

TORCHMARK CORPORATION

1st QUARTER 2008 CONFERENCE CALL

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Corporation Participants

Mark McAndrew, Chairman and CEO

Gary L. Coleman, EVP and CFO

Larry Hutchison, EVP & General Counsel

Rosemary Montgomery, EVP and Chief Actuary

Joyce Lane, VP Investor Relations

Mike Majors, Director 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; Joyce Lane, Vice President of Investor Relations, and Mike Majors, Director 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 2007 10-K, which is on file with the SEC.

Net operating income for the first quarter was \$132 million, or \$1.43 per share – a per share increase of 8% from the year-ago quarter. Our return on equity was 15.7% and our book value per share excluding FAS 115 was \$36.88, up 10% from a year ago.

In our life insurance operations, premium revenue grew 3% to \$403 million and life underwriting margins increased 6% to \$108 million. As a percentage of premiums, life underwriting margins were 27% versus 26% a year ago. Life insurance net sales were \$70.5 million – up 13% from the first quarter of 2007.

At American Income, life premiums grew 8.5% to \$115 million. Life underwriting margin was up 15% to \$37 million. Net life sales increased 17% for the quarter to \$24 million with first-year collected life premiums growing 7% to \$19 million. The agent count at American Income was up 9% from a year ago to 2,616.

Sales at American Income once again exceeded our expectations and sales growth continues to accelerate. As you know, American Income is our most profitable distribution system. It contributes roughly 30% of our total underwriting income. We remain very optimistic in regards to both our short and long-term growth prospects.

In our Direct Response operation, life premiums were up 5% to \$129 million and life underwriting margin grew 3% to \$30 million. Net life sales increased 8% to \$31 million and were slightly less than projected.

As a result of our first quarter experience, we have made some small downward adjustments in our 2008 projections for Direct Response. We now anticipate high single-digit growth in net sales for the year with mid-single digit growth in both premiums and underwriting margins.

At Liberty National, life premiums declined 3% to \$72 million and life underwriting margin was down 6% to \$18 million. Net life sales increased 14% from a year ago to \$10 million.

The growth in our agent count at Liberty National, which was up 62% to 2,840, significantly outpaced our growth in sales due to the high concentration of first-year agents. While our new agents more than doubled in the past year, our more productive renewal year agents declined by 18%. The good news is that the drop in veteran agents stopped in the first quarter and we will see significant

improvement in these numbers as the year progresses.

We believe that Liberty National is on the right track and continue to expect strong double-digit sales growth for the balance of 2008.

On the health side, premium revenue, excluding Part D, declined 4% to \$253 million and health underwriting margin also declined 4% to \$45.5 million. Health net sales dropped 29% for the quarter to \$42 million.

The decline in health sales was almost entirely attributable to the United American Branch Office operation where health net sales dropped 40%. We continued to see high turnover of our Branch Office managers as a result of both overly aggressive expansion as well as increased competition. During the last six months, we have lost roughly one-third of our Branch Office Managers which has adversely impacted our new agent recruiting, agent count and net sales. This high turnover appears to have subsided and we have replaced the majority of our lost managers. New agent recruiting is now increasing and we expect little, if any, further deterioration. We have lowered our expectations and now anticipate health sales to remain at roughly the first quarter level for the balance of 2008.

I would point out that the United American Branch office contributes only about 7% of our total underwriting income, so our lowered sales estimates have only a minor impact on our 2008 earnings projections.

Premium revenue from Medicare Part D was down 15% to \$47 million and the underwriting margin declined 4% to \$4.9 million for the quarter. For the balance of 2008, we expect Part D underwriting margins to remain roughly the same level as the first quarter.

Administrative expenses increased 3% for the quarter to \$39.8 million. For the full year, we currently project administrative expenses to increase less than 1%.

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

Gary Coleman: Thanks, Mark.

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

First, our investments. Torchmark has \$9.5 billion of bonds at amortized cost, which comprise 95% of invested assets. Of our bonds, 92% are corporate bonds and hybrid securities. Less than 1% of the bonds are in residential or commercial mortgage-backed securities, and none of those are backed by sub-prime or Alt -A mortgages.

Overall, the total portfolio is rated A-, the same as a year ago.

Regarding new investments. We invest almost exclusively in investment grade corporate bonds and hybrid securities. In the first quarter, widening spreads more than offset lower treasury rates, resulting in higher yields on new investments. We invested \$431 million at an average annual effective yield of 7.25%, an average rating of A- and an average life, depending on future calls, of between 22 and 35 years. This compares to the 6.6% yield, A rating, and 20 to 29 year average life of bonds acquired in the first quarter of last year.

The 7 ¼ yield on new investments was the highest yield since the first quarter of 2003, and for the second consecutive quarter, the new money yield

exceeded the portfolio yield. The average yield on the portfolio in the first quarter was 6.97%, 4 basis points lower than the first quarter of 2007, but the same that it has been for the last three sequential quarters.

Now, turning to excess investment income. It was \$83 million, the same as a year ago; however, on a per share basis, excess investment income increased 8%, which reflects the effect of our share repurchase program.

Excess investment income is net investment income less the interest cost of the net policy liabilities and the financing costs of our debt. The year-over-year comparison of each of these components is as follows:

- First, net investment income was up \$4 million. However, taking into consideration the municipal bonds acquired late in the first quarter of 2007, investment income on a tax equivalent basis was up \$5 million. This represents a 3% increase in income, slightly lower than the 4% increase in average invested assets;
- Next, the interest costs on the net policy liabilities increased \$5 million, or 8%, due primarily to a 7% increase in the average liabilities, and
- Lastly, financing costs were down \$1 million due to the lower short-term borrowing rates.

Now, regarding our share repurchase program. In the quarter, we spent \$145 million to buy 2.5 million Torchmark shares. This is comparable to the \$167 million used to buy 2.6 million shares in the first quarter of 2007.

We use the free cash flow at the holding company to fund our stock repurchases. In 2008, we expect free cash flow to be around \$355 million. The reason that it will be about the same as last year is that in 2007 our free cash flow included a \$36 million extraordinary dividend from one of our subsidiaries.

With our debt at an appropriate level, and given the low interest rate environment, we feel that the best use for our free cash would be a strategic acquisition. But absent an acquisition, share repurchases will be the best use of our available cash.

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

Mark McAndrew: Thank you, Gary.

For 2008, we are raising our earnings per share projections by \$.02 to a range of \$5.90 to \$5.96 per share, which assumes we continue to invest our free cash flow in our share repurchase program.

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

Tamara Kravec, Banc of America Securities:

Thank you. Good morning. I was hoping that you could delve into the Liberty National a little bit more. You've seen very significant agent growth and you have a higher concentration of first year agents. So if you could talk a little bit more about your expectations for those agents to become productive over the course of, say, the next 12 to 18 months. That's my first question and then I have a follow-up.

Mark McAndrew: Certainly. I don't have the numbers in front of me, but my recollection is the renewal year agents at Liberty National were producing on average roughly, I believe it was somewhere in the 30% more production per agent

than a first-year agent. It may even be slightly higher than that. But again, if you look at the trends at Liberty National in the agent counts, a year ago we had 720 renewal year agents. We're down to 588. But if you look at the growth in first year, we really started to see significant growth in the second quarter of 2007, when it jumped from 1,037 to 1,273. And we saw big jumps in the third, fourth, and first quarter of this year. Those newly hired agents twelve months later will flow into the renewal year agent count. So I do expect where the first year agents over the last twelve months have doubled, I expect to see over the next twelve months substantial improvement in our renewal year agent count. I wouldn't be surprised if we didn't see our renewal year agents increase by at least 50% over the next twelve months. If we can continue to see growth in our first year agents and if we can see 50% growth in our renewal year agents, I think the prospects for sales growth at Liberty National are excellent.

Tamara Kravec: Okay, thank you. And my second question is on the United Branch Office operation. You talked briefly about the high turnover in your Branch Office managers, and I'm guessing you are seeing still increased competition. But if you could elaborate more on essentially is the problem more compensation? Is it just growth opportunities? And then how fast – you've already replaced your managers, but you're expecting agent recruiting to continue to increase. But how quickly do you think you can get back to the levels that you were before the environment got a little tougher?

Mark McAndrew: That's a very good question. I wish I knew exactly. United American in the health insurance marketplace, it is the most competitive market that we see in any of our distribution systems. Over the last 25 years we've seen numerous occasions where we have had big peaks and valleys in our sales as a result of the competition. And what we have seen, we introduced a product roughly three

years ago where we saw very nice increases in our sales and agent growth. And now we're seeing competitors copy the product, copy the underwriting and really target our agency force.

It's not so much compensation; we have competitors that offer maybe a wider range of products that we currently offer, but they have seen some success in recruiting away some of our people. We have replaced most of those losses and we'll have to build it back. But I'm going to be cautious about making any projections about when we'll see it get back to the level that it was. Right now we have lowered our assumptions for the balance of this year to be roughly the same as the first quarter level. We hope to beat that, but it's really too early to say how quickly that will turn around.

Tamara Kravec: Okay. And just lastly, quickly, on your investment portfolio – you're moving further out in terms of the maturity of the investments you are acquiring. Is that a strategy you expect to maintain? Is it really just now given wider spreads and what you're seeing out in the marketplace? Any commentary about your strategy in light of market conditions would be very helpful.

Gary Coleman: Well, Tamara, this is Gary. This is the perfect time to be going long with the spreads as wide as they are. But we have been going long. At some point if the spreads tighten again, we will go back to what we've done in the past. We targeted a yield of about 6.5%. As long as we can get quality bonds yielding that amount, we are willing to go long. We can do that because of the type of cash flow we have and product liabilities. But in the past years, when we couldn't get the 6.5%, we would go shorter. But right now, again as I said, it's the perfect time to go long. 7.25, as I mentioned earlier, that is the highest we have invested in since early 2003. So we're going to continue to invest long to get those higher yields.

Tamara Kravec: Okay. Thank you.

Nigel Dally, Morgan Stanley: Great. Thank you and good morning. First, on Direct Response. Do you have a breakdown of the sales growth in Direct Response between insert media and your more traditional channels? Also, perhaps if you can discuss whether the insert media initiatives are yielding the type of results that you expected? Then, I have a couple of quick follow-ups as well.

Mark McAndrew: Okay, Well, I do, Nigel. We're probably not going to provide quite as much detail as we have in the past in some of our Direct Response. We did as a result of the acquisition last year but much of that is somewhat confidential. But I do. As far as for the quarter, if I look at our insert media, just net sales, the adult sales in the insert media, which comprises between 20% and 25% of our total sales, were up 23% for the quarter, which was in line with our expectations. If I look at the juvenile sales coming from insert media, they were down 10% for the quarter. Part of the reason for that is our adult sales have a one month introductory offer, whereas the juvenile has a three month. So the significant increases in circulation that we saw on the second, particularly in the fourth quarter, really haven't flowed through the juvenile sales yet, where they are flowing through the adult. But again, Direct Response sales were a little bit less than what I had forecast. I would have expected somewhere closer to 12% growth for the quarter and they were a little over 8%. It's not a significant difference, but they were a little bit less than what I projected.

Nigel Dally: Okay, and then next on capital. Your risk-based capital ratio at year end was relatively low. Can you discuss your plans to move it back towards your target range, which I think is over 300% and whether the rating agencies are still comfortable with you aggressively repurchasing stock given where the RBC ratio currently is.

Gary Coleman: Sure, Nigel. We slipped below the 300% on a consolidated basis this year due to several one time unusual items. For example, we had an extraordinary dividend that I mentioned earlier. We also adopted a supplemental retirement plan that we had a settlement of prior year's taxes, all of which had a negative impact on surplus in 2007. And also our required capital was a little higher than expected due to really some changes in the rules and the placement of certain of our assets within our companies. We just didn't do a good job of anticipating the impact of those or we could have taken steps to keep that at above the 300% level. We'll go ahead and take those steps now. And these are low cost steps. We'll increase our statutory surplus. We can do that through our increased intercompany reinsurance of premium deficiency reserves. We can monetize some more of our agents' balances. We have additional deferred tax credits that we can recognize. All those things will improve our surplus. And on the capital side, we can reduce our capital charges by, first of all, we are merging some of our companies; and then secondly, just where we place the assets. But we expect certainly before the end of the year that we'll be back up in the 310% to 330% range that we've been in over the last five or six years. We can take these steps pretty quickly, and also all these things that we are doing won't have any impact on our free cash flow.

Nigel Dally: Okay, and then the last question I had was on investment income. In the past you've benefited from interest rate swaps, which you closed out due to the flat yield curve. Now we're seeing some steepening of the yield curve. Is that something you are looking to put that back in place?

Gary Coleman: Well, that's something we need to look at again because that was very beneficial back a few years ago when the curve was as steep as it was. We haven't done anything yet, but we'll take a look at that.

Nigel Dally: Okay. Again, is that incorporated in your guidance as yet or would that be a potential positive?

Gary Coleman: That would be a positive. We did not contemplate that in the guidance.

Nigel Dally: Okay, thanks a lot.

Bob Glasspiegel, Langen McAlenney: Good morning. Pretty close. I guess as the dean of Torchmark analysts, I just wanted to pass on thanks to Joyce and the great job she's done in investor relations and wish her well in the future.

Mark, I was wondering if you could go into what's behind the increase in earnings guidance. Is it the investment income? It seems like you had a couple of minor negative deltas in sales and premiums but is it the investment income that is more than offsetting that?

Mark McAndrew: Yes, Bob, it is. The increase is strictly in the higher yield on our new investments than what we had anticipated and it is in the investment income.

Bob Glasspiegel: I just want to follow just on Tamara's question. Given that yields are higher, why would you be dipping down a little bit in the quality? Maybe there's less A's out there that are long, and going longer, so you are sort of at a time that you don't need to make numbers stretching on duration and yield. Is it your credit analysis saying these are the right opportunities, or there's something more significant driving that call?

Gary Coleman: No, it is the credit analysis. We say we're dipping down in ratings, but we've been an A, A- over the last several quarters. Again, obviously, we pay attention to the ratings, but we do our own credit research and we feel like we're getting good

credit so otherwise we wouldn't be buying them. We're not stepping down in credit worthiness just to get more yield. Again, we're benefiting by the wider spreads, but we're not stepping down in quality.

Bob Glasspiegel: Okay. And just reading through the annual report and your commentary on the last call, it just seems like you've upgraded acquisitions in your thought process and you mentioned you won the silver medal last quarter in one act. Is there anything live that we should be thinking about? Or just give us a little bit of help on what would be most intriguing to you.

Mark McAndrew: Well, Bob, we're continuing to look and that's about all I can comment on there, other than, again, what we're looking for – we're looking for companies that have predictable, stable earnings. We definitely like to see captive, some type of captive distribution, whether it's an agency force or direct response. A company that has high expenses is also something we believe we can add significant value to. So those are some of the biggest factors we're looking at and there's a number of companies out there, but I can't really talk any more specific about anything other than that, Bob.

Bob Glasspiegel: Would Primerica Financial Services be of interest if that came on the market? It is a former Torchmark employee, I guess, that founded it and captive distribution and relatively predictable earnings.

Mark McAndrew: Well, if it had predictable earnings with captive distribution, then it would be something we would take a look at.

Bob Glasspiegel: Okay. Thank you very much.

Mark McAndrew: Sure, Bob.

Ed Spehar, Merrill Lynch: Thank you. Good morning. A couple of questions. First, Gary, I was wondering if you could help us in terms of the portfolio yield trend. Given the cash that you see coming in over the next year, if reinvestment rates stayed where they are, do you have any sense of how the portfolio yield would progress upward?

And then on the underwriting side, I was wondering if you could expand, Mark, a little bit on the competitive issue that you talk about in health? Are you seeing – is this insurance companies, mutuals; are they health care companies? Who is it that is sort of the source of this competitive pressure? And is there anything to be optimistic on in terms of Medicare supplement; any changes that you see coming in terms of reimbursement that might make that business a little bit better at some point? Thanks.

Mark McAndrew: All right, Gary, you want to take the first?

Gary Coleman: Sure. Ed, if we invested at 7% for the remainder of the year, a year from now our portfolio yield would still be around the 6.97%, just under 7%. It would be helpful to add the additional little bit of extra yield there, but also we've got bonds coming off at a little bit higher yield. Again, at 7% we should be at least at the 6.97% where we are today; maybe slightly higher.

Mark McAndrew: All right, Ed, on the health competition. I don't really want to name names, but there is a company or two out there that are health insurance companies that basically have seen the products that we have been offering and our underwriting and have basically duplicated the products. These are companies that are already in the major medical marketplace, but the underwriting on major medical is very strict. The products we've offered with more limited benefits had a little more lenient underwriting and were also lower priced, which

was kind of our niche and they've taken basically our products and copied them and copied our underwriting, and have really gone after and targeted our agents. We'll overcome it and we'll rebuild and move forward. We are also looking at other products and other markets that we might be able to move into there.

As far as Medicare supplement, I don't see any short-term significant changes there. I know the reimbursement rates for the Medicare Advantage plans are not keeping up with inflation. So those margins will be squeezed. But it will be interesting to follow the election this year. If there should be a democratic President as well as a democratic congress, I would think there's a much bigger chance to see many of those Medicare Advantage plans really squeezed much, much further and, in fact, I wouldn't be at all surprised to start seeing significant disenrollments should that happen. But it's really kind of early to say on that.

Ed Spehar: Okay. If I could just follow-up with Gary. If the new money yield was 7.2% in the quarter – is that correct?

Gary Coleman: 7.25%, yes.

Ed Spehar: Okay, if it was 7.25% going forward rather than 7%, how much does that change the math on the overall portfolio yield?

Gary Coleman: Okay, I think that moves you up to 7%.

Ed Spehar: Okay. Thank you.

Mark Finkelstein, Fox-Pitt Kelton: Good morning. I've got a few questions. I'll just kind of go through them individually. I guess, first, looking at the change in the end realized and, I guess, the very small realized loss in the quarter, I am just curious if there's

anything in the portfolio credit related or any changes on the credit side, or was the full unrealized change based on interest rate changes?

Gary Coleman: I think the full change was based on interest rate changes. We have to review our portfolio quarterly for other and temporary impairments, but we're obviously doing that more than just quarterly. This quarter we did write down – I think we had a total write down of \$3 million where the bonds for other than temporary impairment. But the unrealized losses were \$300 million higher at the end of the first quarter than they were at the fourth quarter at the end of the year, but it is essentially the same portfolio. So we really feel it's the interest rates that have caused that change.

Mark Finkelstein: Okay, great. Do you have an estimate on the stat benefit of merging the subs at this stage?

Gary Coleman: Well, we're going to do it in stages. And I know merging a couple of companies will, as far as a required capital, will save us somewhere between \$5 million and \$10 million of capital which is significant to us. I don't have an estimate overall. We re-domesticated our companies in the fourth quarter and first quarter of this year to Nebraska and we're starting to merge the companies together. So we'll see benefits later on, we're just not sure what the total is going to be.

Mark Finkelstein: Okay, and then just at UA Branch. On the last call you talked about some, I guess, some ill-advised promotions to branch manager, etc., I guess with filling those positions now, or largely filling them, what gives you the confidence that the replacements are the right ones? And some of the mistakes that were made last quarter didn't repeat themselves?

Mark McAndrew: Well, there's always some uncertainty. But we are enforcing higher standards for promotion. We still have, out of our 150 branch offices, we still have, I believe, 18 openings right now. So we're not just putting bodies in there. Part of our problem was we got lax on our promotion standards, both quality business and recruiting, and we've gone back and we're re-enforcing those standards. And we're not promoting people that do not meet those standards anymore. So we still haven't replaced all of our losses. We still do have, I think, right now, about 18 openings, but we do expect to fill those here this quarter.

Mark Finkelstein: Okay. And then if you mentioned it in your opening remarks I apologize, but what are the gross sales trends at Direct Response?

Mark McAndrew: Okay. As far as gross, now those are policies that have been issued but haven't paid the first full premium.

Mark Finkelstein: Correct.

Mark McAndrew: Well, let's see, hold on just a second. I've got those here. Actually, for the second quarter total gross sales in Direct Response were up 28%. Because of the mix of the business, insert media tends to have a lower what we call "first exposure persistency." Meaning, it will have a lower percentage of the policies paying the first full premium versus the direct mail, so I don't expect to see that 28% growth in net sales next quarter. It will be something less than that. But we still expect to see double-digit growth at least for the next quarter.

Mark Finkelstein: Okay, great. Thanks.

Jimmy Bhullar, J. P. Morgan: Thank you. I just have a couple of questions. The first one is, I think, Mark, you mentioned that you expect United American Branch sales to be stable from here. What

gives you the confidence that's going to happen, because you lost a lot of agents? Maybe you could give us some numbers on what has happened in the agent count since the end of the first quarter.

And then secondly, on American Income, you've seen nice improvement in sales the last few quarters. What's really driving that? If you can discuss your outlook for that channel, and also just an update on the new SGAs that you were adding to existing territories there. What's going on with that?

Mark McAndrew: Okay, Jimmy, let's see – Branch Office. I know I've got some numbers here in front of me. We have seen the decline – well, we've seen the turnover in our branch managers first slow down. And we've got fewer openings than we had two months ago, where we did have close to 30 openings. Now we are down to 18. As a result, we've seen our new agent recruiting was up, particularly in the latter part of the first quarter – it was up about 10% from a year ago. We've seen the agent count stabilize, and plus, there was such an effort to recruit our people. I think most of the managers who were going to leave have left. I can't find the numbers for the last three weeks since the end of the quarter, but the numbers have stabilized.

At American Income, there's a number of things contributing to its growth in sales. If you recall, I believe it was the beginning of the third quarter last year, we did make some changes in our compensation, in our bonus compensation, at American Income. And it was really pretty simple. We went from paying monthly bonuses to paying bonuses on a weekly basis. And they were designed to not only get more money to the agent quicker, but it was designed to reward consistent production. They earn a bonus. If they hit a bonus level the first week, they get a certain amount. It goes up if they hit it again the second and third week. If they miss a week, the bonus level goes back down. So that has

encouraged much more consistent production out of the agents, so we have seen an increase in our production per agent. We made the same or similar change at Liberty National beginning in the fourth quarter and we saw a nice increase in sales at Liberty National.

But we also are moving forward with adding SGAs and, as described before, centralizing our lead generation function. It's still slower than I would like to see it. We're still only at about a quarter of the total territories where we've consolidated the public relations function. Part of that reason is we're generating at American Income roughly 100,000 leads a month. And up until now, the tracking and distribution of those leads has been pretty much a manual process. We're developing systems to automate that and we expect to have those systems in place by June. Once those systems are in place, that process will speed up significantly. Right now that is the one portion of that that's holding us back.

Jimmy Bhullar: Okay. And just to follow-up. You had someone you had answered before on acquisitions, but I think there was an acquisition last year that you lost out on. Do you still have an interest in doing deals? What's the environment like? Is it a reasonable chance that you will find something that's suitable this year, or do you just expect to be spending the money on buybacks?

Mark McAndrew: Boy, that's – I wish I had a crystal ball there, Jimmy.

Jimmy Bhullar: Are there properties that are out there because of what's going on in the economy that are available now at attractive prices, or is it because you've been looking for a while.

Mark McAndrew: I really think we've only been looking seriously now for maybe nine months. And there are companies out there that are of interest to

us but they are not necessarily for sale. It's just impossible to say. There's nothing imminent but there are some companies out there that we would definitely have an interest in. We think it's a good time to make one, but I really just can't even predict when that will happen. There could be something come up in the next three months or it could take two years to find something.

Jimmy Bhullar: Okay. Thank you.

Mark McAndrew: Okay, well those are our comments and thanks for joining us this morning, and we will talk to you next quarter.