Torchmark Corporation

1st QUARTER 2011 CONFERENCE CALL

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Corporation Participants

Mark McAndrew, Chairman and CEO

Gary L. Coleman, EVP and CFO

Larry Hutchison, EVP & General Counsel

Mike Majors, VP of Investor Relations

Mark McAndrew: Thank you. Good morning everyone. Joining me this morning is Gary Coleman, our Chief Financial Officer; Larry Hutchison, our General Counsel; and Mike Majors, Vice President of Investor Relations.

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2010 10-K and any subsequent forms 10-Q on file with the SEC.

Net operating income for the first quarter was $129 million, or $1.62 per share – a per share increase of 7% from a year ago. Excluding the $6 million of United Investors earnings from the year ago quarter, net operating income per share from continuing operations increased 12%. Net income was $106 million, or $1.33 per share – down 13% from a year ago, primarily as a result of a $15.5 million realized investment loss on the sale of our holdings in MBIA.

Excluding FAS 115, our return on equity was 13.2% and our book value per share was $49.45 – a 9% increase from a year ago. On a GAAP reported basis, with fixed maturities carried at market value, book value grew 15% to $50.70 per share.

In our life insurance operations, premium revenue (excluding United Investors) grew 4% to $431 million and life underwriting margins increased 7% to $119 million. Life net sales declined 5% in the quarter to $81 million, while life first-year collected premiums were down less than 1% to $61 million

I feel good about our potential for growth in our life premiums and underwriting margins. While we currently expect relatively flat life sales in the second quarter, we believe we will see high single-digit growth in life sales in the third quarter followed by double-digit growth in the fourth quarter.

I am also very pleased with our initial efforts to conserve our existing life customers. In 2010, we produced $330 million of net life sales, but we lapsed $252 million of inforce premium. As we are able to fully implement our conservation efforts over the next few months, we believe we can reduce our lapses in the 10% to 20% range.

At American Income, life premiums were up 8% to $146 million and life underwriting margin was also up 8% at $48 million. Net life sales declined 5% for the quarter to $33 million.

The producing agent count at the end of the first quarter was 4,039, down 4% from a year ago, but up 3% from year-end. It is also up 8% from its low of 3,724 at the end of January. I am very encouraged by the progress being made at American Income. In addition to the growth in agents, the number of new agents achieving our top bonus level for the first time grew by 38% in February and March which will have a positive impact on our new agent retention. Our mid-level sales management ranks also increased 4% during the quarter.

In our Direct Response operation at Globe Life, life premiums were up 5% to $152 million while life underwriting margins were unchanged at $38 million. Net life sales were down 2% to $36 million.

The outlook for Direct Response is also very positive. For the past few months, we have been testing and analyzing an enhancement to our underwriting utilizing applicants' prescription drug records and the initial results are encouraging. For our insert media adult business (which represents 40% of our total Direct Response life sales), we estimate this change will reduce our mortality costs by roughly 17% resulting in additional underwriting margin of 4% to 5% of premium on this block of business. This additional margin will, in turn, allow us to expand our distribution.

This change will also impact our Direct Mail sales, but further analysis is necessary before we can quantify the effect. We currently expect mid-single-digit growth in life sales in the second quarter with improving double-digit growth in life sales in the second half of this year.

Life premiums at Liberty National declined 2% to $73 million and life underwriting margin was up 20% to $17 million. Net life sales declined 12% to $9.4 million. The producing agent count at Liberty National at the end of the first quarter was 1,844 – down 17% from a year ago.

As I have mentioned previously, the turnaround at Liberty National is not a quick and easy fix, but we are making progress. The underwriting margins have improved significantly. Through our conservation efforts, we should stop the decline in life premiums. On the marketing side, the number of new agents achieving the maximum bonus level for the first time was up 34% in the first quarter, which again will have a positive impact on our agent retention.

We have, however, reduced our life sales estimates at Liberty National for 2011. We now expect to see a continued decline in the second quarter followed by roughly flat sales in the third, and single-digit growth in the fourth quarter of this year.

On the health side, premium revenue, excluding Part D, declined 5% to $192 million while health underwriting margin grew 4% to $37 million. Health net sales declined 16% to $14 million. As a percent of premium, we expect the health margin to hold at that 19% level for the balance of 2011.

Premium revenue from Medicare Part D was $49 million for the quarter – down 5%, and the underwriting margin was $5 million – down 2%.

Administrative expenses were $38 million – up 2% from a year ago and in-line with our expectations.

I will now turn the call over to Gary Coleman, our Chief Financial Officer, for his comments.

Gary Coleman: Thanks, Mark.

I want to spend a few minutes discussing our investment portfolio, excess investment income, capital and share repurchases.

First, the investment portfolio.

On our website are three schedules that provide summary information regarding our portfolio as of March 31, 2011.

As indicated on these schedules, invested assets are $11.2 billion, including $10.5 billion of fixed maturities at amortized cost. Of the fixed maturities, $9.8 billion are investment grade with an average rating of A–. Below investment grade bonds are $758 million, down from $863 million at December, 2010 and $891 million a year ago. The decline in the first quarter was due to $82 million of dispositions and also $24 million of net upgrades of bonds to investment grade.

The percentage of below investment grade bonds to fixed maturities at 7.2% is the lowest that it has been since the second quarter of 2008. That percentage may still be high relative to our peers; however, due to our significantly lower portfolio leverage, the percentage of below investment grade bonds to equity, excluding OCI, is 19.6%, which is likely less than the peer average. Overall, the total portfolio is rated BBB+, the same as a year ago.

During the quarter, we recognized realized losses of $23 pre-tax, or $15 million after tax. These losses resulted from the sale of the Company's entire holdings of MBIA bonds, which had a pre-sale book value of $63 million.

We have net unrealized gains in the fixed maturity portfolio of $156 million compared to gains of $108 million at year end 2010 and net unrealized losses of $185 million a year ago. The increase in unrealized gainsin the first quarter is due primarily to the previously mentioned sale of MBIA bonds.

Regarding investment yield.

In the first quarter we invested $265 million in investment grade fixed maturities, primarily in the industrial sectors. We invested an average annual effective yield of 6%, an average rating of A–, and an average life of 27 years.

For the entire portfolio, the first quarter yield was 6.62% compared to 6.65% yield in the previous quarter and the 6.78% in the first quarter of 2010. The decline in yield is due to the lower new money yields. As of March 31, the yield on the portfolio is 6.61%.

Now, turning to excess investment income.

Excess investment income is our net investment income less the interest cost of the net policy liabilities and the financing costs of our debt. In the first quarter, it was $74 million, up $2 million, or 3% from a year ago. On a per share basis, reflecting the impact of our share repurchase program, excess investment income was $.93, up 7% over the first quarter of 2010.

Of the components, net investment income was up $8 million, or 5%, in line with the 5% increase in average invested assets. Despite the lower yields in the bond portfolio, investment income increased at the same rate as the related assets because we held significantly more cash and short-term securities during the first three months of 2010 than we have in 2011.

The interest costs on the net policy liabilities increased $6 million, or 7%, in line with the 7% increase in the average liabilities.

Now, regarding RBC.

As we mentioned before, we plan to maintain our RBC ratio at or around the 325%+ level. This ratio is lower than some peer companies, but is sufficient for our companies in light of our consistent statutory earnings, the relatively lower risk of our policy liabilities, and our ratings.

At December 31, 2010, consolidated RBC was 421%, and adjusted capital was approximately $385 million in excess of that required for the target 325% ratio. The excess and capital were higher than normal due to the impact of the sale of United Investors on December 31, 2010.

Finally, regarding share repurchases and parent company assets.

In the first quarter, we spent $187 million to buy 2.9 million Torchmark shares. So far in April, we have used $30 million to buy another 450 thousand shares. For the full year through today, we have spent $217 million of parent company cash to acquire 3.4 million shares.

The available liquid assets at the parent consist of assets on hand and the expected free cash flow from operations. Free cash flow results from the dividends received by the parent from the subsidiaries less the dividends paid to Torchmark shareholders and the interest paid on the debt.

The parent began the year with liquid assets of $205 million. We expect to generate approximately $655 million of free cash for the entire year. Thus, the total free cash available for all of 2011 will be around $860 million, the same amount that we projected in our previous call.

In the first quarter, we generated about $391 million of our free cash flow and that included the $305 million resulting from the sale of United Investors. As mentioned, the parent used $187 million in the first quarter for Torchmark share repurchases.

As a result, the parent ended the quarter with $409 million of available liquid assets, and that's comprised of the $205 million of beginning liquid assets plus the $391 million of free cash during the quarter less the $187 million for share repurchases. Along with the $409 million that's on hand at the end of the first quarter, we should generate approximately $264 million of free cash flow over the next three quarters of the year. As of today, after deducting the $30 million of April share repurchases, the parent will have approximately $643 million available between now and the end of the year.

As noted before, we will use our cash as efficiently as possible. And if market conditions are favorable, we expect that share repurchases will continue to be a primary use of those funds.

Those are my comments. I will now turn the call back to Mark.

Mark McAndrew: Thank you, Gary.

First quarter earnings were in-line with our projections and our previous guidance and we are affirming our guidance for 2011 of expected earnings per share in the range of , $6.75 to $7.10.

Those are my comments for this morning. Melanie, we will now open it up for questions.

QUESTION AND ANSWER

John Nadel. Sterne, Agee & Leach: Thank you. Good morning, everybody. Couple of questions. Mark, I was interested in your comments on conservation efforts as it relates to some of the business that lapsed, or, I guess, an elevated level of lapsation. Could you maybe give us a little bit more detail on exactly what you're trying to accomplish? How you're going about that?

Mark McAndrew: Sure. And it's not an elevated level. In fact, our persistency of our life business has actually been improving over the last few years. So it's not an elevated level of lapses. But, you know, a number of months ago, we decided that we were really going to focus on trying to conserve as much of that business as possible. And we have spent a lot of time over the last few months analyzing and tracing back to their source, what is causing the lapses in our different distribution systems. And so it's not one single thing that we're doing because there's a lot of different areas. But we have now identified where those lapses are originating and what the causes are, and we've outlined a plan for each of those areas on what we can do to reduce those. Some of those changes in our procedures will be pretty quick to implement. You know, I think achieving a 10% reduction in our lapse rate, or in our lapses, is something we can achieve in the next few months. To get to 20%, that's going to take a little more time. There is things we need to test. There's people we need to hire and train as far as people who take phone calls and do some telemarketing. But I think over the next 12 months, I think something toward the high end of that 20% range is achievable.

John Nadel: Okay, and then two more real quick ones. One is just on investment income, the excess investment income. Gary, are you where you wanted to be as far as cash and liquid assets getting invested or is there still, you know, some marginal pick up we should expect?

Gary Coleman: We're pretty much invested. One thing though -- it took a little bit longer in the quarter to get the money invested. The markets, it's been a little bit hard to find the bonds. But within the insurance companies, I think we're now about $150 million of short-term money, which is not unusual.

John Nadel: Okay. Finally, just an update since there's been a little bit more news recently now on the DAC accounting changes -- the deferral of certain costs or lack of deferral of certain costs that used to be deferred. Can you give us a sense for what your plans are there? How should we think about a potential retrospective charge?

Gary Coleman: We will definitely retroactively adopt. I really don't have much more to add than we did last quarter. You know, last quarter we talked about the fact that we think that our write-down will be somewhere between $300 million to $330 million which after-tax is about 8% of our book value. But going forward, as far as the impact on earnings, we will have a negative in terms of the reduced expenses that we can defer, but we're going to have a positive by the fact that we'll have reduced amortization. And when you net those two, if we don't do anything else, we'll have a small positive. But there's about $100 million of agency-related, non-commission expenses that don't meet the criteria for the deferral. We're in the process of looking at those expenses with first in mind to reduce those expenses -- to cut where we can or reduce where we can. And then also there's, secondarily to that, is that we may be able to recast some of those expenses into commissions, which would be deferrable, to the extent that we can do those two things, the deposit to earnings will be even greater.

John Nadel: So the net impact here, at least, even if you can't accomplish that sort of work, is we should see the write-down of DAC will reduce your future amortization enough that this is a modest positive on the earnings side?

Gary Coleman: That's correct.

Mark McAndrew: John, as Gary mentioned, we'll have a reduction in our book value but a corresponding increase in our return on equity. But I also just want to re-emphasize what Gary was saying. We're going just by each distribution system and taking a hard line-by-line look at all of those expenses that are no longer going to be deferrable. And we will be very much concentrating on what we can do to reduce those expenses between now and the first of the year.

John Nadel: And adoption date would be the end of this year, I think, right?

Gary Coleman: Yes, it's a January 1, 2012 adoption date.

John Nadel: Okay, terrific. Thanks you guys.

Randy Binner, FBR Capital Markets: Great, thank you. Mark, I just wanted to clarify on the sales guidance you gave us quarter-by-quarter. I just wanted to clarify that effectively the AIA American Income guidance and the Direct Response guidance that we had previously, which was mid single-digit, I think, at American Income, and high single-digit at Direct Response, it sounds like that guidance is in place and it's only Liberty National that changed. Is that the correct interpretation?

Mark McAndrew: I think that's right, Randy. When you look at the full year, we still are expecting high single-digit growth in Direct Response and mid to high single-digit growth at American Income. But it's one of those things that it will be accelerating each quarter as the year progresses in both of those distribution systems. We have lowered our expectations at Liberty a little.

Randy Binner: Fair enough. And then you mentioned you got your sales manager, middle manager count up 4%, and I think that was maybe the key focus at American Income. And that's really the most important area to turn sales around. But, I guess, what else is working there or is it all about sales managers? You know, what else is working and giving you that confidence of the turnaround in sales there?

Mark McAndrew: Well, there's two things there. I mean, growing the middle management is definitely important. In fact, we've got some new incentives coming out June 1st that I think will add to that growth in our middle management. The other key thing, when I look at last year the percentage of our new hired agents who achieved that maximum bonus level the first time, was declining. And that's what I'm saying. The last two months have been very strong there, up over 30%, and a number of new agents are hitting that bonus level because those are the people we retain. Agents who don't achieve that bonus level we basically retain none of those people for a full year. We have very good retention of the agents who achieve that bonus level. So we've, again, done some restructuring of our incentive compensation for management, and really just have a renewed focus on doing a better job of training and working with agents to get them to that bonus level, and that will pay dividend. Our new agent retention will improve.

Randy Binner: That's great. Very helpful. I guess keeping with the sales real quick here -- over to Direct Response. It sounds like the effective, the underwriting margin improvement that comes from using the prescription drug records, I guess that allows you to kind of self-fund increased distribution? Is that the way we should think of it? Just a little bit more color, too, on what's driving the more bullish comments at Direct Response?

Mark McAndrew: That's one of a number of pieces but that is an important piece. If on 40% of our sales we are lowering our mortality cost by 17%, it does allow more margin. One, we will do some additional rate tests to again find the optimum pricing level. We know that it is very price sensitive. If that improvement in our mortality cost will allow us to bring our rates down 10% we've seen from past experience that that will improve our response rates by something in the 20% range, and also improve the persistency of the business resulting in higher profitability. So we've also had some very successful package tests here in the last three or four months that will add to that. But there's a number of factors in that but there's no doubt the change in underwriting is a big piece of it.

Randy Binner: Thanks for the responses.

Ed Spehar, BofA Merrill Lynch: Thank you. Good afternoon. A few questions. Mark, first, could you talk a little bit more about the health side? The first year collected premiums were down a lot more than I thought they would be. Maybe that's just because I was just out to lunch on the forecast. But I'm wondering if you could give me some sense of what's going on in the health side? And I have a couple of follow-ups.

Mark McAndrew: Well, Ed, there's not a whole lot new to report from the last call or two on the health side. Health sales were down a little more than what we anticipated. And part of that was, for example, like American Income, and it's something we need to take a look at. By moving to a laptop sales presentation, I don't know that we've done a good job of trying to move some of their health products into that, and that's something we can adjust. It comes down to it's pretty much in line with where we thought we would be. We don't see any big resurgence in Medicare at this point in time so it's about in line with where we expect it to be.

Ed Spehar: So how should we think about that if we're looking at sort of the outlook over the next few years just generally? Is that a business that continues to decline?

Mark McAndrew: Well, again, Ed, you've been following us long enough. It's hard to predict what the Medicare supplement marketplace will do. I think the Liberty National sales, as total sales stabilize and start to move forward, those should not decline or should turn around. Same way with American Income. We can bring those back up. But as far as the other, you know, we basically discontinued those underage 65 products. Until there is a major change in Medicare Advantage, then I don't expect to see growth in our health premiums. I still think we'll see some improvement in our health underwriting margins as some of that business continues to run-off. But I don't expect to see growth in our health premiums for the balance of this year, or probably in the next year anyway.

Ed Spehar: Okay, and then I guess it's a good lead into my next question, your highlighting how long I've covered this Company because I wanted to talk about Liberty National. I think for as long as I've covered the Company, you guys have been trying to figure out how to turn around that distribution channel in one way or another. And I'm just curious at what point, or is there a point, where that business is more valuable as just a run-off book than trying to sort of turn it around?

Mark McAndrew: I don't know that we ever get there, Ed. It's still, the business we generate, if we ever got to the point where the new business we generated was not giving us a reasonable return on our investment then we would have to take a look at that. But we're not there and we don't expect to get there. I haven't given up on Liberty. There is obviously a lot of challenges there, but again, I think we can stop the decline through our conservation efforts and it will turn around through the course of this year. Some of the things -- it's so different from American Income and we're continuing to address the issues that arise. But I don't see it ever becoming just a run-off block.

Ed Spehar: Okay, and just one final question. Could you just quantify -- if you achieve a 10% reduction in lapse rates what that equates to in terms of dollar amount of premium?

Mark McAndrew: Well, again, you can look at last year. We lapsed $252 million of life premium -- annualized premium. I think our projections for this year, if we continue down with just the same path that we've been going, we estimate it to be closer to $260 million of lapses for this year. So again, if we can conserve 10% of that, that's $26 million. 20% is a little over $50 million. This is really a big deal. This is probably one of the bigger things we've done in quite a number of years. If you look at our total life in force premium -- in the last twelve months I think grew $58 million -- so if we're able to conserve $50 million of lapses, it will take our life premium growth to a significantly higher level. And I would also point out that the business we're conserving, because we've already made the big up-front investment, will have a significantly higher margin than the new business we're writing. The $330 million that we wrote last year, Ed, we spent roughly $500 million to put that business on the books. To conserve this business, if we're able to conserve $50 million, I don't think we'll spend $5 million to conserve that business. So it will have (although we haven't included any of that in our current guidance) hopefully by next quarter, we will a little better be able to have more confidence in what impact that will have for the balance of the year and reflect it in our guidance for the balance of the year.

Ed Spehar: But there would be -- the margin on that conserved business, how should we think about it? Is it almost all margin or is there….?

Mark McAndrew: No, obviously you still have mortality costs.

Ed Spehar: Yes, beyond that though, in terms of expenses, do we just need to think about the margin being kind of the gross margin tax affected?

Mark McAndrew: Pretty much. Take for example, American Income. We still would be paying renewal year commissions on that business, so there's still some commission expense but it's not – you know, we've already got the high first year expense. Definitely in Direct Response we've already spent the money up front. So the cost to conserve that again, I don't think it will be 10% of premium versus well over 100% that we spent on new business.

Ed Spehar: Okay, very good. Thanks a lot.

Jimmy Bhullar, JPMorgan Chase & Co: Hi, thanks. I had a question, first, on just the agent count at American Income. It did rise a little bit this quarter. It went up in the first quarter last year too but then it declined. So what your outlook is there?

Secondly, on just what gives you confidence that Liberty National life sales will improve in the second half of the year, given that the agent count continues to decline and the actual results have been a little worse than what you've expected the last few quarters?

And then, finally, just on share buybacks. I think Gary mentioned that you've got $643 million available through the rest of the year. If you don't do any deals -- maybe you could discuss the deal environment also -- but if you don't do anything there, then should we assume that most of that would be deployed towards buybacks some time over the next three quarters?

Mark McAndrew: Okay. Well, first off, American Income. I guess one of the big differences this year versus last year, Jimmy, is again in looking at the percentage of those new agents that are achieving that maximum bonus level for the first time. Even though our recruiting was up last year and we were putting on more agents, the numbers of agents hitting that bonus level was declining. And it did result in higher turnover. So even though we saw some growth in the first quarter, we couldn't sustain it. And then it continued to decline throughout last year, which is why we are where we are at today. Now, with the renewed emphasis on, you know, spending more time with that agent, better training, and getting them to that bonus level, we're seeing a reversal of that trend. So again, the last two months, the number of new agents hitting that bonus level is up over 30%. That's the main thing that gives me encouragement that we're back on the right track. We did hit a low of, I think, 3,724 at the end of January. To have 8% growth in the last two months is very encouraging to me.

Liberty National, a little bit the same way. You know, Liberty National is a little different. Because of the way it's incorporated and the states it does business in, it has been able to use temporary agent licenses throughout its history. And they've almost become, for lack of a better word, addicted to the temporary licenses. And the turnover over at Liberty National has been so poor. Even compared to American Income, they only retain about half the number of agents that American Income does. I think a lot of that is the fact that a lot of these people never pass their exams. So they can write business for 90 days but then they're gone. And that's not productive. It's not a productive use of management's time. So I look in the first quarter the number of new agents who got a permanent license, who passed their exam, is up 34%. As well as the number (it's not coincidental) of new agents hitting that maximum bonus level is up 34%. We're seeing a significant reduction as a result of some changes in our incentive compensation. And the number of temporary licenses, it dropped almost in half the first quarter. So I think we're making the right choices as far as getting long-term growth. But by not having all those agents with temporary licenses out there, it is having some short-term impact on our sales. But I'm okay with that because we're trying to make changes that will generate longer term growth.

Jimmy Bhullar: And then on the buybacks?

Mark McAndrew: Well, as Gary mentioned, we do have a significant amount of cash right now. Going ahead to the M&A activity, we have looked, Jimmy, and right now I don't see any really good prospects on the short-term horizon for an acquisition. So we would expect to utilize most of that cash in share repurchase. Although we do have a Board meeting tomorrow and that will be an item on the agenda.

Jimmy Bhullar: And should we assume that that's going to be front ended, more so, given rates are pretty low? So would you front end most of the buyback?

Mark McAndrew: Well, again, we received middle of March the United Investors dividend. We've got a significant amount of cash sitting here. I would fully expect to accelerate our share repurchase in the second quarter from the first quarter level but not really prepared at this time to say exactly how much or when that will occur. Again, that's one of the reasons why we do have as wide a guidance spread as we have. But that is definitely on the agenda for the Board meeting tomorrow.

Jimmy Bhullar: Okay, thank you.

Robert Glasspiegel, Langen McAlenney: Good morning to you guys. Wondered if, Gary, you could refresh my memory. I thought you said as soon as you had the money you'd be doing sort of the maximum volume per day in buyback. It seems like your April volume would be less than the maximum. Was my math wrong or is it just tougher to buy the shares, or was there something tactical?

Gary Coleman: Well, actually, Bob, I don't remember saying we would buy the maximum.

Mark McAndrew: I was going to say I'm not sure I heard him say that. But, obviously, we haven't been buying anywhere near close to maximum since we received that. And, Bob, again, about all we can say at this point is we will have a discussion at the meeting tomorrow. We could buy it back. But, Gary, we figure the maximum would be somewhere in the $10 million a day range?

Gary Coleman: Yes, something like that.

Mark McAndrew: So we're nowhere near -- even at the first quarter level -- we were nowhere near buying the maximum.

Robert Glasspiegel: Okay. The last call I thought you said the environment (now that I mis-remembered the last I hate to try to remember the last call again), but I thought there was some comment that the environment for acquisitions had changed and you might consider something. Did I have that, Mark?

Mark McAndrew: Well, yes, and we're still open to the thought. We'll look at most anything reasonable. It's just, Bob, we have been talking to a number of different investment bankers. We've expressed our desire there, but even some of the potential candidates that we thought might be available we've basically been told that they're really not. So yes, it has changed a little bit in the last couple of months. It's not that we're not open to it. It's more I just don't see anything out there presently that is really on the market.

Robert Glasspiegel: It just seems like the two questions are sort of linked. Maybe you were a little slow on the trigger on the buyback if you thought the deals environment was finally more favorable.

Mark McAndrew: And I think that's a fair assessment, Bob. Part of the reason we didn't, we could have spent more in the first quarter but we really thought a couple months ago that there were a couple of good potential acquisition prospects out there. But those candidates, from what we know today, are not anything that are going to happen in the short-term. So yes, our attitude is a little different than it was a couple months ago.

Gary Coleman: Yes, Bob, I think on the last call when we talked about the environment for an acquisition is good from the standpoint we've got the cash. But also borrowing rates were so low that if the right candidate came along that it would be a good time to buy. But I agree with Mark. We've looked very hard and it's just looking more and more like there's not anything that's anywhere near imminent.

Robert Glasspiegel: Okay, last question. Your health premium actually increased sequentially for the first time in a bunch of quarters, which is probably a function of persistency as much as sales, but I was surprised. Could we be at a stabilization point? Your earlier answer was you look for it to continue to decline a little bit but the rate of decline seems to be slowing.

Mark McAndrew: Well, there's still some carryover, Bob. Our first quarter health premiums tend to be, if you look historically, tend to be stronger than the other three quarters. And a lot of that still goes back to United American, the Medicare supplement business. We always seem to have a strong first quarter sales and a lot of those people pay annually. The first quarter tends to be stronger than the balance of the year. So I don't think a sequential increase is any sign. We expect to see the margins hold pretty well constant to the first quarter level but still a small decline through the balance of the year.

Bob Glasspiegel: Thank you very much.

Paul Sarran, Macquarie Research Equities: The lapsed reduction efforts that you talked about, given that first year collected premium on the life side fell, which I think is the first time in a couple years at least, can you kind of give us an update on what overall premium growth would look like over the next few years?

Mark McAndrew: Paul, well we really don't provide guidance beyond the current year. And again, without taking into account our conservation efforts, which we haven't included in our guidance, I think we're still looking at somewhere in that 4% growth in life premium range for this year. So hopefully as the year progresses that will improve, as sales results improve and the results of some of our conservation improve. But, again, we haven't included the conservation efforts in our guidance at this point.

Paul Sarran: Okay. And then the conservation efforts, are those concentrated in any one business line or is that across all of the distributions?

Mark McAndrew: Well, we are taking a hard look at all of them. But right now, from the analysis that we've done thus far, I think the biggest potential is at American Income, followed by Liberty National, and a little less at Globe in the Direct Response. And it's mainly because of the type of business. American income, almost all of their business -- a very high proportion of their business -- is automatic deduction from people's bank accounts each month. And there's more potential to conserve that versus Globe in the Direct Response. Most of that business is direct bill. We send the people a bill, they send it back in. So from what we've seen, I think there's a lot more potential at American Income than the other distributions, but that's actually good because that is our highest margin business.

Paul Sarran: Okay. And then just lastly, how are you looking now at the amount of capital you want to keep at the holding company? It was around $200 million but I think you've maybe backed away from that hard limit more recently.

Mark McAndrew: Well, we haven't. Again that will be a topic of discussion at our Board meeting. At this point, we haven't changed that outlook. But that is something that we're going to continue to look at and continue to discuss. And I think, hopefully, we will get more comfortable with bringing that down.

Paul Sarran: Okay, thanks.

Jeffrey Schuman, Keefe, Bruyette, Woods: Thank you. Good morning. I'd like to start by just following up on that last one. So just to be clear, in order to have $643 million available to redeploy, you would have to eat into what had been the $200 million cushion. Is my arithmetic correct there?

Mark McAndrew: For the balance of the year that would be correct.

Jeff Schuman: That would be correct. Okay.

Mark McAndrew: If we hold the $200 million, obviously it would be $443 million.

Jeffrey Schuman: Okay. So clarified that. And then, I guess, like some others, maybe I'm struggling to correctly remember certain things on the last call. But I was thinking on the last call you had some optimism about actually having slightly positive growth in health sales this year. But now it sounds like you've described the continued decline as being in line with your expectations. So, am I not correctly remembering the commentary from last quarter?

Mark McAndrew: Well, we did, you are right. If I go back to a quarter ago, we did expect to see small growth in our health sales this year. And that would be a revision downward. As far as the premiums, we were not expecting growth in overall premiums. We did say that we were expecting a small increase in our health sales which we did not see in the first quarter. So in that regard, yes, that is a change.

Jeffrey Schuman: Okay. And that's again just based on just a reassessment of the Medicare Advantage situation basically?

Mark McAndrew: Basically. We hope to see more improvement in our Medicare supplement business. And again, American Income health sales and Liberty National health sales were all down a little more than what we had anticipated.

Jeffrey Schuman: Okay. And then on the Liberty National life sales outlook, there's a pretty big change. I think the guidance last quarter was for double-digit for the year. And I think, based on your quarter by quarter comments of down first quarter -- down second quarter -- flat third quarter -- and fourth quarter single-digit. I guess that nets to a decline for the year. You talked about the issues again this quarter you talked about last quarter. But I'm just trying to understand. Is the key delta? Is the key change from last quarter the issue around temporary licenses? Is that what changed the outlook over the last few months?

Mark McAndrew: Well, that is part of it. I won't say that that's all of it. Their sales results are less than what we'd anticipated a quarter ago. And again, part of it was the shift in emphasis to permanently licensed agents. But no, their results for the first quarter were below our expectations.

Jeffrey Schuman: Okay, and then one last, if I may. A little bit of help maybe with Part D arithmetic. I think the premiums this quarter or revenues were sort of down 5% to 6% consistent with, I think, the 7% you had talked about before. Sales are off by a much bigger percent. But I guess some of that is group business. So I'm not sure how to map between maybe just the big decline in sales and what we're seeing in the premiums. Does the large decline in sales imply that this at some point is going to run-off pretty aggressively or is that not the right arithmetic?

Mark McAndrew: No. The bulk of our sales come in the open enrollment period which is the fourth quarter. And some of those carry over a little bit into the first quarter, but the bulk of our sales come in the fourth quarter. So we have a pretty good idea. Well, we have a real good idea by now what our revenues are going to be for this year. We see, other than some people turning 65, we don't see -- the revenues are very predictable there during the balance of the year. So yes, our group sales were down in the fourth quarter of last year and a little bit carry over in the first quarter of this year, which accounts for the decline in premium revenues that we are seeing. But that should be fairly consistent throughout the year.

Jeffrey Schuman: So we really just need to focus on that fourth quarter?

Mark McAndrew: That's correct. The sales we see throughout the year, the other quarters are relatively insignificant.

Jeff Schuman: Okay. That's it for me. Thanks.

Steven Schwartz, Raymond James & Associates: Thank you, good morning guys. A couple, if I may. Mark, you know, you are doing the prescription drug thing and I guess others are too, on insert. Would there be a reason to suspect there might be a difference in terms or results between insert and direct when you go to direct?

Mark McAndrew: Well, I don't think it will have quite as much impact on the direct mail side of that business, mainly because the average, what we're seeing is the older the age, the more impact it has. Actually, when you get up to about 60 years old it has a much more significant impact in our mortality. And the average age that we're issuing in the insert side, I think it's about seven years higher than it is on the direct mail side. We expect it to have a significant impact in our direct mail adult business but not quite as much as it has on the insert media side.

Steven Schwartz: Okay, that's interesting. And then, if I may, going back to re-examine the question of temporary licensing and passing exams. Primerica has stated in the past that they've had some issues with actually getting temporary licenses, I think particularly with regards to the state of Georgia. Is that what's affecting you there?

Mark McAndrew: There has been a little issue with that. But it's been more a conscience decision on our part in order to improve our agent retention and try to get more long-term growth to really change our financial incentives for management, to not reward as heavily people who are just working with a temporary license. And I know it's been an issue for Primerica. On the other hand, you know, American Income doesn't use temporary licenses at all and their recruiting efforts are obviously very successful.

Steven Schwartz: Okay. And in the same vein, are you guys part of this effort to try to get the entry level exams maybe a bit easier, particularly given the type of products that you sell?

Mark McAndrew: It's interesting. I read the Wall Street article earlier this week, and I didn't realize up until that time that Primerica was really pushing for that. But it's definitely something we would support. Because, again, I look at our agency operations, the products that we're selling are very simple -- whole life, term life products.-- and I think in many states that the insurance exam is more difficult than it needs to be for the products that we're selling. So I very much will support them and we'll look into what we can do to help support that.

Steven Schwartz: Okay, one more, if I may. On the regulatory side, issues over the last week with regards to claims payments, California and Florida. Are you guys involved at all? Have you been named?

Larry Hutchinson: Mark, I'll address that. This is Larry. We haven't been named and I don't think we will be named because Torchmark subsidiaries have a number of processes in place to address situations where an insured's dies, a formal claim has been filed. So I really don't see it as an issue for the Torchmark companies.

Mark McAndrew: The other thing I'll mention -- a difference. When you sell whole life policies that generate cash value, and when that policy stops paying the premium, you have to do something with that cash value. And I know there are a number of large companies out there that use that cash value to buy a reduced paid up policy. For example, you may have a $50,000 policy and it generates X dollars of cash value. And what they will do with that, if you stop paying the premium they will buy you a $800 policy that's paid up for the rest of your life. And most of those people don't even realize that they have that coverage. So you end up building up a huge block of paid up business. On the contrary, we don't use reduced paid up as a standard non-forfeiture value in our products. For the most part, we use automatic premium loan or extended term insurance. So we don't have the same problem that some of these other companies have.

Steven Schwartz: Okay. Thanks very much.

Chris Giovanni, Goldman Sachs: Thanks so much. Steve got to most of my questions. I guess just one follow-up for the agent licensing. Can you guys comment at all in terms of what percentage of your agents that have temporary licenses ultimately turn to full time?

Mark McAndrew: I wish I had that, Chris. I don't have that number in front of me. It is obviously a number at Liberty. Again, the only place we use it is at Liberty National and I know that number is improving. If I look at the total number of agents at Liberty now who are operating on temporary license, it's down to 100 out of that 1,844, which is almost a 50% reduction since the end of the year. So it's something that is definitely improving, but it's not an issue at American Income at all.

Chris Giovanni: Okay. And then if the push was to try and get some of the licensing exams maybe a bit easier for people to pass, would that adjust your strategy in terms of recruiting and incentivizing managers?

Mark McAndrew: Well, that would be a huge plus for us if we're able to do that, because even though our passing rates are significantly better than Primerica's, if we could move our -- and I can't even quote you what our passing rates are (it's something I will definitely have by the next call) but if we can raise that by 25%, obviously that will have a significant positive impact in our distribution.

Chris Giovanni: Okay. And any way to quantify in terms of what your best guess would be for what that could mean on a maybe point basis for sales?

Mark McAndrew: Well, Chris, I'll tell you, it's something I'll look into between now and the next call. It would just be pure speculation on my part at this point. But it is something I intend to look into and I'll be able to better answer that on the next call.

Chris Giovanni: Okay. Thanks so much.

Eric Berg, RBC Capital Markets: Thanks very much. Good afternoon to everyone. Mark, just two quick questions. First, regarding the math -- the arithmetic of this conservation effort. Is one way to think of it as follows: that you have about $1.8 billion in annualized life insurance in force and that a $50 million addition would add roughly 2 to 3 percentage points to that -- what is currently running at a 3% year-over-year growth in the in force?

Mark McAndrew: I think that's a fair way to look at it, Eric. We've actually got somewhere between $1.7 billion, $1.8 billion. If we can conserve $50 million it would be close to a 3% additional improvement in our collected premiums. But again, that's something that if you project it out, which we have been doing, that will compound over time and it actually, in subsequent years, would add more than 3% to our growth in premium.

Eric Berg: Why is that? Why would it compound? Why would be the rate of growth in premium?

Mark McAndrew: If I just look at our projections, if we continue to not only conserve – okay, if we conserve $50 million in the first year, $40 million of that will continue to be in force the following year. Now, if we can conserve another $50 million in year two, now we have instead of $50 million of growth, we have $90 million of growth. And of that $90 million, if 10% of that laps off there's $81 million from prior years efforts, plus another $50 million. So then the following year we have $130 million. And, again, I'm just giving this as an example. But it does compound.

Eric Berg: So the idea is that you sort of conserve in succeeding years what you conserved in preceding years.

Mark McAndrew: Yes, I think as our in force grows, actually the amount that we conserve will continue to grow along with it.

Eric Berg: Okay. Second question is more of a qualitative one -- just deepening my understanding of the underwriting process at Torchmark. Is the idea that heretofore you have not asked people what medications they're on, or you have asked them but they conveniently develop amnesia?

Mark McAndrew: See, that's the difference between our Direct Response and our agency distribution. Our agency distribution we do much more underwriting. Even though we're looking at using prescription drug records, it won't have nearly the impact there. In Direct Response, the key to that is keeping the underwriting very simple. We ask really just something like five simple check the box, yes/no questions. And that's the basis we use. So this is to be able to see that someone is taking a drug that indicates a serious health problem. Yes, that's a big step at Direct Response. So no, we don't ask them currently to list whatever prescriptions they take because, again, we're trying to keep that process very simple. Any time we have tested a longer form application and more extensive underwriting, it's really hurt the response rate there.

Eric Berg: And how does this work from a privacy point of view? Is the idea that when people apply, is this fairly straightforward in black and white that they agree? They give you authorization to consult with the pharmacy company?

Mark McAndrew: Yes, they do. On every application there is an authorization. One, it allows us to check MIB. But there is a very explicit authorization that allows us to review their prescription drug history. So, yes. And we found that that really hasn't had any significant impact, negative impact, on our response rate. It has increased the number -- we're now rejecting 4% to 5% of the business that we used to issue. So it is having some short-term impact on our reported sales because of that. But those are people that we had issued previously that are not risks that we want to accept.

Eric Berg: Thank you.

Thomas Gallagher, Credit Suisse: Mark, I wanted to come back to John Nadel's question on the accounting change just to make sure I understood your response correctly. You talked about this $100 million of expenses that was an opportunity. Was that if you reduced those expenses? Was that if you restructured those expenses? And is that an annual earnings number that we could expect to potentially come back and be a boost to profits? Can you just dig into it a little bit?

Mark McAndrew: Sure. If we just reclassify, that doesn't affect the profitability. That just affects the timing of the profitability. But no, you're right. There's $100 million of expenses there in these distributions that don't appear to be deferrable beginning next year. So that's what I'm saying; it does give us an opportunity. And we are going back and taking a very hard look at each of those, and what can we do to reduce those. And, yes, if we can reduce those expenses even by 5%, $5 million, that will now go straight to the bottom line versus be deferred over the life of that business. So yes, it is something. At this point, I'm not really prepared to say what we think we can reduce those by next year but it is something that we are very focused on and taking a hard look at.

Gary Coleman: And, Tom, that would be annually.

Thomas Gallagher: So that's an annual $100 million to think about adjusting some percent of that.

Gary Coleman: Right.

Thomas Gallagher: Now, is there a chance, and even I'm not asking you to say what the probability is, but is there some chance you could get all those $100 million reclassified if you change the nature of the expense?

Mark McAndrew: I don't think we can get all $100 million. Again, you know, some of those expenses are management, overhead, salary. Even in Direct Response, we have overhead there that is not tied to the sale of a policy. Those expenses are not going to be deferrable so we don't have really the option to reclassify those. There may well be a portion of the $100 million that we can move into a commission expense. I guess the biggest opportunity there is probably at Liberty National but, you know, we're not able to really quantify what that might be at this point.

Thomas Gallagher: Okay. And so there is really two things to focus on here. One is there might be some percent of that $100 million that could be reclassified, restructured in some way which wouldn't be economic, wouldn't change your cash flow but might improve GAAP profits. But then there's also the opportunity to reduce those costs which would affect both?

Mark McAndrew: Yes, that's true.

Thomas Gallagher: Okay, that's clear.

The other question I had is just wanted to get an update on are you still, for your life insurance policies, crediting 6.5% plus? So your new money rate was about 6%. Where do you stand there? Any chance to reduce the crediting rate to improve underwriting margins, or rather investment margins?

Mark McAndrew: And, again, that is something we have discussed, and we have decided for this year on new business to lower the new business interest rate crediting to 5.75% which we're going to grade up over five years to 6.75%. And that has a little over $700,000 negative impact on our earnings this year but that has been included in our guidance.

Thomas Gallagher: And it's going to grade up over five years to 6.75%?

Mark McAndrew: I think that's right.

Gary Coleman: That's correct, yes.

Thomas Gallagher: Now, just the last question I have is just a follow-up to that. Why should you be selling a policy that starts at 5.75% that grades up given current rate environment? You know, shouldn't you be able to substantially reduce the crediting rate without a material impact? Or are there competitive implications if you went lower than the 5.75% grading up type policy?

Mark McAndrew: This doesn't affect our policyholders. It doesn't change. We're not changing our pricing. We're just changing an interest rate assumption. We don't have interest sensitive policies so we're not changing a crediting rate to cash values or some deposit fund. This is just changing our internal assumptions on what interest rate we're going to credit to reserves. Gary, do you want to comment on that?

Gary Coleman: Yes, I was just going to say the discount rate that we're using for the reserves, as Mark mentioned, we haven't changed our pricing as a result of that.

Thomas Gallagher: I'm sorry. Okay, I thought you meant you were changing pricing. And this is what's embedded in the crediting rate within the pricing. But this is simply a change in your accounting, and I should say your actuarial assumptions to set reserves.

Mark McAndrew: That's correct. That's why it will have a negative impact of, I think, $740,000 is our estimate for this year.

Gary Coleman: But Tom, the impact is slight. And I think we talked about it on either the last call or the one before, that should we change the interest rate to match this new GAAP discount rate, we would only be increasing our premiums about 1% to 3%. It wouldn't be a huge increase.

Mark McAndrew: And that's an election we make annually. If the interest rate environment changes, we're not saying that we might not change it back in subsequent years. But for this year's business that we issue, that is the interest rate we've decided to go with. And if the interest rate environment continues to stay down, we may again look at putting through some modest increases to maintain those margins.

Tom Gallagher: Got it. Thank you.

Mark McAndrew: Well, those are our comments for this morning. Thank you for joining us and we'll see you next quarter. Thanks again.