4th QUARTER 2015 CONFERENCE CALL

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CORPORATE PARTICIPANTS

Mike Majors *Torchmark Corporation - VP of IR*
Gary Coleman *Torchmark Corporation - Co-CEO*
Larry Hutchison *Torchmark Corporation - Co-CEO*
Frank Svoboda *Torchmark Corporation - EVP, CFO*
Brian Mitchell *Torchmark Corporation - General Counsel*

CONFERENCE CALL PARTICIPANTS

Yaron Kinar Deutsche Bank - Analyst
Jimmy Bhullar JPMorgan - Analyst
Erik Bass Citigroup - Analyst
Steven Schwartz Raymond James & Associates, Inc. - Analyst
Randy Binner FBR & Company - Analyst
John Nadel Piper Jaffray - Analyst
Seth Weiss BofA Merrill Lynch - Analyst
Ryan Krueger Keefe, Bruyette & Woods - Analyst
Bob Glasspiegel Janney Montgomery Scott – Analyst
Eric Berg RBC Capital Markets - Analyst

Mike Majors - Torchmark Corporation - VP of IR

Thank you.

Good morning everyone. Joining the call today are Gary Coleman and Larry Hutchison, our Co-Chief Executive Officers, Frank Svoboda, our Chief Financial Officer, and Brian Mitchell, our General Counsel.

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 2014 10-K and any subsequent Forms 10-Q on file with the SEC.

I will now turn the call over to Gary Coleman.

Gary Coleman - Torchmark Corporation - Co-CEO

Thank you, Mike.

Good morning, everyone. In the fourth quarter, net operating income from all operations was $131 million or $1.05 per share, a per share increase of 5% from a year ago.

During the fourth quarter, management determined that the Part D business met the criteria to be held for sale and has classified it as discontinued operations. Net operating income from continuing operations, which excludes Part D, was $131 million, or $1.05 per share, up 6% on a per share basis from a year ago.

Net income for the quarter was $133 million, or $1.07 per share, a 5% decline on a per share basis. The decline was due primarily to the fact that we had $11 million of tax-driven realized losses in the fourth quarter of this year, compared to a gain of $5 million in the year-ago quarter.

With fixed maturities at amortized cost, our return on equity as of December 31, 2015, was 14.5% and our book value per share was $30.09, an 8% increase from a year ago. On a GAAP reported basis, with fixed maturities at market value, book value per share was $32.71, a decline of 10% from a year ago.

In our life insurance operations, premium revenue grew 5.5% to $521 million, while life underwriting margin was $145 million, up 6.3% from a year ago. Net life sales increased 2% to $99 million.

On the health side, premium revenue grew 5% to $235 million and health underwriting margin was $51 million, approximately the same as a year ago. Health sales declined 17%, to $60 million, due to declining group sales.

Individual health sales were $38 million, up 20%. Administrative expenses were $48 million for the quarter, up 9% from a year ago and in line with our expectations. As a percentage of premium from continuing operations, administrative expenses were 6.3%, compared to 6.1% a year ago. The primary reasons for the increase in administrative expenses are higher information technology and pension costs.

For the full year, administrative expenses were $186 million or 6.2% of premium. In 2016, we expect administrative expenses to grow approximately 5% and to remain around 6.2% of premium.

I will now turn the call over to Larry Hutchison for his comments on the marketing operations.

Larry Hutchison - Torchmark Corporation - Co-CEO

Thank you, Gary. I will now go over the results for each Company.

At American Income, life premiums were up 8% to $213 million and life underwriting margin was up 10% to $69 million. Net life sales were $50 million, up 9%, due primarily to increased agent productivity. The average agent count for the fourth quarter was 6,590, up 4% over a year ago, but approximately the same as the third quarter.

The producing agent count at the end of the fourth quarter was 6,552. We expect the producing agent count to be in a range of 6,600 to 6,800 at the end of 2016.

Life sales for the full year 2015 grew 15%. We expect 5% to 7% life sales growth in 2016.

In our direct response operation at Globe Life, life premiums were up 7% to $185 million. Life underwriting margin declined 2% to $37 million. Net life sales were down 3% to $37 million.

Life sales for the full year 2015 grew 4%. We expect life sales to be flat or down slightly in 2016.

At Liberty National, life premiums were $67 million, approximately the same as the year-ago quarter. Life underwriting margin was $19 million, up 24%. Net life sales decreased 5% to $9 million.

Net health sales decreased 4% to $5 million. The average producing agent count for the fourth quarter was 1,539, down 2% from a year ago and down 3% from the third quarter.

The producing agent count at Liberty National ended the quarter at 1,478. We expect the producing agent count to be in a range of 1,550 to 1,625 at the end of 2016.

Life net sales for the full year 2015 grew 4%. Life net sales growth is expected to be within a range of 4% to 7% for the full year 2016. Health net sales for the full year 2015 grew 4%. Health net sales growth is expected to be within a range of 2% to 4% in 2016.

At Family Heritage, health premiums increased 8% to $57 million. Health underwriting margin increased 2% to $11 million. Health net sales were up 2% to $12 million. The average producing agent count for the fourth quarter was 877, up 12% from a year ago but down 3% from the third quarter.

The producing agent count at the end of the quarter was 911. We expect the producing agent count to be in a range of 975 to 1,000 at the end of 2016.

Health sales for the full year 2015 grew 7%. We expect health sales growth to be in a range of 5% to 9% for the full year 2016.

At United American General Agency, health premiums increased 12% to $90 million. Net health sales declined from $51 million to $38 million. Individual sales grew 49% to $18 million, while group sales declined 47% to $21 million.

Individual Medicare Supplement sales for the full year 2015 grew 36%. For the full year 2016, we expect growth in Individual Medicare Supplement sales to be around 8% to 10%.

I will now turn the call back to Gary.

Gary Coleman - Torchmark Corporation - Co-CEO

I want to spend a few minutes discussing our investment operations.

First, excess investment income

Excess investment income, which we define as net investment income less required interest on policy liabilities and debt, was $54 million compared to $55 million in the fourth quarter of 2014. On a per share basis, reflecting the impact of our share repurchase program, excess investment income was flat.

As discussed on previous calls, the Part D segment has a negative impact on excess investment income due to negative cash flows that occur during the year, including the long delay in receiving reimbursements from CMS for excess claims paid by the Company. The impact of the lost investment income from the delayed receipt of reimbursements is reflected in income from continuing operations rather than in discontinued operations, in accordance with applicable accounting rules. In 2015, Part D had a negative impact on excess investment income of approximately $8 million.

In 2016, we expect excess investment income to grow by about 1% to 3%; however, on a per share basis, we should see an increase of about 6% to 8%. At the midpoint of our 2016 guidance, we are expecting a drag on excess investment income from Part D of approximately $8 million to $9 million.

Now, regarding the investment portfolio

Invested assets were $13.8 billion, including $13.3 billion of fixed maturities at amortized costs. Of the fixed maturities, $12.6 billion are investment grade with an average rating of A- and below investment grade bonds are $640 million, compared to $561 million a year ago. The percentage of below investment grade bonds to fixed maturities is 4.8%, compared to 4.4% a year ago.

With a portfolio leverage of 3.6 times, the percentage of below investment grade bonds to equity, excluding net unrealized gains on fixed maturities, is 17%. Overall, the total portfolio is rated A-, same as a year ago. In addition, we have net unrealized gains in the fixed maturity portfolio of $506 million, approximately $408 million less than at the end of the third quarter.

To complete the investment portfolio discussion, I'd like to address our $1.6 billion of fixed maturities in the energy sector. As a result of spread widening in the fourth quarter, the net unrealized loss of our energy portfolio increased by $142 million to a total of $165 million at December 31, 2015. However, we believe the risk of realizing any losses in the foreseeable future is minimal for the following reasons:

- $1.5 billion, or 94% of our energy holdings, are investment grade.

- Only $143 million, or 9%, of our energy holdings are in the oil field service and drilling sector. Approximately 70% of these bonds are investment grade.

- Also, based on the consensus of expert views, our investment department believes that oil is more likely to increase to $45 or $50 a barrel during the next 12 to 24 months than to remain at current levels. We believe the companies in our portfolio can continue to operate for a very long time with oil prices at $45 to $50 a barrel. Even if oil remains around $30 a barrel for the next 12 to 24 months, we would not expect to have any defaults during that period.

- Finally, the companies we have invested in have a variety of options that they can utilize to avoid default including, but not limited to:

  - reducing distributions to partners
  - drawing on lines of credit and
  - reducing exploration activities.

Now, we do believe that there could be further downgrades which could pressure our RBC ratio. However, that doesn't mean we would have to suspend or materially impact our stock buyback program. Frank will address this in more detail when he discusses capital.

Now, as to investment yield, in the fourth quarter we invested $341 million in investment grade fixed maturities, primarily in the industrial sector. We invested at an average yield of 5%, an average rating of A-, and an average life of 26 years. For the entire portfolio, the fourth quarter yield was 5.81%, down 8 basis points from the 5.89% yield in the fourth quarter of 2014. At December 31, 2015, the portfolio yield was approximately 5.83%.

The midpoint of our current guidance for 2016 assumes increasing money yield throughout the year, averaging 5.25% for the full year. We continue to hope for higher interest rates. As discussed on previous analyst calls, rising new money rates will have a positive impact on operating income by driving up excess investment income.

We are not concerned about potential unrealized losses that are interest rate driven reflected on the balance sheet, since we would not expect to convert them to realized losses. We have the intent and, more importantly, the ability to hold our investments to maturity.

However, if rates don't rise, a continued low interest rate environment will impact our income statement, but not the balance sheet. Since we primarily sell non-interest sensitive protection products accounted for under FAS 60, we don't see a reasonable scenario that would require us to write off DAC or to put up additional GAAP reserves due to interest rate fluctuations.

In addition, we do not foresee a negative impact on our statutory balance sheet. While we would benefit from higher interest rates, Torchmark would continue to earn substantial excess investment income in an extended low interest rate environment.

Now I will turn the call over to Frank.

Frank Svoboda - Torchmark Corporation - CFO

Thanks, Gary.

First I wanted to spend a few minutes discussing our share repurchases and capital position. In the fourth quarter, we spent $83 million to buy 1.4 million Torchmark shares at an average price of $58.68.

For the full year, we spent $359 million of Parent Company cash to acquire 6.3 million shares at an

average price of $56.99. The Parent ended the year with liquid assets of $46 million.

In addition to these liquid assets, the Parent will generate additional free cash flow during the remainder of 2016. Free cash flow results primarily from the dividends received by the Parent from the subsidiaries, less the interest paid on debt and the dividends paid to Torchmark shareholders.

While our 2015 statutory earnings have not yet been finalized, we expect free cash flow in 2016 to be in the range of $320 million to $330 million. Thus, including the $46 million available from assets on hand at the beginning of the year, we currently expect to have $366 million to $376 million of cash and liquid assets available to the parent during the year.

This level of free cash flow in 2016 is lower than recent years, due to lower distributable statutory earnings at our subsidiaries in 2015. As we've discussed on prior calls, a key driver of the lower earnings is higher commission and acquisition expenses associated with the higher levels of sales growth we have experienced in 2014 and 2015, coupled with lower growth rates in investment income due to lower new money yields and adverse Part D cash flows.

Another significant driver of the lower earnings is higher federal income tax expense in 2015 as compared to 2014. At this time, we anticipate that statutory earnings in 2016 will be approximately the same as 2015, as the profits from recent sales start to emerge, the incremental impact of new sales lessens, and the growth in investment income improves.

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. We also expect to retain approximately $50 million to $60 million of assets at the Parent Company, absent the need to utilize any of these funds to support our insurance company operations.

Now regarding RBC at our insurance subsidiaries.

We currently plan to maintain our capital at the level necessary to retain our current ratings. For the last three years, that level has been around an NAIC RBC ratio of 325% on a consolidated basis. 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. Although we have not finalized our 2015 statutory financial statements, we expect that the RBC percentage at December 31, 2015, will be around the 325% consolidated target. We do not anticipate any changes to our targeted RBC levels in 2016.

Our investment department has reviewed multiple scenarios of downgrades within our fixed maturity holdings, including those in the energy sector.

To put their findings into context, as a rule of thumb, downgrades of around $100 million in statutory book value would reduce our RBC ratio by approximately 2 percentage points and require around $9 million of additional capital to retain a 325% RBC level. Using this rule of thumb, and to the extent additional downgrades do occur in 2016, we are comfortable that we would be able to fund the additional capital requirements with available assets on hand and other sources of liquidity available to Torchmark without having to suspend or reduce the amount available for buyback.

Now a few comments to provide an update on our Medicare Part D operations.

Management has committed to a plan to sell the Part D business and expects it to be sold before the end of the year. We have met the criteria to account for the business as held for sale, and the results of the Part D operations will be reflected within discontinued operations in our financial statements.

As we have previously said, we originally decided to participate in the Medicare Part D program back in 2006 because most of the underwriting risk was covered by the government, and we believed it would complement our Medicare Supplement business. Over the years, the Part D business has been good for Torchmark, as it has provided over $259 million of underwriting margin since 2006. However, this business has been changing rapidly over the past few years, and the earnings have become much more volatile.

Increased competition, industry consolidation, and preferred networks have reduced overall margins and made it more difficult for smaller players to compete in this market. While we are still generating profits from the Part D operations, those profits have been shrinking in recent years, due to higher drug costs and increased administrative and compliance costs. We believe this trend will likely continue and perhaps could even turn into significant losses in the future as drug costs, especially those on specialty drugs, continue to escalate.

In addition, we have already seen regulatory changes that have shifted costs from the government to carriers and it appears likely that more cost shifting is to come. Overall, the risks and the administrative and compliance costs associated with the business are much greater than they once were and the business now demands an increasingly disproportionate amount of time and focus, given its level of earnings. Looking forward, we prefer to focus our attention on our core life insurance businesses and our other lines of health business that produce more predictable, stable margins.

We've previously indicated that we view this business opportunistically and that we would review it on a yearly basis. While the Part D business has been a good opportunity to this point, we no longer believe it is a business that makes sense for Torchmark going forward and therefore it is the right time to exit the business.

We have included on our website a final operating summary for the discontinued operations. For the year, we earned $10.8 million, or $0.09 per share, after tax. This amount was lower than we had anticipated on the last call, due to higher than expected claims in the fourth quarter as a result of higher drug costs. To the extent we were to hold the business for the full year of 2016, we estimate that our after-tax earnings would be in the range of $5 million to $9 million.

As noted on our previous calls, the profits from the Part D business are further reduced by lost investment income that result from having to finance substantial cash outflows during the year, including amounts paid up front on behalf of the government that won't get repaid to us until the following year. These outflows are generally represented by the significant receivable balances that are included in the assets held for sale line of our consolidated balance sheet.

The opportunity cost of not being able to timely invest the receivable balances is included in our continuing operations, as required by the applicable accounting rules. However, to reflect what management considers to be a better reflection of earnings from the Part D operations, we have included on our website a schedule showing the pro forma income from discontinued operations that includes an estimate of the after-tax cost of the foregone investment income.

As we are in the midst of discussions with multiple parties regarding a purchase, we are unable to discuss the timing, potential value, or other details of the sale. However, we do anticipate that the assets held for sale on our balance sheet will be fully recovered, and do not believe the consummation of the sale will have a material impact on our income from continuing operations. Any such impact on earnings is included in the range of earnings guidance provided.

Now with respect to our guidance for 2016, on our last call we indicated a preliminary range of $4.25 to $4.55 for our 2016 net operating earnings per share, with a midpoint of $4.40. Excluding the effect of the discontinued Part D operations, the midpoint would have

been $4.35. We now estimate that our earnings from continued operations will be in the range of $4.28 to $4.48, a 6.1% growth at the midpoint over our 2015 earnings from continued operations.

A schedule providing prior year earnings per share for continued operations only, and our revised 2016 earnings per share guidance, has been placed on our website.

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

Larry Hutchison - Torchmark Corporation - Co-CEO

Thank you, Frank.

Those are our comments. We will now open the call up for questions.

QUESTION AND ANSWER

Yaron Kinar - Deutsche Bank - Analyst

Good morning everybody, thanks for taking my call. I wanted to start with the last point on the revised guidance, the $0.03 increase in the midpoint.

Looking at the different parts of the guidance, the granularity that you offer, seems like you're expecting sales to actually come down a bit from your prior guidance, expenses maybe going up a little bit, headcounts maybe a little weaker, so where is the positive offset coming from? Where are you expecting to outearn your previous guidance?

Frank Svoboda - Torchmark Corporation - CFO

Yes, I think in looking at the increase at the midpoint, we really have an improved outlook on life and underwriting margins, underwriting income overall. There's a slight margin improvement at Liberty National, given the favorable claims experience that we had in Q4.

And then really the high..really the favorable sales that we had at American Income as well as just a better expectations with respect to some of our premium at direct response really impact the 2016 guidance. You need to remember that some of the reduced sales guidance with respect to 2016 really don't impact the 2016 premiums as much as they will premiums looking out past that.

Yaron Kinar - Deutsche Bank - Analyst

Okay, that's helpful. And then you had talked about expecting new money yields going up a bit over the course of 2016, or at least that being one of your underlying assumptions.

What's that based on there? Is it spread widening? Is it opportunities you see in the market?

Gary Coleman - Torchmark Corporation - Co-CEO

It's a little bit of both. We're expecting, and this is from our investment department canvassing all reports coming in with a consensus, we expect the Treasury rate to, although it's declined so far in January, we expect it to gradually increase during the year. Spreads, we're pretty much expecting to stay where they were toward the end of 2015.

Yaron Kinar - Deutsche Bank - Analyst

Okay, and then one quick final question. Is there any capital impact from the sale of the Part D business?

Frank Svoboda - Torchmark Corporation - CFO

Yes, there will be eventually some of the capital freed up. We do have to carry some RBC on that business.

We would estimate we'd probably carry -- we don't have the final RBC for 2015 done yet, but -- with respect to that business, but we would expect it to be somewhere maybe in that $60 million to $70 million of capital ultimately we hold on that business. We would see that capital being freed up over the course of 2016, and then partially and then more fully over the course of 2017.

Yaron Kinar - Deutsche Bank - Analyst

So the expectation would be then that it would be deployed like in 2017/2018?

Frank Svoboda - Torchmark Corporation - CFO

Yes, and we'd -- there's always the possibility that we would be able to deploy that capital, or be able to distribute some of that excess capital, but we would really have to be able to see what the capital situation looks like at that point in time. But probably really wouldn't be fully available if you will, until that 2017/2018 timeframe.

Yaron Kinar - Deutsche Bank - Analyst

Got it. Thank you very much.

Jimmy Bhullar - JPMorgan - Analyst

Hi, good morning. So first question just on available resources for buybacks in 2016. I think Frank, you mentioned the cash available with the liquidity on hand will be $366 million to $376 million.

And if I assume like roughly $70 million for dividends and also put in the cushion that you're going to hold of $50 million to $60 million, it implies buybacks of about $250 million in 2016. Is that a fair assumption?

Frank Svoboda - Torchmark Corporation - CFO

No, I think as I indicated, I think the free cash flow that was available for buyback that we see for 2016 should be in that range of $320 million to $330 million.

Jimmy Bhullar - JPMorgan - Analyst

Okay, got it. Because I was taking out the dividend and the numbers you gave were post dividend.

Frank Svoboda - Torchmark Corporation - CFO

That's correct.

Jimmy Bhullar - JPMorgan - Analyst

And then as we think about from 2016 to 2017, given I think you mentioned in your remarks that sub-dividends will be somewhat stable or flat, that number shouldn't change that much in 2017, right?

Frank Svoboda - Torchmark Corporation - CFO

That's correct.

Jimmy Bhullar - JPMorgan - Analyst

And the proceeds from the sale whenever that happens, are those going into the sub, or would those

come directly to the whole? I realize the capital freed is going to be sitting in the sub and might not be dividend up, but what about the proceeds, where would those go?

Frank Svoboda - Torchmark Corporation - CFO

Those go into the subsidiary.

Jimmy Bhullar - JPMorgan - Analyst

Okay and when you talked about freed capital that did not obviously include any impact from proceeds, right? From the sales proceeds?

Frank Svoboda - Torchmark Corporation - CFO

That's correct.

Jimmy Bhullar - JPMorgan - Analyst

And then just on the business, your direct response sales were weak, and I think you're expecting a flat or sort of flattish sales in 2016 off of just 4% growth in 2015. So maybe talk about what's going on there, whether it's because of the market environment or is it more some of the changes that you're making, given what's happened with your margins in that business?

Larry Hutchison - Torchmark Corporation - Co-CEO

Jimmy, as we have discussed previously, we've experienced lower than expected profit margins associated with prescription drug underwriting changes. So sales will be lower since we've now adjusted our marketing activities to eliminate the segments of unprofitable sales.

Jimmy Bhullar - JPMorgan - Analyst

Okay. That's all I had, thank you.

Erik Bass - Citigroup - Analyst

Hi, thank you. First Frank, could you just elaborate a little bit on your comment about if you do see ratings downgrades you think that you could use some assets on hand or other measures to kind of plug the RBC impact? Can you just expand on that a little bit?

Frank Svoboda - Torchmark Corporation - CFO

Sure. You know as I indicated in my comments, that we kind of looked at and had that rule of thumb that roughly $100 million of downgrades would extrapolate into probably needing about an additional $9 million of additional capital retained at current RBC levels.

And so whether it be the cash that's available at the holding company or as we said from being able to… you know access the capital markets that you know we would have sources available to make for additional capital contribution to the companies if we needed to. You know just even using that rule of thumb, if we were to have around $500 million of downgrades, which is about half of the BBB energy bonds that we have out there, that would really indicate that we would only need around $50 million of additional capital to retain our existing RBC levels.

Erik Bass - Citigroup - Analyst

Got it. And obviously one option would be to just not dividend that out as well. So I think -- were you implying that you don't expect any change to the free cash flow guidance? Or could the free cash flow be lower in that scenario?

Frank Svoboda - Torchmark Corporation - CFO

Always a possibility, but we would always be looking at the opportunities and looking for the cheapest or most inexpensive way for our shareholders to fund that additional capital.

Erik Bass - Citigroup - Analyst

Got it,

Gary Coleman – Torchmark Corporation - Co-CEO

Erik

Erik Bass - Citigroup - Analyst

Thank you. Sorry

Gary Coleman - Torchmark Corporation - Co-CEO

Erik, I was just going to say Frank is right. We would probably use the lower cost approach.

And if you're talking about $50 million, we could use the cash on hand or we could borrow short term at a very low cost. To us that's a much lower cost than reducing the dividend, the amount we are dividending to the parent company.

Erik Bass - Citigroup - Analyst

Got it, that's helpful, and then just one question on direct response policy obligations.

As a percentage of premiums they were slightly above the 52% range that you're targeting for next year. Any comments there and what gives you confidence that, that ratio will come down over the next year?

Frank Svoboda - Torchmark Corporation - CFO

Yes, right, and that 52% was what we had there in Q4. And for the year as a whole, we had the obligation percentage of around 51%, which was right at the top edge of what we had estimated for 2015.

I think for 2016, we'd previously indicated we thought that policy obligations would be around that 52%. We'd probably move that up just slightly to somewhere in that 52.5% range, is what we would anticipate for the policy obligations.

And we're still really seeing our overall margin percentage on the direct response business in 2016 being somewhere in that 19.5% to 20% range, pretty much what we had previously indicated.

Erik Bass - Citigroup - Analyst

Okay,

Frank Svoboda - Torchmark Corporation - CFO

We haven't really seen a lot of change in that at this point.

Erik Bass - Citigroup - Analyst

Okay, thank you.

Steven Schwartz - Raymond James & Associates, Inc. - Analyst

Hi, good morning everybody. First just a couple I guess on Part D. It sounds -- maybe it's the nature of

the Part D business, but it sounds to me from the conversation that just occurred with regards to when capital will be released, that you kind of will remain on the books -- on the hook until current liabilities run off.

So in a sense you're selling really the renewal rights. Is that an accurate way to think about it?

Frank Svoboda - Torchmark Corporation - CFO

Well, we really would be -- have responsibilities for the business up until the time of sale you know; unless there's some other arrangement with a buyer from that perspective, and of course we really can't get into any details of how that might work. But I think the point was that from an RBC perspective, the way that the RBC rules work is if we sold it now or part way through the year, you don't get 100% reduction of that at the end of 2016.

Some of that bleeds over into 2017. And then of course we are settling up even in 2017 just with respect to -- or potentially we could be settling up in 2017; you know on just receiving payments and again, just depending on how the sales process and what arrangements are worked out with the buyer.

Steven Schwartz - Raymond James & Associates, Inc. - Analyst

Okay and then Frank, I think you said that you thought the drag in 2016 from reimbursement patterns on Part D would hurt by about $8 million,

Frank Svoboda - Torchmark Corporation - CFO

That’s right

Steven Schwartz - Raymond James & Associates, Inc. – Analyst

..your excess investment income. Is that.. does that mean looking at a 2017 model just add that back?

Frank Svoboda - Torchmark Corporation - CFO

Correct.

Steven Schwartz - Raymond James & Associates, Inc. - Analyst

Okay.

Frank Svoboda - Torchmark Corporation - CFO

Yes, let me modify that. In 2017, there's still going to be a little -- here again, all that's kind of assuming that we have the business for the better part of 2016. And then there are -- you have a little bit of drag in 2017 just pending the receipt, if you will, of the various receivables that we would anticipate at the end of 2016.

Steven Schwartz - Raymond James & Associates, Inc. - Analyst

Okay, and then Larry, I apologize. I came a little bit late. Did you run through kind of the sales expectations for the individual agencies already? If you did, I'll just check the transcript.

Larry Hutchison - Torchmark Corporation - Co-CEO

I did, but I'll be glad to go through it again. For 2016..

Steven Schwartz - Raymond James & Associates, Inc. - Analyst

That's okay. I'll check the transcript. Let somebody else ask a question. Thank you, Larry.

Larry Hutchison - Torchmark Corporation - Co-CEO

Okay.

Randy Binner - FBR & Company - Analyst

Yes, thanks. I guess Steven Schwartz kind of asked my question, but I'm just trying to understand what it is exactly you're selling? And I guess is the right way to think of it as mostly a renewal rights deal? I mean are there really standalone systems or other kind of distribution assets that would transfer with the business like this Part D business?

Frank Svoboda - Torchmark Corporation - CFO

Yes, it really is. It's a sale of contracts to be able to offer the Part D prescription drug coverage. So to a certain degree it is the renewal rights, if you want to think about them that way.

There aren't any hard assets. We don't have any systems, those type of things that are infrastructure, if you will, that's being sold.

Randy Binner - FBR & Company - Analyst

Alright, and then just to follow up on an earlier question too. I guess the lack of earnings impact has to do with the fact that this is just a short tail business, so it resolves itself over the next 12 months, and then someone would have the right to take the book from there if they wanted to?

Frank Svoboda - Torchmark Corporation - CFO

That's correct.

Randy Binner - FBR & Company - Analyst

And then just touching on, and I apologize if I missed this, but did you all go through kind of where you're getting new money yields right now on investment grade and below investment grade? And I'd also be interested if you're seeing kind of stress or need for de-risking in any part of your investment portfolio outside of energy?

Gary Coleman - Torchmark Corporation - Co-CEO

Well Randy, as far as where we're placing our money, I mentioned that it's primarily the industrial sector, and that's where it's been as what we mentioned over the last two or three quarters. Within that, it's mostly been in the consumer sector, transportation, some of the other industrial sectors, we haven't really added to our energy exposure. As far as de-risking, we don't see at this point a need to sell any of our bonds.

And again, let's talk about energy because that's what most people's concern is, we feel confident in the bonds that we have, and we expect them to be money good. So we don't expect to sell any of those. In the last few years we have, I think, done a good job of spreading the risk of -- we were a little overweight on financials a few years ago. I think we're pleased with where we are with our distribution by sector.

Randy Binner - FBR & Company - Analyst

And then just on yields, did you touch on where you're getting new money yields in investment grade? And is it investment grade A-, is that the center point of the portfolio right now?

Gary Coleman - Torchmark Corporation - Co-CEO

A-, BBB+ .

Randy Binner - FBR & Company - Analyst

And what yield did you get in the fourth quarter there?

Gary Coleman - Torchmark Corporation - Co-CEO

In the fourth quarter, we were just a little under 5%, and I mentioned earlier that we had some tax driven sales at the end of the year that actually pushed us a little bit under 5%. Had we not had done that, I can't remember, but it seemed like we would have been 5.10%, or in that range.

So far this quarter we've invested a little over $100 million at $5.25. But the rates have just in the last few weeks gone down, and so if we were investing money today it would probably be around 5%.

Randy Binner - FBR & Company - Analyst

Perfect, thanks a lot.

John Nadel - Piper Jaffray - Analyst

Hi, good morning. I have a couple of questions. One on the American Income agent count, you know if I look Q3 to Q4 kind of surprised by the decline.

Maybe it's nothing more than some culling of underperformers at year end. I suspect that's really the answer for Liberty; but can you give us some color on that?

Larry Hutchison - Torchmark Corporation - Co-CEO

I think your question was American Income or was it Liberty?

John Nadel - Piper Jaffray - Analyst

Well, the question’s about American Income -- I suspect because we typically see that kind of culling at Liberty in the fourth quarter. It doesn’t ..I don't think we tend to see as much in American Income, but maybe I'm wrong.

Larry Hutchison - Torchmark Corporation - Co-CEO

Okay, thank you. There's two reasons for the lower guidance. It's based in part on the lower recruiting numbers I've seen during the fourth quarter of 2015 and in January of this year.

Let's remember, 2016 follows two strong years of agency and sales growth at American Income. Over the two-year period our agency grew by 23%.

So based on our historical data, I just would expect a slower growth year in 2016. I'll be in a better position to give that guidance end of the second, certainly by the third quarter call, we'll have a better feel for the agent growth for 2016.

John Nadel - Piper Jaffray - Analyst

Okay, but the dip from the third quarter to the fourth quarter in the actual agent count not producing -- I'm sorry, not the average producing agent count but the actual quarter-end agent count? What was the driver of that?

Larry Hutchison - Torchmark Corporation - Co-CEO

If you look back at that,

John Nadel - Piper Jaffray - Analyst

What's the driver?

Larry Hutchison - Torchmark Corporation - Co-CEO

If you look back at that, that's seasonal with the Thanksgiving and Christmas holidays.

John Nadel - Piper Jaffray - Analyst

Okay

Larry Hutchison - Torchmark Corporation - Co-CEO

Within American Income there's always a seasonal drop from third to fourth quarter.

John Nadel - Piper Jaffray - Analyst

Okay, Okay. Then the second question is that sensitivity that you provided on the $100 million roughly of downgrades equating to roughly 2 points on risk based capital, is a -- what is the downgrade there? Is it a one notch downgrade, or is it an entire letter downgrade? Meaning you know if we thought about $100 million of your BBBs going to BBs?

Frank Svoboda - Torchmark Corporation - CFO

Yes, generally, I mean that's.. again a rule of thumb in looking at different multiple scenarios and looking at you know just what -- I hate to use the word averages, but kind of just what can you glean from taking a look at all those multiple scenarios, including taking a look at just some of the part -- at just some of the -- we did look at the BBBs and maybe really more NAIC class 2s and moving them down into class 3. And what if everybody goes down a notch? And those are included in those various scenarios we took a look at.

John Nadel - Piper Jaffray - Analyst

In that case it would still stay within the NAIC 2 category, correct?

Frank Svoboda - Torchmark Corporation - CFO

It would stay within the -- well there would be some that would go from NAIC 2 to NAIC 3.

John Nadel - Piper Jaffray - Analyst

2 to 3, yes

Frank Svoboda - Torchmark Corporation - CFO

Yes. It definitely did include the drop from 2 to 3.

John Nadel - Piper Jaffray - Analyst

Okay, that's helpful. And then the – shoot what was my last question? I'm sorry to do this to you. Oh, I guess my question is this: so as you think about the level of buybacks here for 2016, and it seems for 2017 a similar level, so in that $320 to $330 million range, you

know is there some different approach to timing then that we should consider? I mean there's been, obviously moves in the market and moves in stock valuations. I'm curious, you kept the pace pretty consistent during 2015.

And I don't like to tend to ask about these kinds of questions about pace, but you know I'm sure you are just as aware as most market participants are aware that there's a lot of speculation about Torchmark among maybe a few other companies, you know as an interesting potential takeout candidate, following some of the transactions that took place over the last year or two with Protective and Symetra and StanCorp. And I'm you know curious how you think about the impact of that on your stock price and on your pace of buybacks.

Frank Svoboda - Torchmark Corporation - CFO

I would say generally with respect to the pace of the buybacks, is that we would continue for you know the most part to have those buybacks ratably throughout the course of the year. So we would still think about having $80 million-some per quarter.

And then where you do think that maybe there's some market opportunities, maybe that's stepped up kind of a little bit in a near term. Obviously we've had that from time to time, where one quarter is a little bit more or less than the average if you will. But I don't see us varying from our overall strategy to any significant degree.

John Nadel - Piper Jaffray - Analyst

Okay. And then is there any change as a result of you know Part D moving now into discontinued operations and essentially lack of sales at this point, is there any change in the amount of new cash that you expect to be you know investing? The pattern that looks like Q1 to Q2, to Q3, obviously Q4 was a pretty high level of cash invested, and I assume that was in part driven by the receipt of cash from CMS?

Frank Svoboda - Torchmark Corporation - CFO

Yes, that's correct. Looking forward to within 2016, it doesn’t have a.. it will continue to have a drag throughout 2016, tends to be a little bit more of a drag in the first three quarters of the year, but then a little bit more of that will pop in the fourth quarter again.

John Nadel - Piper Jaffray - Analyst

And your expectations for what that receivable will look like, or the cash received in the fourth quarter of 2016? How much is that?

Frank Svoboda - Torchmark Corporation - CFO

We have around $75 million of what we would anticipate, excuse me that's as of the end of 2015 that we would -- no, that's right. In the fourth quarter of 2016, somewhere in that $75 million range, is what we anticipate being a receivable from CMS.

John Nadel - Piper Jaffray - Analyst

Okay, so not nearly as big as the one from 2014 received.

Frank Svoboda - Torchmark Corporation - CFO

That's correct. We do anticipate it going down.

John Nadel - Piper Jaffray - Analyst

Terrific. Thanks so much for all the help.

Seth Weiss - BofA Merrill Lynch - Analyst

Hi, thank you. Just wanted to follow up on I guess the decline in cash flow for 2016, relative to really the last three years. Can you help just walk through the drivers of that?

I know a lot of it is sales driven, but if you could give us a little bit more granularity? I was a little surprised at the step down in cash flow.

Frank Svoboda - Torchmark Corporation - CFO

Yes. Again, as I indicated I think there's a couple of key drivers that kind of all work together to push that down. But you do have the higher sales. As we've talked about you have higher sales, and in the first year those sales acquisition expenses exceed the amount of premiums coming in, so there is a drag on your statutory earnings from those. And then you start having positive statutory incomes in that second year after the sale, but as you continue to, as we have the last couple years, we've had two really good years of continued sales and sales growth, that's just pulling down on the amount of statutory income.

And now we anticipate those future -- those profits from those sales to start really emerging, you know coming in the future here. But that's probably generating somewhere in that $15 million to $20 million of statutory drag in 2015 just by itself.

And then in a lot of normal years you'd have good increase in investment income that would help to offset that. But unfortunately the last couple of years with the continuing drag that we have had largely from the Part D and then of course lower interest rates, and to some degree the higher direct response claims, we've been having growth in that investment income of only around 2% or slightly above 2% level rather than at that 4% or so where our invested assets are growing at.

So that's weighing in on it. We have talked a little bit about it, we had some higher administrative costs, and this is just in growth in 2015, from some of our IT and pension costs and that type of thing. And then the way that the accounting rules work for federal income taxes, we just basically are -- you don't get quite the smoothing effect that you have on for GAAP purposes. And we just end up having some higher taxes in 2015 here than we did on a comparable basis with 2014.

Seth Weiss - BofA Merrill Lynch - Analyst

Okay, so there is, I mean, obviously a lot of factors there. If we look back over the last three years, was there anything unusual and perhaps unsustainable that was contributing to cash flow? Or would you think of the next two years as maybe the drag from higher sales and some of these other items that you've outlined as maybe keeping it unusually low for a couple of years?

Frank Svoboda - Torchmark Corporation - CFO

Yes, I think your latter comment. I don't see anything that was terribly unusual other than maybe you know the drags of some of the higher direct response cost and then the drag from Part D.

Seth Weiss - BofA Merrill Lynch - Analyst

Great, thank you.

Ryan Krueger - Keefe, Bruyette & Woods - Analyst

Hi, thanks, good morning. Couple other follow ups.

In terms of the $60 million to $70 million of capital backing Part D, to the extent that runs off, I guess it wouldn't come through I don't think as earnings. But would you still -- would you view that,

given that it would cause an increase in the RBC ratio, as being able to be dividend up to the parent company in the following year?

Frank Svoboda - Torchmark Corporation - CFO

Right, it does not come through as earnings, as you said. So that while it may be available as an extraordinary dividend to the extent that our capital levels would permit it, but it clearly would have to be something that would have to be approved by the regulators.

Ryan Krueger - Keefe, Bruyette & Woods - Analyst

Okay, got it. And what entity is this business in legally?

Frank Svoboda - Torchmark Corporation - CFO

United American, predominantly

Ryan Krueger - Keefe, Bruyette & Woods - Analyst

Got it. And then on the downgrade scenario, some of the other companies the scenarios they've provided have been lower than the impact would look like it would be if you simply apply the RBC factors for C1 risk.

And they've mentioned co-variants and diversification offsets. It didn't seem like in your impact it didn't seem like there was any co-variant offset, so how should we think about that?

Frank Svoboda - Torchmark Corporation - CFO

I think you should -- the impacts of the co-variants and some of the other offsets were taken into account. Estimated to some degree within that overall rule of thumb that I provided.

Ryan Krueger - Keefe, Bruyette & Woods - Analyst

Alright and then last one, can you discuss how the impairment policy works from a pricing standpoint? So if you fully intend to hold a security to maturity but the bond let's say is trading at $0.50 on the $1 for an extended period of time, is there anything that requires you to potentially impair that security if you still think it will pay off at par?

Frank Svoboda - Torchmark Corporation - CFO

No. In answer to your question, the fact that it's just trading below book value in and of itself even for an extended period of time wouldn't require us to impair that security. We would have to take a look and evaluate that particular bond offering and determine do we think it's money good?

And as long as we believe that we're going to collect that, the principal amount from that, you know and in our particular case we have the ability and the intent to hold those to maturity. So as long as we believe and can demonstrate you know that we will be able to collect that at maturity, then we do not have to have an impairment under the accounting rules.

Ryan Krueger - Keefe, Bruyette & Woods - Analyst

That includes both GAAP and statutory?

Frank Svoboda - Torchmark Corporation - CFO

Correct.

Ryan Krueger - Keefe, Bruyette & Woods - Analyst

Okay, thank you.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Good morning. What's behind the margin improvement in Liberty National in Q4? And I think you said it was a factor behind your revised guidance for 2016?

Gary Coleman - Torchmark Corporation - Co-CEO

Bob, it really was more of a timing issue there, because if you compare the two quarters, the reason for the higher margin is that we had lower policy obligations in the fourth quarter 2015. As it turns out, fourth quarter 2014 was our highest policy obligation quarter, and fourth quarter 2015 was the lowest for the year 2015.

If you look at it on a year-to-date basis, 2015 was 38% of premium versus 39% of premium the year before. So it's pretty much the same.

Our outlook for the coming year is that policy obligations will be around that 38% level, and our margins will be somewhere I think at the midpoint it's about 26.5%. And that's a little bit lower than 2015, but a little bit higher than 2014.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

So you didn't say that this recent increase was partially due to Liberty National margin assumptions for 2016 change?

Frank Svoboda - Torchmark Corporation - CFO

Yes, what I had just indicated was that we just had a little bit of an improved outlook internally with respect to where that margin was, would be from you know what we had back in the third quarter. So I think we are anticipating our overall margin would be somewhere in that 25% to 27% range for the entire year of 2016. That's just a slight improvement over where we thought it would have been back in October.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

But nothing has changed at Liberty National Q3 to Q4? I misheard that for your outlook? Okay

Frank Svoboda - Torchmark Corporation - CFO

Yes. Between Q3 and Q4 guidance we just had a slight increase in our expectation of the margin for 2016.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

I thought you mentioned Liberty National in that, but you didn't? You didn't mean to?

Frank Svoboda - Torchmark Corporation - CFO

Yes, it was Liberty National.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Now I'm confused. Let me step back. So has Liberty National changed at all from Q3 to Q4?

Frank Svoboda - Torchmark Corporation - CFO

For Liberty National our outlook on the overall margin for 2016 increased slightly.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Okay, what's behind that?

Frank Svoboda - Torchmark Corporation - CFO

Just a slightly better outlook as far as our net policy obligations.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Okay. And what's the timing of the sale? How far along are you? Are there RFPs out?

Frank Svoboda - Torchmark Corporation - CFO

We really can't talk about it.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Whether there are RFPs out, you can't say?

Frank Svoboda - Torchmark Corporation - CFO

I think in my comments indicated that we're in the midst of discussions with multiple parties.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Okay, that's helpful, appreciate it.

Eric Berg - RBC Capital Markets - Analyst

Thanks. Frank, I was hoping we could return to the question about the reduction in ratings in the energy portfolio.

Is the $100 million principal amount and the $9 million of incremental capital that would be required, is that the result of, again in response to John Nadel's question, is that an analysis that looks at the impact of multiple ratings, multiple scenarios for notching changes, or just one notch? I was not clear on your response.

Frank Svoboda - Torchmark Corporation - CFO

It's kind of an amalgamation of looking at multiple scenarios that our investment department took a look at. Some of those scenarios would have looked at one notch downgrades you know for the entire portfolio.

And we would have also looked within that those range of scenarios just dropped from NAIC from 2 to 3 for a certain amount of our portfolio. And obviously, it is different if all of the downgrades go from you know one notch down to another notch, if it's all 2 to 3, we'll have some impact. But as a general rule we believe that this rule of thumb will hold or be fairly close.

Eric Berg - RBC Capital Markets - Analyst

Okay. Why don't I leave it there for now? Thanks very much.

Mike Majors - Torchmark Corporation - VP of IR

Alright, thanks for being with us. Those are our comments, and we'll talk to you again next quarter.