CNO FINANCIAL GROUP, INC.

FORM 8-K
(Current report filing)

Filed 03/30/11 for the Period Ending 03/30/11

Address	11825 N PENNSYLVANIA ST CARMEL, IN 46032
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Industry	Insurance (Life)
Sector	Financial
Fiscal Year	12/31

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 30, 2011**

CNO Financial Group, Inc.
(Exact Name of Registrant as Specified in Charter)

Delaware	**001-31792**	**75-3108137**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

11825 North Pennsylvania Street
Carmel, Indiana 46032
(Address of Principal Executive Offices) (Zip Code)

(317) 817-6100
(Registrant's telephone number, including area code)

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 .**

On March 30, 2011, CNO Financial Group, Inc. (the “Company”) provided additional information, which is attached hereto as Exhibit 99.1 and is incorporated herein by reference.

The information contained under Item 7.01 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 .**

99.1 Additional Information.

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 30, 2011

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

Exhibit 99.1

CNO FINANCIAL GROUP

Supplemental Information
March 30, 2011

Forward-Looking Statements

Cautionary Statement Regarding Forward-Looking Statements. *Our statements, trend analyses and other information contained in this press release relative to markets for CNO Financial's products and trends in CNO Financial's operations or financial results, as well as other statements, contain forward-looking statements within the meaning of the federal securities laws and the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically are identified by the use of terms such as "anticipate," "believe," "plan," "estimate," "expect," "project," "intend," "may," "will," "would," "contemplate," "possible," "attempt," "seek," "should," "could," "goal," "target," "on track," "comfortable with," "optimistic" and similar words, although some forward-looking statements are expressed differently. You should consider statements that contain these words carefully because they describe our expectations, plans, strategies and goals and our beliefs concerning future business conditions, our results of operations, financial position, and our business outlook or they state other ''forward-looking'' information based on currently available information. Assumptions and other important factors that could cause our actual results to differ materially from those anticipated in our forward-looking statements include, among other things: (i) changes in or sustained low interest rates causing a reduction in investment income, the margins of our fixed annuity and life insurance businesses and demand for our products; (ii) general economic, market and political conditions, including the performance and fluctuations of the financial markets which may affect our ability to raise capital or refinance existing indebtedness and the cost of doing so; (iii) the ultimate outcome of lawsuits filed against us and other legal and regulatory proceedings to which we are subject; (iv) our ability to make changes to certain non-guaranteed elements of our life insurance products; (v) our ability to obtain adequate and timely rate increases on our health products, including our long-term care business; (vi) the receipt of any required regulatory approvals for dividend and surplus debenture interest payments from our insurance subsidiaries; (vii) mortality, morbidity, the increased cost and usage of health care services, persistency, the adequacy of our previous reserve estimates and other factors which may affect the profitability of our insurance products; (viii) changes in our assumptions related to deferred acquisition costs or the present value of future profits; (ix) the recoverability of our deferred tax assets and the effect of potential ownership changes and tax rate changes on their value; (x) our assumption that the positions we take on our tax return filings, including our position that our 7.0% convertible senior debentures due 2016 will not be treated as stock for purposes of Section 382 of the Internal Revenue Code of 1986, as amended, and will not trigger an ownership change, will not be successfully challenged by the Internal Revenue Service; (xi) changes in accounting principles and the interpretation thereof; (xii) our ability to continue to satisfy the financial ratio and balance requirements and other covenants of our debt agreements; (xiii) our ability to achieve anticipated expense reductions and levels of operational efficiencies including improvements in claims adjudication and continued automation and rationalization of operating systems, (xiv) performance and valuation of our investments, including the impact of realized losses (including other-than-temporary impairment charges); (xv) our ability to identify products and markets in which we can compete effectively against competitors with greater market share, higher ratings, greater financial resources and stronger brand recognition; (xvi) our ability to generate sufficient liquidity to meet our debt service obligations and other cash needs; (xvii) our ability to maintain effective controls over financial reporting; (xviii) our ability to continue to recruit and retain productive agents and distribution partners and customer response to new products, distribution channels and marketing initiatives; (xix) our ability to achieve eventual upgrades of the financial strength ratings of CNO Financial and our insurance company subsidiaries as well as the impact of our ratings on our business, our ability to access capital and the cost of capital; (xx) the risk factors or uncertainties listed from time to time in our filings with the Securities and Exchange Commission; (xxi) regulatory changes or actions, including those relating to regulation of the financial affairs of our insurance companies, such as the payment of dividends and surplus debenture interest to us, regulation of financial services affecting (among other things) bank sales and underwriting of insurance products, regulation of the sale, underwriting and pricing of products, and health care regulation affecting health insurance products; and (xxii) changes in the Federal income tax laws and regulations which may affect or eliminate the relative tax advantages of some of our products. Other factors and assumptions not identified above are also relevant to the forward-looking statements, and if they prove incorrect, could also cause actual results to differ materially from those projected. All forward-looking statements are expressly qualified in their entirety by the foregoing cautionary statements. Our forward-looking statements speak only as of the date made. We assume no obligation to update or to publicly announce the results of any revisions to any of the forward-looking statements to reflect actual results, future events or developments, changes in assumptions or changes in other factors affecting the forward-looking statements.*

CNO FINANCIAL GROUP

CNO Overview

The Company: CNO Financial Group

- Focused on serving the protection needs of the fast-growing but underserved middle income and senior markets
- Products include supplemental health, Medicare supplement, life, annuity and long-term care
- Products sold through efficient, growing distribution channels:
  - Bankers Life: strong career agent franchise
  - Colonial Penn: direct distribution platform
  - Washington National: wholly-owned distributor (PMA) and independent agents
- Centralized services operation to add value to all units
- Over 3.9 million policies in force

Broad Distribution Reach

Career	PMA/Independent	Direct
BANKERS LIFE AND CASUALTY COMPANY For the life of your retirement	Washington National INSURANCE COMPANY	COLONIAL PENN
• Focused on middle-income senior market with Medicare supplement, life, annuity, LTC, Medicare Part D and Medicare Advantage products • "Kitchen-table" sales model through over 5,000 career agents and sales managers; growing agents at 4.5% annually for past six years • 150+ branches nationwide	• Focused on middle-income working Americans in Worksite and Individual markets with supplemental health and life insurance products • Serving approximately 1 million policyholders and over 20,000 groups e.g. small business, education, government, and healthcare • Distribution through over 2,000 independent agents in 2 sales channels; PMA (a wholly-owned distributor) and WNIC Independent.	• Focused on lower middle-income retirees with simple, low-cost life insurance products • Direct response model with media and mail-based lead generation with robust telemarketing support

Value Through Growth and Execution

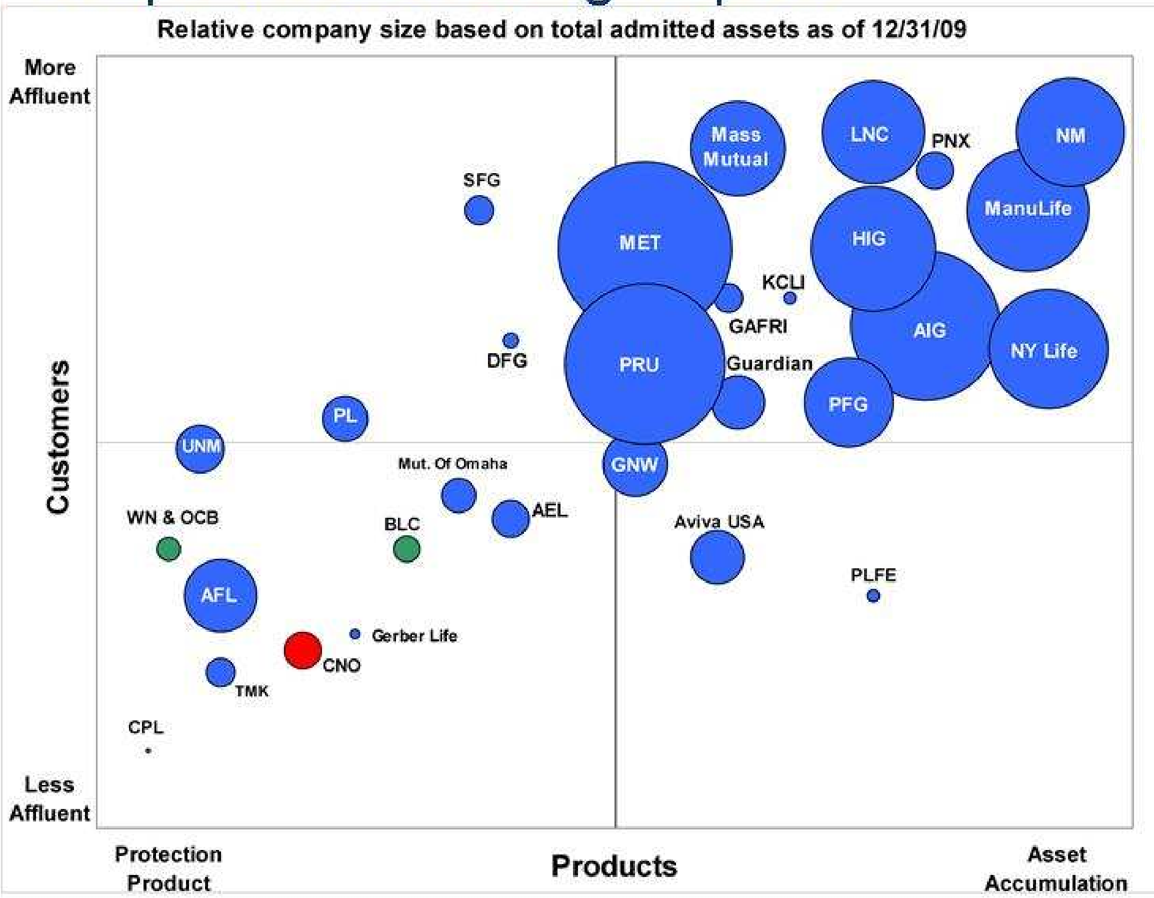
The Opportunity: Rapidly Growing, Underserved Market

- Our focus is meeting the needs of fast-growing senior market

- Attractive demographics: Baby Boomers reaching retirement age
  - The first of Boomer population become Medicare-eligible this year
  - Americans turning 65 will grow by nearly 4% annually over next decade
  - In ten years, population 65 years old and older will increase by 50%
  - Financial downturn underscored importance of risk management and guaranteed products

We know this market better than anyone, pursue it full-time, and represent a pure play in the attractive senior middle income market

Few competitors in our target space



CNO - Timeline of Management Actions

- **Q4 2006** VNB introduced
- **Q1 2007** Expanded Annual Incentive Plan participation; increased weight on shareholder value
- **Q3 2007** Completed consolidation of shared services in Carmel, Sale of excess space in Carmel
- **Q3 2007** Sale of $3 billion annuity block
- **Q4 2007** Recapture of Colonial Penn Life Block
- **2007/2008** CIG sales & marketing rightsizing - $6 million annual expense reduction
- **Q4 2008** Separation of Closed Block LTC business
- **2008** Excess Chicago space vacated - $5 million annual expense save
- **Q1 2009** Renegotiated credit facility to loosen covenants
- **Q3 2009** Reinsurance of CIG Life policies to Wilton Re
- **Q4 2009** Reinsurance of Bankers Life policies to Wilton Re
- **Q4 2009** Refinanced convertible debentures putable in Sept 2010; issued new equity; paid down Sr. Credit Facility
- **Q4 2009** Renegotiated Senior Credit Facility to loosen covenants
- **Q4 2009** Achieved RBC in excess of 300%
- **Q4 2010** Refinanced $650 million of debt
- **Q1 2011** Pre-paid $50 million on Senior Credit Facility

Current Capitalization

We are projecting to build on our excess capital position in the near-term while maintaining significant cushion relative to debt covenants

	2010 Actual	Covenant Levels
Holding Company Liquidity	$ 161.1	
Debt	$ 1,019.9	
Equity (excluding AOCI/L)	$ 4,087.0	
Total Capital	$ 5,106.9	
Debt/Cap %	20%	30%
Statutory Capital and Surplus	$ 1,596.4	$ 1,200.0
RBC %	332%	250%
Excess Capital (a)	**$ 217.1**	
Weighted average diluted shares outstanding in 4Q 2010	306.7	

(a) Capital in excess of that needed to maintain 300% RBC level and $100 million liquidity at the holding company

Excess Capital Utilization Opportunities

- Debt Repayment
- Share Buybacks
- Common Stock Dividends
- Accelerate Distribution Growth
- Selective Acquisitions
- Build Holding Company Investment Portfolio

Summary

- Strategic focus on burgeoning senior middle-market—unique “pure play”
- Attractive growth and profit potential driven by demographics and execution
- Considerable progress financially and operationally
- Well capitalized and well managed
- Value of tax paying status not yet fully realized in stock price
- Strong performance momentum—8 consecutive quarters of profitable results

Washington National Business Review

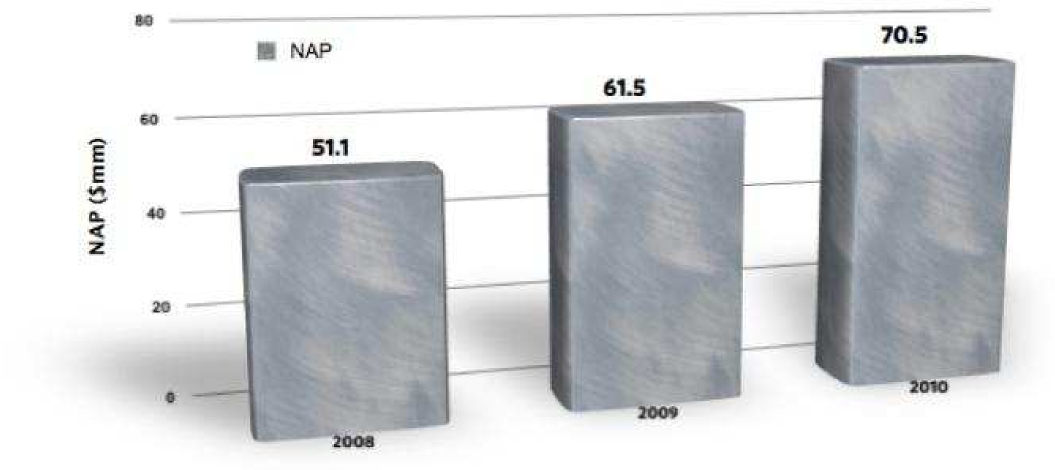
Market Focus and Distribution Approach

Washington National is a leading provider of supplemental health and life insurance for middle-income Americans in the Worksite and Individual markets, serving approximately 1 million policyholders and over 20,000 groups through more than 2,000 independent agents.

Distribution: Independent agent distribution
Two sales channels: PMA (wholly-owned) and WNIC Independent

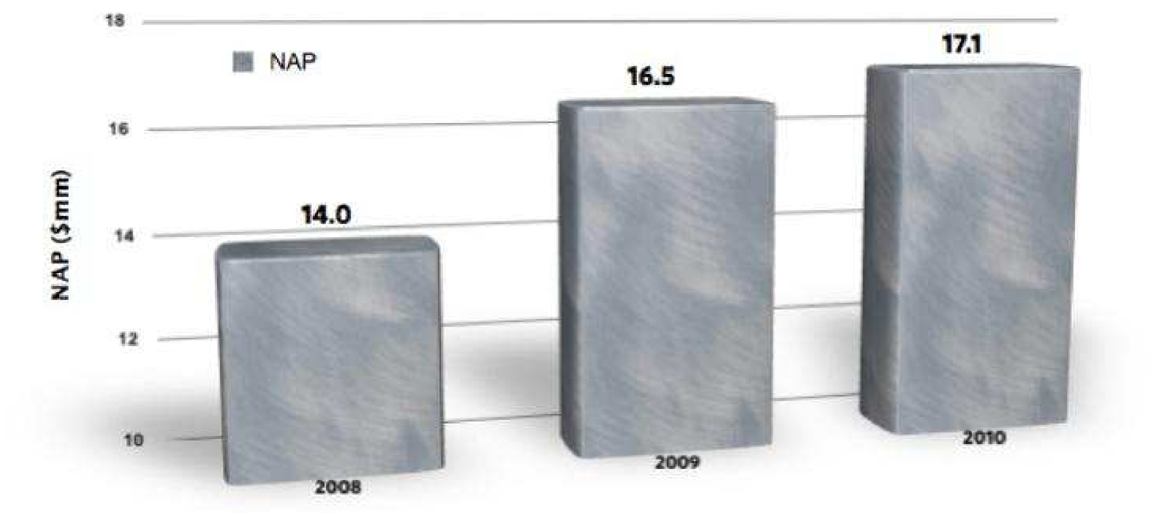
Product Focus: Supplemental Health and Life products

Washington National: Historical Results - Supplemental Health & Life



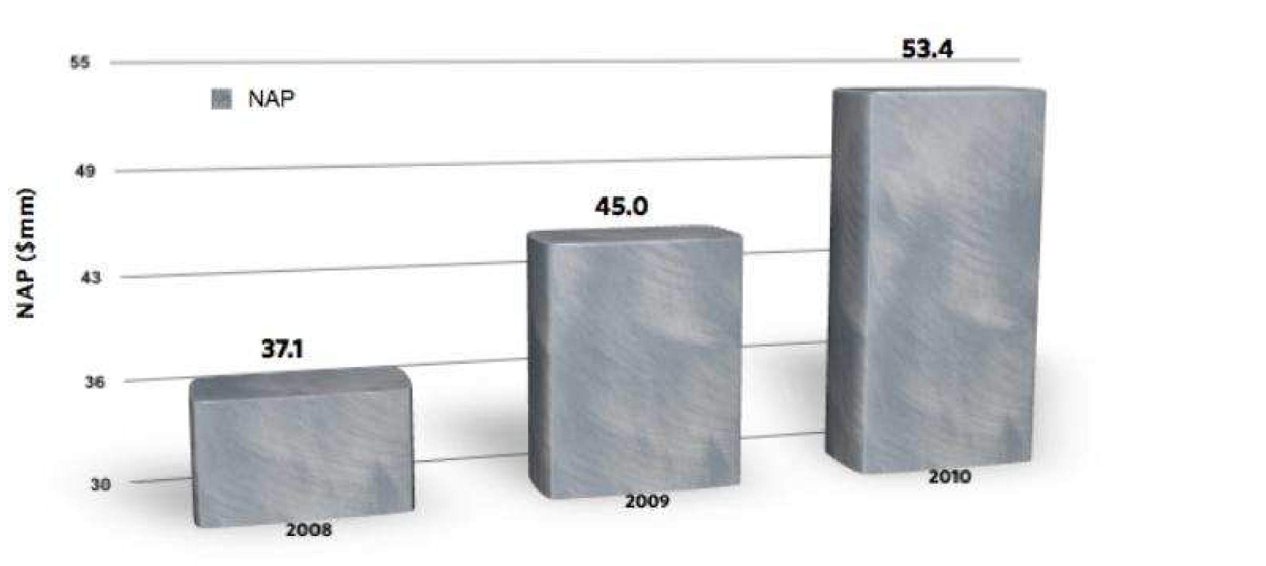
- Washington National sales of core products have increased 37.9% since 2008

WNIC Independent: Historical Results - Supplemental Health & Life



- WNIC Independent NAP for core products has increased 22.1% since 2008

PMA: Historical Results - Supplemental Health & Life



- PMA sales of core products have increased 43.9% since 2008

Distribution Growth Priorities

- Continue generating double-digit growth in supplemental health and voluntary worksite sales
- Grow WNIC Independent - independent distribution
- Grow PMA - wholly-owned distributor
  - Recruiting
  - Expanding geographic coverage
  - Adding district and regional leaders, and improving talent through training and monitoring
- Pursue “Other Distribution” opportunities

CNO FINANCIAL GROUP

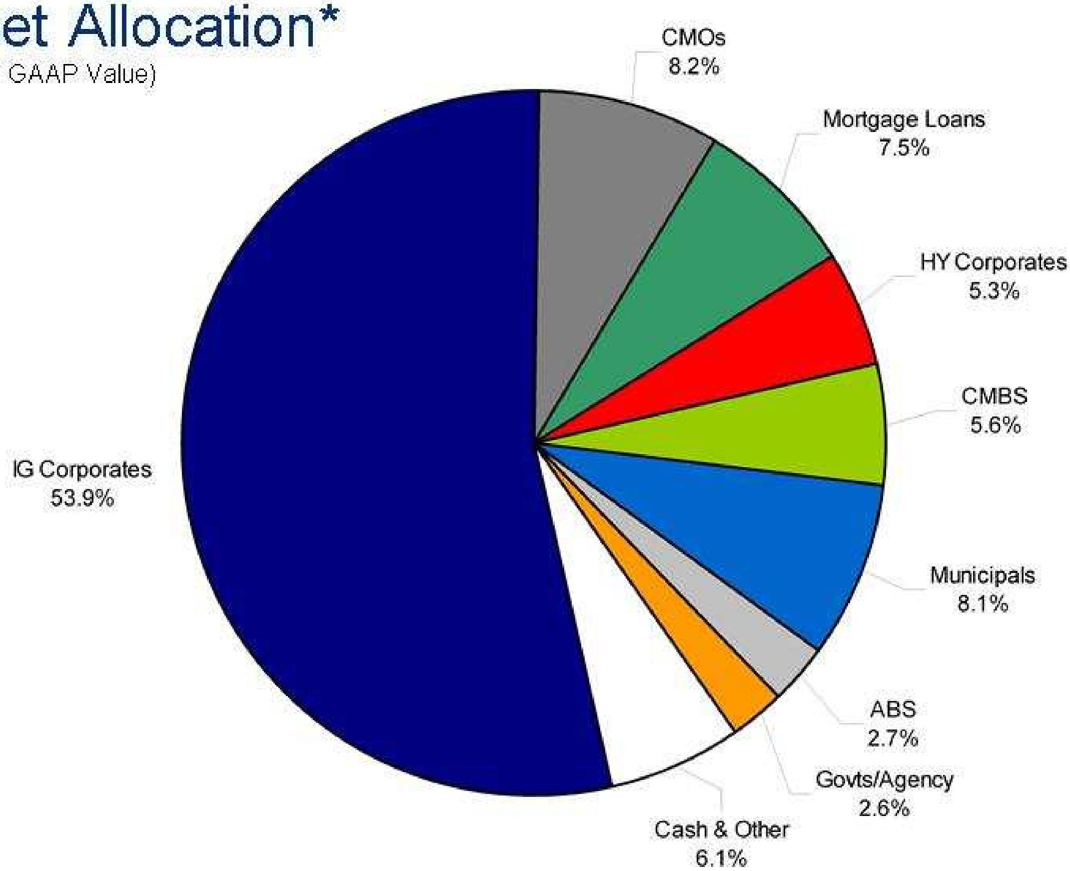
Investments

Investments

- Our long-term corporate goal is stable and predictable investment performance meeting corporate return objectives for our new and in-force products
- Our current tactical priority: generating satisfactory investment income within acceptable risk parameters
- We invest predominantly in liquid fixed income securities
- Our portfolio is actively managed
- Our portfolio has performed to our expectations, reflecting yield, credit loss dilution and migration trends consistent with the credit cycle
- We have well-developed risk controls including intensive fundamental research, conservative asset allocation and credit policies, enterprise-level asset liability management, disciplined hedging, and closely-monitored compliance
- Our hedging activities supporting our indexed products have produced favorable results (predominately static hedging)
- Total return strategy to invest holding company excess capital

Asset Allocation*

(12/31/10 GAAP Value)

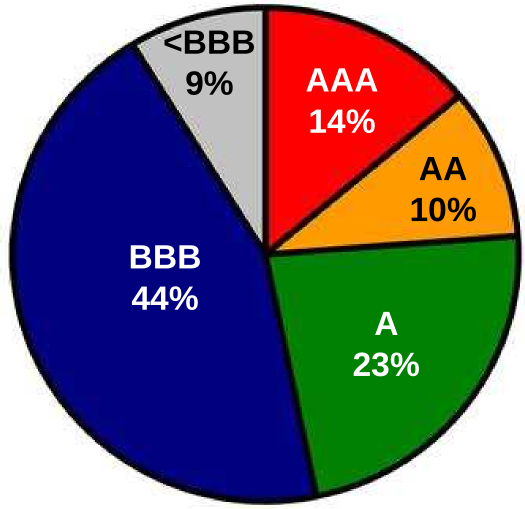


*Excludes investments from variable interest entities which we consolidate under GAAP (the related liabilities are non-recourse to CNO).

Investment Quality*

- **91% investment grade**

Fixed Maturities, available for sale, by Rating at 12/31/10 (Market Value)



	12/31/09	3/31/10	6/30/10	9/30/10	12/31/10
% of Bonds which are Investment Grade:	93%	93%	92%	92%	91%

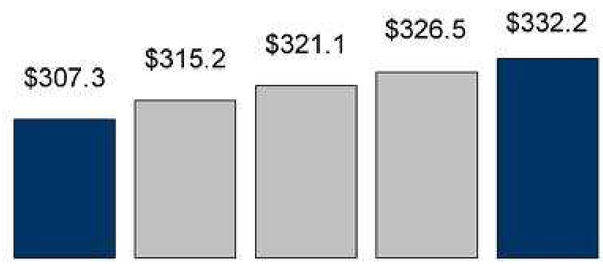
*Excludes investments from variable interest entities which we consolidate under GAAP (the related liabilities are non-recourse to CNO).

Earned Yield/Net Investment Income

($ millions)

	4Q09	1Q10	2Q10	3Q10	4Q10
New Money Rate:	5.15%	6.21%	6.26%	6.00%	5.96%

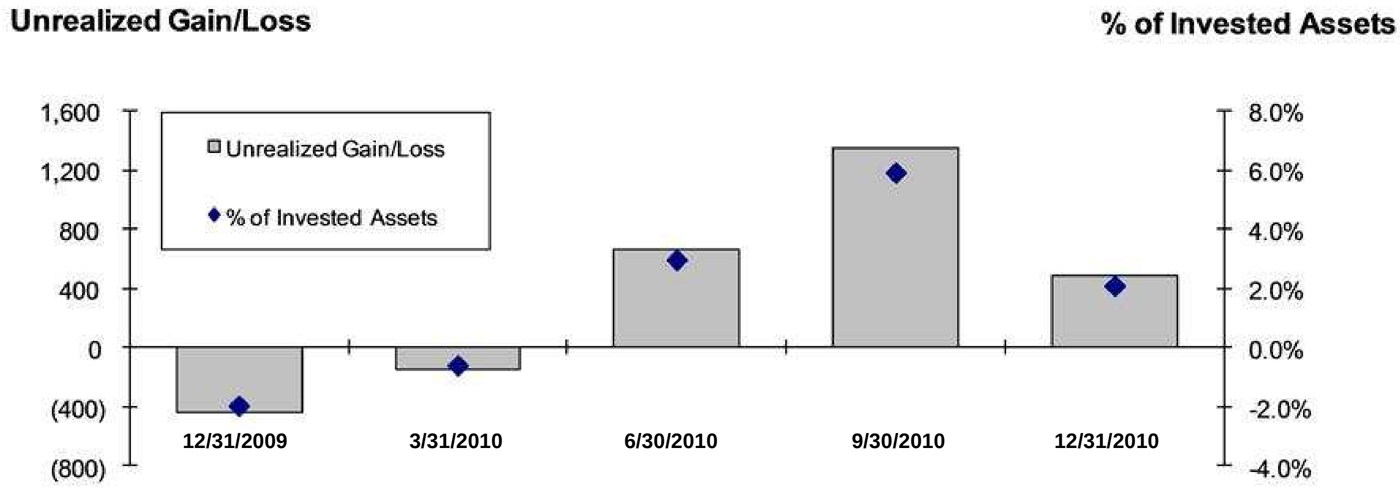
- Full year 2010 portfolio yield increase due primarily to new money investments at yields consistently exceeding portfolio rate
- Increase in investment income also benefited from growth in average assets
- 4Q10 decline in earned yield due primarily to expansion of FHLB loans
  - Floating rate
  - Matched



Earned Yield:	5.63%	5.76%	5.83%	5.86%	5.77%

Unrealized Gain/Loss*

($ millions)



*Includes debt and equity securities classified as available for sale. Excludes investments from variable interest entities which we consolidate under GAAP.

What we’re buying now…

- Prime Jumbo RMBS
- Selected Commercial Mortgage Loans
- (Original rating) AAA/AA CMBS
- First and Second Pay CLO’s
- Taxable Municipal Bonds

Asset Liability Management

We measure and manage our asset /liability exposure using 3 key variables

- Duration
  - Interest rate risk is low
  - Duration gap limits continually monitored/managed at statutory entity and line of business levels
  - Significant product mix/distribution mitigating factors
    - Diversification benefits from product portfolio
    - Annuity products represent ~ 40% of liabilities (~ 90% have surrender penalty)
    - Non-interest sensitive products represent ~ 60% liabilities
    - Stable liability profile (smaller policies, owned distribution system)
- Convexity - monitor as secondary indicator of interest rate risk
- Volatility
  - FAS 133 requires the separate valuation of the equity and interest rate components of our Fixed Index Annuity products
  - Our hedging activities related to both these components have been effective
  - Hedge variance objectives and performance continually monitored and actively managed (predominately static hedges)

Investments

- CMBS, CRE loan, non-agency RMBS portfolios have been actively managed “up in quality”
- We are generating sufficient yield to meet product spread requirements
- Asset/Liability match is tight and closely monitored
- Investment risk carefully calibrated to capacity of overall enterprise for capital volatility

Bankers Life Business Review

Bankers Overview

Strong, established company

- Established in 1879, with over 125 years of experience
- $12 billion in assets under management
- 1.3 million policyholders

Focused on the Boomer and retiree middle market

- Most insurance companies work in multiple markets, favor pre-retirement market and tend to move up market as quickly as circumstances allow
- While the fastest growing, least competitive, and most accessible and needs aware, this market remains one of the most underserved in the U.S.

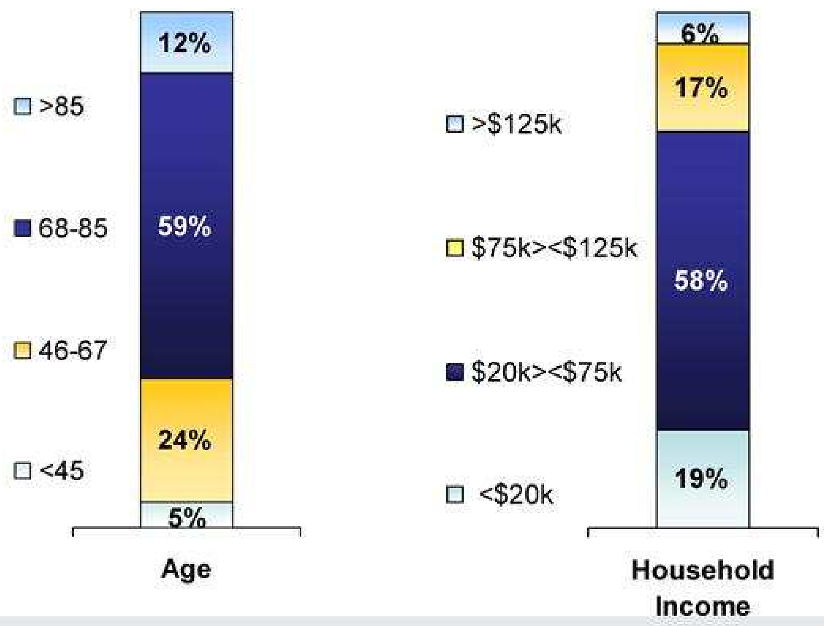
Focused on career, exclusive distribution force

- More than 5,000 producers in over 200 branch and satellite offices servicing 49 states
- Most insurance companies work through multiple distribution channels
- Many are moving away from dependence on career distribution due to both cost and capability challenges

Everyday Americans

Bankers current customers reflect a large age and income demographic, unique from the up-market focus of most life and annuity insurers

Share of Bankers Life and Casualty's Customers



Center For a Secure Retirement

Launched in 2011:

- **To educate consumers on achieving financial security during retirement**
- **Sponsor research studies to aid consumers**
- **Generate online content that (over time) will become highly-ranked**

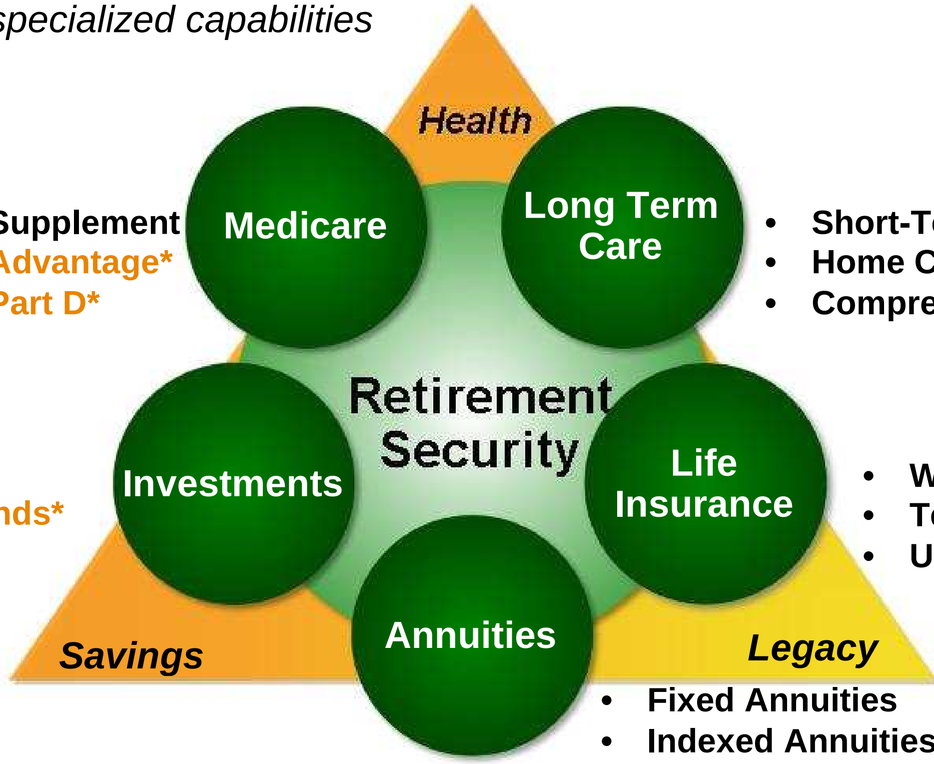
Inaugural Study:
Middle-Income Retirement Preparedness

- Surveyed Americans age 55 to 75 in our target market (incomes between $25,000 to $75,000), exploring confidence towards financial security
- 54% do not receive professional retirement guidance of any kind
- 51% had not been contacted by any kind of retirement professional in the past 12 months
- Middle-income retirees have three misconceptions about professional retirement advice:
  - I can do it all on my own
  - I'm not wealthy enough
  - Professional advice is too expensive
- 30% spend no time at all researching or investigating retirement planning opportunities; two out of three (61%) spend less than one hour per month

Focus on simple product designs and basic needs

Bankers Product Suite

Bankers has a broad products suite, tailored to its target market, leveraging third parties to fill specialized capabilities



- **Medicare Supplement**
- **Medicare Advantage***
- **Medicare Part D***

- **Short-Term Care**
- **Home Care**
- **Comprehensive Care**

- **Mutual Funds***
- **Variable Annuities***

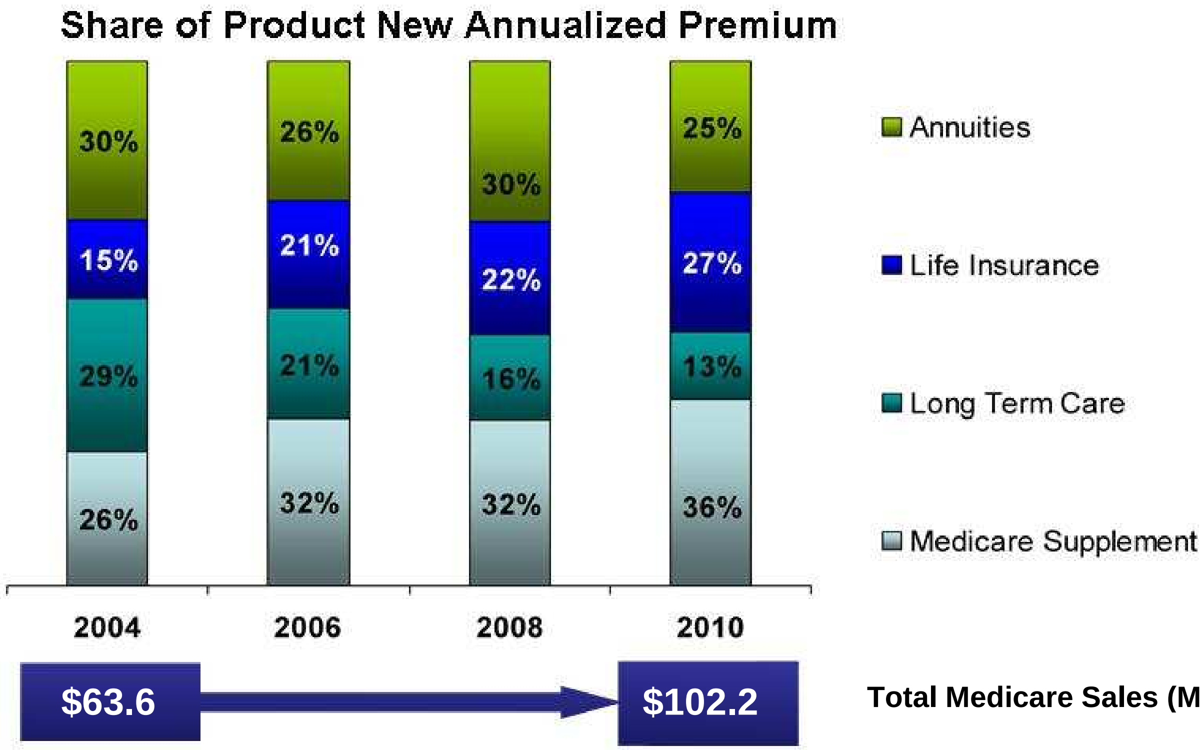
- **Whole Life**
- **Term Life**
- **Universal Life**

- **Fixed Annuities**
- **Indexed Annuities**
- **Immediate Annuities**

***In-Sourced Products**

Diversified, Evolving Products

Bankers diversified product suite has adapted to changing consumer needs and business climates



Total Medicare Sales (Millions)

Medicare Supplement Market

Highlights

- Several leading carriers using Modernized Medigap plans to grow share with aggressive pricing
- Some carriers offering “no questions asked” guaranteed issue plans up to age 71
- New entrants attacking market including major healthcare carriers
- Expect greater competition as regional carriers exit Medicare Advantage market and distributors move away from individual major medical due to compressed margins

Bankers Initiatives

- New application submissions of Modernized plans flat to prior year, but mix is shifting to lower premium cost-sharing plans that are more competitive in market
- Evaluating introducing more granular rate structure (male/female, preferred/tobacco) and tighter underwriting to provide greater capacity for further rate reductions if needed

Life Insurance Market

Highlights

- Life insurance market rebounding from 2009 sales decline, with 3% growth in recurring premium in 2010 (LIMRA)
- Market and geopolitical uncertainty driving strong growth in guaranteed whole and universal life products, particularly among Boomers and retirees
- Product development focused on increasingly complex products to meet affluent customers' needs

Bankers Initiatives

- Strong life insurance growth has been fueled by a simple product design and streamlined underwriting priced at a market premium given distribution and underwriting model
- Focus on Boomer and retiree middle-income needs for lower face amounts and fewer riders which help meet consumer and agent needs for higher take rates, simpler applications and shorter cycle times
- Branch leadership involvement in new product selection and design
- Products managed to value of new business threshold - present value of future statutory cash flows, net of cost of capital
- Limited use of reinsurance due to lower face amounts and less capital intensive product mix

Annuity Market

Highlights

- Low Treasury rates and tight spreads on corporate securities have depressed new money rates on annuities, but remain attractive against comparable investments such as bank CDs
- Carriers have generally pulled back on their guarantees, rates, bonuses, and compensation - some have even stopped selling certain products

Bankers Initiatives

- Re-filed fixed interest annuities to reduce guaranteed rates
- Reduced bonus rate on most popular product
- Reduced commissions/override to improve rates/margins

LTC Market

Highlights

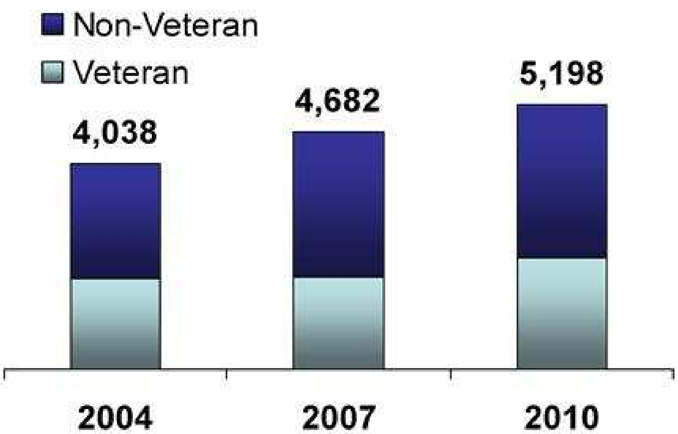
- Exit of many competitors, others following with rate increases
- Viability of CLASS Act in question
- Sluggish individual sales due to price point, agent/broker apprehension, and tighter underwriting

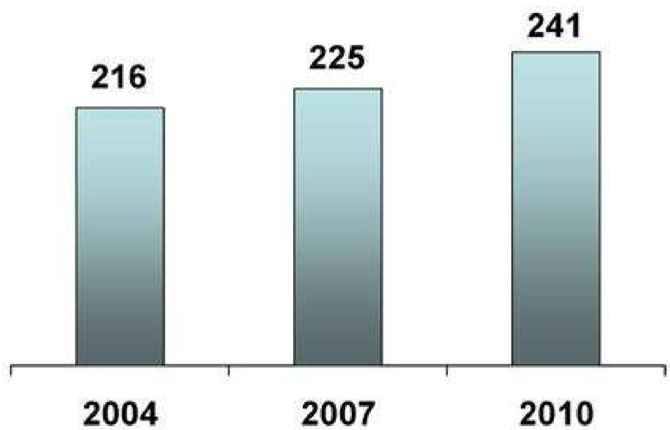
Bankers Initiatives

- LTC is an important product that enables Bankers Life to meet the needs of its customers
- Improved financial results over the past 2.5 years have been a result of rigorous claims management and decisive inforce rate management
- Stringent underwriting and low exposure to high risk product designs (e.g., “0” day elimination period, “lifetime” benefits, high compound inflation, etc)
- New business priced for higher returns using conservative lapse and interest rate assumptions
- A portion of new business reinsured with major carrier
- Additional advanced training for LTC “specialists”, mentor model and new collateral and sales support material focused on improving top line results

Distribution Strategy

Over 5,000 producers meet consumers "at the kitchen table" employing a needs-based selling approach





- Nationwide footprint with localized presence in all key target markets

- Bankers "Franchise" model builds best practices across recruiting, lead generation, and training to drive productivity, consistency and compliance

Keys to Distribution Success

- Regional Directors focused on developing talent and relocating top performers across region
  - Creates career path for up-and-comers who stay focused on growth
  - As managers relocate, best practices and high-performance culture moves with them

- Greater utilization of marketing programs
  - High investment in lead generation programs
  - Maximize centralized recruiting services
  - Adapt quickly to new product introductions

Growth Opportunities

The demographics of CNO's target market are very attractive. As a result of the baby boom, the number of Americans turning 65 each year will grow by nearly 4% per year over the next decade.

The first of Boomer population become Medicare-eligible this year; In 10 years, the number of people 65 years old and older will increase by 50%

- There is a strong correlation between the number of target households within 20 miles of an office and the number of active agents that the office supports
  - 80% of agents live within 20 miles of one our branches
  - 75% of sales take place within 10 miles from an agent's home
- Using mapping software, we have identified additional locations that have sufficient target households to support an office; these locations could collectively support an incremental agent count through these office locations
  - Currently planning to add 15 new locations in 2011

Longer Term - Growth Plan Executive Summary

- Bankers near term goal is to grow sales 8-10% per year. We plan on achieving this growth through similar increases in both the size and productivity of our agency force
- This level of growth is expected to be achieved through a combination of improved productivity within our existing locations (same store sales) and expansion of our reach through the addition of new locations
- Productivity can be enhanced by product line expansion including third party offerings and focused cross sell marketing strategies
- The strong growth of the Northeast territory is instructive to our efforts to improve existing office performance- their ability to successfully develop and relocate high performers is now being mimicked across the nation
- Current household demographics suggest that existing offices can support additional agents - talent development and migration will be key to getting us there
- Additional agent growth can be achieved by opening up additional offices - particularly satellites, which are inexpensive to open and have a two-year payback