Torchmark Corporation

1st QUARTER 2012 CONFERENCE CALL

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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 2011 10-K and any subsequent forms 10-Q on file with the SEC.

Net operating income for the first quarter was $128 million, or $1.27 per share — a per share increase of 22% from a year ago. Net income for the quarter was $119 million, or $1.17 per share — a 39% increase on a per share basis.

Excluding FAS 115, our return on equity was 15.8% for the quarter and our book value per share was $32.70 — a 9% increase from a year ago. On a GAAP reported basis, with fixed maturities carried at market value, book value per share grew 24% to $38.19.

In our life insurance operations, premium revenue grew 5% to $452 million, and life underwriting margins increased 13% to $126 million. Net Life sales increased 9% to $88 million.

At American Income, life premiums were up 10% to $161 million and life underwriting margin was up 16% to $52 million. Net Life sales increased 17% for the quarter to $39 million.

The producing agent count at the end of first quarter was 5,104, up 26% from a year ago and up 17% during the quarter.

The first quarter results at American Income far exceeded our expectations. The number of newly-hired agents that produced business in the first quarter was up 52% from a year ago. The number of newly-hired agents who achieved our top bonus level (which is our best indicator of agent retention) was up 76% in the quarter. Our middle management ranks grew by 12% in the quarter and are up 29% from a year ago. Every key factor indicates that 2012 will be a stellar year for American Income.

In our Direct Response operation at Globe Life, life premiums were up 6% to $161 million, and life underwriting margin grew 10% to $38 million. Net life sales were up 9% to $39 million.

In am pleased with the results in direct response. While high gas prices and a difficult economy continue to impact our response rates, through continuing innovation we have been able to grow our sales and maintain our margins. I would also remind everyone of the change we made in our direct response underwriting in mid-2011. While improving our margins, it resulted in a 6% reduction in our net sales due to more applications being rejected for health reasons.

Life premiums at Liberty National declined 2% to $72 million while life underwriting margin was up 21% to $18 million. Net life sales declined 22% to $7 million while net health sales grew 16% to $3 million. The producing agent count at Liberty National ended the quarter at 1,276 - down 31% from a year ago and down 5% for the quarter.

The underwriting margins at Liberty National have benefitted from the change in DAC accounting due to the significant reductions we have implemented in our non-deferrable acquisition costs over the last couple of years. I am also very pleased with the progress being made in turning around our declines in producing agents and sales.

In mid-February, the agent count at Liberty National hit its low point of 1,228. Since that time, we have seen consistent growth and, as of Monday, the producing agent count has grown to 1,321 – which is up 7.5% in the past two months.

I am very optimistic that this agent growth will continue going forward which will result in improved sales at Liberty National for the balance of this year.

On the health side, premium revenue, excluding Part D, declined 6% to $181 million and health underwriting margin declined 10% to $40 million. Health net sales grew 5% to $15 million.

Premium revenue from Medicare Part D grew 50% to $74 million, while the underwriting margin increased 54% to $8 million. Part D sales for the quarter jumped 235% to $25 million.

The new low-income subsidized enrollees continue to exceed our prior estimates and we have raised our Part D revenue estimates for 2012 to $319 million vs. $197 million for 2011.

Administrative expenses were $41 million for the quarter, which were up 8% from a year ago but in line with our expectations. Roughly half of this increase was caused by the elimination of the administrative fee which we were receiving on the United Investor's business. The balance of the increase was due to increased costs in our Part D administration and conservation program.

I will now turn the call over to Gary Coleman for his comments.

Gary Coleman: Thanks, Mark. I want to spend a few minutes discussing our investment portfolio, 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, 2012.

As indicated on these schedules, invested assets are $11.6 billion, including $11.1 billion of fixed maturities at amortized cost. There is no exposure to European sovereign debt, and there are no commercial mortgage backed securities or securities backed by sub-prime or alt A mortgages.

Of the fixed maturities, $10.4 billion are investment grade with an average rating of A-. Below investment grade bonds are $723 million, compared to $758 million a year ago.

The percentage of below investment grade (BIG) bonds to fixed maturities is 6.5%, compared to 7.2% a year ago. And with a portfolio leverage of 3 times, the percentage of BIG bonds to equity, excluding net unrealized gains on fixed maturities, is 22%, which is less than most of our peers.

Overall, the total portfolio is rated A-, compared to BBB+, a year ago.

We have net unrealized gains in the fixed maturity portfolio of $873 million compared to $156 million a year ago.

Regarding investment yield:

In the first quarter we invested $232 million in investment grade fixed maturities, primarily in the utility and industrial sectors. We invested at an average annual effective yield of 4.76%, an average rating of A- and an average life of 30 years.

The new money yield of 4.76% has declined from the 5.65% yield for all of 2011 and the 5.22% yield in the four quarter. For this reason, we have lowered the GAAP discount rate used to calculate the reserves and DAC for policies issued in 2012 to 4.75% graded to 6.5% over 7 years.

For the entire portfolio, the first quarter yield was 6.47% compared to 6.52% in the previous quarter and 6.62% in the first quarter of 2011. The continued decline in the yield is due to the lower new money yields. As of March 31, the yield on the portfolio is 6.46%.

Now turning to RBC:

We plan to maintain our capital at the level necessary to retain our current ratings. For the last two years, that level has been around an NAIC RBC ratio of 325%. 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, 2011, consolidated RBC was 336%, and adjusted capital was approximately $46 million in excess of that required for the targeted 325% ratio.

Regarding share repurchases and parent company assets:

In the first quarter, we spent $90 million to buy 1.9 million Torchmark shares. So far in April, we have used $36 million to buy another 750 thousand shares. So, for the full year through today, we have spent $126 million of parent company cash to acquire 2.6 million shares.

The available liquid assets at the parent consist of assets on hand and the expected free cash flow from operations. And as we've said before, free cash flow results from the dividends received by the parent from the subsidiaries less the interest paid on debt and the dividends paid to Torchmark shareholders.

Assuming shareholders dividends at the current level, we expect to generate approximately $347 million of free cash for the entire year. This is less than the $350 - $360 million projected in the previous call because we increased the dividend rate on Torchmark stock. Effective with the dividend paid in the second quarter, the dividend rate increased from $.12 to $.15 a share, which will result in 2012 dividends of approximately $56 million, $8 million more than they would have been. In spite of the dividend increase, the 2012 free cash flow plus the $74 million of cash on hand at the beginning of the year, will provide a total of $421 million of available cash for the full year.

As of today after deducting the $126 million of year to date share repurchases, the parent will have approximately $295 million available between now and the end of the year.

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

Now, before I turn the call back to Mark I would like to discuss the impact of the new accounting rules for DAC.

On January 1, 2012 the Company adopted ASU 2010-26, which changes the rules regarding the deferral of acquisition costs. This standard changes the timing of GAAP profits to the extent that certain expenses deferred under the previous rules will no longer be deferred. However, it does not affect our overall profitability, cash flows or statutory earnings.

We adopted the new rules retrospectively, which means that DAC was written down to the level as if the new standard had been in place in prior periods. The earnings impact of the new rule is a combination of the reduction in expenses deferred on newly issued policies, somewhat offset by the reduced amortization of DAC resulting from the retroactive write down.

The financial statement impact of the new rules is consistent with the estimates we discussed on the last call:

- First, compared to the comparable balances at 12/31/11 the retroactive write down was 16% of the DAC asset, resulting in a 10% reduction in GAAP Equity excluding net unrealized gains on fixed maturities.

- In addition, earnings for the first quarter of 2012 were 1.2%, or $1.6 cents per share, lower than they would have been under the old rules.

- And ROE, excluding net unrealized gains, was 15.8% compared to 14.2% in the fourth quarter of 2011 under the old rules.

All prior periods on the net operating summary and the balance sheet have been restated to reflect the retroactive adoption of ASU 2010-26.

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

Mark McAndrew:

Thank you Gary

For 2012, we continue to expect our net operating income per share will be in a range of $5.10 and $5.40 per share.

Before I open it up for questions, I would like to comment on the upcoming transition.

I am the fourth CEO in the 32 years history of Torchmark and every succession has been seamless. I want to assure everyone that this succession will also go very smoothly. While I am stepping down as CEO on June 1, I will continue in an executive position as Chairman until June of 2013.

I have the utmost confidence in both Larry and Gary and have worked closely with both of them for over 25 years. I believe that either one of them would be an outstanding CEO on their own, but I also believe that together they will be better than either would be individually.

I believe that the Company is in the best shape it has been during my tenure as CEO and I know that Gary and Larry will only continue to make it better.

Those are my comments for this morning. I will now open it up for questions.

QUESTION AND ANSWER

Jimmy Bhullar -JP Morgan Chase & Co. - Analyst

Hi, thanks. I had a couple of questions. First, Mark, maybe you could discuss the rationale for the Co-CEO structure, and then, once you are not the chairman, should we expect the CEO and Chairman role to be with one person or would it be split? And then on the business, just at Liberty National, the margins have actually been steadily improving, they were 24.5%, I think this quarter, 22.9% first-quarter last year. Seems like expense levels have declined, but what's your expectation for margins there?

Mark McAndrew - Torchmark Corp - Chairman & CEO

Okay, well first on the Co-CEOs, and it really -- again, you have to understand that Gary, Larry and I really have worked very closely together our entire careers, even the last seven, when I have been CEO, the three of us have really consulted on every significant decision made in this company, and we always reached consensus. And, I do believe this is one of those cases that the two of them together, because they do have very complementary skill sets, will be better than either one would be individually.

So, I feel very comfortable in this particular situation with these two individuals, it is the best thing for Torchmark, and it makes the most sense in this situation. As far as Liberty National, yes the margins have improved. I would expect they will stay at about the same level, at least for the balance of this year, Jimmy. Somewhere in that 24% to 25% range. That's what we have assumed in our guidance.

Jimmy Bhullar

And then, just comments on the CEO, Chairman and CEO?

Mark McAndrew

Well, that really, again, I am going to stay on at least through June of '13, and in fact I will intend at least finish out my term, which would be April of '14. Beyond that, it really hasn't been decided at this point. So, that is something that we'll continue to discuss.

Jimmy Bhullar

Okay, thanks. Good luck with the transition.

Mark McAndrew

Thank you

Chris Giovanni - Goldman Sachs - Analyst

Thanks so much. I guess the question first, just for Gary, when you made the comment about lowering the discount rate to 4.75%, and then grading it up to 6.5% over seven years. If you had, if you have decided to keep it at 4.75%, what impact would that have, as we think about the balance sheet or the income statement?

Gary Coleman - Torchmark Corp - CFO

Well, there would be slightly higher reserves than say - well we were at 5.75% for 2011 issues, but I think the more of the impact you'd see on the financial statements, if we kept this over time. Right now, the weighted average discount rate is right around 5.6%. If we kept it at -- if we use 4.75% for succeeding years, you would see that rate come down. Remember, this just applies to 2012 issues, so it takes a while for that rate to come down, but if you continue, if we continue 4.75% for several years, at some point it would start moving from the 6.6% down toward the 4.75%.

Mark McAndrew - Torchmark Corp - Chairman & CEO

Chris, I would also point out, too, that when we analyzed before, for example American Income, if we lowered 100 basis points our interest rate assumptions, and kept them 100 basis points lower throughout the life of the business, it would take a 2% to 3% rate adjustment to maintain our profitability.

And again we did put through January 1 of this year 5% rate increase at American Income, as well as most of the products at Globe Life. So while it will have a negative impact on our excess investment income, that will also be offset by higher underwriting margins going forward, as a result of the rate increase.

Chris Giovanni

Okay, so that was where I was going next. At this point there is not a real need to adjust pricing any further. You got which you need, you think, currently in American Income?

Mark McAndrew

No. Even if we had to go to 4.75% and maintain that, the rate adjustments we put through are more than adequate to maintain our profitability.

Chris Giovanni

Okay. And then, in terms of the below-investment grade, I guess the NAIC class 3 and 4 buckets look like they increased a bit, sort of sequentially here. Can you talk a little bit about what drove that?

Gary Coleman

Well, most of that occurred in the bank hybrids that we have, and I believe it was Moody's downgraded several by one notch, which would not have pushed them into the below-investment-grade category normally, but under the new rules that were passed last year regarding hybrid-type securities, that one notch downgrade under those new rules moves them into a class that goes into the SVO class for below-investment-grade bonds.

So it's a little bit of an usual item, but it's the quality of those bonds are not impaired in any measure, and as a matter of fact, on just a normal basis just under standard ratings, they're not below-investment-grade bonds; they are just as SVO classifies them.

Chris Giovanni

Okay, and then just lastly on the succession. Is there, first, I guess, is there an mandatory retirement age in terms of being an executive within Torchmark? And then lastly, I didn't know if Gary or Larry could comment at all, it might be a bit premature, but a little bit in terms of some strategy vision if they think there will be any kind of material changes, whether it is to the operating businesses or thinking about capital deployment?

Mark McAndrew

I will take the first part of that, Gary. I think the only position in the company that has a mandatory retirement age today is the CEO, which currently is set at 65. That always, through board action, could be adjusted going forward. Right now, there is a mandatory retirement for CEO at 65. Gary?

Gary Coleman

I don't look for any major changes in our business model. Larry and I have been involved in this company for many years, as Mark said, and we are firm believers in the model. I think there will be changes as our insurance markets change, and also as the financial markets change. We will adjust to them, just as we have over the years. So, I think there will be changes, but I don't think you will see major changes in the fundamentals of how we operate the business.

Larry Hutchison - Torchmark Corp - General Counsel

I like all of what Gary said. I agree with that. Our immediate focus is to have a seamless transition, and to continue the type of growth we've experienced in 2011 and 2012.

Chris Giovanni

Okay, thanks so much. Best of luck.

John Nadel - Sterne, Agee & Leach, Inc. - Analyst

Hi, good morning, everyone. A couple of quick ones. I'm just curious about , I know that we just talked about discount rates, and I'm just curious. I saw in the release that the discount rate on the net policy liabilities in the excess investment income segment were actually up year-over-year. I guess I am just curious, just given what rates have done, why up and not down?

Gary Coleman - Torchmark Corp - CFO

Okay, well John, you have to remember that it is truly a discount rate. We are not setting rates or crediting interest to policyholder funds. It was simply the discount rate we used to calculate the reserves and the DAC. Although we have lowered the discount rate used in the last years, you have to remember that discount rate that we set each year applies only to policies issued in that year.

So, even though we are at 4.75% now with 2012 issues, over 90% of our reserves are for policies issued prior to 2011. And during that period of time, we were using a discount rate somewhere, at times of 6%, and at times as high as 7%, so between 6% and 7%. So when you weight all those issue years together, that is where you get to where it's, like I said, a little under 6%. And over time I think, actually, we will see that rate go up just slightly, and then it's going to level off. And then, as I mentioned earlier, if we continue to 4.75%, then several years from now you will see that trending down toward the 4.75%. It is more right now, it's just the weighted-average rate because of all the many years of issue that we have out there. It is higher than where we are for the current year issues.

John Nadel

Okay. And so, to Mark's point earlier in response to Chris, pricing actions that you have taken, we should essentially see a shift in the profitability to more underwriting earnings, and maybe excess investment income is a modest offset to that?

Mark McAndrew - Torchmark Corp - Chairman & CEO

Over the long term, John, that's true.

Gary Coleman

Over the long term. I think it's not the fact that you're not going to see – that we are not going to have a spread. We are still going to have a spread over what we are earning on the assets over what the discount rate is, it's just going to be a little bit smaller than it has been in the past.

John Nadel

Understood. Okay, and just another quick one on excess investment income. I noticed the invested assets dropped about $300 million at the end of 1Q, versus the end of 2011, so quarter-over-quarter, sort of surprised to see a drop at that level. Could you explain what happened there, and then maybe an outlook for the remainder of the year? I assume it grows from here.

Gary Coleman

Yes. I don't have a good answer for that at the moment. But, our projection is it will grow around the 4% range for the year.

John Nadel

Okay. That's helpful. And then, lastly I know, Mark, you updated us on Medicare Part D, on the revenues for the year. Obviously things going better than you originally expected a few months ago. What's your outlook for sales there for the remainder of the year? I mean obviously we are through the biggest part of the seasonal sales cycle.

Mark McAndrew

Well again, we picked up a large number January 1, but what's really exceeding our expectations is the number of new enrollees we are getting each month from either people just turning 65 or people just qualifying for the low-income subsidy. And that number is running -- we've been averaging about 6,800 per month, where initially we were only assuming 2,000 to 3,000 of those new people each month.

So, we now expect to pick up over 75,000 during the course of the year, and that will be pretty smooth through the year. So, if you look at the first-quarter sales numbers, we expect the ongoing sales to stay up at about that level.

John Nadel

Very helpful, thank you. And good luck with the transition.

Gary Coleman

John, I might add, if you're looking at the assets with the fixed securities at market value, one thing is we -- the unrealized gains or losses, as I mentioned earlier, were at $873 million; they were $964 million at the end of December 31. So, we had a $90 million drop just from that.

John Nadel

Okay. I thought I was looking at it on the cost basis, but I will follow up with you off-line.

Gary Coleman

Okay

John Nadel

Thank you

Sarah DeWitt - Barclays Capital - Analyst

Hi, good morning. Could you update us on your outlook for sales in American Income and Direct based on better-than-expected first-quarter results? And then, also given your positive comments on Liberty, when do you think sales in that business could turn positive?

Mark McAndrew - Torchmark Corp - Chairman & CEO

Well, okay. In our guidance, there's probably still a little conservatism built in there. At American Income, we are assuming in the 14% to 15% growth in our sales this year, which, again, we were at 17% in the first quarter, so I think there's a good chance that we will beat what we've built into our guidance. At Globe, we're still – I think there's also in our guidance we are assuming mid-to-high single-digit growth sales there. There is still some uncertainty there so we're not -- I don't think we're being overly optimistic.

But as far as Liberty National, again I think we'll see sequential growth going forward, but if I look back at last year, I feel confident that we will have growth by the fourth quarter, in sales year-over-year. I would expect the third quarter will be close to flat, but if I look a year from now when we are comparing to the first quarter this year I expect to see strong double-digit growth in sales a year from now at Liberty.

Sarah DeWitt

Okay, great. Then just on Globe, I think you had said part way through the first quarter you were seeing introductory offers up about 30% year-over-year. Is that still the case?

Mark McAndrew

Well, I think first quarter we are seeing about -- it is running a little over 20%, the number of new inquiries coming in, versus a year ago. So that is still going well, but again that's why I mentioned we are starting with a 6% reduction just from the change in our underwriting.

So if I look at the 9% growth we had in the first quarter, without that change in underwriting it would have been more like 15% growth, so that tempers it somewhat from when we're comparing year-over-year. But, I still am very pleased with where it's at, and particularly if gas prices come down and the economy continues to improve, we may significantly beat that. But at this point, we don't want to be overly optimistic in our projections.

Sarah DeWitt

Okay, great. And then just finally on the CEO transition, given your mandatory retirement age, I believe Gary and Larry are about the same age as you, should we consider this a long-term leadership structure?

Mark McAndrew

Well, yes, Gary is actually older than me but Larry is -- you're 58, Larry?

Larry Hutchison - Torchmark Corp - General Counsel

I'm 58.

Mark McAndrew

So, he has -- Gary is 59?

Gary Coleman - Torchmark Corp - CFO

Right.

Mark McAndrew

So they have six, seven years before they hit the current mandatory retirement age. That mandatory retirement age can easily be extended through board action so, Gary, Larry, I will let you put your two cents' worth in.

Larry Hutchison

We are certainly not concerned this is an interim move, Gary and I are committed to the company. I would like to be here for at least the next seven or eight years. Gary?

Gary Coleman

I agree totally with what Larry said. This is not an interim move; this is definitely something that we are committed to.

Sarah DeWitt

Okay, great. Thanks for the answers.

Bob Glasspiegel - Langen McAlenney - Analyst

Good morning to everyone. I heard a lot of, Mark, I heard a lot of better-than-expected trends particularly on the sales and Liberty National margins, and a few- and med supp. I didn't hear anything that is worse than you thought it was, yet you didn't change your guidance. Is it just too early in the year to talk about changing the range, or was there something that offsets all these positives you're highlighting?

Mark McAndrew - Torchmark Corp - Chairman & CEO

Well, about the only thing, we actually are -- if I look at our earnings per share for the first quarter, I know we missed the street by $0.01, but we are actually about $0.01 ahead of where we thought we would be, and we do have a number things that are doing better than we anticipated.

About the only thing, Bob, that is, that offsets that is the price we paid on our share repurchase was more than -- when we originally came out with that guidance the stock was at $38. So, that has tempered it somewhat, is the reason we left it where it is. Again, I expect we will narrow that range as the year, particularly next quarter. But right now, the improved results offset the higher share price.

Bob Glasspiegel

And, it sounds like the Liberty National margins are an ongoing plus that we should factor in?

Mark McAndrew

Well, I think where they are at today is -- I think we are going to try to maintain that. I wouldn't expect continued upward movement in those margins, I think.

Bob Glasspiegel

But still, year-over-year, it's going to be helping you for three more quarters?

Mark McAndrew

Yes, it will.

Bob Glasspiegel

And you weren't building that into your original plan?

Mark McAndrew

Well, we were expecting better margins. When we did our guidance we were expecting improved margins in the life business at Liberty.

Bob Glasspiegel

To this extent?

Mark McAndrew

Well, not too far off. We knew as a result of the DAC write-down that the margins at Liberty would go up as a result of the cost savings and the restructuring that we've done at Liberty that have moved more of those costs to variable costs, so that was by design.

Bob Glasspiegel

I think you are following C.B.'s path. Didn't he retire a bit early, around this similar age?

Mark McAndrew

He retired at 60, and I became CEO, and he stayed on as Chairman for a year when he turned 59, so you are very astute, Bob. It's basically exactly the same transition that we had with C.B.

Bob Glasspiegel

Are you going to follow in his path and play blackjack tournaments, too?

Mark McAndrew

Probably not; but one never knows.

Bob Glasspiegel

Okay, good luck.

Mark McAndrew

Thanks, Bob.

Ed Spehar - Bank of America- Analyst

Thank you, good morning. Mark, I was wondering could you -- I missed if you said something on the Medicare supplement business. How should we think about that over the next few years, and to what extent should we think about it differently if for some reason we get a Supreme Court ruling that voids the health reform?

Mark McAndrew - Torchmark Corp - Chairman & CEO

Well, I will talk, and I'll also let Larry address some of that. Right now, Ed, especially in the independent agency side at United American, we are seeing -- we're starting to see some growth there, but again, it's not going to be a major contributor to our growth. I still hope that continues to improve over the next two, three years. Larry, do you want to address the --?

Larry Hutchison - Torchmark Corp - General Counsel

Ed, health reform really didn't address Medicare supplement; that was an exempted product. We are seeing lots of proposals right now in Washington that deal with everything from benefit structures to loss ratios. Our information is there is not going to be any change in respect to the Medicare system; probably the earliest will be 2014. There is a lot of uncertainty. We don't know which party is going to be in control, we don't know who's going to really shape the future changes of Medicare. We know there's going to be changes, and we will adapt to those changes, and be a player in that market. I can just say, at this time, it's a little early to say exactly where Medicare will be in 2014, '15 and '16.

Ed Spehar

Okay. And Mark, hopefully now you will have more opportunities drive your car a quarter mile at a time.

Mark McAndrew

(laughter) Thanks, Ed.

Paul Sarran - Evercore Partners - Analyst

Thanks. I wanted to ask first about the American Income agent growth, and I guess my question is, how many new agents can you handle per middle-management? The reason I ask is because you seem to be adding a lot of new agents at a lot faster rate than you're growing the middle-management ranks. And I'm wondering if that becomes a limiting factor, at some point?

Mark McAndrew - Torchmark Corp - Chairman & CEO

Well, Paul, I don't see it as a limiting factor. Yes, the number of new hires was up over 50% in the first quarter versus our middle-management ranks were up 29%, but one of the things that we were very successful in doing was--the number of middle-management people that we have that hired and trained a new person increased significantly from a year ago.

We did, in the middle of last year, put out a new incentive program to try to get more of our middle-management involved in the recruiting and training, and that appears to been very successful. But not only did we increase the number of middle-managers by 29%, we also increased the percentage of those that actually recruited and trained someone.

So, can we maintain 50% to 60% growth? That's going to be difficult. But can we continue to grow our middle-management ranks by 30% to 40% per year? Yes, we can, so I don't see it as a real limiting factor. Actually the more new people we are hiring and bringing on, those people -- as our agent base gets larger, the candidates to move into middle-management becomes larger.

Paul Sarran

Okay. You got a question about Liberty margins. I wanted to ask about American Income where margins improved somewhere around 100 to 200 basis points year-over-year. It looks like it was mainly driven by lower expenses. How sustainable is that, and is there any room to push expenses lower? Or, is that about as low as you can get it?

Mark McAndrew

I don't know. Obviously, as we continue to grow, we do have some fixed expenses there, such as management salaries and travel, that will give us some improvement in our expense margins. But again at American Income, the vast majority of our costs there are variable costs that are commissions, and those will grow as sales grow.

So, I don't anticipate any major improvement in the margins there, although we did put through, again, a 5% rate increase at the beginning of this year. Which, over time, will add a little bit to the underwriting margin. But we don't anticipate it really improving from where it is, but we expect to be able to maintain it where it's at.

Paul Sarran

Okay. At Globe, you talked about 20% higher new inquiries, and then if we offset that by the 6% impact from the new underwriting standards, that still would seem to suggest mid-teens sales growth, which is higher than what you are guiding to. You mentioned uncertainty. What's causing you to get -- keeping you from getting that?

Mark McAndrew

You need to understand, the inquiries is from our insert media segment, which is a little over half of our total sales. The other half comes from our direct mail program, which - it's been relatively flat, in comparison. So, it's -- the 22% does not pertain to all of the direct-response business. So, that's part of the reason why I get back to mid-to-high single-digits in growth.

Paul Sarran

Okay. So, you said responses -- that the direct-mail is pretty flat year-over-year?

Mark McAndrew

Right now, our direct-response sales are relatively -- are pretty flat from a year ago.

Paul Sarran

Is that also impacted by the new underwriting?

Mark McAndrew

Yes, it would be.

Paul Sarran

Okay. And then last question, you have $53 million at the holding company. Do you expect to drive down any further, or is $50 million where you think you will keep a buffer for the rest of the year?

Mark McAndrew

Well, I still anticipate maintaining somewhere in that $50 million-range. Gary, do you have any --?

Gary Coleman - Torchmark Corp - CFO

I think we will be right around $50 million.

Paul Sarran

Okay, thanks.

Steven Schwartz -Raymond James & Associates - Analyst

Good morning, everybody. Just a couple, but first Mark, congratulations; Gary and Larry, congratulations.

Mark McAndrew - Torchmark Corp - Chairman & CEO

Thank you.

Gary Coleman - Torchmark Corp - CFO

Thank you.

Steven Schwartz

Gary, just to make sure that I'm clear, here, you are planning, as of right now, to spend the $295 million that you detailed before -- $21 million, less the $126 million spent, so far?

Gary Coleman

Well that's what's available, and I'm sure we will spend most of that

Steven Schwartz

Okay and a lot of my questions were answered, but I do want to ask -- go back to the ACA question for Larry. I believe, Larry, that there is going to be, or supposedly, whether it happens or not remains to be seen, but a lot of money going away from the Part C program. Is that correct?

Larry Hutchison - Torchmark Corp - General Counsel

That's correct. Again, all of it is just proposed at this point. I think we're going to have a gridlock in Congress through the remainder of the year. I think it's next year you will see those proposals actually take shape, and better able to predict exactly what the Medicare system is going to look like.

I've seen everything from collapsing A and B together, to changes in C, and there's so many proposals it's hard to sort out and say exactly what the Medicare system will look like. We know it's going to change, and we'll adapt to those changes.

Steven Schwartz

Is there anything in it -- I haven't see in, but just to make sure -- is there anything in ACA to affect Part D?

Larry Hutchison

I haven't seen anything with respect to Part D. Really, the proposals all dealt with the basic Medicare system.

Steven Schwartz

Okay just wanted to make sure. Thank you guys, congratulations again.

Mark Hughes - SunTrust Robinson Humphrey - Analyst

Yes, thank you, good morning. You had previously discussed some efforts to try to improve persistency or policy retention. Have you had a lot of success on that front? And is there more we might anticipate?

Mark McAndrew - Torchmark Corp - Chairman & CEO

It's actually going very well. I'm pleased with the results there. In the first quarter, we ran a little bit ahead of our goal. Our new initiatives on conservation, we conserved a little over $7.4 million of premium, versus our target was $7.1 million. We still project that we will conserve something over $31 million of life premium this year, through our new conservation efforts. So, very pleased with where it at, and it's actually running about 4% of where we thought it would be.

Mark Hughes

Yes. How about the Medicare Part D margins, with the growth in policies, is the mix similar? How should we think about profitability in that going forward?

Mark McAndrew

Again even with the low-income-subsidized enrollees, the product we are selling there has the same underwriting margin as the products we were selling to individuals. So we expect the current margin, as a percentage of premium, to basically maintain that margin going forward.

Mark Hughes

Thank you.

Vincent Lui - Morningstar - Analyst

Hi, thank you. Just most of my questions have been answered, especially with the discount rate related to business, new business. Just want to go back and talk a little bit about the risk points. I understand, Mark indicated there's more rejections to the applications due to the new underwriting standards. But do you see any change in demographic composition or how it is used in the markets you serve, in general?

Mark McAndrew - Torchmark Corp - Chairman & CEO

Well, no. I haven't really seen a lot of change in the demographics. Again, in our insert media side, our demographics are a little lower-income than they are on the direct-mail side. That's why it tends to have -- be more impacted by the economy. So there’s some pressure , but we haven't seen any significant changes in our demographics.

Vincent Lui

Okay. So, you basically just strengthening the underwriting standards to improve the mortality experience?

Mark McAndrew

Absolutely. Again, the trick in our direct response is it has to be something that is low cost and efficient, because of the large numbers we're dealing with. And, utilizing their prescription drug records, it did point out that about 6% of the policies that we had been issuing were really people that were uninsurable. So it definitely will -- is improving our mortality and improving our margins. We're making more profit but we are issuing less business.

Vincent Lui

Okay. Can you comment on the current rejection rate versus the historical ones in the direct-response business?

Mark McAndrew

Well, it varies by product and by market. I don't have those. It's something we can provide for you, but I don't have those in front of me.

Vincent Lui

Okay. All right. Thank you. That's all I have.

Jeff Schuman - Keefe, Bruyette & Woods - Analyst

Thanks, good morning. I want to talk, first, a little bit more about Part D. The premium increase there this year is so large that it actually changes the growth rate of the entire company, which is certainly great for 2012. You talked a little bit about 2013 last quarter, but I was wondering if you could just kind of update your thoughts on whether Part D is likely to go up, down, or sideways next year?

Mark McAndrew - Torchmark Corp - Chairman & CEO

Sure Jeff. In fact, we're doing our pricing right now for, I think by June 1 we have to have our pricing for 2013, and dealing with our pharmacy benefits manager, we think we've come up with some ideas to continue to have a positive impact on our pricing. It's impossible to project at this point what 2013 is going to look like, but right now, we are optimistic that we will not only maintain, but hopefully see additional growth in 2013 from Part D.

Jeff Schuman

And, in terms of the share that you've gained this year, did it come primarily at the expense of a couple of companies who could directly respond, or did it come very broadly from the entire market?

Mark McAndrew

Well, Jeff, I am not sure that I know why. I don't know exactly where those came from. But again, that is something that we can get back to you on.

Jeff Schuman

Okay. And then, with regard to the CEO transition, Mark, you talked about Gary and Larry having some complementary skills, and I am just wondering if they could share with us any preliminary thoughts about how they might organize themselves? For example, are all the lines and functions that are going to report to both of them simultaneously, or will there be some division of focus, or how are they thinking about that?

Mark McAndrew

Gary and Larry, I'll let you respond to that.

Larry Hutchison - Torchmark Corp - General Counsel

Jeff, division of focus on a day-to-day basis, I will be in charge of the TMK marketing; the CEOs report to me. I will continue with the legal compliance; the HR functions. Gary, why don't you speak to your day-to-day reporting?

Gary Coleman - Torchmark Corp - CFO

Jeff, I will continue with the investments; financial reporting; investor relations; internal audit, those areas, but in addition to that the actuarial area will report to me, and also the administrative area. But, I would like to emphasize, we are doing that from a day-to-day standpoint, that's helping the operations, but all material decisions will be made jointly by Larry and me.

Jeff Schuman

Okay. That's very helpful. Good luck with that, thank you.

Sam Hoffman - Nomura - Analyst

Alright, Yes, good morning. I want to ask a question about the initiatives underway at Liberty National. Can you talk about the leading indicators that you are seeing that indicate to you whether or not those initiatives are going to work? And then in the worst case if they don't work, can you just go back to the $7 million of sales each quarter? Or, is there a downside case, because you are undergoing an organizational restructuring, that could unravel further?

Mark McAndrew - Torchmark Corp - Chairman & CEO

Well, Sam, yes, I will address that. I feel very confident that Liberty National is going through a turn around, and I am very confident that the initiatives will work. Again, we -- Steve DiChiaro, who we moved in from American Income, as well as Roger Smith as CEO, I think are doing an outstanding job.

I think the attitudes at Liberty are better than they've been in quite some time, and as far as the early indicators, our recruiting is growing, and obviously the agent count in the last eight, nine weeks, has consistently grown, so I don't have a contingency plan because I don't feel like I need one. I felt that strongly that Liberty is on the right track and moving forward. And I think over the next couple of quarters it will be apparent to everyone.

Sam Hoffman

Terrific, and then one other follow-up question. You've obviously had an enormously successful run at Torchmark, outperforming every other company in the industry by a wide margin. And now, as a large shareholder of the company yourself, do you intend to hold your stock in the company through your retirement in 2013 and 2014, as well as your options?

I am not sure how the program works, and maybe you could comment a bit upon that, and then your intentions to hold your stock through the turnaround of Liberty National and the continued growth of the other businesses, which are doing so well. Thank you.

Mark McAndrew

Well, Sam, I definitely intend to hold my stock. And not just through the transition, but I intend to hold it indefinitely. Again I think our stock is still undervalued by historic standards, and I think our prospects for growth, again, I think are the best they've been in my tenure as CEO.

You may see, as far as options, and in fact -- because of the change in accounting rules on options, we can no longer do reloads that we used to do in the past, so now every officer here has options that expire each year. And even if we take the equity from those options and convert it into outright shares, it will still show up as a sale of company stock.

So, you may see some of that, in fact you will see some of that, because everyone has options that expire each year. But that does not mean that we are selling shares. In fact typically most people are converting those to outright ownership shares.

Sam Hoffman

Right, and then the program that you have at this point, it doesn't require you to exercise all of your options and sell them upon your retirement? You can basically invest and do whatever you like?

That is one of the nice things at age 60, I have the full -- I have at least 5 years, Larry, is that correct?

Larry Hutchison - Torchmark Corp - General Counsel

That's correct.

Mark McAndrew - Torchmark Corp - Chairman & CEO

So, on all the options I have at least five years before I have to exercise those.

Sam Hoffman

Terrific. Thanks for taking my call.

Operator

There are no further questions in queue, so I'd like to turn it back over to our speakers for any closing remarks.

Mark McAndrew - Torchmark Corp - Chairman & CEO

Well, thank you for joining us this morning, those are our comments, and we hope you have a great day. See you next quarter.