Torchmark Corporation

4th QUARTER 2009 CONFERENCE CALL

February 11, 2010

Corporation Participants

Mark McAndrew, Chairman and CEO
Gary L. Coleman, EVP and CFO
Larry Hutchison, EVP & General Counsel
Rosemary Montgomery, EVP and Chief Actuary
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; Rosemary Montgomery, our Chief Actuary; and Mike Majors, Vice President of Investor Relations.

Some of my comments or answers to your questions this morning may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2008 10-K and any subsequent forms 10-Q on file with the SEC.

Net operating income for the fourth quarter was $122 million or $1.47 per share – a per share increase of 5% from a year ago. Net income for the quarter was $113 million or $1.36 per share.

Excluding FAS 115, our return on equity was 14.3% and our book value per share was $44.22 – a 13% increase from a year ago. On a GAAP reported basis, with fixed maturity investments carried at market value, book value was $40.87 per share.

In our life insurance operations, premium revenue grew 4% to $418 million and life underwriting margins increased 2% to $114 million. Life net sales were $81 million, up 5% from a year ago.

At American Income, life premiums were up 11% to $132 million and life underwriting margin was up 6% to $43 million. Net life sales increased 24% to $35 million. Producing agents at American Income grew to 4,154, up 35% for the year.

I am pleased with the results at American Income. We believe that we now have the processes in place to sustain long-term double-digit growth in life sales, as well as premiums and underwriting margins. We continue to test new ways to improve these processes to enhance our agent recruiting, training and retention, as well as our policy persistency.

In our Direct Response operation, life premiums were up 6% to $133 million and life underwriting margin grew 13% to $35 million. Net life sales were down 3% to $30 million for the quarter, but increased 7% for the full year.

For 2010, we expect to see low single-digit growth in life sales during the first quarter improving to double-digit growth for the balance of the year.

At Liberty National, life premiums declined 2% to $74 million and life underwriting margin was down 26% to $14 million. Net life sales for the LNL offices declined 26% to $10 million and the producing agent count was down to 1,740.

The decline in life sales and producing agents was greater than we expected during the quarter. While we have seen significant improvement in our policy persistency, it will take us a little longer to rebuild than I indicated on the last call. The sales and agent count numbers should stabilize in the first quarter and begin to show growth in the second quarter. We now expect low single-digit growth for the full year 2010.

On the health side, premium revenue, excluding Part D, declined 11% to $201 million and health underwriting margin was down 18% to $34 million. Health net sales increased 28% to $39 million due primarily to strong group Medicare Supplement sales which are normally concentrated in the fourth quarter.

We remain cautiously optimistic concerning renewed growth in our Medicare Supplement sales, particularly in the second half of 2010. By June 1st, we expect to introduce a new standardized Medicare Supplement plan as well as re-price our existing products in many states. We believe we will be better able to compete not only with the Medicare Advantage plans, but with other companies offering Medicare Supplement products.

Premium revenue from Medicare Part D was $45 million for the quarter -- a 4% increase -- while underwriting margin improved 16% to $6 million. Part D sales grew 69% for the quarter to $27 million and were up 52% for the full year.

Underwriting margin for our annuity business was $1.1 million for the quarter versus a loss of $8.8 million in the year-ago quarter.

Administrative expenses were $38 million for the quarter, down 13% from a year ago. For the full year, administrative expenses were down 3%.

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, and liquidity and capital.

First, the investment portfolio.

On our website are three schedules that provide summary information regarding our portfolio as of December 31, 2009.

As indicated on these schedules, invested assets are $11 billion, including $10.2 billion of fixed maturities at amortized cost. Combined, RMBS, CMBS and mortgage loans are $38 million.

Of the $10.2 billion of fixed maturities, $9.3 billion are investment grade with an average rating of A-. Below investment grade bonds are $824 million, 8.1% of fixed maturities.

We began 2009 with $712 million of below investment grade bonds and they were 7.4% of fixed maturities at that time. By June 30th, the below investment grade bonds had grown to $1.2 billion, 13% of the portfolio, due primarily to downgrades of formerly investment grade securities. In the last six months of 2009 there were no material downgrades, and we reduced below investment grade bonds through sales of $350 million and impairments of $76 million, thus ending the year with $824 million of below investment grade bonds.

We expect that the percentage of below investment grade bonds at 8.1% is still high relative to our peers. However, due to our significantly lower portfolio leverage, the percentage of below investment grade bonds to equity, excluding FAS 115, is 22%, which is likely less than the peer average.

Overall, the total portfolio is rated BBB+, same as a year ago.

During the quarter, we charged realized capital losses for Other Than Temporary Impairments on four bonds. The total charge was $25 million pre tax, or $16 million after tax. Including net gains on asset sales, net realized capital losses for the quarter were $15 million, after tax.

Year-to-date, realized capital losses are $93 million, after tax. For further information regarding impairments, see the schedule on our website entitled "Summary of Net Realized Investment Losses."

Net unrealized losses in the fixed maturity portfolio are $456 million compared to $1.8 billion a year ago. They are $60 million higher than in September primarily because treasury rates increased slightly more than spreads tightened in most of our sectors.

Now, I would like to discuss the asset types within our fixed maturity portfolio.

74% of the portfolio is in corporate bonds and another 14% is in redeemable preferred stocks. All the $1.4 billion of redeemable preferreds have a stated maturity date and other characteristics that make them more like debt securities. And to date, all scheduled interest payments have been received. None of these securities are perpetual preferreds.

Municipal bonds now comprise 10% of the portfolio compared to 3% a year ago. In 2009, we purchased $773 million of Build America Bonds. These are taxable debt securities issued by state and local governments who receive a Federal subsidy equal to 35% of the required interest payments. Our Build America Bonds are rated AA and have an average yield of 6.3%. Due to concentration considerations, we do not expect to make significant investments in Build America Bonds in 2010. The remaining 2% of the portfolio consists primarily of government related securities. Our CDO exposure is now down to $55 million in two securities where the underlying collateral is primarily bank and insurance company trust preferreds.

Now, to conclude the discussion on investments, I will cover investment yield.

We ended the third quarter with excess cash due primarily to the portfolio repositioning undertaken late in that quarter to reduce the amount of below investment grade bonds. At September 30th, we had approximately $1.1 billion in cash, short-term investments and receivables from the sale of securities.

In the fourth quarter, we invested $879 million in investment grade fixed maturities, primarily in the municipal, industrial and utilities sectors. We invested at an average annual effective yield of 6%, an average rating of A, and an average life of 18 to 23 years. For the full year, we invested $2.3 billion at an average yield of 6.4%, rating of A, and life of 16 to 21 years.

For the entire portfolio, the fourth quarter yield was 6.86% compared to the 6.97% yield earned in each of the previous eight quarters. The decline in yield is due primarily to the previously mentioned portfolio repositioning that took place late in the third quarter, and to a lesser extent, the lower fourth quarter new money yield. As of 12/31/09, the yield on the portfolio is 6.81%.

We ended the year with $590 million of cash and short term investments; $435 million in the insurance companies, and $155 million in the parent company.

Now, regarding RBC.

As previously indicated, we intend to maintain our RBC ratio at the 300% plus level held in the past years. 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.

Entering 2009, our consolidated RBC ratio was 329%, but by June 30th, the ratio had fallen to 245%

due to bond impairments and downgrades, and a disproportionate share of dividends to the parent during the first half of the year. In the last half of 2009, we took steps to improve the RBC ratio:

- We increased the capital of the insurance companies by having the parent company contribute $175 million ($125 million in the third quarter and $50 million in the fourth quarter); and

- We reduced required capital by selling below investment grade bonds.

Although we haven't finalized our 2009 statutory financial statements, we expect that RBC at 12/31/09 will be in the range of 325% to 330%. This means that we have approximately $125 million of capital in excess of that required to meet the targeted 300% ratio. In addition, assuming no impairments, we estimate that excess capital should increase by around $100 million in 2010 primarily because statutory income will exceed dividends paid to the parent.

Regarding liquidity.

At December 31st, the parent company had $155 million of cash. In addition, we estimate that free cash flow for 2010 will add another $260 million of cash. As a result, the total cash available at the parent for 2010 will be around $415 million.

In addition to the cash at the parent, we have other sources of liquidity such as debt issuance, increased credit facilities and intercompany financing. Although we don't think we will need to tap these sources, they could provide another $1.2 billion of cash.

Based on the $125 million of excess capital within the insurance companies at 12/31/09, and the expectation that it will grow in 2010, and the available cash and other liquidity at the parent, we believe there is more than sufficient liquidity to offset the impact on statutory capital of future realized losses and downgrades.

In 2010, we plan to utilize excess cash as efficiently as possible, but will be prudent in doing so. We plan to maintain a cash reserve at the parent, and then determine the best use of the remaining cash after we are assured that our desired capital levels will be maintained.

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

Mark McAndrew: Thank you, Gary.

The last year and a half has been a difficult time for Torchmark and our industry. A number of tough decisions were made in the last year to insure our liquidity and solvency at the expense of growth in earnings. I am pleased with the results we have had during this difficult time and confident that the worst of the crisis is behind us. We can now refocus our efforts on improving our earnings growth.

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

Paul Sarran, Macquarie Research Equities: Thanks. My first question is on Liberty and thinking about where the problem is exactly. I guess to frame my question -- if you are still hiring agents at the same rate, and the question is, are you seeing new agents leave sooner than before the comp changes or is it primarily the agents that were there in place when you made the changes?

Mark McAndrew: Paul, I would have to say it is some of both. We made some changes in our compensation that really set higher standards for persistency and quality of business being written. And that did cause some increased turnover, particularly in agents who were writing poorer quality business. But also, unfortunately the focus being on improving the quality of the business took some of the focus away from our recruiting. So in the fourth quarter our recruiting numbers at Liberty National were also down about 25% from where they were the prior year. So we believe we made the changes that are necessary there. We actually had to close some offices during the quarter, but we now are refocused on getting our recruiting back up and moving forward.

Paul Sarran: Do you expect that recruiting to come back to towards the level it was before the changes in the near term?

Mark McAndrew: Yes, I do. By the end of the first quarter I expect our recruiting levels to be back at prior levels.

Paul Sarran: Okay. And then turning to the capital position -- I guess if I add up, you know, what you have now plus what you're expecting to generate over 2010, you're around $640 million before any realized capital losses. So you say that you plan to hold a cushion at the holding company. Can you kind of talk about how you will decide how big of a cushion to hold and when you will start thinking about deploying some of that capital?

Mark McAndrew: Well, we have a board meeting here in two weeks which that will be a topic of discussion. As Gary mentioned, we feel good about the capital that we have in the subsidiaries. Right now we have, I think Gary said $125 million of excess capital there and that should grow by another $100 million this year. So we think we have more than adequate capital in the insurance companies. And so, I mean it is something we need to address, the $415 million of cash that we are going to have at the parent. I can't really say at this point how much of a cushion we will keep there or exactly how much we might use for share repurchase or other uses at this point. It's something we will definitely be discussing at the next board meeting.

Paul Sarran: Okay. Do you think -- it might be difficult to ask you how to handicap it -- but do you think there will be a chance you will start share repurchases before the end of the year?

Mark McAndrew: You know, it's hard to ***handicap*** that. But if I look at our capital situation and the excess cash that we have, we will definitely look for a good use of that cash between now and the end of the year. We don't need to hold $415 million of excess cash.

Paul Sarran: Right. Okay. Thank you.

Mike Grondahl, Northland Securities: Yes, thank you for taking my question. Could you just kind of take us through the growth initiatives you have for American Income and Direct Response and just sort of what you are trying to accomplish there on the growth side in 2010 and get us thinking a little bit about 2011 growth?

Mark McAndrew: Sure, and Mike, I should point out one of the reasons our life sales don't look quite as attractive this year is we monitor our sales and track our sales on a weekly basis. We typically report 13 weeks of sales in our financials; which means about once every five years we have a 14-week quarter. The fourth quarter of 2008 was a 14-week quarter. So part of the only having 5% growth in our life sales this year is a poor quarter to compare with last year. We did have a 14-week quarter at fourth quarter of last year. So actually our life sales, if I compare the same 13 weeks that we reported this year, we were actually up 12% versus the 5%. So we are continuing to see a very positive trend there.

But if I look at American Income, again, we have been making changes there for the last two and a half to three years as far as taking control of the lead generation and some of the changes we made in our bonus compensation, and we feel very good about where it's at today. We went from 63 to 70 SGA's during the year. Our lead generation was up -- let's see -- in fact I think I have that number around here -- we increased our lead generation by 11% for the year. And it is really in a good spot right now. Some of the things we are doing -- I guess, the biggest thing we are doing is changing (as I mentioned in prior calls) changing the sales process to a laptop sales presentation. We are taking this very slowly. We are introducing it with a handful of our SGA's at this point in time. The early results are very, very good. We are getting higher average face amount, higher average premium, and higher closing ratio. So I think that has the potential to continue to fuel growth; although even without that we fully expect to see growth. We think we can continue to maintain the level of growth we have been seeing at American Income.

Direct Response -- I think we reported sales down 3%. Again, if I compare the same 13 weeks with 13 weeks a year ago, actually it was up 8.5% for the same comparable period. We've got some very good things going on in Direct Response. We had some very encouraging tests the second half of 2009 -- particularly in our packaging. We tried some packages where we have had more personalization and a higher quality package, and it generated substantially 15% to 18% better response in the tests that we performed. Unfortunately, we have to order new equipment in order to rollout with these new packages and that equipment won't be installed until April. So I feel very good about the second half of this year and Direct Response should see double-digit growth in sales. First quarter, because of some of the cutbacks that we did in the second half of last year, we only expect low single-digit growth in the first quarter. But that growth will accelerate significantly in the second half; or really in the last three quarters of the year. So I feel good about where it is at, although it is still a constant challenge to find new and better ways to do things. Based upon the results of the tests we have already seen, I feel very good about the growth that we are going to see in 2010.

Mike Grondahl: Great. Thanks for that update.

Mark McAndrew: Sure.

Bob Glasspiegel, Langen McAlenney: Good morning to you, I guess -- these noon and Eastern Time calls get tricky on that.

The Medicare Advantage disenrollees, you're thinking that could be sort of an inflection point in the market behind sort of your -- I guess, mid-year new product rollout. What are you seeing from Medicare Advantage disenrollees in the marketplace? How does the Obama healthcare snafu play into that?

Mark McAndrew: Well, Bob, that remains to be seen. Some of the estimates that I had seen prior to the election in Massachusetts were that the Medicare Advantage enrollments would go from $11.5 million to roughly $4.5 million over the next three years. I am not -- without healthcare reform or without knowing where healthcare reform is going to end up, I guess there is more question about just how many people will be disenrolled there and how that funding will be affected. I still think they have got to reduce the funding for Medicare Advantage plans, with or without healthcare reform, but it may not be quite as quickly. But we still believe that there is a market there. In looking, we picked up a little bit of business, but less than 1,000 disenrollees in the fourth quarter. We still believe that market will rebound, but again we are not making any wild projections of what we think that might be. So I guess I would still say we are cautiously optimistic.

Bob Glasspiegel: Okay. On the buyback -- you already have authorization, just a tactical question. Do you feel like you have to tell the investment world that you are buying back stock before you're doing it?

Mark McAndrew: I will defer to our General Counsel, but, yes, since we announced that we were discontinuing it we have to get reauthorized.

Larry Hutchison: That's correct.

Bob Glasspiegel: So you would have to have a board meeting first before you could begin to buy?

Mark McAndrew: Yes, that's correct, Bob.

Bob Glasspiegel: Thank you.

Randy Binner, FBR Capital Management: Hi. Thank you. Just a quick question. The required interest on net policy liabilities and the income statement -- it is going up on an absolute basis but not quite as much as at least we had modeled, and so it is not something we focus on a lot. I was wondering if I could get a little color on what's going on there and if indeed that is a slowing obligation?

Mark McAndrew: Rosemary, do you want to take that one?

Rosemary Montgomery: Well, the required interest, for one thing, we do split it out between what we have for the life and the health business versus the annuity business since the annuity business is actually based on a credited rate that we declare monthly. And so that can have a little bit of fluctuation to it. But the actual interest on the net liability is really pretty stable as I see it going through '09 -- at least for the life and the health business -- and changing a little bit more than that for the annuity business. But still something that we see as a pretty stable number.

Randy Binner: Okay. So it is not something that would necessarily be trending down because of the low overall interest rate environment?

Rosemary Montgomery: Not particularly, no.

Randy Binner: Because the in force block is so big relative to the new obligations?

Rosemary Montgomery: Right.

Randy Binner: Okay. Perfect. And then if I could, just on the risk based capital ratio to kind of understand maybe some of the drivers with Gary -- how much ratings drift impact was there in the fourth quarter? Or is there any way to quantify that hit against the denominator?

Gary Coleman: Randy, there was very little in the fourth quarter, and what we gave in the last two calls, we gave a best case estimate and worst case estimate. And our best case was very low in terms of -- I think we said no downgrades; and we saw that came true. We really had -- I can't remember the exact number -- but a very small amount in the fourth quarter, so the denominator didn't change that much. Now, what we did pick up a little in terms of the relaxation on the deferred taxes on the statutory side, we picked up $40 million to $50 million there and then we had our earnings were a little higher; so more of the increase came because we had more capital than we expected as opposed to a change in the expected or required capital.

Randy Binner: Okay, great. And then just quickly on the commercial paper program. It looks like that's kind of a similar size to what it was in the third quarter. Do you intend to keep that size of program out there just to keep it marketable? Is that a fair statement?

Gary Coleman: Well, we're at $230 million CP, and to be marketable we need to at least have $100 million out there. Now, we could reduce that somewhat. Obviously, we have got enough cash at the parent company to do that, but the cost of that just keeps going down. The paper that we issued here recently costs about 40 basis points. We're not increasing it -- as money matures we just roll it over. And with rates being so low, I don't see a need to reduce it. Now if we see rates going up, we have cash at the holding company if we need it and we can pay that down.

Randy Binner: That's perfect. That's all I have. Thank you.

Operator: With no further questions I will turn the call back over to your host, Mr. McAndrew.

Mark McAndrew: Okay. Well, thanks, everyone, for joining us this morning, and we'll talk again next quarter. Have a great day.