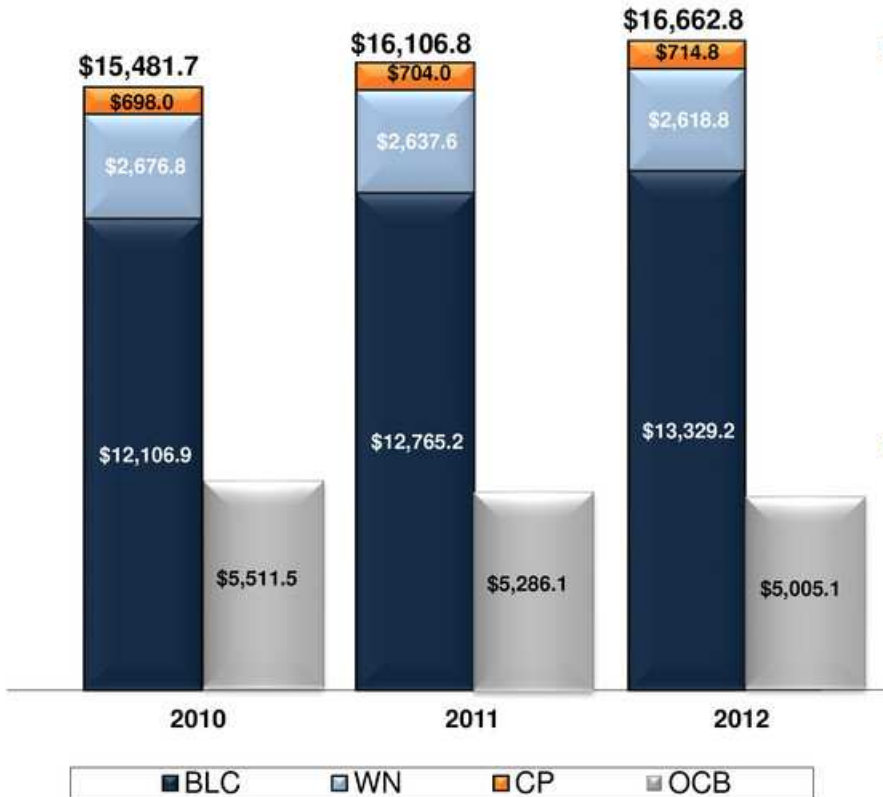


\* Core sales exclude Washington National's Medicare supplement and annuities. Sales summarized above also exclude Bankers' annuity sales.

# Growth in the CNO Franchise

(\$ millions)

Avg. Liabilities on Core Business Segments Growing; Other CNO Business is Shrinking



- Investing in organic growth opportunities and layering on new business
  - Expanding locations, geographies, and product offerings
  - Increasing direct marketing
  - Growing agent force
  
- Exploring non-organic options to accelerate both run-on and run-off
  - Right-sized acquisitions that fit core model
  - Explore reinsurance strategies

# Segment Earnings Trend - Stable & Growing

(\$ millions)

Segment EBIT Excluding Significant Items\*



## 2012 Tailwinds

- Favorable health benefit ratios
- Annuity persistency & spreads
- Corporate investment results
- Free cash flow and capital deployment

## 2012 Headwinds

- Low new money investment rates
- Natural run-off blocks of business
- Normalizing LTC benefit ratios
- Investment in business model driving growth and efficiencies

\* A non-GAAP measure. See the Appendix for a reconciliation to the corresponding GAAP measure.

# Loss Recognition & Cash Flow Testing

CNO

## 2012 GAAP Loss Recognition Testing

- Aggregate testing margins remain strong
- Testing margin Increased in 2012
  - ↑ - ASU 2010-26
  - ↑ - Net Growth from New Business (+6%)
  - ↓ - Lower interest rates projected (-8%)
  - ↓ - Legal Settlements (-2%)
- All intangibles are recoverable

## 2012 Statutory Cash Flow Testing

- Insurance Company margins consistent with prior years
- All insurance entities pass Asset Adequacy / Cash Flow Testing under all standard scenarios
- Interest rate scenarios re-affirm strong asset liability management
- Year-end testing resulted in less than \$5 million of additional asset adequacy reserves

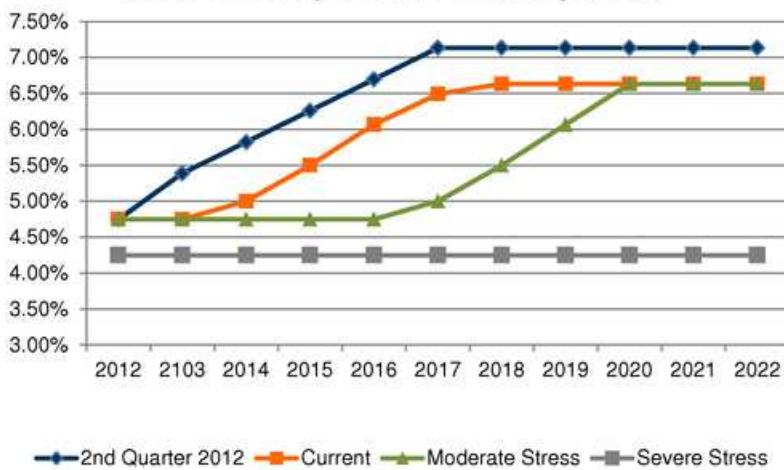
Line of Business	Aggregate Margin	Principal Risks to Margin
Traditional life and Universal life (Bankers)	+++	Unusually high mortality
Medicare supplement and supplemental health	+++	Unusually high morbidity
Long term care	Positive but vulnerable	Low interest rates; High morbidity; Low policy termination
Interest sensitive life (OCB)	Positive but vulnerable	Low interest rates; Litigation
Interest sensitive annuities	++	Decrease in spread; Investment volatility
Annuities in payout	+	Low mortality; Low interest rates

# “Low-For-Long” Rates – Reserve Sensitivity

## 2012 Expanded New Money Rate (NMR) Stress Test

- Moderate Stress: 4.75% NMR held flat for 5 years then recovering
- Severe Stress: 50 basis point drop in NMR to 4.25% held flat indefinitely
- 3Q assumption change: OCB interest sensitive life reserve charge - \$28mm (after-tax)
- Stress tests impact OCB interest-sensitive life and Bankers LTC reserves
- Severe stress - manageable impact to GAAP leverage and 15 to 20 points of RBC impact

### New Money Rate Assumptions



Moderate Stress Test (After- Tax)	
GAAP	\$20 - \$50 million
Statutory	\$20 - \$50 million
Severe Stress Test (After- Tax)	
GAAP	\$100 - \$125 million
Statutory	\$75 - \$100 million

# Capital Strategy

(\$ millions)

## Forward Capital Plan

- **Maintain capital cushion to absorb stress-test conditions**
  - Leverage of 20%
  - Risk-based capital ratio of 350%
  - Holdco liquidity & investments of \$150mm
  
- **Maintain positive ratings profile with goal of achieving investment grade**
  - Target BB/BB senior debt ratings in 2013
  
- **Balanced use of free cash flow**

## Key Capital & Liquidity Metrics

YE2012 deployable capital of ~\$150mm



Debt to Cap xAOCI*	23.8%	21.9%	18.3%	20.7%

\* A non-GAAP measure. See the Appendix for a reconciliation to the corresponding GAAP measure

\*\* Capital to Holding Company includes net dividends as well as fees and interest on surplus debentures

# 2012 Capital Generation – Free Cash Flow Building

(\$ millions)



## 2013 Guidance:

- \$50-\$75mm of capital retained to support growth
- Statutory dividend range \$250-\$300mm
- Securities\*\* repurchase of \$250-\$300mm

\* Chart excludes financing cash flows and convertible repurchase associated with 3Q recapitalization  
 \*\* Common stock and common stock equivalents

## CNO: Near Term Goals Lead to Long Term Value

### Near Term Objectives

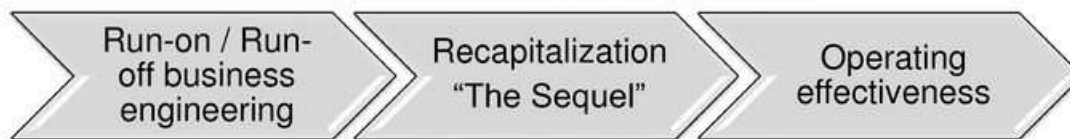
- Grow sales, distribution and product portfolio
- Increase operational effectiveness
- Build economic value by growing EPS and ROE
- Achieve BB/BB debt rating
- Continue balanced approach to capital deployment



### 2015 Milestones

- Invest \$80-\$85mm in strategic business initiatives
- Accelerate run-on and run-off
- Enhance customer experience and operational efficiency
- ROE run-rate of 9%
- Drive to investment grade
- Target dividend payout ratio of 20%

### Additional Potential ROE Catalysts



# Q&A



CNO FINANCIAL GROUP



**BANKERS**  
LIFE AND CASUALTY COMPANY  
For the life of your retirement





# Appendix

# CNO: The right products and the right channels for today's middle-market consumer

## Strong trends are driving middle-market consumers

- Rising medical costs
- Decline of societal safety nets (government and employer)
- Increased longevity
- Greater awareness of need for retirement planning



## CNO has expertise across important middle-market products

- Fixed and Fixed-Index Life and Annuity Products
- Long-Term Care
- Medicare Supplement
- Whole and Universal life products
- Final expense
- Supplemental Health



## CNO can access consumers across multiple channels

- With an Agent (Retail)
  - Bankers Career Force
  - Washington National
    - PMA (CNO-owned)
    - Independents
- Without an Agent (Direct)
  - Colonial Penn
- At Work (Worksite Marketing)
  - PMA Worksite Division
  - Washington National - Independents



# Product Level Risk Management

*Diversified product mix focused on protection needs*



- Basic products that fit with exclusive distribution and meet the basic insurance needs of the middle market
- Attractive and more predictable return characteristics - price to unleveraged IRR target of 12% after-tax
- Product mix balances interest rate risk with shorter duration pure mortality and morbidity insurance
- Unique Long Term Care proposition produces a balanced risk profile
- Value of New Business (VNB) measures used to govern risk/return dynamics

## Information Related to Certain Non-GAAP Financial Measures

The following provides additional information regarding certain non-GAAP measures used in this presentation. A non-GAAP measure is a numerical measure of a company's performance, financial position, or cash flows that excludes or includes amounts that are normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. While management believes these measures are useful to enhance understanding and comparability of our financial results, these non-GAAP measures should not be considered as substitutes for the most directly comparable GAAP measures. Additional information concerning non-GAAP measures is included in our periodic filings with the Securities and Exchange Commission that are available in the "Investor – SEC Filings" section of our website, [www.CNOinc.com](http://www.CNOinc.com).

## Information Related to Certain Non-GAAP Financial Measures

The table below summarizes the financial impact of significant items on our 2010 net operating income. Management believes that identifying the impact of these items enhances the understanding of our operating results during 2010 (dollars in millions).

	Year ended December 31, 2010		
	Actual results	Significant items	Excluding significant items
Net Operating Income:			
Bankers Life	\$ 237.5	\$ (16.5) (1)	\$ 221.0
Washington National	100.4	-	100.4
Colonial Penn	4.2	-	4.2
Other CNO Business	(9.2)	27.0 (2)	17.8
EBIT from business segments	332.9	10.5	343.4
Corporate Operations, excluding corporate interest expense	(42.8)	8.8 (3)	(34.0)
EBIT	290.1	19.3	309.4
Corporate interest expense	(79.3)	-	(79.3)
Operating earnings before tax	210.8	19.3	230.1
Tax expense on operating income	74.4	6.9	81.3
Net operating income *	\$ 136.4	\$ 12.4	\$ 148.8

(1) Pre-tax earnings in the Bankers Life segment included earnings of \$10.0 million from favorable reserve developments in the Medicare supplement and long-term care blocks; and earnings of \$6.5 million from the Prescription Drug Plan ("PDP") business assumed from Coventry due to premium adjustments.

(2) Pre-tax earnings in the Other CNO Business segment included charges of \$8.0 million from changes in assumptions for the implementation of certain non-guaranteed elements; \$13.0 million reflecting the impact of decreased projected future investment yield assumptions related to interest-sensitive insurance products; and \$6.0 million for the write-off of the present value of future profits related to the long-term care block.

(3) Pre-tax earnings in the Corporate segment included charges of \$4.5 million from a legal settlement and \$4.3 million related to the impact of lower interest rates on the values of liabilities for agent deferred compensation and former executive retirement annuities.

\* A non-GAAP measure. See page 24 for a reconciliation to the corresponding GAAP measure.

## Information Related to Certain Non-GAAP Financial Measures

The table below summarizes the financial impact of significant items on our 2011 net operating income. Management believes that identifying the impact of these items enhances the understanding of our operating results during 2011 (dollars in millions).

	Year ended December 31, 2011		
	Actual results	Significant items	Excluding significant items
Net Operating Income:			
Bankers Life	\$ 290.9	\$ (40.7) (1)	\$ 250.2
Washington National	96.1	10.5 (2)	106.6
Colonial Penn	(4.7)	-	(4.7)
Other CNO Business	15.3	13.0 (3)	28.3
EBIT from business segments	397.6	(17.2)	380.4
Corporate Operations, excluding corporate interest expense	(47.7)	11.6 (4)	(36.1)
EBIT	349.9	(5.6)	344.3
Corporate interest expense	(76.3)	-	(76.3)
Operating earnings before tax	273.6	(5.6)	268.0
Tax expense on operating income	102.1	(4.9)	97.2
Net operating income *	\$ 171.5	\$ (0.7)	\$ 170.8

(1) Pre-tax earnings in the Bankers Life segment included earnings of \$43.0 million from favorable reserve developments in the Medicare supplement and long-term care blocks; earnings of \$3.7 million from the PDP business assumed from Coventry due to premium adjustments; and a \$6.0 million charge due to additional Medicare supplement amortization related to higher lapsation.

(2) Pre-tax earnings in the Washington National segment included charges of \$10.5 million from out-of-period adjustments.

(3) Pre-tax earnings in the Other CNO Business segment included a charge of \$13.0 million reflecting the impact of decreased projected future investment yield assumptions related to interest-sensitive insurance products.

(4) Pre-tax earnings in the Corporate segment included charges of \$19.0 million related to the impact of lower interest rates on the values of liabilities for agent deferred compensation and former executive retirement annuities; and earnings of \$7.4 million resulting from a trueup of stock-based compensation assumptions.

\* A non-GAAP measure. See page 24 for a reconciliation to the corresponding GAAP measure.

## Information Related to Certain Non-GAAP Financial Measures

The table below summarizes the financial impact of significant items on our 2012 net operating income. Management believes that identifying the impact of these items enhances the understanding of our 2012 operating results (dollars in millions).

	Year ended December 31, 2012		
	Actual results	Significant items	Excluding significant items
Net Operating Income:			
Bankers Life	\$ 300.9	\$ (10.6) (1)	\$ 290.3
Washington National	127.1	-	127.1
Colonial Penn	(8.6)	-	(8.6)
Other CNO Business	<u>(48.8)</u>	<u>95.3</u> (2)	<u>46.5</u>
EBIT from business segments	370.6	84.7	455.3
Corporate Operations, excluding corporate interest expense	<u>(20.3)</u>	<u>17.0</u> (3)	<u>(3.3)</u>
EBIT	350.3	101.7	452.0
Corporate interest expense	<u>(66.2)</u>	<u>-</u>	<u>(66.2)</u>
Operating earnings before tax	284.1	101.7	385.8
Tax expense on operating income	<u>103.7</u>	<u>36.7</u>	<u>140.4</u>
Net operating income *	<u>\$ 180.4</u>	<u>\$ 65.0</u>	<u>\$ 245.4</u>

(1) Pre-tax earnings in the Bankers Life segment included earnings of \$25.0 million from favorable reserve developments in the Medicare supplement and long-term care blocks; earnings of \$3.6 million from the PDP business assumed from Coventry due to premium adjustments; and \$18.0 million of charges due to legal and regulatory expenses.

(2) Pre-tax earnings in the Other CNO Business segment included charges of \$43.0 million reflecting the impact of decreased projected future investment yield assumptions related to interest-sensitive insurance products; \$46.3 million related to tentative litigation settlements; and a charge of \$6.0 million from out-of-period adjustments.

(3) Pre-tax earnings in the Corporate segment included charges of \$10.0 million related to the impact of lower interest rates on the values of liabilities for agent deferred compensation and former executive retirement annuities and \$7.0 million related to the relocation of Bankers Life's primary office.

\* A non-GAAP measure. See page 24 for a reconciliation to the corresponding GAAP measure.

## Information Related to Certain Non-GAAP Financial Measures

Management believes that an analysis of earnings before net realized investment gains (losses), corporate interest, loss on extinguishment of debt, fair value changes due to fluctuations in the interest rates used to discount embedded derivative liabilities related to our fixed index annuities and taxes ("EBIT," a non-GAAP financial measure) provides a clearer comparison of the operating results of the company quarter-over-quarter because it excludes: (1) corporate interest expense; (2) loss on extinguishment of debt; (3) net realized investment gains (losses); and (4) fair value changes due to fluctuations in the interest rates used to discount embedded derivative liabilities related to our fixed index annuities that are unrelated to the company's underlying fundamentals. The table below provides a reconciliation of EBIT to net income (dollars in millions):

	Year ended	Year ended	Year ended
	<u>4Q10</u>	<u>4Q11</u>	<u>4Q12</u>
Bankers Life	\$ 237.5	\$ 290.9	\$ 300.9
Washington National	100.4	96.1	127.1
Colonial Penn	4.2	(4.7)	(8.6)
Other CNO Business	<u>(9.2)</u>	<u>15.3</u>	<u>(48.8)</u>
EBIT from business segments	332.9	397.6	370.6
Corporate operations, excluding interest expense	<u>(42.8)</u>	<u>(47.7)</u>	<u>(20.3)</u>
Total EBIT	290.1	349.9	350.3
Corporate interest expense	<u>(79.3)</u>	<u>(76.3)</u>	<u>(66.2)</u>
Income before net realized investment gains, fair value changes in embedded derivative liabilities, loss on extinguishment of debt and taxes	210.8	273.6	284.1
Tax expense on period income	<u>74.4</u>	<u>102.1</u>	<u>103.7</u>
Net operating income	136.4	171.5	180.4
Net realized investment gains, net of related amortization and taxes	13.6	36.7	48.4
Fair value changes in embedded derivative liabilities, net of related amortization and taxes	-	(13.3)	(1.8)
Loss on extinguishment of debt, net of income taxes	<u>(4.4)</u>	<u>(2.2)</u>	<u>(177.5)</u>
Net income (loss) before valuation allowance for deferred tax assets	145.6	192.7	49.5
Decrease in valuation allowance for deferred tax assets	<u>95.0</u>	<u>143.0</u>	<u>171.5</u>
Net income	<u>\$ 240.6</u>	<u>\$ 335.7</u>	<u>\$ 221.0</u>

## Information Related to Certain Non-GAAP Financial Measures

### Debt to capital ratio, excluding accumulated other comprehensive income (loss)

The debt to capital ratio, excluding accumulated other comprehensive income (loss), differs from the debt to capital ratio because accumulated other comprehensive income (loss) has been excluded from the value of capital used to determine this measure. Management believes this non-GAAP financial measure is useful because it removes the volatility that arises from changes in accumulated other comprehensive income (loss). Such volatility is often caused by changes in the estimated fair value of our investment portfolio resulting from changes in general market interest rates rather than the business decisions made by management. A reconciliation of these ratios is as follows (\$ in millions):

	<u>4Q09</u>	<u>4Q10</u>	<u>4Q11</u>	<u>4Q12</u>
Corporate notes payable	\$ 1,037.4	\$ 998.5	\$ 857.9	\$ 1,004.2
Total shareholders' equity	<u>3,038.6</u>	<u>3,811.6</u>	<u>4,613.8</u>	<u>5,049.3</u>
Total capital	<u>\$ 4,076.0</u>	<u>\$ 4,810.1</u>	<u>\$ 5,471.7</u>	<u>\$ 6,053.5</u>
Corporate debt to capital	<u>25.5%</u>	<u>20.8%</u>	<u>15.7%</u>	<u>16.6%</u>
<hr/>				
Corporate notes payable	\$ 1,037.4	\$ 998.5	\$ 857.9	\$ 1,004.2
Total shareholders' equity	3,038.6	3,811.6	4,613.8	5,049.3
Less accumulated other comprehensive income	<u>274.0</u>	<u>(252.7)</u>	<u>(781.6)</u>	<u>(1,197.4)</u>
Total capital	<u>\$ 4,350.0</u>	<u>\$ 4,557.4</u>	<u>\$ 4,690.1</u>	<u>\$ 4,856.1</u>
Debt to total capital ratio, excluding AOCI (a non-GAAP financial measure)	<u>23.8%</u>	<u>21.9%</u>	<u>18.3%</u>	<u>20.7%</u>

