3rd 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 and for those of you on the east coast good afternoon. 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 third quarter was $129 million, or $1.22 per share — a per share increase of 13% from a year ago. Net income was $137 million, or $1.30 per share — a 38% increase on per share basis.

Excluding FAS 115, our return on equity was 14.3% for the quarter and our book value per share was $35.20 — a 10% increase from a year ago. On a GAAP reported basis, with fixed maturities carried at market value, book value grew 16% to $40.92 per share.

In our life insurance operations, premium revenue (excluding United Investors) grew 3% to $430 million, and life underwriting margins increased 5% to $121 million. Life net sales declined 1% in the quarter to $78 million.

At American Income, life premiums were up 9% to $154 million while life underwriting margins were up 8% to $51 million. Life Net sales increased 8% for the quarter to $36 million.

The producing agent count at the end of the third quarter was 4,448, which was up 9% from a year ago and up 3% during the quarter.

I believe that American Income is back on track. New agent recruiting was up 11% from a year ago. The number of new agents who achieved our top bonus level for the first time increased 40% from a year ago. And our mid-level sales management ranks have grown 23% from a year ago.

American Income I believe is now in position to see renewed double-digit growth in sales during the fourth quarter and throughout 2012.

In our Direct Response operation at Globe Life, life premiums were up 3% to $145 million. And life underwriting margin was also up 3% to $37 million. Net life sales were down 4% to $31 million.

As a result of the changes in our underwriting, which we've previously discussed, and improvements in our package design, we increased insert media circulation by 22% in the third quarter. The responses received from these inserts increased 43% during the quarter. There is a significant lag from the time those responses are received until a net sale is recognized;

though we are confident that the increased responses will result in net sales growth in the fourth as well as subsequent quarters. For the fourth quarter, we intend to increase our insert media circulation by 38% over last year. However due to the uncertainty in the economy, our guidance projects only mid-single digit growth in direct response sales for the fourth quarter and full year 2012.

Life premiums at Liberty National declined 2% to $72 million and life underwriting margin was up 5% to $16 million. Net life sales declined 23% to $9 million. The producing agent count at Liberty National at the end of the third quarter was 1,578 which was down 27% from a year ago. Health sales at Liberty National jumped 47% as a result of some new product offerings in our worksite/payroll deduction market.

Effective January 1 of 2012, all sales office and lead expenses at Liberty National will become the responsibility of our Branch Managers as we continue to move Liberty National to a model similar to American Income. Also as of November 1 of this year, all new agents will be hired on an independent contractor basis versus employee- again following the American Income model.

While these changes may have some short-term effect on our sales, we believe they are necessary to preserve our profit margins and to put Liberty National into position to achieve longer term growth.

We continue to make excellent progress in our efforts to reduce the lapses in our life insurance businesses. As I mentioned on the last a call, during the second quarter we were able to conserve $2.2 million of annualized premium through our new conservation initiatives. For the third quarter, we were able to conserve $5.8 million of annualized premium. These numbers will continue to grow as we expand our conservation efforts.

For 2012, our guidance assumes $30-35 million of annualized premium will be conserved next year.

On the health side, premium revenue, excluding Part D, declined 6% to $177 million while health underwriting margin was down 8% to $34 million. Health net sales grew 26% to $16 million. In addition to the previously mentioned growth at Liberty National, the United American independent agency sales grew 46% to $7.6 million for the quarter, reflecting improvement in the Medicare supplement marketplace in both individual and group.

For 2012, we currently project 10% to 15% growth in our net health sales.

Premium revenue from Medicare Part D declined 5% to $50 million while, underwriting margin improved 18% to $7 million.

For 2012, we have developed a new lower cost Part D plan, which will allow us to pick up 76,000 Low Income Subsidized auto enrollees, as well as grow our individual sales. This new product is priced with the same underwriting margin as our existing products. We do expect however, for Part D revenues to increase by 40-50% next year.

Administrative expenses were $40 million for the quarter up 4% from a year ago. They were roughly $800,000 over our projection primarily as a result of additional salary expenses associated with our conservation efforts. For 2012, we anticipate a 1 – 2% increase in administrative expenses.

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, capital and share repurchases.

First, the investment portfolio:

On our website are three schedules that provide summary information regarding our portfolio as of September 30, 2011.

As indicated on these schedules, invested assets are $11.2 billion, including $10.7 billion of fixed maturities at amortized cost. Of the fixed maturities, $10 billion are investment grade with an average rating of A-. Below investment grade bonds are $734 million, down from the $863 million at December, 2010. The $129 million decline this year is due primarily to $142 million of dispositions offset partially by $12 million of downgrades.

The percentage of below investment grade bonds to fixed maturities is 6.8%, compared to 8.3% at the end of 2010. That percentage may still be a little 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 20%, which is likely less than the peer average. Overall, the total portfolio is rated A-, compared to BBB+, a year ago.

We have net unrealized gains in the fixed maturity portfolio of $942 million compared to gains of $306 million at end of the second quarter and $572 million a year ago. The increase in unrealized gains in the third quarter is due primarily to treasury yields declining more than credit spreads increased.

Regarding investment yield:

In the third quarter we invested $134 million in investment grade fixed maturities, primarily in the industrial sectors. We invested at an average annual effective yield of 5.53%, an average rating of BBB+, and an average life of 29 years. For the nine months, we've invested $831 million at an average yield of 5.79% and an average rating of A-.

For the entire portfolio, the third quarter yield was 6.54% compared to 6.56% in the previous quarter and 6.68% in the third quarter of 2010. The continual decline in yield is due to the lower new money yields. As of September 30, the yield on the portfolio is 6.53%.

Regarding 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 round 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 the level of our ratings.

Regarding share repurchases and parent company assets:

In the first nine months, we spent $720 million to buy 17 million Torchmark shares. So far in October, we have used $14 million to buy another 400 thousand shares. For the full year through today, we have used $734 million of parent company cash to acquire 17.6 million shares, or 15% of the diluted outstanding shares at the beginning of the year.

At September 30, the Parent Company had $166 million on hand, and should generate approximately $6 million of free cash flow in the fourth quarter. As of today, after deducting the $14 million of October share repurchases, the parent will have approximately $158 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 that impact of two issues: the new accounting rules for DAC and the current interest rate environment.

Regarding DAC, on January 1, 2012 the Company will adopt ASU 2010-26, which changes the rules regarding the deferral of acquisition costs. This standard will change the timing of GAAP profits to the extent that certain expenses deferred currently will not be deferred under the new rules. However, it does not affect our overall profitability, cash flows or statutory earnings.

We will elect to adopt the new rules retroactively, which means that DAC will be written down to the level as if the new standard had been in place in prior periods. Going forward, the earnings impact will be the 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.

We currently estimate that:

- The retroactive write down will be between 15% to 25% of the current DAC asset which will result in a 9% to 15% reduction in GAAP Equity excluding OCI.

- In addition, we expect that 2012 earnings will be 1% to 2%, or $.06 - $.10 per share, lower than they would have been under the old accounting rules.

- And we also project that our ROE will rise from the current 14% level to somewhere between 15% and 17%.

These estimates were included in our guidance for 2012. We will give more definitive guidance in the fourth quarter analyst call.

Finally, I'd like to discuss the current low interest rate environment and the impact of a "lower for longer" rate scenario. Our concern regarding an extended period of low interest rates involves the impact on earnings, but not the balance sheet.

In response to lower interest rates, we plan to raise the new business premium rates on the majority of American Income's life products and the Direct Response juvenile products by 5%. These increases will provide additional margin to help offset reductions to excess investment income on new policies without having a detrimental impact on sales.

However, in an extended low interest rate environment the portfolio yield will continue to decline as we invest new money at lower rates, and thus will pressure excess investment income. However, the decline will be slower than might be expected, since on average, only 2% to 3% of fixed maturities will run off each year over the next five years.

To help quantify the impact of extended low rates on excess investment income, we conducted stress tests assuming a new money yield of 4.75% for the next five years along with a GAAP reserve discount rate of 4.75% graded to 6.5% on policies issued during that time period. Under that scenario our portfolio yield would drop to somewhere between 5.95% and 6.10% after five years, and the average GAAP discount rate for our entire in-force block would be around 5.6%. As such, we would earn a spread of 35 to 50 basis points on the net policy liabilities, while earning the full 595 to 610 basis points on our equity. As you can see, we would still generate substantial excess investment income along with our high underwriting margins.

Now let's switch to the balance sheet. Due to the nature of the products we sell and our high underwriting margins, our DAC and benefit reserve balances will not be significantly impacted by an extended low-interest rate environment. Unlike many of our peers, most of our in-force business consists of straight-forward protection life policies that are not interest-sensitive and are accounted for in accordance with FAS 60. Under FAS 60, we would not increase amortization of DAC or put up additional benefit reserves due to interest rate fluctuations unless a loss recognition situation occurs.

We have conducted loss recognition testing using our September 30 financial data. In order to have a loss recognition situation on our life business, we would have to believe that our overall portfolio yield would drop to 4% and remain there permanently. We don't believe there is a reasonable set of circumstances that this scenario would occur. As such, we are not concerned about the low interest rate environment affecting our balance sheet through adjustments to DAC, reserves or goodwill.

The only block of business where extended low interest rates might affect the balance sheet is our fixed annuities, which are accounted for under FAS 97. However, due to the size of our annuity block, any impact would be insignificant.

With regards to statutory financials, we perform the New York Seven cash flow testing scenarios at each year-end in accordance with regulatory requirements. We updated this testing at the end of the third quarter to incorporate the lower treasury rates and determined that we still generate adequate surplus in each of the seven scenarios. Therefore no additional statutory benefit reserves are required.

Finally, a low interest rate environment can affect Torchmark's RBC related to the fixed annuities; however any impact there would not be significant.

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

Mark McAndrew:

Thank you Gary

For 2011, we project our net operating income per share will be within a range of $4.65 to $4.69 per share. For next year, we are projecting our net operating income per share to be between $5.10 and $5.40 per share. I would like to reiterate that this guidance reflects the .06 to .10 reduction as a result of the change in DAC accounting.

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

QUESTION AND ANSWER

Jimmy Bhullar - *JPMorgan Chase & Co. - Analyst*

Alright thanks, I had a couple of questions. First one for Mark, if you could talk about your sales expectations at Liberty National? In the past, when you've tried to make changes or adjust commissions there's been generally more disruption than initially expected.

So I realize Liberty is smaller than it used to be, but it's still about 10% of your Life sales. So I was wondering if the momentum in American Income direct response next year would be offset by just weakness at Liberty National overall?

And then secondly, for Gary, you mentioned $158 million of cash at the Parent Company. How much do you think you'll need to maintain in this type of an environment as a cushion, and assuming

that whatever that cushion is, anything above that would be used for buyback?

Mark McAndrew *- Torchmark Corp - CEO*

Okay. Well, first at Liberty National. You're correct, Jimmy, that any major changes in the past, we have seen a disruption. In our guidance, we're still assuming a mid-single-digit decline in our life sales at Liberty National next year. Although, we do expect to see some growth in our health sales at Liberty National next year.

On the other hand, we have announced these changes a couple weeks ago and they were well received. I will point out, you know a year ago, we had 165 offices at Liberty National and today we're down to 75.

We have closed or consolidated most of the underperforming offices there. And I felt like these changes were very well received. I really believe that the branch managers that we have now have the desire to grow, the ability to grow, as well as the tools to grow.

So I remain optimistic that we will see a turnaround at Liberty National next year. Although again, in our guidance we have assumed a small continued decline in our life sales.

Gary Coleman *- Torchmark Corp - EVP and CFO*

And Jimmy, as far as the cash cushion is concerned, I would think we would have a cushion of somewhere between $50 million to $100 million. We don't have -- there's not any specific need that we're targeting, but we feel like we do need a cushion, and it should somewhere be in that range.

Jimmy Bhullar

Okay, and then just one more on Med-Supp -- you mentioned your -- or Part D, you mentioned enrollment expectation, but what's going on in terms of pricing in the Med-Supp market? We've heard of some of the major medical companies trying to expand further in that business. Could you talk about just pricing trends in the Medicare market?

Mark McAndrew

Well, overall, our pricing trends have been very favorable. Again, we re-priced our products, I think, last year and the largest selling product -- the high deductible Plan F, I know we have actually reduced our rates the last 2 years, which has made it more attractive.

You know, really over the last several years, we haven't seen -- we've seen very small single-digit increases on all of our products. You know, not seeing -- even though we're seeing some activity there, it's still a very small part of our business. And while we expect some growth there, we don't expect it to get -- we're not projecting it's going to get back to where it was 10 years ago. So it will continue to be a competitive marketplace, but again, we think in a competitive situation, we're in better shape than we've been in a number of years.

Jimmy Bhullar

Okay, thank you.

Steven Schwartz *- Raymond James & Associates - Analyst*

Hey, good morning everybody. Mark first on the Part D, I got that- maybe this is terminology. You've lowered the costs. You're going to pick up 76,000 auto enrollees. That's going to lead to 40% to 50% increase in revenues. But, you said, the same margin now. Do you mean by that, the same profit margin, like around 10% or whatever, or are you talking about the ultimate earnings?

Mark McAndrew *- Torchmark Corp - CEO*

Yes, we have the same margin as the percentage of premium, as our other products.

Steven Schwartz

Okay.

Mark McAndrew

We basically came up with a product that has a little higher deductible and also a more narrow formulary, as far as what prescriptions are covered, which allowed us to bring -- we still have the same products that we offered last year. But we added another product, which has a lower cost, which got us below that median pricing level, which qualified us, I think, in 21 out of 34 regions for the low income subsidized people.

So, in addition to the 76,000 that we're picking up, immediately, we'll start picking up about 2,000 additional people each month, people turning 65, as a result of that also. So, yes, we feel very comfortable that we will see that kind of growth in our Part D revenues next year.

Steven Schwartz

Okay. And then if I may continue, on Globe, the discussion with regards to responses, those numbers sound huge, yet your--yet the sales guidance I guess for conservatism reasons, isn't there. What could go wrong between the responses and the sales?

Mark McAndrew

Well, again--

Steven Schwartz

And go wrong is probably the wrong word.

Mark McAndrew

No, that's okay terminology. Again, you have to understand, in the insert media the whole process. It's a long process. We first put a very simple insert piece into some other media, whether it's a coupon pack or newspaper or a Direct TV bill. That is what we increased that volume by 22% in the third quarter.

People then send us a response. Either most of those responses are reply cards that are mailed in, although they can also call in or get on the internet. But most of those people send back a reply card. Once we get the reply card in, and the number of

reply card -- the responses we got were up -- gee, now I have to -- over 50%.

Steven Schwartz

They were big numbers.

Mark McAndrew

Yes, substantially. Once we get that reply in, we start sending a series of product offerings, really out over the -- not just the next 3 months, but 6 months, 12 months, even out further than that.

For example, historically, the first product offering we send out, we get 8% to 9% of those people to buy. The second one, it goes down to -- in the 3% to 4% range. The third one it, goes down in the 2.5% to 3% range. But we continue to get people to reply to those product mailings, which include an application and rates, for an extended period of time.

But even after we-- these people send the application in, it has a $1 for the first month introductory offer. So, after we issue the policy, we then have to, 30 days later, we send them a bill. Until they pay that renewal premium, we don't treat it as a sale.

So, in fact, I apologize. I should have better lag numbers for exactly how long after that insert media increases will we see those sales. And I will have better numbers for the next call. But, again, the first step of that, the number of responses, is up, according to our plan. It just takes an extended period of time for that to be turned into what we report as net sales.

Steven Schwartz

Okay, I appreciate all that. But let me just ask one little follow-up to that. Is there anything about -- I know the new underwriting that you're doing that could lead to the ultimate hit rate, no matter how long it takes to be lower than it has been historically?

Mark McAndrew

Well again, that's one of the things. We're issuing a smaller percentage of the applications we're getting in. That does offset somewhat.

Steven Schwartz

Okay.

Mark McAndrew

We decline -- I think its 5% to 6% more of the business that we're getting in. So, that does somewhat offset the growth in sales. If we weren't doing that, our sales would be 5%, 6% higher, although the profitability of those sales would be lower.

So that is one of the factors that tempers the growth in sales. But also, you know, again, as I've mentioned before, the insert media's the one aspect of our business that the response rates do tend to follow the consumer confidence index.

And so again, we've tempered it a little bit, because even though the inquiries are up, we could still see -- if you say what could go wrong? We could still see those response rates for the fulfillment packages could go down, or the percentage of the people who end up paying beyond the $1 introductory offer could go down as a result of economic conditions. So, we're trying not to be -- we're trying to be on the conservative side there.

Steven Schwartz

Okay. I appreciate that. Thank you.

Edward Spehar - Bank of America Merrill Lynch - Analyst

Thank you, good morning afternoon guys, good morning I guess. Mark, could you go over one more time the conservation numbers for the -- what they were in the second and third quarter, and then what your expectation is for '12?

Mark McAndrew *- Torchmark Corp - CEO*

Okay, sure. In the second quarter, our new conservation efforts in addition to what our agents are doing, we conserved about $2.2 million of premium, annualized premium. In the third quarter, that number increased to $5.8 million.

And I would point out over 60% of that business is being conserved, is at American Income, which, again, is our -- it's where we focus our initial efforts because it's our highest margin business, obviously. But, in our guidance for next year, we have assumed somewhere between $30 million to $35 million of conserved annualized premium. Our goal is to still to beat that number, but that is what we've used in our guidance.

Edward Spehar

And when we think about the earnings impact of a $1 of conserved premium, given the fact that it's more than 60% American Income, how should we think about what the dollar amount to bottom line is of that?

Mark McAndrew

Well, it's one of those things, for example, it takes time. The $5.8 million that we conserved in the quarter had almost no impact this quarter because those people, the vast majority of those people are paying monthly.

So, it had almost an unnoticeable impact this quarter. But as we continue to conserve business, that number will grow. In our guidance, Ed, it added -- the conservation added about $0.03 a share, after tax, next year.

Edward Spehar

Okay, so it's not a big number?

Mark McAndrew

Not at this point. It's something that will continue to grow over time as we continue to do that, and each quarter it will continue to add more value.

Edward Spehar

Okay, and so just -- and the Part D, so you're saying that the expectation is that the top and bottom line should be up 40% to 50% next year versus this year?

Mark McAndrew

It should be very -- yes, that would be a reasonable expectation, yes.

Edward Spehar

And then when we think about -- I know you said there's the sort of growth from those that will be turning 65 that could -- that's a positive. But if we think about this business, you know when you first had a big bump-up and it was sort of like a one-time thing, you got it, and it just sort of stayed there. Is this -- would you think about this, you know, this bump here as sort of a, we go to a new level and then it's kind of another plateau?

Mark McAndrew

Well if we continue to stay below that median, it will be more -- it will be more of a growth, be more growth going forward for now. For example we're going to immediately pick up 76,000 people, but we will be adding about 2,000 new people net each month. So, it will be -- by the end of next year, we should have grown by about 100,000 people through the auto enrollees. And those new people turning 65 will continue to add to that. So, no I would expect it to contribute some growth going forward, not as much as, obviously, it will next year.

Edward Spehar

Okay, and then the final question is you know, your life premium I think was up 3% this quarter, your health premium was down 6%. Given all of the sales numbers that you're anticipating next year and the sales that have happened recently, is it-- are these numbers that should be relatively stable next year, I mean in terms of the growth rates? We don't see any real pickup in those -- like is health going to continue to decline mid-single digits, life maybe grow a few percent, and we won't start to see growth until '13?

Mark McAndrew

Well I, hold on just a second here. I've got more detailed numbers. You know, if I look at our total life premium, I think we're -- at our midpoint, we're expecting a little over 4% growth in our life premium. So, I think that's slightly better than where it's at today.

On the health side, we're still expecting about a 6% decline in our health premiums for next year. So, that's at the midpoint of our guidance. So, yes, I think that's a fair statement, Ed.

Edward Spehar

Okay, and then in buybacks, are we sort of assuming that, like typically, all free cash flow used for buybacks? Or is there any difference in what you're assuming in the guidance?

Mark McAndrew

Well obviously again, it's something that we'll continue to evaluate each quarter. But right now we feel comfortable with really about a $50 million cushion. We want to keep that for the end of the year. Just until we know for sure what our year end RBC is going to be, but -- and again, barring acquisition potential or anything else, we still believe that share repurchase is a good use for it. And right now, I don't see any reason to hold more than that for cushion.

Edward Spehar

So, in terms of -- so, when you think about your guidance, you're assuming that whatever free cash flow you generate in 2012 is used to buy back stock?

Mark McAndrew

That's correct. In our guidance, we have assumed we would use basically our free cash -- we've assumed at different price levels, but we have basically assumed we would use it to repurchase stock.

Edward Spehar

Can Gary remind us what that number -- I don't know if you've given us anything on that number expectation for next year.

Mark McAndrew

Gary, free cash next year, we anticipate being about $360 million?

Gary Coleman ***- Torchmark Corp - EVP and CFO***

Yes, it should be around $350 million to $360 million. We haven't -- just based on our preliminary estimate.

Edward Spehar

Okay. And that's after dividends?

Gary Coleman

Right.

Edward Spehar

After common--

Gary Coleman

Right.

Edward Spehar

Okay. Thanks a lot guys.

Jeffrey Schuman - Keefe, Bruyette & Woods - Analyst

Thank you, hello. I think Ed got me started on this, but maybe we can continue. Struggling to contemplate the 2012 guidance, particularly after you're now telling us that it now incorporates the impact of the DAC change. So the midpoint of your range is $5.25. If we back out the impact of the DAC change, it would be $5.30 to $5.35, and that's against the consensus of $5.10.

But, I'm kind of running out of ways to rationalize that, because I think as you run through the premium numbers, probably most of us aren't too far off there. I think most of us know what to anticipate in share repurchase. Conservation is only $0.03 issue. Part D sounds like some upside. Obviously, you don't reconcile against our models, but I mean, what other things should be on our list to think about?

Mark McAndrew - Torchmark Corp - CEO

Well, you know I guess, that's where -- no doubt the impact of share repurchase is a big item. And we don't get the -- we said at the beginning of this year, we wouldn't get the full impact of the United investors sale until first, second quarter of next year. It was actually dilutive by $0.05 to $0.10 per share this year. And it will be accretive next year as we get the benefit of that.

But other things, the expense reductions we've seen at Liberty National, we have, again we've closed 90 offices in the last 12 months. And those expenses are going to obviously be expenses that would no longer be deferrable. Those expense changes will add about $0.11, but the Part D increase will add about $0.05. The change in the underwriting and direct response will add about $0.02 after tax.

So, there's a number of different factors adding to it. But still, the share repurchase at the current multiple, if -- we would have been double-digit growth in earnings per share this year without the United investors sale. So I'm not -- again, you're right, we don't reconcile to your model, but even at the beginning of this year, it's not far off of where we thought we would be.

Jeffrey Schuman

Okay. That's all helpful. I mean the share repurchase is powerful although I think most of us can probably already have that worked in. Probably the Liberty expenses, the Part D, couple of the other things, maybe not so much. Those are helpful thoughts thanks.

Mark McAndrew

You Bet.

Colin Divine - CitiGroup - Analyst

Good morning, I just have 3 areas I would like to talk about. First on Liberty Mark, I think for now it's at least 27 quarters, on terms of the agent force shrinking, and particularly the sort of, not the

first year agents, but the renewal agents, which I assume were driving a lot of the sales here.

Where do you think that finally bottoms? You know, is it going to be next year? I know you've talked about I guess growing the number of managers. What does it take to sort of get that to finally turn around? Would be question number 1.

Question number 2, have you given any thought to changing the dividend policy to maybe, you know, doing a little more in dividends than buybacks? And then the last one, you know, on the M&A front, certainly you mentioned in the past, you've looked at some things. You know, is there anything else out there that you could do that might help to give Liberty sort of a booster shot here?

Mark McAndrew ***- Torchmark Corp - CEO***

Okay. Liberty National that, that is still the biggest question mark that we have, and, again, I've -- I feel good about the changes that we've made. I think they were received well. But the next, I would say 90 days, next 3 to 4 months, it's really going to really see how well those changes were received.

We have made them much more businessmen, much more entrepreneurs versus just managing our offices. The one big thing, Colin, that we need to remember, regardless of the level of sales going forward, we have moved most of the fixed expenses at Liberty into variable expenses.

So, at least the margins on the business that we write at Liberty National will be predictable going forward. But you know again, I can't -- I believe that by the first of the year, we will be at a low point at Liberty National. But only -- we're really going to have to wait and see what that is.

We're still expecting a small decline, again, in our life sales, although we do expect our health sales to pick up. But I think next 3 or 4 months, we'll definitely, we'll have a better answer to that. As far as buyback, we definitely will discuss that.

We have been slowly raising our dividend each year for the last several years, but it still comes down to at the current PE that we're trading at, we still believe buyback is a very good use of the money. But it is something particularly if we get into a very low interest rate environment, we obviously could pay a much higher dividend. But at this point, there's no definite plans to change our dividend policy.

That might change if the PE comes up some. As far as M&A, I don't -- particularly right now, until we see some positive results at Liberty National, I would be -- in fact, I would just say I would not be interested in buying another home service company even though the pricing may be attractive on it.

You would almost have to look at it as a closed block of business because particularly with changes in DAC accounting, it's going to be very difficult to show a GAAP profit in a home service business. So, I don't see anything on the short-term horizon there.

Colin Divine

Okay. Well, Mark, just sort of following up then, hence -- you mentioned with, obviously, the change in the DAC accounting, with what you have been able to do now at Liberty, at the very least, have you made Torchmark's earnings less sensitive to the pace of improvement at Liberty under the new rules because you've moved to this variable comp system?

Mark McAndrew

Absolutely, Colin, there's no doubt. And the change in the DAC accounting, even though these were plans that we have been moving towards for a number of years, the change in the DAC accounting definitely sped up our plan to move it, to eliminate those fixed expenses and move them to more of a variable expense.

So, it does -- when people wonder why we're not more impacted by the change of DAC accounting, the change at Liberty National is a big piece of that. We have moved the bulk, not only the office expenses, but the lead expenses we were picking up, we have eliminated those and moved them to the branch manager.

Colin Divine

Okay, alright thank you.

Mark McAndrew

You're welcome.

Randy Binner *- FBR Capital Markets - Analyst*

Hey thanks, I want to go back to the interest rate disclosures that Gary gave at the top of the call. Could you just cover what the rate increase is going to be in your life book, first of all? And then I have a follow-up.

Gary Coleman *- Torchmark Corp - EVP and CFO*

What I mentioned was, is that for the American Income life policies and our juvenile policies, we're going to raise the premiums on newly issued policies by 5%.

Mark McAndrew *- Torchmark Corp - CEO*

Randy, I'll just even -- a year ago, we were talking and we talked about the impact of lower interest rate crediting on our, on the profitability of our life businesses. And we said a 100 basis point reduction in our interest rate crediting had about a 1% to 3% -- it would take 1% to 3% increase in our rates to offset that.

We did lower this year, in 2011, our interest rate crediting on new business from 6.75% down to 5.75%, but we did not adjust our rates. While we -- if this continues -- if the interest rates continue to decline the way most people think they will, we're just trying to get ahead of the game. And assuming that we may have to lower our interest rate crediting again next year, we are going ahead in January 1, we will have rate increases in effect of roughly 5% of both American Income and some of the products in direct response.

Randy Binner

Okay, and so the, the elasticity of pricing, though, I mean you have a fair amount of ability to change price on these target markets, right?

Mark McAndrew

Yes.

Randy Binner

AIA is a very strong, controlled distribution. That's a sold product. So, do you have much competition if you think about it? And how they are changing pricing? Or do you just think about what's best for Torchmark?

Mark McAndrew

We think mostly about what's -- more so on the direct response, we do rate testing and determine optimum pricing levels. But, for the most part, we price our products to achieve desired profitability. American Income is not in a high- in a highly competitive marketplace.

When I look at -- we have looked in the past, and it's only been a handful of policies a month that are replaced by another company. It's really not an issue at American Income. So, I feel confident that it won't have any negative impact. We raised rates slightly back, gee, I guess it was 1999, and it had no impact on sales there. In fact, actually the next 3 years, sales doubled.

Randy Binner

That's helpful. So, the take-away here is that it's the liability offset to the lower yields that we all model, and so that keeps the margin. And then just real quick if I could because it just didn't get followed up on; but Gary on your interest rate scenario? I guess, I just wanted to confirm that the take-away there was a spread on underwriting.

Is there a way to communicate your scenario just on kind of how much base -- how many basis points the overall yield on the portfolio would lose in that scenario?

Gary Coleman *- Torchmark Corp - CEO*

Well, that's what -- I think I mentioned it.

Randy Binner

Maybe we were talking about the same thing and I misunderstood.

Gary Coleman

What I was saying, currently the portfolio is at 6.53%. And what I was saying is we invest at 4.75% all the cash flow each year for the next 5 years. That 6.53% declines, depending on the different scenarios, but the decline to 595 basis points to 610 basis points.

Mark McAndrew

At the end of the 5-year period

Gary Coleman

At the end of the 5-year period, that's what the portfolio yield would be.

Randy Binner

Okay so, in that scenario, your overall portfolio would lose 35 basis points?

Mark McAndrew

At 35 to 50 somewhere in that range.

Gary Coleman

Right

Randy Binner

Point-to-point over the 5 years?

Gary Coleman

Over the 5 --

Randy Binner

For each year?

Mark McAndrew

No, at the end of 5 years

Gary Coleman

Yes, at the end of 5 years. Let's just say in between, it's going from 6.53% to 6%. At the end of the fifth year, the portfolio yield would be 6%. We would lose 50 basis points, but we would lose that over a 5-year period.

Randy Binner

So 10 a year?

Gary Coleman

Yes

Randy Binner

And that would be a step function down. That would be a linear -- you would lose 10 each year as you're modeling out?

Gary Coleman

It wouldn't be 10 exactly, but it would something --

Randy Binner

Yes

Gary Coleman

-- be around there.

Randy Binner

No, that's helpful. Thanks for the clarification.

Gary Coleman

Sure.

Jack Shirkin ***- SunTrust - Analyst***

Thank you very much. It's actually Jack [Shirkin] for Mark. I may have disconnected or hopped off for a second. But what I was wondering about was the increase in the response rates from 43% on inserts this quarter versus 16% last quarter. I know you revamped your strategy there in the actual insert itself. When did that go into place, and do you attribute that to anything else or just the better marketing, better advertising piece?

Mark McAndrew ***- Torchmark Corp - CEO***

Well, we really rolled out with that in the second quarter and even though our --. We saw improvement in our initial response rates in the insert media, which is why we increased our circulation in the third and fourth quarters as a result of the improvements we saw in the second quarter. And I do attribute it to... It's significantly -- it's a rather large change in the packaging in those inserts, and that's what has caused that increase.

Jack Shirkin

So--

Mark McAndrew

--about a 17% improvement in the response rate.

Jack Shirkin

Right so, in your view, it's more the marketing piece itself, rather than a change in the environment?

Mark McAndrew

Yes.

Jack Shirkin

Okay, great. Thank you.

Bob Glasspiegel ***- Langen McAlenney - Analyst***

First of all, good luck tonight and hope you guys pop some champagne.

Gary Coleman –Torchmark Corp – EVP and CFO

(laughing) We're planning on it.

Bob Glasspiegel

Are you heading there to St. Louis, or are you going to just watch it live?

Mark McAndrew - *Torchmark Corp - CEO*

Well, I might go up for game 7, if it goes 7.

Bob Glasspiegel

Yes. Yes. Good luck on that score, I'm with you. Tax rate came down a little bit. Did you bring -- is the full 9-month rate a good sort of run rate? You talked before about some tax things that you were doing. I was wondering if you could expand on that?

Gary Coleman –Torchmark Corp – EVP and CFO

Bob, the main reason the tax rate came down is we got increased tax benefits from our investment in low income housing tax credits. And that brought the rate down to just about 32%, where it had been 33.7%. What we expect to happen is, we'll end the year at 32.7% and that should be about the rate we have in 2012. But, it's all due to getting increased tax benefits that we weren't expecting on those investments.

Bob Glasspiegel

So, it's a little bit of help in Mr. Schuman' s answer, Jeff's answer to the question for next year, the tax rate, positive going into next year?

Gary Coleman

Right, yes. It's going to be about -- well, 33.7% to 32.7%, so, we're picking up a percent there.

Bob Glasspiegel

And I apologize. You were fading out on just the cash flow dynamics of the fourth quarter. Just remind me, your cash is $168 million at the end of the third quarter?

Mark McAndrew – Torchmark Corp - CEO

I think it was $166 million.

Gary Coleman –Torchmark Corp – EVP and CFO

Yes, $166 million.

Bob Glasspiegel

And what dividends are you getting?

Gary Coleman

We're only getting the addition to the cash flow for the quarter will be $6 million, so that would give us $172 million available. But we've already spent $14 million.

Bob Glasspiegel

Right, we got that. And you said you could take that to $50 million?

Mark McAndrew

Yes --

Bob Glasspiegel

That's your cushion?

Gary Coleman

Right

Bob Glasspiegel

Okay. Okay, that's it thank you.

Mark McAndrew

Okay Bob

John Nadel – Sterne, Agee & Leach

(silence)

Operator

Please go ahead. Your line is open.

Mark McAndrew – Torchmark Corp – CEO

Are you there John?

John Nadel

Mark -(static)

Operator

Please go ahead, John.

Mark McAndrew

I think we lost him.

Operator

It looks like we have a follow up.

Steven Schwartz - *Raymond James & Associates - Analyst*

No, asked and answered. I didn't know how to turn it off.

Mark McAndrew - *Torchmark Corp - CEO*

(Laughing) Okay.

Mark McAndrew

Okay. Well, I want to thank everyone for joining us today and we will talk to you again next quarter. Have a great day.