S&P Capital IQ

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Aflac Incorporated NYSE:AFL

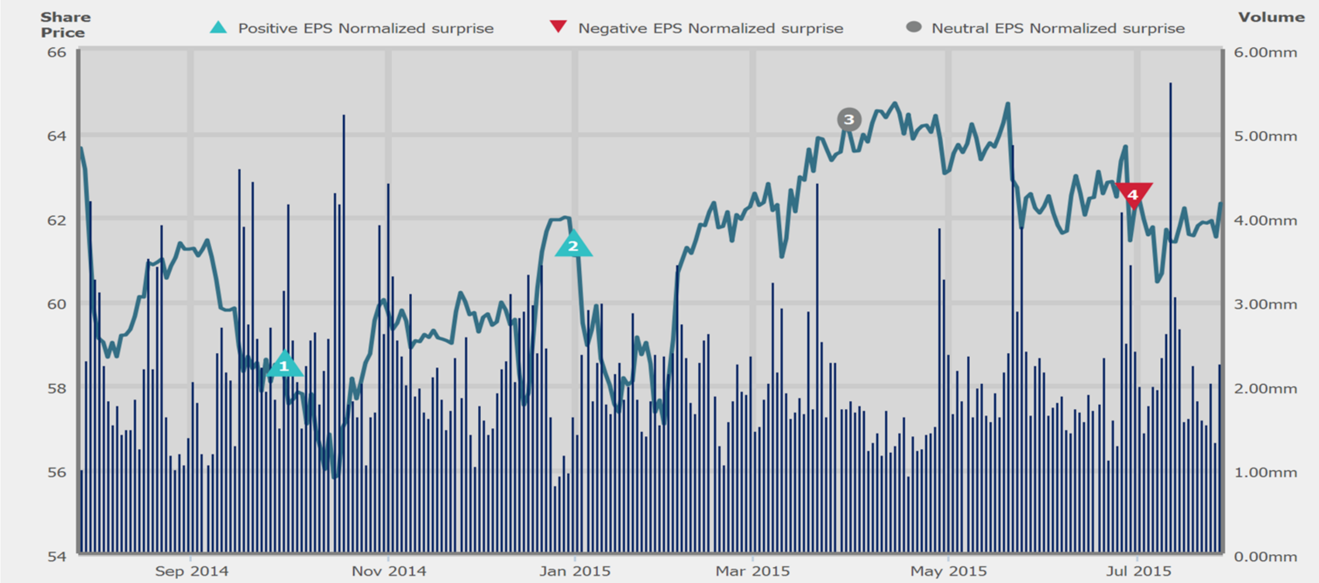
FQ3 2015 Earnings Call Transcripts

Wednesday, October 28, 2015 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.48	1.56	▲5.41	1.49	6.06	6.37
Revenue (mm)	5167.75	5040.00	▼(2.47 %)	5208.52	20882.42	21205.85

Currency: USD
Consensus as of Oct-28-2015 10:58 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2014	1.43	1.51	▲1 5.59 %
FQ4 2014	1.28	1.29	▲2 0.78 %
FQ1 2015	1.54	1.54	●3 0.00 %
FQ2 2015	1.52	1.50	▼4 (1.32 %)

Call Participants

EXECUTIVES

Daniel P. Amos
Chairman & CEO

Frederick J. Crawford
Executive VP & CFO

Hiroshi Yamauchi
Vice Chairman of Aflac Japan

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Paul Shelby Amos
Former Director

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Teresa Lynne White
President of Aflac US

ANALYSTS

Erik James Bass
Citigroup Inc, Research Division

Humphrey Lee
Dowling & Partners Securities, LLC

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Jay H. Gelb
Barclays PLC, Research Division

John Matthew Nadel
Piper Jaffray Companies, Research Division

Nigel Phillip Dally
Morgan Stanley, Research Division

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Suneet Laxman L. Kamath
UBS Investment Bank, Research Division

Thomas George Gallagher
Crédit Suisse AG, Research Division

Presentation

Operator

Welcome to the Aflac third quarter earnings conference call. [Operator Instructions] Please be advised, today's conference is being recorded.

I would now like to turn the call over to Ms. Robin Wilkey, Senior Vice President of Aflac Investor and Rating Agency Relations. Ma'am, you may now begin.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Good morning, and welcome to our third quarter call. Joining me this morning in the U.S. is Dan Amos, our Chairman and CEO; Kriss Cloninger, President of Aflac Incorporated; Fred Crawford, Executive Vice President and CFO of Aflac Incorporated; Teresa White, President of Aflac U.S.; and Eric Kirsch, Executive Vice President and Global Chief Investment Officer. Also, from Tokyo joining us is Paul Amos, President of Aflac; Hiroshi Yamauchi, President and COO of Aflac Japan.

Now before we start, let me remind you that some of the statements in this teleconference are forward-looking within the meaning of federal securities laws. Although we believe these statements are reasonable, we can give no assurance that they will prove to be accurate because they're prospective in nature. Actual results could differ materially from those we discuss today. We encourage you to look at our quarterly release for some of the various risk factors that could materially impact our results.

Now I'll turn the program over to Dan, who will begin this morning with some comments about the quarter as well as our operations in both the U.S. and Japan. Following Dan's comments, Fred will follow up with some brief comments about our financial performance for the quarter. Dan?

Daniel P. Amos
Chairman & CEO

Yes. Thank you, Robin. And good morning, and thank you for joining us. Let me begin with an update of Aflac Japan, our largest earnings contributor. I am extremely pleased that sales of the third sector products were up an astonishing 34.5% for the third quarter and 27.1% year-to-date. Aflac Japan generated strong sales results from all of our sales channels, which confirms that we've focused on the right facets of our business.

We also continue to work closely with Japan Post to enhance our partnership, as demonstrated by the recently announced initiative to foster enhanced communications with the growing elderly population in Japan. Our goal is to have a presence where consumers want to make their insurance purchase decisions, and our quarterly and year-to-date results reflect our success in broadening our reach and our sales opportunities.

I want to remind you that Aflac Japan's 2014 fourth quarter sales of third sector products were up 28.5%, thus making this year's fourth quarter a tough comparison. However, given the very strong sales results in the first 9 months and our expectations for the remainder of the year, we are upwardly revising our sales growth target for the third sector products from the range of 7% to 10% to 10% to 13% for the full year.

Now let me turn to the U.S. operations. From a financial perspective, Aflac U.S. also performed very well in the quarter. Additionally, we have continued to receive phenomenal feedback from our distribution channels, our policyholders and accounts on One Day Pay, our industry-leading claims initiative. One Day Pay allows us to process, approve and pay eligible claims in just 1 day. In particular, we're hearing from policyholders and consumers that our commitment to paying claims fast through One Day Pay underscores Aflac's integrity and commitment delivering on our promise, thus enhancing our brand reputation and ultimately opening even more doors for Aflac.

We continue to estimate that 70% of our policyholders can use One Day Pay for their claims. In 2015, we expect the number of claims processed within the One Day Pay will reach over 2 million people. Along with a strong brand and relevant products, I believe One Day Pay will continue to drive home the value of Aflac's products and most importantly, it will help our sales long term.

Although our U.S. segments generated a slight increase in sales, I believe 2015 has been a year of building our business through our career and broker channels. Taking into account our results for the first 9 months and our expectations for sales for the quarter, we anticipate Aflac U.S. will generate sales growth at the lower end of the 3% to 7% range for the year.

While it's been a year of building, I'm not satisfied with these results. In fact, I won't be satisfied until we see our sales growth more in the range of the mid-single digits, which I believe is reasonable and achievable.

It is very difficult for us to make sales projections for the quarter or even for the year because around half of our sales will come in the last 5 weeks of the year. But I can tell you that the changes we've made to our management infrastructure over the last year are laying the groundwork for better long-term sales per se [ph]. And we continue to invest in our platform to position us for growth. As we look to 2016, I think the groundwork we laid in 2015 has put us in a better position for 2016.

Shortly, Fred will comment on the financial and capital deployment, but let me just say that I'm pleased with the actions by the Board of Directors to increase the quarterly cash dividend by 5.1%. This marks the 33rd consecutive year of increasing cash dividend. Our objective is to grow the dividend at a rate generally in line with the increase in the operating earnings per diluted share before the impact of foreign currency translation.

Let me leave you with this thought. You've already heard me say that my job is to balance the interest of all stakeholders. I think we did a good job of that this year, just as we have in the past. And I believe that we're going to do it again next year by delivering on our promise to our policyholders and returning significant capital to our owners.

Now I'll turn it over to Fred. Fred?

Frederick J. Crawford
Executive VP & CFO

Thank you, Dan. You've all had a chance to review our earnings release. I'll focus my brief comments on a few earnings items worthy of note in the quarter, added color on key earnings drivers, capital conditions and deployment as we enter the fourth quarter.

Our third quarter results came in at the high end of our earnings guidance. Along with solid overall results, there are 2 earnings items that contributed to our better-than-expected performance. The first item was in Japan where we continue to see overall favorable claims trends. While we review our IBNR every quarter, we take a more comprehensive annual look at trends and claims studies in the third and fourth quarter. Reflecting on our favorable claims experience this year and as a result of this review, we concluded it was appropriate to reduce the IBNR reserves for our cancer insurance block of business by approximately JPY 4.2 billion or roughly $35 million before taxes. We have not completed our year-end actuarial reviews, but at this point, we do not see or anticipate any material fourth quarter adjustments.

The second driver was in our U.S. business where we have been steadily improving our customer billing and collection procedures. These improvements have resulted in better collection experience and allowed us to refine our uncollected premium allowance estimate. The catch-up portion of this adjustment helped improve our rate of earned premium growth in the quarter and contributed approximately $8 million to pretax earnings.

While these items contributed approximately $0.06 to $0.07 per share to the quarter's results, overall, our Japan and U.S. operations enjoyed solid margins with adjusted benefit ratios favorable to our expectations and as compared with last year's quarter. As we expected, expense ratios were modestly elevated as we continue to invest in our platforms to generate growth, namely IT and new product introduction in Japan and our distribution model in the U.S.

Turning to investments. While we have been successful in defending net investment income, the overall low-rate environment remains a clear headwind and shows no signs of abating. We have natural maturities and higher-coupon investments that are running off with proceeds reinvested at lower yields. We continue our efforts to build a position in diversified asset classes, helping to support higher returns compared to low yields in Japan and the U.S.

We took a larger-than-normal impairment in the quarter involving our investment in Navient Corp. Navient is a publicly traded student loan administrator, formerly part of Sallie Mae. While we don't believe there are any near-term risk of default, the majority of these holdings are long-dated and yen-denominated with poor liquidity. As a result, these holdings trade at a deep discount. At roughly $0.50 on the dollar, we felt it prudent to take impairment.

Note that the majority of these securities are held in our Japan portfolio and are rated below investment grade. As a result, any decline in value has been reflected for Japan SMR purposes for several quarters. The impairment has no material impact on our overall capital position and deployment plans.

Turning to capital. We expect SMR and RBC ratios to remain strong. Between dividends and repurchase, we returned just over $400 million to our shareholders in the quarter and expect to fulfill our guidance of $1.3 billion in repurchases for the year. Our dividend increase is in line with our expectation for full year 2015 operating earnings per share growth, excluding the impact of currency. I would note that despite continuing weakness in the yen, our excess capital position and stable view of capital generation supports the increase.

Before I turn the call back over to Robin for Q&A, I'd like to comment on our earnings guidance. Our fourth quarter guidance simply solves for our full year 2015 EPS guidance range of $5.96 a share to $6.16 a share given our year-to-date results.

As we look to the fourth quarter and proceed through our financial planning process, we see the following dynamics influencing our performance. Recognizing the effect of our past reinsurance transactions in Japan, we see earned premium in Japan and the U.S. increasing in the low single-digit range with stable persistency. We see core Japan and U.S. benefit ratios holding strong around current levels after normalizing for the Japan IBNR reduction in the quarter. The maturity of high-yielding investments reinvested at lower new money rates will continue to pressure net investment income, although modestly offset by our strategic asset allocation and recognizing a bias towards higher quality. The growth we are experiencing in Japan required disciplined investment in customer care, product and distribution expansion. We see the same dynamic evolving in the U.S. in order to drive more robust growth rates.

Our strong capital position and deployment efforts will continue to provide support for EPS growth. Our capital generation is strong, and we continue to explore the potential to release additional excess capital. Absent attractive alternatives, we expect to drive long-term value in repurchasing our stock.

These dynamics are generally consistent with our performance in 2015, and we look forward to providing more details on our December 3 outlook call.

Thank you, and I'll now turn the call back to Robin to begin Q&A.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations
Thank you, Fred. Now we're ready to take your questions. But first let me remind you that, to be fair to everybody, please limit yourself to one initial question and only one follow-up that relates to that initial question. All right. We're now ready to take the first question, please.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

First, I just had a question on your relationship with the Japan Post and how do you think it'll be affected by the IPO, like do you expect them to be a little bit more proactive in selling Aflac policies? And what's the risk that down the road, as the Post looks to maximize its profits, that they could try to get more commissions out of the companies that they sell products for or maybe do away with the exclusive distribution relationships? So just if you could address how the relationship with the Post would change post the IPO.

Daniel P. Amos
Chairman & CEO

Paul?

Paul Shelby Amos
Former Director

This is Paul. First of all, we see our overall relationship with Japan Post continuing to be very strong. I'll ask Yamauchi-san to weigh in on the recent announcement of the 2 different points that are very different between the United States and Japan on that partnership. But overall, I do believe that our partnership through the IPO is something that has been very consistent. They are very proud of the work that has happened in the partnership between Aflac and Japan Post. And that we have no reason to believe that there will be any pressuring on margins or change in commissions. I think, at this point, we're focused highly on continuing to grow the distribution through the now fully expanded 20,000 post offices. And we continue to focus on executing through the new cancer plan that was specifically developed for Japan Post as well as the regular products that they're also selling.

Hiroshi Yamauchi
Vice Chairman of Aflac Japan

Thank you, Paul. Let me add a few comments in Japanese. [Foreign Language] Well, in terms of the business alliance with the JP that he has referred to, this is something very specific to Japan. As you know, Japan is an aging society, [Foreign Language] and the families are becoming more nuclearized. [Foreign Language] So what the FSA or the society, overall, is really demanding of an insurance company is that we need to check up on whether the policyholders, these older policyholders, are still alive or not. [Foreign Language] And since, as you know, Japan Post has its mail delivery network across Japan, what we like to do is to use their network to check up on our policyholders. [Foreign Language] And if we try to do everything on our own within Aflac, it is going to require a lot of work. However, with the cooperation with JP, we will be able to achieve the same purpose in a relatively easier manner. [Foreign Language] And one other point, this is probably more specific to Japan as well, is that for any notice that needs to be sent from an insurance company to policyholder has to be done by mail. [Foreign Language] However, when the policyholder changes their addresses, we will not know the new address until our policyholders tells us so. [Foreign Language] So in overall, it will lead to increasing the services to our customers because the JP, the post offices will know that our customer's address has changed because they are delivering the postal mails to them, and that will make it easier for us to know where the policyholders are. [Foreign Language] We do believe this is a great alliance because we are using the strength and what the JP does its -- does best in their way, and we are making leverage out of what JP is doing, and that will also benefit us and serve our policyholders as well. That's it for me.

Daniel P. Amos
Chairman & CEO

Let me just say, Jimmy, you can tell Yamauchi is very encouraged about this new announcement with the elderly. And -- but the answer to your question is just simply, it's going as well or better than we expected, and we see nothing but good things ahead in the future.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Yes. And they have been, through their IPO process, I think they have been talking up the potential opportunity to sell more products for companies such as yours. I was just concerned about the long-term risk if they try to, given their distribution breadth, maybe go after the underwriters and ask them for more commissions or try to open up the distribution to additional underwriters, but I guess we'll see how that evolves over time.

Daniel P. Amos
Chairman & CEO

At this particular point, we're very happy with the arrangements, and they are, too.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And maybe I could ask just one more. On U.S. sales, given your results, I was a little surprised that you didn't actually end up lowering your guidance. So to what extent do you see that goal as achievable for this year versus it being somewhat of a stretch?

Teresa Lynne White
President of Aflac US

Well, from a -- this is Teresa. From a U.S. perspective, we have a lot of moving parts going on. As Dan said in his talk, we are rebuilding that distribution and restructuring. We feel good about some things that we're seeing. We've had -- we've looked at all of the markets. We're assessing market book of business, how they're managing those markets, training programs, recruiting practices, and we're driving consistency and collaboration across the broker and career channels. So we feel good about what we're doing. It's taking a little bit longer for us to get there, longer, obviously, than we would like, but we are seeing more markets that are achieving the 5% increase in year-over-year sales. Just -- there's been a tremendous amount of change in the way our business is coming in. And I think Dan spoke a little bit about that. We know that we're going to get a tremendous amount of business in the fourth quarter, and I think we've been saying that from the beginning. So we're reviewing a lot of our modeling to project that. So we feel pretty good about the low end of the range, and we see a lot of activities within the markets that look positive to us at this point.

Daniel P. Amos
Chairman & CEO

Yes, Jimmy, we've got to have an 8% increase in the fourth quarter. The real change here is the way this broker business comes in, it all now comes in, in the fourth quarter. And it makes me nervous and Teresa and everybody else nervous, will it come through? And we've got a pipeline that we know what's out there. And we know there's more business out in the pipeline this year than in previous years because this really started a year ago. As you saw, we were up 14% in the fourth quarter of last year. So we're not sure how good that pipeline is, but our gut tells us that it should be, and that we're expecting a good fourth quarter. But we'll have to monitor it and see. And as I said in the call, the last 5 weeks of this -- of the fourth quarter will bring in as much business or close to as much as probably 45%, 55% as it did in the first 8 weeks. So we won't know until the end of the quarter, but we do like what we're seeing in the pipeline from a broker perspective and what will take place. And then also, our 100 or less that we're writing in our Columbus -- in career is really working well, and Teresa's doing a good job in that area, and I'm very pleased with that.

Operator

Our next question is from Jay Gelb from Barclays.

Jay H. Gelb
Barclays PLC, Research Division

With regard to the Japan margin, I believe it was mentioned that we should expect the margin to stay mostly unchanged and excluding the benefit that we saw in the 3Q from the reserve release. Can you walk us through that a bit more?

Frederick J. Crawford
Executive VP & CFO

Thanks, Jay. This is Fred. So where my comments were coming from, first, the adjustment in the quarter. Let's make sure we understand that. So this was an adjustment to IBNR reserves related to our cancer business in Japan, and more specifically, it was related to a subset of our IBNR that relates to what we characterize as tail-related claims. So these would be longer-duration claims or estimate of claims emerging typically longer than 3 years out. It's a relatively small portion of the total IBNR that we hold for cancer, but it's one that periodically, as in at least once a year, we do a more thorough examination of and test based on the trends we've been seeing in recent years. And so as you can see, our trends have been very good on the overall claims front. And so when we put these reserves, these particular tail reserves, under review, we comfortably determined that there was margin in those reserves, and we should take them down. So that's the JPY 4.2 billion reduction that I referenced and that I'm asking you to pull out, if you will, to think about the benefit ratios going forward. So my comments on the stability of benefit ratios is to first recognize that we have multiple businesses, as you know, in Japan that have different benefit ratios and different benefit ratio and claims trends. But overall, when we pile them all together and look at the overall Japan benefit ratio dynamic, we expect stability, but stability in third sector, particularly as you pull out that IBNR in the cancer side.

Jay H. Gelb
Barclays PLC, Research Division

I appreciate that. The fourth quarter guidance seemed to show roughly the same trends, though, as in 3Q from an earnings power basis, even including those -- that $0.06 to $0.07 you called out. Do you expect any onetimers in 4Q? Or is the run rate of earnings power just getting better as we continue through the year?

Frederick J. Crawford
Executive VP & CFO

Yes. I think, first of all, we have a relatively wide margin, EPS margin for the fourth quarter, and that's really the result of 2 things: one, somewhat solving for the full year guidance range, which creates a larger fourth quarter range; the second is, of course, we have a range naturally based on our assumption for what the yen may do. We think in terms of the range being dictated by yen between JPY 120 and JPY 125, so that creates a wider range. But part of the reason we wanted to walk you through a couple of the normalizing items in the quarter was so that you could really roll forward our results in a fairly consistent way. So at the moment, our expectation is for stability and the key earnings drivers as we roll forward, and we would leave it at that. And so don't expect -- at this point in time, I don't know enough to know what I would characterize as onetimers. The only comment I made is that we do, do more thorough actuarial reviews in the third and fourth quarter. And as we sit here today, we don't see any material adjustments coming from those reviews, but it's still early in the process.

Jay H. Gelb
Barclays PLC, Research Division

Okay. So the fourth quarter guidance range, obviously, it's reflective of the range in the yen, like you've talked about before, but is essentially solving for the full year guidance range, which hasn't changed?

Frederick J. Crawford
Executive VP & CFO

That's right. That's right, yes.

Jay H. Gelb
Barclays PLC, Research Division

All right. I got the sense that it had pointed higher, but I guess I was wrong on that.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Jay, you need to look at last fourth quarter, too, and that will give you some sense of really where it's going.

Frederick J. Crawford
Executive VP & CFO

Well, I mean, just to make a comment. So we have -- year-to-date, we have grown our -- holding constant the yen, we've grown our operating earnings per share by about 2.9%. We've got guidance out there, full year guidance of 4% to 7%. Realize the fourth quarter last year, though, was a somewhat reduced earnings per share by virtue of accelerated expenses or accelerated spend. So it had a disproportionate weighing down on that EPS. So again, my view is as we sit here today, my comments were a rolling forward and really consistency and stability in the earnings drivers as we sit here today and roll forward into the fourth quarter. And I don't see any -- at the moment, don't see any sharp moves. But again, it's very early in the quarter, and I'm really just talking specifically to the actuarial work, not so much other items that may appear naturally in a quarter.

Operator

Our next question is from Nigel Dally from Morgan Stanley.

Nigel Phillip Dally
Morgan Stanley, Research Division

With Japan sales, the strength at third sector [indiscernible] were encouraging, but the growth in first sector was perhaps a little surprising. Back at Investor Day, you talked about those being down 25% to 40% and, I guess, how you had very limited appetite for those products given the very low rate environment, but still seems like you're writing a fair amount of it. Sales this quarter up 6%. So was hoping you can discuss what's going on there.

Paul Shelby Amos
Former Director

Yes. Let me take a -- it was...

Frederick J. Crawford
Executive VP & CFO

[indiscernible] Go ahead, Paul.

Paul Shelby Amos
Former Director

Go ahead, Fred.

Frederick J. Crawford
Executive VP & CFO

Well, I'll just make a -- I'll make a couple of comments, and then Paul can provide more of the strategic color on it. But first, we monitor the sale of these products, first sector products, very carefully because the returns on those products can be very sensitive to the interest rate environment as you point out but also your investment strategy backing these products. And so even though the interest rate environment is very low, it's always possible that our investment strategies -- and you've seen recently that, particularly in the third quarter, we've been able to defend our new money rates and put money to work at relatively attractive levels, albeit headwinds are definitely in the marketplace. And so they're very sensitive to that type of investment strategy. But more importantly, we've really made moves to really focus the type of product that we're selling to deemphasize lump sum premium or so-called dump in premium type product and also product that is sold particularly in the bank channel where it's more of a spreadsheet-ed environment and a competitive landscape. Those things, coupled with the interest rate and investment market, can make for volatile returns or challenging returns, and so we want to deemphasize that. Where we're emphasizing is the longer pay products, which gives us more possibility of putting money to work at attractive levels. It also tends to attract more of a protection orientation versus an investment orientation. And most importantly, it's being driven through the traditional channels, which support cross-sell activity and again, recognizing once you're into cross-sell activity, you're trying to look at the overall blended return on a household, which includes the returns on these products plus third sector products. So we're monitoring it very carefully. You're absolutely right, there was a rise in our sales, but it's largely coming through the traditional channel, largely coming through longer pay premium products and involving cross-sell.

So Paul, you can maybe expand or add?

Paul Shelby Amos
Former Director

You nailed it.

Daniel P. Amos
Chairman & CEO

That's one reason our cancer sales are up so much in the traditional channel, too. It's not limited to just the Post. We've also seen a big movement in our traditional channel in terms of sales, so they tied together.

Operator

Our next question is from Erik Bass from Citigroup.

Erik James Bass
Citigroup Inc, Research Division

Can you comment on how sales of the new medical product in Japan have compared to your expectations? I think, typically, we've seen with the new product introductions, there tends to be a little bit bigger jump in sales. So if you could just comment on how this feature's been received and how you would expect sales to ramp from here.

Paul Shelby Amos
Former Director

The sales do -- this is Paul. The sales do meet our expectations. What we didn't expect in all likelihood was the continued success of our cancer plan. But Ariyoshi-san, as the Head of Sales and Marketing in Japan, directed our sales force to continue to push hard on the overall cancer sales while also focusing, to some extent, on the medical sales. So within our range of expectations, we're happy with how it turned out. We do believe the medical product will continue to grow in its sales. But right now, we're very happy with how long the cancer product has continued to sell at such strong increases.

Erik James Bass
Citigroup Inc, Research Division

And then, maybe following up on your comments earlier about moving the sales guidance for Japan third sector sales. Was that driven more by the strength that you've seen in year-to-date sales? Or are you now expecting fourth quarter sales to be stronger or hold up better than you had initially expected?

Paul Shelby Amos
Former Director

Well, I think we put out a 15% expectation for the first 3 quarters of the year, and we came in considerably higher than that, almost double that. And so it is in part driven by the success in the first half of the year and the 34.5% sales that we had in the third quarter. That said, we are also seeing somewhat better trends in the fourth quarter. We're mindful of where those are going so far, but we're happy, and I think that the 10% to 13% is reflective of improvement on both.

Daniel P. Amos
Chairman & CEO

I can't remember -- I've been around here a long time. I can't remember 12 months of a 28% increase in sales in Japan in a long, long time. And that's what we've got from October 1 through September 30 here. So -- and we are just so proud of the job they're doing at Aflac Japan with that.

Operator

Our next question is from Ryan Krueger from KBW.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

I know you can't give any specific numbers on this, but in regards to the Japan Post, have you seen much of a sales contribution from the second 10,000 post offices at this point that were rolled out in July? Or is that really all future benefit to come going forward?

Paul Shelby Amos
Former Director

I very much -- this is Paul. I very much appreciate what you're trying to get at. But just based on our partnership deal, we do not continue to give out those numbers. I can -- we did communicate to you at the FAB. Dan specifically talked about the fact that the first 10,000 post offices represented a much larger proportion of the potential sales than did the second 10,000 post offices. But what I can just tell is right now, we're very much in line with what we want to see in the Japan Post partnership, and we're very happy with how things are progressing.

Ryan Joel Krueger
Keefe, Bruyette, & Woods, Inc., Research Division

Understood. And then on the U.S., can you give us some more color on the U.S. claim trend? I think, generally, they've been running somewhat favorably. But Fred, you commented that you believe that margins can be sustained there. Can you -- so can you just comment a little bit on the underlying drivers there?

Frederick J. Crawford
Executive VP & CFO

Yes. Essentially, there is really nothing notable to speak to in the U.S. claims patterns. And I say that not to avoid the answer to the question, but we're just seeing decent stability there in claims. And overall, while there are pockets of up and down and pockets of persistency up and down, persistency has also been, on overall, hanging in there pretty well. So as has been the case at Aflac for many years, it's been a relatively stable platform from that perspective, benefit ratio and earnings drivers. It's been gradually favorable in recent years. But we see it as being a relatively stable outlook, and nothing really notable in the patterns. Yes. One thing I would comment on, Ryan, just in this quarter to be mindful of from a math perspective, as I mentioned, the premium collection -- reduction in the allowance for uncollectible premium, obviously, realize that, that pumps up the numerator, if you will. And so that helps benefit the -- optically it benefits both your benefit ratio and your expense ratio because your premium is pumped up a little bit when you make that adjustment. So be mindful of that this quarter. If there is -- there's actually a really, really slight amount of normalization that you want to do on benefit ratios, but it's actually not related to claims. It's related to just premium being up a little bit.

Operator

The next question is from Humphrey Lee from Dowling & Partners.

Humphrey Lee
Dowling & Partners Securities, LLC

Just want to follow up on the Japan sales outlook. So the third sector sales in your outlook is 10% to 13% sales growth. That -- based on my math, that would imply the fourth quarter third sector sales would be somewhere between JPY 19 billion to JPY 21 billion. And I know that's kind of -- you talked about the tough year-over-year comparison. But at the same time, based on Paul's comment earlier, medical sales continue to be -- expect to grow further in the fourth quarter. So to me, that suggests the cancer sales would be kind of more like a JPY 10 billion to JPY 12 billion range in the fourth quarter. That would be a decline from the third quarter level. Maybe a little bit of comments on why would -- if my interpretation is correct and maybe kind of you can elaborate a little bit more detail for the 10% to 13% expectation on a more product level?

Paul Shelby Amos
Former Director

As Dan said, the large fourth quarter we had last year was representative of the very strong launch through our new cancer plan. And so the previous 3 quarters this year have been going up against -- I mean, no cancer plan the previous year, and so we'll be going up against, for the first time, that strong cancer sales in the fourth quarter of last year. And so I think it's reflective of what we expect to be a progressive increase of the medical plan while, at the same time, having to go up against the very strong numbers from the launch of the cancer plan in 2014.

Humphrey Lee
Dowling & Partners Securities, LLC

Okay. But still, tell if we were to assume the medical sales were to stay flat, that would imply cancer sales would decline sequentially. Any reason why that would be the case? Or could -- or there could be potentially upside count to your sales guidance?

Daniel P. Amos
Chairman & CEO

I was just going to say, we're just looking at overall that we've just finished 12 months with a 28% increase. And I think to try to break it down into 13 weeks is just getting too much into the minutia of how we see it. Overall, let me just say that we're extremely pleased with what's going on, and we will be excited if we finish in the 10% to 13% range, which we totally expect to do. And so how it breaks out by product, remember the profitability are close to the same. So we don't care how the agents write it. So we don't look to say, "Oh, please don't sell cancer, please sell medical" or "Please sell cancer, don't sell medical," one or the other. It doesn't matter to us. So we don't break it out that way in terms of looking at it. Now we do look at life insurance where we've been on it, watching it, staying very close, but on cancer and medical, we really don't care how it comes in.

Humphrey Lee
Dowling & Partners Securities, LLC

I guess my question's more kind of like with the Japan Post continue to be performing. That's a little bit surprising to see cancer sales may potentially come -- trend down. But I guess we'll just have to wait for the fourth quarter to see what the results are. Shifting gear to maybe on WAYS. I understand you talked about kind of using it as a -- as kind of to entice the traditional channel to do more cross-sell, and you can closely monitor from an interest rate perspective. Is there kind of a rule of thumb in terms of thinking where the 10-year JGB will move to from Q2 dial back or even go or have stronger appetite for the WAYS sales?

Frederick J. Crawford
Executive VP & CFO

It's -- Humphrey, it's not that simple. Certainly, as you watch JGBs grind down, that doesn't make the job any easier in terms of generating yield, but realize we've got a portfolio approach to backing these products, which includes, among other things, the dollar program, Eric's strategic asset allocation. And so we take somewhat of a blended strategic asset allocation portfolio yield approach, if you will, to the expected investment horizons. So for example, recently, we've seen treasuries and JGBs go down, but spreads widen out to where new money could be put to work, actually, at even net more attractive levels, as long as you're being careful in where you go with the money. So it's not quite as simple as pegging to a JGB. But certainly, as you JGB goes -- going down, you got to keep in mind 2 things: One, obviously, more of a challenge to reinvest that money; but the other is, as you're having to gradually move towards lower assumptions for ongoing interest rates as it relates to pricing of the product and so you end up having a gradually less competitive product in the marketplace. This is really an industry thing, not an Aflac issue. And so is there -- do you reach a point where it's just not as much a value proposition for the client as you'd hoped and does the overall market start to get soft. So I think those are some of the dynamics, but it's not a 1 for 1 tied to JGB. It's not quite that simple, although, directionally, certainly, it doesn't help. Hey, one other thing I would say on third sector and some of the commentary around Japan Post. I mean, be mindful of the difference between growth rates and just having a much larger engine now as we start January 1 versus January 1 of last year. I mean, the fact of the matter is we're just selling a more volume of product even though the comparables may be challenging. We have a net larger distribution engine that's driving simply more sales overall. So that growth rate really benefits you as you move forward and look particularly at premium growth rates and your in-force growth rates and the overall economic value that you've driven. So there'll continue to be growth in my view in terms of value even though you may occasionally look at comparables, comparable sales periods that don't look as attractive, particularly when you know the dynamic with this is that it jumped out at a very strong level, which is not unusual when you build up all the advertising and marketing investment to really launch it. And that was the story in the fourth quarter of last year.

Operator

Our next question is from Steven Schwartz from Raymond James & Associates.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

A question for Teresa. This may be a little nebulous, but you and Dan were talking about pipeline. Could you give us a sense of how you measure that if there is some particular metric you're using?

Teresa Lynne White
President of Aflac US

Certainly. So we basically look at the pipeline from the perspective of groups that have agreed to offer Aflac policies. And that pipeline is weighed based on where they are. And so this is mostly the large group. It's mostly the large group segment, and it's weighed based on where we are in the process. So there is a piece of the process that looks at commitment to offer the product. And then, as you go further down the pipeline, we basically have, have they submitted all of the enrollment materials, have we set them up for enrollment, and so there are varying places in the pipeline up to the enrollment. And what we do is we look at the percent increase year-over-year to assess whether we have the constructive increase in that pipeline. And today, what we see is a double-digit increase in the pipeline from last year to this year, apples-to-apples compare. And group insurance -- it's usually group insurance and not individual insurance when we're talking about that.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

Okay, sure. What would -- Teresa, what would stop, I guess, the process from commitment to offer to actually getting it done?

Teresa Lynne White
President of Aflac US

A couple of things. It may be that the -- they decide to move the date of enrollment. And so it may migrate it down the pipeline. So it'll -- not down the pipeline, but they'll change the date of the enrollment. So it'll move it from one quarter to the next. A couple of other things that may change it are that they decide that they're not going to adjust their benefit packages for that year and they hold with the current benefit offering that they have, or we -- they decide not to offer any voluntary benefits at all. But we don't think that they will and -- but we never know.

Steven David Schwartz
Raymond James & Associates, Inc., Research Division

And then one more, I think you answered it in your first -- in the first question. But assuming you get that kind of 8% number for the fourth quarter, my assumption here is it's going to be driven by plus 100 cases.

Teresa Lynne White
President of Aflac US

Yes, yes. That's our assumption as well. We -- although we will have some -- the natural sales that we have with our career agents, we do believe that we will skew towards the greater than 100 cases in the fourth quarter.

Daniel P. Amos
Chairman & CEO

It'll probably be even greater than 1,000 cases, really. You're -- now that's always in the fourth quarter. It's not during the year. But the fundamental growth of the less than 100, Teresa and her team are doing a great job in stabilizing that and continuing to have that grow, especially through EVERWELL and the 50 or less. So we're encouraged about that, but it's this fourth quarter that's an anomaly because of the way the group presentations come in, and we specifically work to where each case might have a different product. So it's tailored to them, and that's what causes the issues.

Operator

Our next question is from John Nadel from Piper Jaffray.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Maybe, Fred, I just wanted to follow up on the comments and make sure I understand exactly what you're trying to tell us about the relative stability of the margin in both the U.S. and Japan. And I haven't done the math perfectly for the adjustments, the one -- the onetimers this quarter. But it seems to me on a -- adjusting for that, the Japan margin is 21% or slightly above 21% year-to-date, and the U.S. margin is 18% or slightly above 18% year-to-date. In both cases, that's the upper end of the outlook for 2015 through 2017. So I guess, in short, are you telling us that we should expect both operations to maintain margins at or even maybe slightly above the upper end of the guidance range?

Frederick J. Crawford
Executive VP & CFO

Yes. First, let me just say that my comments were not meant to preempt the December outlook call, and so when we get to December 3, we'll give you a little more context and color around these earning driver -- earnings drivers and margins. But if you were to adjust both the benefit ratios, so adjust the Japan benefit ratio for the IBNR adjustment and adjust the U.S. benefit ratio, really, just modestly for the premium kick-up related to the premium collection allowance, we're seeing relative stability in those margins, certainly, as we enter into the fourth quarter. As we get into 2016, we don't see things at the moment that would disrupt that. Realize that the mix of business can play a little bit with your benefit ratios, and so we'd want to -- we want to understand the mix of business in Japan, particularly third sector versus first sector, and we want to understand some of the mix of business dynamics in the U.S. a little bit better. But we're not seeing things that suggest to us significant movement in those benefit ratios going forward. So we'll provide a little more color on this in the outlook call. I would also note that expense ratios, obviously, in the recent year, have been slightly more elevated as we reinvest back in our platforms. I mentioned that in my comment. We also see stability there, too, meaning we see a need to continue to reinvest in our platform to support the kind of growth you're seeing in Japan and to position ourselves for better growth in the U.S. So that stability comment I made...

John Matthew Nadel
Piper Jaffray Companies, Research Division

[indiscernible]

Frederick J. Crawford
Executive VP & CFO

Yes. That stability comment I made goes both ways, so.

John Matthew Nadel
Piper Jaffray Companies, Research Division

Yes. You sort of took my follow-up question, which was I think that's what you were hinting at. The -- and just specifically around expenses and investments into the business, I can't remember exactly when it was, but a year or 2 ago, Aflac announced a pretty significant couple-of-year investment program in Japan that was, I think at the time, expected to run its course and then tail off. It sounds to me like the message here is that, that elevated level of investment will maintain itself.

Frederick J. Crawford
Executive VP & CFO

Yes. So I mean, I would say, in general, this is the type of topic that we would also give a little bit more color on, on the outlook call. Right now, our investment has been oriented around -- in the U.S. has been oriented around what you know, and that is the investment we've made to reconfigure the sales platform and drive better growth. We're going to have to look at the same sorts of things in the U.S. that we've been successful in achieving in Japan, and that is keeping pace with the modernization and digitizing of our platform in the U.S. And those involve incremental investment. We have been making some of those investments along the way, so it doesn't necessarily suggest big deltas and things like expense ratios and so forth because we have been investing. But the pace of that investment is going to have to react to the market opportunity, and that's how we will approach it. When we see there's opportunity to go after that requires a level of investment and argues for our capital, then we'll want to do that for our shareholders. And that's the type of color, and we'll give you more context for that when we get to the outlook call.

Daniel P. Amos
Chairman & CEO

But let me just say something about our sales and what we've done there. I don't like sales at the level where they are, but I will say this, our organization is such that people are making less money if we don't achieve our objectives. And that's what it's all about, which means we make a little bit more, but that isn't the idea. We want sales to be up and pay more. But we have corrected that, and it is having an impact that, I think, ultimately will drive sales higher. But we're making sure that everyone shares in the pain. If we don't achieve our objectives, then they're going to feel it, too. And if we do well, they can, too.

John Matthew Nadel
Piper Jaffray Companies, Research Division

And then -- and my real quick follow-up is just on the EPS guidance for the year. Should we be holding you against that constant currency growth rate, excluding the benefit of $0.06 or $0.07 this quarter that was unusual? Or should that be part of the growth?

Frederick J. Crawford
Executive VP & CFO

Yes. I think the range we have out there attempts to accommodate some of these unusual items. But when we talk about carving positives out of our numbers, we typically mean that to carve it out for the purposes of guidance and going forward.

Operator

Next question is from Suneet Kamath from UBS.

Suneet Laxman L. Kamath
UBS Investment Bank, Research Division

So I just wanted to come back to, I think, Fred, your comment about the cross-sell initiative between WAYS and I think cancer in Japan, and I was sort of interested in how you characterized it. I believe you used the term household. And where I'm going with this is I would've thought that given the sizable premium differential between WAYS and third sector products that to neutralize for the impact of the margin differential, you'd need to sell more than just 1 for 1. You'd probably need to sell 3, 4 third sector products to neutralize the lower margin from the first sector. So I just want to -- the question, I guess, is am I thinking about that correctly?

Frederick J. Crawford
Executive VP & CFO

I mean, I think, I'm going to -- I'll ask Paul to expand on this, but I think you're thinking about it correctly in the sense of when I say driving households, I mean it from a couple of perspectives: One, the actual consolidated return on what we have provided to that household to your point. But the other is what value you see in that household and that agent relationship going forward as you continue to develop new product to sell to your existing block of business and clients and new clients. The other thing to consider is that you have agents making a living off of the building out of these households and the sale or potential sale of new product. And so it supports the growth of your agency force and stability and even retention and development of your agency force. And these are things that are difficult to put economics behind, but we all know they drive embedded value. So that's where I come from when I use the term household is the support for the agency, the agency build-out, the ability to cross-sell and what might be the future -- present value future sales dynamics related to having developed more households. One of the things we tend to lead with in Japan is that we're in 1 of 4 households. And when you start the conversation with that, that suggests there to be a lot of opportunity you can develop by simply being in that position, and so it really benefits us.

Daniel P. Amos
Chairman & CEO

And the other thing I would say is when we first started selling WAYS, we just picked up as much business as we could based -- and a lot of people bought it just on the yield, and that was it. We've now moved away from that totally in telling our field force they want an overall arching program that they can offer to a consumer that will cover their life insurance needs, their health insurance needs and any aspect that they might have. So that's what we're trying to do is to cover them in their entirety. But we are definitely continuing to deemphasize these type products, and we will continue to going forward until we see changes in the interest rate environment going forward.

Suneet Laxman L. Kamath
UBS Investment Bank, Research Division

Got it. And then I guess my second question is -- and I don't want to run [ph] your December event. But as we think about 2016 Japan sales, do you guys have plans for any new product launches next year that can help stimulate sales in what I guess is going to be a pretty difficult comp for most of the quarters in 2015?

Daniel P. Amos
Chairman & CEO

I think we'll have to wait until our December call to give you an update on that type of stuff. We want something to be able to talk about in December, so don't take it all away from us.

Operator

Our last question is from Mr. Tom Gallagher from Crédit Suisse.

Thomas George Gallagher
Crédit Suisse AG, Research Division

The question I had is when I look at -- and Paul, you had mentioned that cancer sales through the non-Japan Post, your traditional distribution system, have continued to remain robust. It sounds like better than you had expected. And medical, the ramp-up of the new medical product has been more slow. Do you expect that trend to continue? Or do you think we're going to see a bigger shift into medical? And I guess, Fred, can you remind us how the margins stack up in terms of your -- those -- the cancer product versus medical?

Paul Shelby Amos
Former Director

I'll start. This is Paul. To your question, we have continued to see the overall cancer sales be stronger than we originally anticipated. That is even pushing through into this quarter. Therefore, we have not put as strong an emphasis on selling the medical plan at this time and selling its new riders. So do I expect the medical plan to be strong and to grow over time? I expect it to grow over time but to have a slower launch than we might have expected when we do a product at the -- and the previous product has already run its course. We really want to see this cancer product sell for a long and as well as we can sell it, especially through our traditional channels who are very invigorated by this cancer plan and the ability to speak to not only our existing customers but to new customers that they've never had access to before.

Thomas George Gallagher
Crédit Suisse AG, Research Division

And Paul, sorry, just one quick follow-up. Is that because the medical space is increasing or more crowded? Or is that because you think more your -- is it more of just the focus on one product at a time through much of your distribution?

Paul Shelby Amos
Former Director

I do not think it's because of the competitiveness of medical. Otherwise we would be pushing that much harder right now. It has much more to do with the excitement around the cancer plan and the continued success that our sales force is having. As you've seen, there's such a strong cross-sell between the cancer plan and the 15 pay WAYS and longer. There is -- that's eating up a lot of the premium that we're selling to those individual customers. But we will be going back to them with a medical plan in the future.

Thomas George Gallagher
Crédit Suisse AG, Research Division

And then, Fred, on the margins?

Kriss Cloninger
President of Aflac Incorporated and Chief Financial Officer of Aflac Incorporated

Tom, let me handle that. This is Kriss. The margins on the cancer and medical are approximately the same. And let me also add a comment on Suneet's question about neutralizing the margin on the cross-sell between WAYS and cancer or medical. It's not meant to be a complete neutralization because of the premium difference that Suneet mentioned. But it does move us in the direction of additional value to shareholders in terms of adding additional business with significant value by having these cross-sells. So I think that would about wrap it up on that question.

Robin Y. Wilkey
Former Senior Vice President of Investor & Rating Agency Relations

Okay. Thank you, Kriss. And before we go, I want to share with all of you what's been mentioned before that on December 3 at 9 a.m., we will have our scheduled earnings outlook call for 2016 to discuss our expectations for 2016. So I hope you'll all join us. We will be sending out a reminder as we always do.

But again, that's December 3 at 9 a.m. Eastern Standard Time. And please feel free to call us in Investor Relations if you have any questions. And thank you very much for joining us this morning. Bye-bye.

Operator
Thank you, speakers. And that concludes today's conference. Thank you all for joining. You may now disconnect your lines.