S&P Capital IQ

CONTENTS

Kemper Corporation NYSE:KMPR

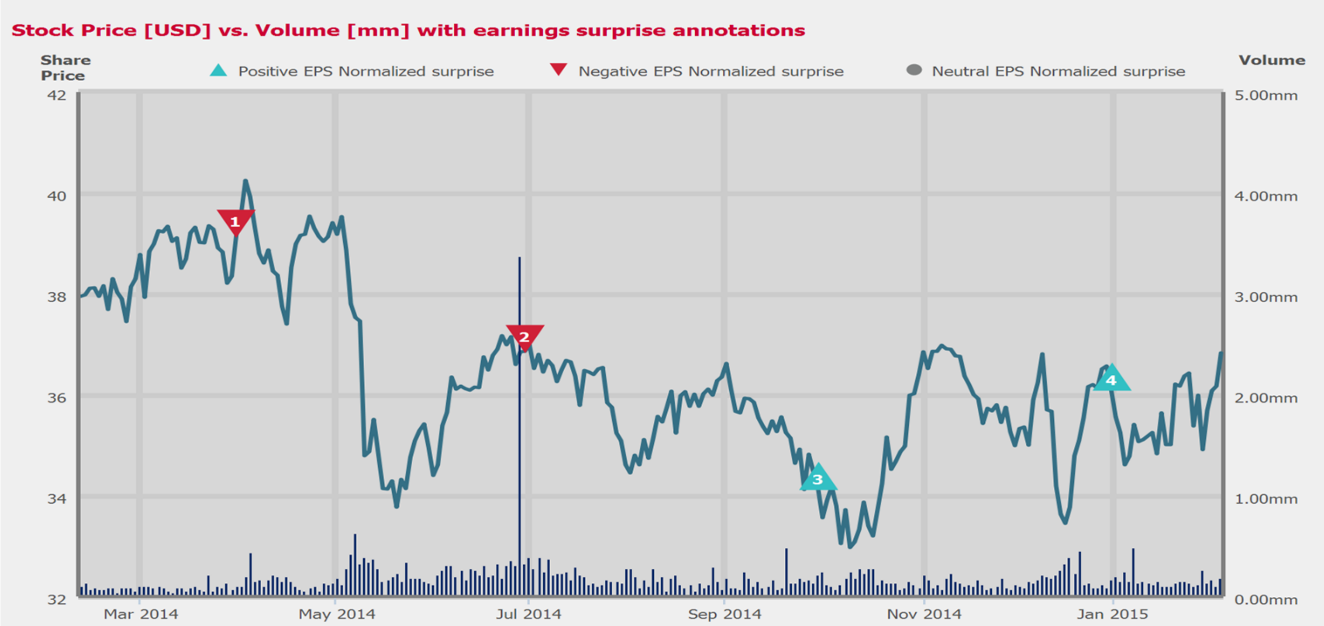
FQ1 2015 Earnings Call Transcripts

Friday, May 08, 2015 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.52	0.42	(19.23 %)	0.56	2.30	2.79
Revenue (mm)	526.91	502.80	(4.58 %)	520.71	2064.60	2057.26

Currency: USD
Consensus as of May-08-2015 5:59 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	0.65	0.56	(13.85 %)
FQ2 2014	0.26	0.18	(30.77 %)
FQ3 2014	0.55	0.71	29.09 %
FQ4 2014	0.73	1.02	39.73 %

Call Participants

EXECUTIVES

Denise Idell Lynch
Former Property & Casualty Group Executive

Diana J. Hickert-Hill
Vice President of Investor Relations & Corporate Identity

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Frank Joseph Sodaro
Former Senior Advisor

ANALYSTS

Adam Klauber
William Blair & Company L.L.C., Research Division

Amit Kumar
Macquarie Research

Carl Doirin

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Unknown Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Kemper's First Quarter 2015 Earnings Conference Call. My name is Vince, and I will be your coordinator today. [Operator Instructions] As a reminder, the conference is being recorded for replay purposes.

I would now like to introduce your host for today's conference, Ms. Diana Hickert-Hill, Vice President, Investor Relations and Corporate Identity. Ms. Hickert-Hill, you may begin.

Diana J. Hickert-Hill
Vice President of Investor Relations & Corporate Identity

Thank you, operator. Good morning, everyone, and thank you for joining us.

This morning, you will hear from 3 of our business executives, starting with Don Southwell, Kemper's Chairman, President and Chief Executive Officer; followed by Denise Lynch, Kemper's Property & Casualty Group Executive; and Frank Sodaro, Kemper's Senior Vice President and Chief Financial Officer.

We will make a few opening remarks to provide context around our first quarter results. We will then open up the call for a question-and-answer session. During this interactive portion of the call, our presenters will be joined by John Boschelli, Kemper's Senior Vice President and Chief Investment Officer.

After the markets closed yesterday, we issued our press release and financial supplement. In addition, we filed our Form 10-Q with the SEC, and you can find these documents on the Investors section of our website, kemper.com.

Please note that our discussion today may contain forward-looking statements. Our actual results may differ materially from these statements. For information on potential risks associated with relying on forward-looking statements, please refer to our 2014 Form 10-K filed with the SEC as well as our first quarter 2015 earnings release. This morning's discussion includes non-GAAP financial measures that we believe may be meaningful to investors. In our supplement and earnings release, we have defined and reconciled non-GAAP financial measures to GAAP, where required, in accordance with SEC rules.

And finally, all comparative references will be to the first quarter of 2014, unless we state otherwise.

Now, I will turn the call over to Don.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Thank you, Diana. Good morning, everyone, and thank you for joining us on the call this morning. Before I comment on our first quarter results, I want to refer to the press release that we issued yesterday morning.

During our quarterly meeting, I informed the Kemper Board of Directors that I plan to retire at age 65, which will be next year near the end of May. In my almost 20 years here with the company, I've been privileged to work with a talented group of professionals. I have every confidence that the team will continue to serve our agents, policy holders and shareholders well. In the meantime, our board will begin a search process. I will work closely with them as we transition the leadership of the company over the next year.

Now, I'll turn to my operating comments on the quarter. I'll provide an update on our Life & Health segment as well as our investment portfolio performance. Denise will cover the Property & Casualty segment, including comments on our acquisition of Alliance United, which we closed just last week. We're happy to have this opportunity to bring another successful business into the Kemper family and do this as an excellent use of shareholder capital.

Frank will cover financials, capital and liquidity. I'll then close with comments on capital deployment.

I'll get started with a look at our results overall. We earned $14 million of net income in the first quarter, down from $35 million last year. Net operating income was $22 million, down $10 million. The majority of this decline was due to several one-off items overshadowing the significant progress in other areas.

Our underlying Property & Casualty performance continues to improve. Our insurance expenses are lower. We're growing our new business. Our retention is no longer declining. The home and auto written premiums are stabilizing, and we refinanced $250 million of debt dropping the coupon rate from 6% to 4.35%. We'll discuss these in more detail, but I wanted to make the point that we have many reasons to continue to be encouraged about our strategy and prospects for the long term.

I'll turn now to our Life & Health segment, which delivered $16 million in earnings in the quarter, down $6 million. The biggest driver of this decline was a $5 million after-tax deferred premium reserve adjustment. This adjustment is small in comparison to the total life reserves, but noticeable in the quarter's income. Without that adjustment, we were about level with prior year and exceeded our expectations.

In our Kemper Home Service Companies, we completed our field office consolidation efforts. This is a double win since it helps the company by reducing expenses and helps the agents by enhancing their income through larger books of business. Benefits were up a bit, but that was due to last year's being a particularly low benefits quarter.

In Reserve National, we continue to make progress. The traditional business is adapting well to the changes required by the Affordable Care Act. Our key expansion initiatives serving the senior and work-site markets continued to encourage us as we shift our mix of business in the accident and health part of the segment.

Turning to investments. We continue to be pleased with the overall portfolio performance. Our total return was 1.9% for the quarter, which was above our benchmark.

Net investment income was about flat at $71 million in the quarter as a $3 million decrease from equity method investments was offset by higher returns from the rest of the portfolio. Total portfolio risk was relatively unchanged from year end while duration was down a bit sequentially. Our average portfolio rating was roughly the same with 92% of the fixed maturity portfolio rated investment grade.

And now, I'll turn the call over to Denise to discuss our Property & Casualty segment results.

Denise Idell Lynch
Former Property & Casualty Group Executive

Thanks, Don. Before reviewing our Property & Casualty results by product line this morning, I'll update you on our progress in 3 important areas.

One, our commitment to improve our underlying loss and LAE ratio 2 to 4 points in a year; two, our plans to strengthen new business as profit improves throughout 2015; and three, our recently closed acquisition of Alliance United Group.

Starting with our underlying performance. We told you in our fourth quarter 2014 call, that we plan to improve the underlying loss and LAE ratio by 2 to 4 points in a year. We are pleased to report that our first quarter results improved about 2.5 points, continuing our trend of improving in 8 of the last 9 quarters.

Turning to our plans to strengthen new business throughout the year, our new policies in-force have increased in the past 3 consecutive quarters, which is encouraging as we build momentum from our efforts to increase agent and broker engagement. We expect retention to stay suppressed, although continue to gradually improve over the next few quarters as most of the significant reunderwriting efforts work their way through the book.

And finally, we are delighted to welcome Alliance United Group employees and brokers to the Kemper Property & Casualty team. As you can appreciate, we've been working on this acquisition for a while and are looking forward to beginning our journey together. We like our Alliance United acquisition for a number of strategic and financial reasons. The acquisition enhances our already strong presence in the fast-growing California non-standard auto market. It also complements our more Northern California presence with its extensive Southern California base and brings valuable expertise in serving the important and growing Hispanic market. We expect the acquisition to be accretive this year and supportive of our double-digit ROE objective.

Moving forward, we believe the Alliance United Group will generate an underwriting profit with combined ratios in the high 90s. This business runs a higher loss ratio than our existing business, but a much lower net expense ratio because of fee income. This will impact Property & Casualty's underlying loss ratio expectations and expense ratio outlook. Starting in the next quarter, we will report the Alliance United performance within our private passenger auto line of business results.

David Mandel has done a terrific job leading Alliance United, and I'm pleased that he will continue to lead the business as the Executive Vice President and General Manager.

Now, I will provide some color on each of our lines of business. Beginning with auto, private passenger auto net written premium declined 8% versus last year. New policies in-force improved 24% year-over-year and 16% sequentially. Total premium retention was 75% and is down about 1 point versus last year, but is stabilizing sequentially. Net earned premium decreased 12% versus last year and a more tempered 4% sequentially, driven by the decline in policies in-force.

Average earned premium per policy was up 2%. The underlying loss and LAE ratio improved about 1 point. However, the calendar year loss and LAE ratio increased about 1.5 points due to a lower level of favorable loss reserve development. Pure premium trends continue to be low single digit. Bodily injury frequency is declining and bodily injury severity is increasing by low single digits, both consistent with the industry.

Property damage and collision loss costs have escalated by mid-single digits, largely driven by rising severity trends. We are proceeding with our plans to file for mid-single digit rate increases in 2015.

In commercial auto, net written premium was down 2% as we continue to shift to light autos and vehicles and the underlying loss and LAE ratio improved nearly 5 points to 80%. Calendar year loss and LAE ratio improved more than 2 points as underlying loss improvement was offset slightly by less favorable loss reserve development.

In homeowners, net written premium was down 11% as increased new business writings were more than offset by lower premium retention. Flat sequentially, premium retention was 81%. The homeowners' calendar year loss and LAE ratio was 65%, an 11 point improvement, driven by a 7 point improvement in the underlying loss and LAE ratio and a lower level of catastrophe losses. Current year catastrophe loss and LAE ratios decreased 5 points to 13% despite the severe winter weather we experienced in parts of the country.

Average earned premium increased 5%, well in excess of declining pure premium trend. We continue to make progress in the homeowners line as our profitability improvement actions take effect. We remain on target and our plan to file for low to mid-single digit rate increases in 2015.

So looking at the Property & Casualty segment in total, we are continuing to see tangible improvements in key areas. One, our underlying loss and LAE ratio improved in the majority of lines, which marks improvement in 8 of the last 9 quarters. Two, underwriting expenses were down year-over-year and sequentially, and we continue to maintain good expense discipline. Three, new business writings continue to strengthen with stability and policy holder retention. Four, the direct-to-consumer right -- runoff continues to proceed well. And five, Alliance United will support our pursuit of double-digit ROE and bring more scale to our nonstandard portfolio.

Now, I will turn the call over to Frank.

Frank Joseph Sodaro
Former Senior Advisor

Thanks, Denise, and good morning, everyone. Today I'll cover Kemper's consolidated first quarter performance, capital and parent company liquidity.

Kemper reported first quarter net income of $14 million or $0.26 per share compared to $35 million or $0.63 last year. In the first quarter, we refinanced our $250 million 6% senior notes that were maturing in November with 4.35% senior notes maturing in 2025. Net income for the quarter includes a $6 million charge to retire the 2015 debt early. Prospectively, annual interest expense will decrease by more than $2 million -- $2.5 million after tax.

Our net operating income was $22 million or $0.42 per share for the quarter compared to $32 million or $0.56 last year. Total revenues were about $500 million for the quarter, a decrease of $55 million, primarily from a $46 million decline in earned premiums. Earned premiums in the Property & Casualty segment decreased $35 million and earned premiums in the Life & Health segment decreased $11 million, largely from the deferred premium adjustment that Don mentioned earlier. Net investment income was also essentially flat for the quarter with annualized pretax equivalent book yield and average invested assets of 5%, same as the prior year.

The Property & Casualty segment reported net operating income of $13 million for the quarter compared to $14 million last year. Lower catastrophes and the improvement in the underlying loss and LAE ratio were more than offset by the lower levels of favorable prior year reserve development, increased expenses as a percentage of earned premiums and lower net investment income.

Regarding Alliance United, we paid about $70 million for the business and contributed another $75 million of capital to support the book. As we mentioned during our earnings call last quarter, Alliance United includes the insurance company, which files statutory statements and a servicing company, which does not. In the last 8 months of the year, we expect Alliance United to contribute more than $200 million of earned premiums. We expect Kemper Corporation's total net income to increase $3 million to $4 million. After intercompany allocations, about 3 quarters will flow through to the P&C segment with the rest going to the Life & Health segment.

Net operating income for the Life & Health segment was $16 million for the quarter compared to $22 million last year. Results decreased primarily from the $5 million after-tax deferred premium reserve adjustment. Corporate and other net operating loss increased $3 million after-tax due to higher employee retirement benefits and higher interest expense, partially offset by higher net investment income at the parent company.

I will now cover book value, parent company liquidity and capital. Book value per share was $40.71 at the end of quarter, up more than 2% from the end of last year, largely from the impact of lower market yields on our fixed maturity portfolio. Book value per share, excluding unrealized gains on fixed maturities, was $34.64, essentially flat with the prior year end as net income was offset by dividends.

Turning to liquidity. At the end of the quarter, the parent company held cash and investments of about $290 million and our $225 million revolver remained undrawn. Statutory surplus levels in our insurance companies remained strong, and we estimate that we will end the year with risk-based capital ratios of approximately 410% for our Life & Health group and 315% for our Property & Casualty group.

The operating companies did not pay dividends to the holding company during the quarter. However, the P&C group received approval for a $192 million extraordinary dividend, which was paid to the holding company this week. In April, the Life & Health group paid an ordinary dividend of $43 million to the holding company. The Life & Health group would be able to pay an additional $80 million of dividends during the remainder of 2015 without regulatory approval.

After funding the Alliance acquisition, we estimate that we have more than $200 million of excess capital.

I will now turn the call back over to Don.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Thanks, Frank. Before we get to your questions, I'll touch briefly on our 3 long-term capital allocation priorities: one, funding profitable organic growth; two, strategic acquisitions; and three, returning capital to shareholders both through share repurchases and dividends.

Beginning with our first priority, we are starting to gain traction in key areas of desirable new business and retention to help us grow organically. But we do not expect this to consume additional capital in 2015.

Turning to our second priority, we're very pleased to have Alliance United join the Kemper team. Based on their track record and plans, we view this acquisition as a better use of capital than share repurchases. This deal was a result of our monitoring and evaluating opportunities for strategic acquisitions, and we continue this discipline going forward.

And finally, our third priority, remains returning capital to shareholders. We repurchased more than 600,000 shares and maintained our competitive dividend. In total, we returned $34 million to shareholders in the quarter.

Now, I'll turn the call over to the operator to take your questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Paul Newsome of Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I was hoping you might be able to help me kind of better model the underwriting profitability in the Property & Casualty side. Looking at sort of big picture here, if you buy that the reserve releases were elevated over the last couple of years. And it looks like you're going to continue to see fairly substantial declines in your earned premium, which will mean you're going to have a higher expense ratio. Does this basically end up in a position where you don't have underwriting improvement, despite what you're doing on your accident year loss ratio? And is that just sort of being way too simple about the -- about thinking about the model?

Diana J. Hickert-Hill
Vice President of Investor Relations & Corporate Identity

Paul, thank you for your question. I'll tell you how we think about it. We have been on a journey to improve profitability for several quarters, and in fact, have been demonstrating that ability to actually improve our underlying loss and loss-adjusting expense ratio consistently and including this quarter, and in virtually every product line. So we have been extremely focused and disciplined in focusing and improving that core book of business on an underlying basis through rate actions and other underwriting actions in our portfolio. We'll continue to do that, and I expect to continue to see improved profitability. Absolutely, the expense ratio has seen pressure, despite the fact that we have taken expenses out of the system last year, and again, even in the first quarter. So how I think about it is that we will continue to focus on managing expenses carefully. And as our business continues to strengthen and improve in profitability, we'll continue to write more new business. And we'll continue to retain more business, which will put less pressure on the expense ratio.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

But it sounds like conceptually, I'm not -- nothing you've said is conceptually different from my basic thought process. Is that right? Am I -- I understand you've made substantial improvements on the accident year loss ratio, excluding reserves and catastrophe losses, and that is terrific. But at the end of day, what we model is a combined ratio, because that's what ends up being the bottom line. And I think that's kind of where I'm shaking it out that as much as we're improving in the loss ratio accident year, we may not end up with really any underlying profitability for, at least, another year?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Paul, the difference I heard in Denise's explanation and yours is that as premiums stabilize and then ultimately grow, we will no longer be chasing our expenses -- chasing a declining premium. We'll get ahead of that.

Operator

Our next question comes from Amit Kumar of Macquarie.

Amit Kumar
Macquarie Research

Maybe just following up on the discussion. And if it goes back to the opening comments I think Denise made that you're at 2.5 points versus the range of 2% to 4%. If I read the 10-Q, you talk about moderating rate filings, et cetera, versus new business growth. Would it be possible to draw an arc and sort of help us -- is this going to happen over the next few quarters? Or is the process longer than that, in terms of hitting the goal of -- hitting the outlined goals?

Denise Idell Lynch
Former Property & Casualty Group Executive

Let me see if I can answer that. I guess how I'm thinking about it is that we have put into momentum these profit improvement actions, including the rate actions that we think is necessary to adjust the pure premium trend and to continue to make progress against our objectives of improved profitability. So we've done that and we will. In fact, we have continued to update it and are taking additional rate where we think it's appropriate to take additional rate. So I see that as continuing to progress. It's absolutely our objective to continue to make progress on that. We do think that the premium, while improving now on a quarter-to-quarter and quarter-over-quarter basis, that it will continue to be suppressed for a period of time as we achieve the profitability objectives and then allow more business to flow in and continue to improve our retention. But each quarter, we expect to see improvement in premium, which will ultimately then translate down to expense ratio when combined.

Amit Kumar
Macquarie Research

I guess what I was trying to ask is, internally, what is your timeline goal? When do you have to hit this number by?

Denise Idell Lynch
Former Property & Casualty Group Executive

We set out an objective to be able to get to double-digit ROEs. And I would love to have a timeline to be able to get there. What I'll tell you is we're working very hard to continue to make the progress, and in fact, making a lot of progress. But there's a lot that goes into the ability to achieve that combined ratio or the return that you're looking for, some of which is in our control, but some of which is environmental. So I'm hesitant to really give you a timeline other than say, we're working responsibly, diligently and responsibly towards that objective.

Amit Kumar
Macquarie Research

That sounds open ended. The other question I had was going back to the discussion on Alliance United. Maybe I got this wrong, Frank, did you mention a $200 million number? And the reason why I'm asking is I was trying to reconcile the number, which I think -- unless I got it wrong, the $200 million. I thought they wrote $300 million was the book of business. So can you help me reconcile what happened from $300 million to $200 million? Or did I just get it wrong, Frank?

Frank Joseph Sodaro
Former Senior Advisor

No, I was talking about for this year. So we're only taking in 8 months' worth this year. So the number is more than $2 million -- $200 million this year, top line.

Amit Kumar
Macquarie Research

Got it, okay.

Frank Joseph Sodaro
Former Senior Advisor

Does that help?

Amit Kumar
Macquarie Research

Yes, absolutely. It's just how the business rolls in.

Operator

Our next question comes from Carl Doirin of Raymond James & Associates.

Carl Doirin

My question is in -- had to do with personal auto. Given lower gas prices, you have more people just driving more amount. And I think that question was asked to you last quarter, Denise. And you mentioned that I guess you saw no differences in the trends. I wonder if anything, is there anything different this quarter.

Denise Idell Lynch
Former Property & Casualty Group Executive

Thank you for your question. We're still seeing declining frequency trends overall, really flattish frequency trends for us. And we think about over a trend period. That will vary by market, of course. But we're really not seeing a pickup specifically, in the entire book, although maybe we see a little bit more in one area or another.

Carl Doirin

And just one last one. Tell me if I misheard, but you mentioned earlier in your prepared comments that once you guys integrate Alliance, I guess you'd have updated 2015 guidance, or did I hear that correctly?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

I didn't quite catch that question. Once we integrate Alliance, then what?

Carl Doirin

Updated 2015 guidance for the P&C?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Well, we have not given guidance per se, but what we have talked about is rate of improvement in the underlying. And we will probably continue to follow that protocol.

Carl Doirin

So that's still, the 2% to 4% improvement. That will still be there, I guess...

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

That's what we have out for 2015, and it's still there, yes.

Operator

Our next question comes from Christine Worley of JMP Securities.

Unknown Analyst

Solomon [ph] [indiscernible] here filling in for Christine. I just had a couple of quick questions. The first one, could you give some color as to which lines of business you're seeing increasing your business and retention?

Denise Idell Lynch
Former Property & Casualty Group Executive

Sure. On the P&C side of the house, we're really seeing improved new business in all product lines with the exception of our commercial vehicle is one area on a quarter-over-quarter basis is a little bit lower. And of course, we've been managing that book of business as well as we're improving profitability. When we think about retention, when we think about sequentially overall, we're looking at a portfolio that is really stabilizing at this point. The auto book of business is stabilizing on a premium basis. The homeowners is stabilizing on a quarter-to-quarter basis. And commercial vehicle's a small book. So you'll see a little bit more volatility in that book of business.

Unknown Analyst

And my other question is about capital management. Now that you've closed with the Alliance United acquisition, I know you mentioned a little bit about share repos, your dividend policy. But are you thinking about potentially more acquisitions in the pipeline or more share repos, can you give some color on that, please?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

We are thinking that our priorities really are unchanged. We've got enough powder to do another acquisition and we want to be ready on the operational front and have the right opportunity. But we would certainly like to continue acquiring more companies. And we also have powder for share repurchases. They're not mutually exclusive at this point. We have been opportunistic on our share repurchase approach and expect to remain so.

Operator

Our next question comes from Adam Klauber of William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

Couple of questions. First, on the homeowners book of business. Are you continuing to see core loss ratio improvement in the homeowners area?

Denise Idell Lynch
Former Property & Casualty Group Executive

Adam, yes, we are seeing continued improvement in our homeowners book of business. Our underlying loss ratio continues to improve substantially. On a year-over-year basis, we saw about 7 points-ish -- 6, 7 points of improvement. So as you know, Adam, we've been working on that book of business as well, and we feel good about the continued progress we're making.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay, great. As far as the Alliance acquisition, how long is it going to take you to get Alliance systems on your systems and claims as part of your organization?

Denise Idell Lynch
Former Property & Casualty Group Executive

We have a very detailed and thoughtful integration plan that we are working through. And really on day 1 when the deal closed, our team was on the ground with our new colleagues at Alliance United. So we intend to manage the integration thoughtfully. And so every functional area has very deliberate plans. And I'd say over the immediate term there are specific things happening; over the longer term, we expect the IT and claims to be fully integrated, really within the next year or 2.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then how should we think about the Life Health business from an earnings growth standpoint? I mean obviously, still some potential pressure on investment income. Is that sort of flattish growth business in the near term? Or can we potentially seek growth over the next couple of years on an earnings basis?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Adam, I think you've got the big drivers right. Investment income is certainly an important driver in this business. And we view this is a mature business with -- particularly the home service business is a mature business without a lot of growth potential. So it -- we've got some growth potential in some of the initiatives in the Reserve National area. But we see this as kind of a steady as she goes kind of a business. Our planning assumptions, we assume that interest rates will rise in accordance with the base case at Federal Reserve. Of course, nobody knows what's going to happen, not even the Fed. But as we think about the future, we have to make certain assumptions about the future. And we assume that interest rates will rise in accordance with the Fed's base case. But certainly, what happens in the interest rate world will have an impact on our earnings in Life & Health area.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then going back to the auto book. Denise, I think you said that rate increases are trending down. What sort of, on average, what sort of rate are you putting in today to that book of business?

Denise Idell Lynch
Former Property & Casualty Group Executive

We have planned for mid-single digit rate increases. Now we've got a lot of things going on with that book in terms of mix shift as we work on the profile of that books of business and even the geographic profile. So there are mix shift changes happening in that. But as we look at the book of business, how fast it's responding or areas that we'd like to have respond faster, we are adjusting that rate plan, and in fact, have adjusted that rate plan. It's still about mid-single digits, but have adjusted it.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. And then finally, Don, I want to congratulate you. You've built a great company over 20 years. And hopefully, you can use that fancy barbecue a bit more in retirement.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Yes, thanks, Adam. I do owe you the dubious distinction of making me buy one of those big green eggs, which I haven't used as much as I'd like. So thanks for your wishes.

Operator

[Operator Instructions] Our next question comes from Amit Kumar of Macquarie.

Amit Kumar
Macquarie Research

A just quick follow-up, I guess, on Don's retirement in 2016. This might be a sensitive topic. But can you sort of comment, would you be looking at internal as well as external candidates? Or maybe just talk about that a bit?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Sure. What I can say about that is I gave the board plenty of time for an orderly transition. And they have formed a search committee. And we will be looking at candidates, and we shouldn't have any problem in having somebody in place in time for an orderly transition.

Amit Kumar
Macquarie Research

And then -- and you would be looking at internal candidates, too, right?

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

We will be looking at external candidates for sure, and we will not ignore our internal [indiscernible] candidates as well. But we don't know where our future leader will come from at this point. The search will determine that.

Operator

At this time, there's no other questions in queue. I'll turn it back to Mr. Southwell for any closing comments.

Donald G. Southwell
Former Chairman, Chief Executive Officer and President

Thank you, operator. We remain committed, we are committed to delivering on our objectives of improving our long-term profitability to enhancing our top line performance, to making the right decisions for our long-term performance even when the decisions might negatively impact our short-term results. And we remain committed to investing in our future. I'm very confident in our team, including our newest members from Alliance United, and on their ability to deliver the shareholder returns we all seek.

Thank you for your time today, and we look forward to updating you again on our next quarter's earnings call.

Operator
Ladies and gentlemen, thank you for your participation in today's conference. This concludes your program. You may now disconnect.