Bank of American Merrill Lynch Insurance Conference

February 12,2020

C O R P O R A T E P A R T I C I P A N T S

Frank M. Svoboda Globe Life Inc. - Executive VP & CFO

Gary L. Coleman Globe Life Inc. - Co-Chairman & CEO

Larry M. Hutchison Globe Life Inc. - Co-Chairman & CEO

CONFERENCE CALL PARTICIPANTS

Jay Adam Cohen BofA Merrill Lynch Research Division – Research Analyst

P R E S E N T A T I O N

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Okay. Last one of the day. Hearty folks that have stuck around, thank you.

Next presenter is Globe Life. I am pleased to introduce Gary Coleman, Larry Hutchison, Co-CEOs of Globe Life, and Frank Svoboda the company's CFO. Gary and Larry have held the CEO office for the past 6 years. Prior to their current roles, Gary served as CFO, and Larry served as General Counsel, and each have over 25 years of experience with the company. So they have been around a while.

Frank has been with the company since 2003, when he joined from KPMG. Globe has been one of the most consistent -- the most consistent company. I do not have to say one of the, the most consistent company in terms of earnings, capital distribution and book value growth in the life sector. In the life sector, not overall. So maybe the bar is low, but you have been.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

We will take it.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

So years ago, we had an analyst at Merrill, when I was there, a life analyst, who loved the old Torchmark. And he loved it so much, after the crisis, the stock took a big hit, and I wanted to buy the stock personally. So I went to compliance to see if I could buy it, and they said well you sit next to the life analyst, you don't remember this, but I remember it. And they said, "You cannot buy the stock." I think the stock is up something like 9 fold since then. But I could not buy it. But it does speak to the brilliance of our former life insurance analyst.

Q U E S T I O N S A N D A N S W E R S

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

I wanted to start with a question that I had asked myself when I heard about your company. And I think it is a good place to start, and not everyone has heard the story. When you look at Globe Life, what makes it unique? You look very different than other companies. Your results are quite different. So where is the uniqueness of the story?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Well, it is really several things. One is the market that we operate in, the products that we offer and also the way we distribute those products, it is different than most of the other life insurance companies. We operate in the middle-income market, selling protection, life, and supplemental health products. We sell through distribution that we control and by being -- by doing that, we are able to control the cost and generate strong underwriting margins.

The middle-income market is such a large market, but there is just not much -- but it is an underserved market. We know from studies that the majority of the people in middle-income market are either uninsured or underinsured, but there is little competition there.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Gary, why is that? How come-- it does not seem -- I mean, we know it is a big market. We know it is underserved, you are not the only ones that know that. How come no one has been able to, I should not say, no one. You have not had a big rush of people trying to serve that market?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Well, I think the primary thing is that we are selling small face amount policies, which means our premium revenues are fairly low. You know 20, 30 years ago, everybody was in the middle-income market, but the cost of operating the distribution grew more than -- at a greater rate than the premiums. Torchmark and now Globe Life, our history has been – we have been able to control the cost of distribution. And it has helped us stay competitive in the market. Others started moving up to the higher-income market. And we do not want to be in that market because there is so much competition, not only for the customers, but for the agents because they are selling through independent agents. So having controlled distribution through exclusive agencies and direct response, it gives us a real advantage in keeping those costs down.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Got it. You know the pushback I get on the – we have had a buy on it since we launched on the stock. The pushback I often get is valuation. It looks expensive. And I have an answer for that. But when you are talking with investors, is there something that you think is just -- people just do not quite get or do not appreciate about your company.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Well, I think it goes back to -- they do not appreciate the advantage we have in operating in the market that we do and selling the type of products we do. That's -- it has a positive impact on both profitability and capital. We are able to -- because we do not have a lot of competition in the market, and it is a large market, we are able to generate substantial underwriting margins. But at the same time, due to the nature of the products we sell, they are low risk, and we do not have to hold much capital to support them. And so we are able to -- for example, we are able to operate at a lower RBC ratio than most other companies that have the same ratings we have from the rating agencies. So it's our ability to generate those profits at a lower -- and keep the capital low. It allows us to generate more cash and get that cash to the shareholders.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

What has been, say, average, sort of, cash generation relative to your core earnings, your operating earnings.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

That's changed over time. Frank?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes. I think, historically, if you kind of look back over time, it has really been in that 70% to 80% range that we have been able to return of our earnings. It has really dropped here in the last couple of years due to the tax law change to more around 60%. In large part because we did get an earnings bump. If you will, from the lower effective tax rate, whereas from a pure cash perspective, our cash taxes really have not changed. It has been a little bit beneficial, but not at the same degree as we really saw in the overall GAAP earnings.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Do you see that getting back up to those levels where you were before?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

I think it will take a little bit of time to get there. I think for the near term because just some of the nuances of the tax law and how they hit our particular company, that -- we are seeing some benefits still of that cash, but it's – it will be a little while, I think, before we get ultimately back up to that same level, but we'll see.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Got it. Let's talk about American Income. You have talked about the impact of low unemployment on agent retention at American Income. How have you been dealing with that? And are there new methodologies for recruiting and retaining people?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

I will cover that. When we talk about lower retention, we are really talking about new agents. If we look at our retention, over the last 3 years in American Income and other exclusive agencies, 12-month retention and 6-month retention is about the same. The issue with low unemployment is for new agents because if they are not immediately successful, there is a lot of other work opportunities. I think what is unique about American Income is probably 70% of our recruits are Internet recruits. So their resume stays out on the Internet. With all the other work opportunities, they are constantly being contacted by other prospective employers and -- or other companies.

I think with American Income, we have addressed it in 4 ways. In 2019, the first thing we did was increased our recruiting. We had more than a 10% increase in recruiting last year. So low unemployment has not affected recruiting. In fact, most of our recruits are not unemployed. They are people that are underemployed and are looking for a better opportunity. The second thing we did early in 2019 was restructure our compensation. We did not increase our compensation. We have moved some of that sales commission off the back end of the renewal and moved it to the front, to the point of sale, so the new agents have a greater income, and they stay with the company longer. And the other thing we did last year is we increased middle management. We had a middle management increase of 10%. Within our agencies, middle management does most of the recruiting, but also most of the training for new agents and a better trained agent makes more money. And if they have a higher income, they are going to stay with the company. I think the last thing we are doing this year, really, is we are introducing more technology. And the technology has really made it easier for the new agent to sell. As Gary said, our products are simple. They are simple to understand. So the training is quick. When a new agent comes to the company, they see that opportunity without the competition, lots of prospects, they are in the field selling within 5 to 10 days after they are licensed as an agent. The products are that simple, and the training is that direct and so their opportunity is immediate. And I think the other thing that helps American Income is we promoted 16 new agency owners over the last 2 years. When a new agent comes in and they see a real opportunity. They decide if they go into middle management, they can quickly move up in a short period of time. It is a real possibility they can run their own agency.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

That ability to sell products so quickly since once they are trained, has that time shortened, have you been able -- did that used to be 30 days or something?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

No, it's – what has really made it easier is the digital presentation. In 2009, American Income was the first of our agencies to go to a digital presentation. You recruit, and you train that, it's really a needs-based presentation. Most of our sales presentation takes about 1 hour. And it is not about the right sale. It's making lots of presentations. On average, you will close 1 out of 3 presentations. So the key to success for an agent is not just being in the field quickly but making lots of presentations.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

One out of 3 seems high to me. Is that a high number from an industry standpoint, do you know?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

I don't know from an industry standpoint. For us, for a veteran agent, which we consider an agent that has been in business more than 6 months, we'd expect to see about a 1 in 3 closing rate.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Wow.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

That is why sometimes we talk about our productivity went down a little bit in the quarter. In the fourth quarter, we had a number of new agents at Liberty National and American Income. New agents are less productive. They don't -- they are not in the field as much, they are not as effective in terms of the average premium. That is how we define productivity. But veteran agents are pretty consistent that they will close about 1 out of 3 sales. If an agent – as rule of thumb you want to see an agent making 10 presentations a week, and you will keep that agent if they have that level of activity.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Yes, yes. American Income has historically marketed, I guess, primarily to labor unions. Just talk about the inherent advantage by using that channel of labor unions.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

It is an inherent advantage. We have a long relationship with labor. That goes back to 1960. Every one of our agents is a union member. In our home office in Waco those are union members too. We have another team called our PRs that came out of labor. And they work on that relationship with labor. The leads we get in labor are our best leads in terms of closing sales but also getting referrals. We have a long history of really, -- that was the backbone, it was the core of the American Income business. That has changed since about 2000. We recognized that unions were not growing as quickly as we wanted the company to grow. So today, about 25% of new sales come from union members themselves, but the other 75% comes from other affinity groups or really just referrals from nonunion business.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Got it. Let’s talk about direct response. This is a business that when I picked up the stock, it was just coming off a period where the profitability had not been great. It was 1.5 years ago, maybe 2 years ago now. And it seemed like you were getting the profitability right, and then you could start to grow again. But the growth really has not picked up. I guess you are guiding next year to, kind of, flattish sales.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

That's right.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

I would have expected once you get the pricing right, and the profitability right, I would expect this growth rate to be much higher. What's holding it back?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

One was to get the pricing right, but we repriced the business. And when you think about pricing in our direct to consumer division, as you increase price, your response rates go down. So I'd expect over time, the higher the price, then the lower the response rate, the lower the sales are going to be.

There are 3 drivers when you think about direct response. We look at our 3 channels, where we have our mail volume which we say, they will be stable in 2020. Insert media should be up about 2%. The fastest growing channel has been electronic, which is really the Internet. The increase will be about 5% for this year. When we look at the total volume, I think the guidance is fair at negative 2 to plus 2, and we are doing a lot of testing. So this early in the year, we are not sure what that ultimate sales goal is going to be or the final sales results. I think it will be in that range. Our real focus now is on maximizing underwriting profit, not sales.

As you think about the market investment, you want to make sure you have the right return on the market investment. As we go forward, I know we can increase sales in our direct response channel or direct to consumer channel. That is really going to come from better analytics, being creative. You can do some price testing. Sometimes if you lower the price not only do you get a better response rate, you get a better mortality because you get some adverse selection as you increase prices. So I think the guidance we are giving this year is fair guidance. I think as you go forward, we'd expect to see continued growth in this channel.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

I mean on the auto side, you have seen the direct writers really gain share. I mean Geico's growth has been significant. Longer term, could this be a real growth driver? You said it would be better, but is this going to be a fast growing piece of the business 3 to 5 years down?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

I think the piece we miss is the support it gives our agencies. And we have a lot of leads that are generated out of direct response that supports Liberty and American Income. The second is the analytics, everything from voice analytics to attribution in the case of the agencies, where the agent came from. Those are analytics we directly use. So the direct response or the direct to consumer is important to the agency as well as -- it's our second-largest life producer. I think it will continue to be our largest direct to consumer producer. And again, there's a lot of innovation that comes out of that channel that we use across all the other 4 channels of the company.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Yes, yes. That makes sense.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

And, Jay, over time, I would add that direct response, we generally haven't had as high sales growth as we have had in exclusive agencies. But it's been fairly consistent. And -- but we've had – we have made some changes in pricing and even changes in the underwriting.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Right.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

I think it will stabilize. I think the quality of the earnings it is generating now is better than it was. And the fact that, as Larry mentioned, it does provide a great deal of support to our agencies. So it's a valuable franchise.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

And we had a fair number of questions. Why don't you try and maximize the margins again, if you do so you walk away from many sales, your total profit could actually decrease. I think where the margins are, I am comfortable and more focused on those total sales or the total profit underwriting dollars that we will support or we will generate with those sales.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Yes. I assume it is cheaper to sell it this way over time. Is that fair or not?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

I don't know that, it's a very different business than agency. So when you think about direct response, you have different lapse rates in the first year, you have different persistency and what's predictable. But we sold those products for a long time, so we know what those lapse rates will be. We have a pretty good sense of the mortality. So I don't know if it is cheaper. It is just a completely different business than our agency business.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Well, it is more complicated, too, because we do not incur a cost from the agency business until a policy is sold. Whereas in the direct response, all the expenses are upfront and paid for before we even generate a policy. So we have to be more careful in how we are allocating that expense.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

And scale would be important there. As that gets bigger and you can cover those upfront expenses, the scale is obviously beneficial.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes, but we also -- in determining how much we are going to spend, we have to determine what the return on investment is going to be. We can expand the marketing, but it may be getting into areas where the return is not enough to justify it. And so it's a – it is a little more complicated than it is on the agency side.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

I think what's more complicated, too, is that those channels have really changed over time. If we go clear back to 1995, it was almost all direct mail. In about 2000, we saw that the insert media became the dominant channel. But today, banks and others are going to digital billings so you don't have the insert volume which we had say, in 2000. We really introduced the Internet as a marketing device in about 2006. At that time, it was about 2% or 3% of our business. Today, that and the inbound phone calls are like 60% of our business. So that channel is -- grows the fastest. That channel also changes quickly. Because as you think about the Internet, as you pay to be on different sites and trying to drive traffic, that's a quickly changing environment. And so it is a more complicated business than the agency business. Agency business, in my mind, is a lot easier to run. You are really focused on growing distribution. This, as you are trying to balance the 3 channels, you have to be careful too with the attribution because our fourth quarter, we had the increase in sales that surprised us because it really -- it was inbound phone call traffic that was driven by our insert media and our mail channel, and we did not expect that. So there's kind of a general advertising effect across those channels. And so if you say, well, I do not think the return will be right for this insert piece or this mail piece, you have to be careful because you may be hurting your other channel in doing that.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Yes. No, that's fair. I mean it does look like the margins for this channel have improved quite a bit.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Yes.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes.

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

Yes.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

And at the level they are now, do you view those as sustainable? Or could you improve upon them a bit?

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

I think we are pretty pleased that they have really stabilized here around this 18% level.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Right.

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

As you kind of said, 2016, 2017, margins have dropped into that 16%, 17% range. It has improved during the last couple of years, and we have averaged right at 18% the last 2 years, a little bit of fluctuations on some of the quarters, but we think they are sustainable. We kind of expect them to be -- should continue to be around this range here in the near future. There is always a little bit of seasonality. So I think they will vary in between that 17%, and we expect this to be at 17% and 19% on a quarterly basis.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Right.

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

It is just kind of depending on how the seasonality hits.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Right. Yes. Let's shift to health. Talk about your strategy for growing supplemental health products for -- over the next several years.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

It's really a different strategy. We have 3 channels we sell supplemental health policies through. The first is Family Heritage Life. Family Heritage sells -- a return of premium product, and the key there to increasing those sales is increased distribution. We need to grow the agency. Currently, Family Heritage has about 1,200 agents. We bought the company in 2012. They had about 700 agents. So we have increased that significantly. We need to increase the size of those agencies. And that distribution, we are not trying to increase the number of agency owners. We are trying to get bigger agencies.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

When did you by them, 2012?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

In 2012. That is when we took over Family Heritage. The other thing we do there is we do update products. There are different products we originally -- it was mostly return to premium cancer product. There's some other circulatory and other products we've introduced and had success with. So as we grow distribution, we change our products. We can certainly grow that line. Second is Liberty National. Liberty National is kind of interesting because it sells health, only about 25% of it is individual. The other 75% is the worksite market. And worksite, those are mostly small employers. And the initial sale typically is a health policy. We really like that market because on the re-enrollment, we sell a lot of life insurance. So it's a bit of a lead for later life sales in that market. Again, there -- it's not new products, it is growing our distribution.

When we restructured that company in 2012, it had about 1,000 agents. Today, it's at 2,500 agents. So again, we want to increase, not only the agency. Our strategy there is open new agencies outside of their traditional geography. So we're trying to sell across the U.S. and that health market, that worksite is a great lead for new agencies. That's great to start new agencies.

Our third market is really a little more opportunistic, that's Medicare Supplement. We sell both individual and group Medicare. We do that through general agents and brokers. That's the most competitive within the markets that we are in. The growth there is really dependent on market conditions. We have had really strong sales in individual Medicare Supplement in 2018 and '19. Those market conditions can change rapidly. These general agents have an ability to place the business with other carriers. What we do not know is what new carriers are going to come into a state, have a lower rate, it's a standardized product, and they may place that business elsewhere. So our guidance this year, after 2 strong years, it is tough comparables, our guidance this year is to be flat. But sometimes we're surprised it's so difficult. On the group side, the size of the groups also can affect what the growth is in that market.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Yes. How is competition in this market? – You know it varies by channel, but...

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

It varies by channel. But if you look at Family Heritage, it sells primarily in rural areas and small cities. We are the only agent in that household. There is no competition for that.

Liberty National our –really our focus on worksite, are smaller employers. And so for the other carriers for the worksite usually have bigger employers. So it's not that competitive. It is really, again, growing your distribution and its activity to go out and call on those small employers. Competition, as I said, is really the strongest in the Medicare Supplement markets.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

The margins on the health side have kind of flattened out a bit. Are you seeing higher than normal utilization for Medicare Supplement plans? And looking forward, what can the margins look like?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Gary, do you want to handle that?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

So we did see higher utilization in 2019. I think that was pretty common from our Med. Supp. carriers. And we are, of course -- in that business, you are filing for rate increases every year, and we filed for rate increases that have not fully taken into effect. I don't think that margins are going to vary that much. I think we will be able to maintain the margins that we have.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Yes. I mean, rate increases help margins in the sense that with the rate increase, you do not pay a commission on the rate increase; you pay a commission on the original premium. So should you think about it, your margins are not hurt by rate increases. It's a bit of a misconception about that business.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Yes, yes. Do you see opportunity to offer new products on the health side?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

All of our products are non-ACA. So we look to different co-insurance, different deductible gaps, can we fill those. And so we did add some new products to Family Heritage, and the other companies, it's really the same product. Our focus really is not on new product it is on growing distribution.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Got it. So I just wanted to shift to -- oh, by the way, any questions on sort of distribution, products?

I wanted to shift to the investment side. Low interest rates is not a secret, everyone is dealing with it. How will you describe the ongoing pressure from interest rates on profit, on earnings?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Well, it's -- for several years now, we have been investing at a lower rate than the portfolio yield. And so the portfolio yield continues to come down. And for example, this year, we will grow the invested assets around 4%, but our investment income will only grow 1% to 2%. Now that's a little bit worse than what we have had in prior years because we have had some calls in the portfolio that we don't anticipate going forward. But it's -- it has hampered our income growth. The positive thing about the products we sell, we are not selling interest sensitive policies, so we are not having any impact on policy liabilities or DAC on the balance sheet, it is strictly on the income statement. But it has hindered our growth for several years now.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

If rates were to stay where they are, and your portfolio rolls off, how long before your portfolio yield matches new business -- new money yields?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Oh it would be – we have kind of done rough estimates for every 5 years, and it would be much longer than 5 years. I mean, my guess it would be more than 10 years.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

So if rates stay where they are, every year, we will see your portfolio yield gradually coming down?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes, it will. But one of the good things is that we have got very little turnover in our portfolio coming in the next 5 years. So less than 2% a year.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Less than 2% a year?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Yes. So that will help us a little bit, make it go a little bit longer.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Right.

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

And one of the things, Jay, we had quite a few calls here, especially the latter half of 2019, you know we had $600 million of Build America Bonds that we purchased back 10 years ago. And we have a few more of those that are going to be called, and we expect to be called here the first part of 2020. But as Gary said, really, once we get past that, we really don't -- we do not have a lot that we expect to roll off. I think when you look at the change in the portfolio yield and kind of our just normal turnover, maybe only decrease it

4 or 5 basis points over the course of time. So it takes a lot – it will take quite a few years, even if the current rates stay, to get down to the 4% number.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

No. That makes sense. On the credit side, that was the other pushback I would get on the stock. I call people up, love the stock, either 1. It is too expensive, or 2. "Yes, they have got credit risk." Everybody has credit risk. But they felt a little bit more than other companies. Therefore, when we get this eventual rollover in the credit markets, you know look out, have you been managing that risk, reducing credit risk? Or are you just – are you comfortable with where you are now?

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Well, first of all, let me say, I agree with you, everybody has risk. And I think the question is, where is it? We have a higher BBB portfolio than most other insurance companies, and we are at 55%. I think the average is around 40% or little below. But we do not have other risk assets that the other companies have. Again, due to our policy liabilities, we don't have to have derivatives. We don't have – we are not into equities. We are not into other high-risk type assets. So to us, it's a matter of where the risk is. We are more comfortable with it in our bond portfolio. We have to be very careful about risk because we are investing long to match those long policy liabilities. So when we're underwriting different bonds and looking at different issuers, we are looking for issuers that can withstand multiple cycles that they are going to be there in the long term. And then in addition to that, we are also looking to diversify the portfolio, which, in the last 5 years, we are much better diversified than we were in the past. So the combination of the underwriting we do and then diversification, we also -- we can hold bonds to maturity, and we do hold bonds to maturity. We can weather -- I know people talk about the ratings migration. I think we can weather that. We did in 2008 and 2009, and bonds -- they came back up. So because of the quality we think we have, I mean, the BBB bonds that we buy, we think, are better than some A bonds that we see and others. Not all BBB are the same. We are getting the better ones. But we think the quality is there -- we're more diverse than we were and our ability to hold those bonds, we think that we can navigate any kind of a downturn without a significant impact on our operations.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Just from my perspective, too, if we did have worsening credit, arguably, equity markets are going down, and some of your peer companies, have a much bigger exposure to equities, some of the VA companies. So you could outperform in that sort of environment pretty easily. I think you would.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

And probably one of the questions you get is if that happens, if we have a downturn and we have migration and impairments, is it going to -- are we going to stop our share repurchase program?

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

That is the question I got.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

And as – we have got $100 million of excess capital within the insurance companies. We have got $50 million at the parent company. And we've got, what, a $700 million worth of borrowing capacity that have -- I mean, we cannot imagine even getting to where we would have to disturb the cash that we are using for share repurchases.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Yes. And you have been so consistent in buying back your stock. But in the past, you have made acquisitions. Is anything -- are you seeing anything on the radar screen that's looking interesting to you from an M&A standpoint?

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

No. Well, we are constantly looking. The problem is that we are looking for companies that are in the middle-income market that sell similar products. And there's just – there is not many of them out there anymore. And so for example, we looked at Gerber, and we just did not see the value that the ultimate buyer did in it. But we're looking at other companies. But just to buy something to be bigger, it doesn't make sense to us because of the execution risk and the fact that it diverts the management's time to incorporate something, we do not want to do that unless that's going to build on our other businesses as well.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Right. Just to add to that, we really want controlled distribution. We'd be happy to leave the business, let somebody else reinsure that business. But we know we can grow distribution. So I think our biggest priority is, can we find controlled distribution, that's just been impossible to find. In our segment of the market, we don't see that before us, what they bring to us, are VA business, and long-term care, and there just have not been the opportunities there. But what we do know is we are going to grow organically. So that's our focus.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

You must know every single company that could fit in with your company. I mean, it's not a huge list.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Right

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

And so if they are not available for sale or do not want to sell.

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Right, you know let me give you an example, it is true on Family Heritage, it, was privately owned. We did not even know it existed until the owner decided to put it up for auction. So there's possibility of those kind of companies, but there's just not – there's not as many as there were like 20 years ago.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Well, it's all family owned. You don't know which generation is going to say we are ready to leave the insurance business. That could happen tomorrow, or could be 2 more generations. So that is another unknown. You know all of our companies within the holding group; the founders started those companies and then family at some point decided we are ready to sell the company. So it's a great unknown.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

The past deals you have done have worked out well.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Yes.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

So at least if you do find something, hopefully, the market will acknowledge that you have a track record and you know what you like and don't like and you are disciplined from a pricing standpoint.

Frank M. Svoboda - Globe Life Inc. - Executive VP & CFO

I think that's what's just really critical for us, it has to be the right strategic fit. I mean, we are not looking for something that's going to change who we are, the types of products that we are trying to sell. And so when the right one comes along, it will be something that we think is clearly accretive to our business and just additive from a distribution perspective, and -- but fits within that overall strategy of who we are.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

The other thing we are open to do is something that we just add to distribution, maybe not an insurance company. In 2006, we bought a company that really helped us get into the insert media business. So as we look at that, something from an IT perspective, something that really generates leads. We look at that type of company as a possibility. It might be a stronger acquisition than actually another insurance company.

Jay A. Cohen - BofA Merrill Lynch Research Division – Research Analyst

Got it. Any last-minute questions? Otherwise, we can end it here.

Fantastic. Guys, thank you so much for coming and being here and spending time with us.

Larry M. Hutchison - Globe Life Inc. - Co-Chairman & CEO

Sure

Gary L. Coleman - Globe Life Inc. - Co-Chairman & CEO

Sure, appreciate it.