4th QUARTER 2013 CONFERENCE CALL

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Mike Majors

Thank you. Good morning everyone. Joining me 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 2012 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

Thank you Mike, and good morning everyone.

Net operating income for the fourth quarter was $134 million or $1.46 per share – a per share increase of 10% from a year ago. Net income for the quarter was $143 million or $1.56 per share – a 1% decrease on a per share basis.

With fixed maturities at amortized cost, our return on equity was 15.5% and our book value per share was $38.77 - a 10% increase from a year ago. On a GAAP reported basis, with fixed maturities at market value, book value per share was $41.49, a 10% decrease due to the impact of higher market interest rates on the valuation of our fixed maturity portfolio.

Life Insurance

In our life insurance operations, premium revenue grew 4% to $468 million and life underwriting margins increased 6% to $137 million. The growth in underwriting margin exceeded the premium growth due to lower amortization on our deferred acquisition costs and the deferral of certain direct response internet acquisition costs that had not been deferred prior to the second quarter of 2013.

The lower amortization rate is a result of improvements in persistency attributable to our ongoing conservation program, and is incorporated in our guidance. We are pleased with the results of our conservation program and expect to see continued improvement in persistency.

Net life sales were flat at $83 million compared to the fourth quarter of last year. However, they increased 4% over the third quarter of 2013.

On the health side, premium revenue, excluding Part D, increased 6% to $215 million and health underwriting margin grew 11% to $49 million. Improvement in the health premium and underwriting margin was due primarily to the addition of Family Heritage.

Health sales increased 13% to $40 million, also due primarily to the acquisition of Family Heritage.

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

Larry Hutchison

Thank you Gary.

First, let's discuss American Income, which generates approximately 39% of our life premiums

American Income's life premiums were up 6 percent to $182 million and life underwriting margin was up 4 percent to $59 million. Net life sales decreased 5 percent for the quarter to $38 million. The producing agent count at the end of the fourth quarter was 5,302, up 2% over a year ago, and down 3% during the quarter.

While we indicated on the last call that sales would be down for the year, the fourth quarter results were slightly weaker than we anticipated. The changes that were made in 2013 just didn't create the results we hoped for. However, while the sales were lower than expected, they did increase sequentially from the third quarter to the fourth quarter by 3%.

We said on the third quarter conference call that we expected changes to be implemented early in the first quarter to promote increased enthusiasm and activity in the field in 2014. While we are still implementing these changes, we do believe they will drive increases in agent retention and sales activity.

We plan to open 6 new offices in 2014 and will continue to focus on development of middle management to develop new SGA candidates.

In 2014 we should start to see results from the recent initiatives, and the SGAs added in 2013 will also begin to make an impact.

We expect life sales growth in 2014 to be within a range of 3 to 6%, with most of the growth coming in the third and fourth quarters.

Now, Direct Response, which generates 35 percent of our life premiums

In our direct response operation at Globe Life, life premiums were up 6 percent to $162 million and life underwriting margin increased 19 percent to $41 million. Net life sales were up 8 percent to $34 million.

Response rates improved again during the fourth quarter. We are continuing to see positive results on rate adjustments and higher face amount offerings on adult insurance products implemented during the second quarter.

We expect life sales growth for 2014 to be in a range of 5 to 9 percent.

Now, Liberty National

At Liberty National, life premiums declined 2 percent to $68 million while life underwriting margin declined 6 percent to $19 million. Net life sales decreased 4 percent to $8 million, while net health sales increased 2 percent to $4 million. The producing agent count at LNL ended the quarter at 1,430 – up 1 percent from a year ago but up 8 percent during the quarter.

We're pleased with the trends we're seeing at Liberty National. While sales were down during the fourth quarter, they were significantly higher than we had anticipated. Our efforts to expand geographically are progressing nicely as evidenced by the increase in agent count from the third quarter to the fourth quarter.

We opened 6 new offices in 2013. As agents in these offices become more experienced, their productivity will improve. We expect to open 5 more new offices at Liberty in 2014. As we've said before, we are confident that expansion into more heavily-populated, less-penetrated areas will generate long-term agency growth at Liberty beginning in 2014.

We expect to see sales growth in 2014 in a range of 2 to 5 percent.

Now, Family Heritage

Health premiums were $49 million and health net sales were $11 million. We continue to work on our recruiting systems across the agency and believe that this will generate long-term growth.

We expect growth in health sales at Family Heritage in 2014 to be in a range of 2 to 7%.

Medicare Part D

Premium revenue from Medicare Part D declined 13 percent to $73 million, while the underwriting margin was flat at $10 million. Part D sales for the quarter increased 15 percent to $53 million due to the increase in low-income subsidized enrollees for 2014.

We expect an increase of approximately 13-15% in Part D premiums in 2014 because we have qualified to receive new auto-enrollees in 15 regions in 2014, while we received new auto-enrollees in 7 regions in 2013.

I will now turn the call back to Gary.

Gary Coleman

To complete the discussion of insurance operations, administrative expenses were $46 million for the quarter, 3% more than a year ago. The increase is in line with our expectations. We anticipate that administrative expenses should remain relatively flat in 2014 and be approximately 5.7% of premiums.

Now, 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 $55

million, a decline of $1 million or 2%; but a 3% increase on a per share basis, from the fourth quarter of 2012. For the full year 2013, excess investment income declined 8% on a dollar basis and 3% on a per-share basis. This decline was due to lower new money yields and the calls of hybrid securities that occurred in late 2012 and early 2013.

2013 was the third consecutive year that excess investment income declined. In 2014, we expect to see a reverse of this downward trend. We expect excess investment income to increase by approximately 5 to 6% in 2014. Further, reflecting the impact of share repurchases, we expect excess investment income per share to increase about 10 - 12% compared to 2013.

Now, regarding the investment portfolio:

Invested assets were $13 billion, including $12 billion of fixed maturities at amortized cost.

Of the fixed maturities, $11.9 billion are investment grade with an average rating of A-, and below investment grade bonds are $566 million, compared to $585 million a year ago.

The percentage of below investment grade bonds to fixed maturities is 4.5% compared to 4.9% a year ago. With a portfolio leverage of 3.5X, the percentage of below investment grade (BIG) bonds to equity, excluding net unrealized gains on fixed maturities, is 16%, which is less than most of our peers.

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

Regarding investment yield:

In the fourth quarter, we invested $319 million in investment grade fixed maturities, primarily in the industrial and utility sectors.

We invested at an average yield of 5.4%, an average rating of BBB+ and an average life of 25 years.

For the entire portfolio, the fourth quarter yield was 5.90%, down 30 basis points from the 6.20% yield in the fourth quarter of 2012. Most of this decline occurred early in 2013 due primarily to lower new money yields and the calls of bank hybrid securities. The portfolio yield declined only 5 basis points between the second and fourth quarter.

We are encouraged by the higher new money rates due to the positive impact that higher interest rates have on our excess investment income. At the current new money rate, we would expect to see only modest declines in the portfolio yield over the next five years compared to the larger declines in recent years. This development is due primarily to the hybrid calls being behind us, and the expected maturities coming from bonds with lower interest rates than in the past.

Even sudden interest rate spikes would be beneficial as we have very little disintermediation risk and are not concerned about potential interest rate-driven unrealized losses in our fixed maturity portfolio. As we've said many times, we have both the intent and more important, the ability, to hold our bonds to maturity.

Now, I will turn the call over to Frank to discuss share repurchases and capital.

Frank Svoboda

Thanks, Gary.

I want to spend a few minutes discussing our share repurchases and capital position.

First, regarding share repurchases and parent company assets:

In the fourth quarter, we spent $95 million to buy 1.27 million Torchmark shares at an average price of $74.45. For the full year, we spent $360 million of parent company cash to acquire 5.5 million shares at an average price of $65.21.

The Parent ended the year with liquid assets of approximately $60 million. In addition to these liquid assets, the parent will generate additional free cash flow in 2014. 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 2013 statutory earnings have not yet been finalized, we expect free cash flow in 2014 to be in the range of $370 to $380 million. Thus, including the $60 million available from assets on hand, we currently expect to have between $430 and $440 million of cash and liquid assets available to the parent during the year. To date in 2014, we have used 40.2 million dollars of this cash to buy 529 thousand Torchmark shares.

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-$60 million of liquid assets at the parent company.

Now Regarding RBC at our Insurance Subsidiaries:

We plan to maintain our capital at the level necessary to retain our current ratings. For the last two 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 haven't finalized our 2013 statutory financial statement, we expect that the RBC percentage at December 31, 2013 will be slightly above the 325% consolidated target. We do not anticipate any changes to our targeted RBC levels in 2014.

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

Larry Hutchison

Thank you Frank.

Guidance

For 2014, we expect that our net operating income will be within a range of $6.05 per share to $6.35 per share.

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

Question and Answer

Jimmy Bhullar - JPMorgan Chase & Co. - Analyst

Hi, good morning, I had a couple of questions. First one, on capital. I think you mentioned $430 million to $440 million of available

cash. And if you keep $50 million to $60 million of a cushion, that means buybacks of around $380-ish million or so for the year. Is that the right way to think about that?

Frank Svoboda - Torchmark Corp - CFO

Yes. This is Frank. You should. We expect the buybacks to be right in that -- or the free cash flow -- in that $370 million to $380 million range.

Jimmy Bhullar - JPMorgan Chase & Co. - Analyst

Got you, and then, on the business -- maybe Larry -- on Liberty National, how much of the growth in the agent count's coming just from the new offices that you're opening up versus growth at existing offices? And then, on a related count -- the agent count at American Income -- you mentioned that some of the initiatives that you'd implemented haven't gained traction as fast as maybe you thought. Can you discuss what you're doing and what gives you comfort that trends will get better in 2014?

Larry Hutchison - Torchmark Corp - Co-CEO

Sure. At Liberty National, the agent growth is coming from the new offices. Also, we're seeing some increase in the existing offices. So it comes from both sets of offices.

At American Income, we just did not see the expected correction and agent retention or agent activity we hoped for when we made the changes in retention bonuses earlier in 2013. The sales growth in 2014 will come primarily from the bonus structure change we began implementing last month. This change is aimed at increasing agent compensation early in an agent's career and encouraging greater agent activity.

The bonus change also affects managers because it ties their compensation, Jimmy, to increased recruiting and agent retention. We had tested these changes in the third and fourth quarters of 2013 before they were implemented. And additionally, we simplified the commission process so that our agents will have a greater certainty of payment at the point of sale at American Income.

Gary Coleman - Torchmark Corp - Co-CEO

Jimmy, I might add for the six new offices, I think we have 86 agents from those offices.

Jimmy Bhullar - JPMorgan Chase & Co. - Analyst

Okay, and then on Part D, you're in 15 regions. You were in 7 last year. Should we assume that premiums will double? Or, obviously, there's a difference in size of all the regions and market scope that you have. So could you discuss how that relates to expected premiums?

Gary Coleman - Torchmark Corp - Co-CEO

Our premiums last year were approximately $300 million. We expect our premiums this year to be approximately $340 million, and most of that pickup comes from the additional regions where we receive auto-enrollees. We have different numbers in different regions.

I don't think it's fair to say it would double, but I think you can --

Jimmy Bhullar - JPMorgan Chase & Co. - Analyst

The number of enrollees would not necessarily double, but overall premiums I guess you're expecting 10% to 15% -- a little bit north of 10% up?

Larry Hutchison - Torchmark Corp - Co-CEO

That's correct.

Jimmy Bhullar - JPMorgan Chase & Co. - Analyst

Okay, alright. Thanks.

Steven Schwartz - Raymond James & Associates - Analyst

Hi, good morning everybody, Larry - a follow up on Jimmy's Part D question. Yes, I know obviously you have your regular enrollees. You also have auto-enrollees, and in a number of territories auto-enrollees has doubled. So, that's the thing.

What I'm not quite understanding is that your inforce went from about $300 million to $322 million at the end of this quarter versus the third quarter. That's an 8% increase.

My understanding was that the -- the sales for the first quarter are reflected at the end of the fourth quarter. Is that not accurate? I'm trying to find out where this other 7% is going to come from, basically, because you'd been averaging about $300 million of gross premium inforce.

Larry Hutchison - Torchmark Corp - Co-CEO

Before I respond, I'm thinking about your question. With the auto-enrollees, some of those come each quarter. But we're going to be doing -- having auto-enrollees throughout the year, Steven. I don't know that I can track back instantly what the percentages are each quarter, but I do have confidence that, that premium number we're giving you is fairly close, which you'll see for the year of about $340 million.

Steven Schwartz - Raymond James & Associates - Analyst

Okay. Margin in Part D, I think, was about 11.8% for 2013?

Larry Hutchison - Torchmark Corp - Co-CEO

I think we're predicting about a 10% margin for Part D in 2014.

Steven Schwartz - Raymond James & Associates - Analyst

Okay. That's what I had. That's what stood out. Thanks guys.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Good morning everyone. You're looking for investment income to start moving up. I assume your comments are predicated with the 10-year where it is. I suspect maybe spreads of 1 and the stuff you're buying isn't going down in line with treasuries this year?

Gary Coleman - Torchmark Corp - Co-CEO

Yes, Bob. We have seen a little bit of a decline in the rates, but we're still investing this quarter near the 5.50% that we've assumed in our guidance for the year.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Okay. So a 2.55% 10-year doesn't really impact your -- you're not looking at this like a blip in rates -- you're going to move up. This is realtime, based on where we are today?

Gary Coleman - Torchmark Corp - Co-CEO

Well, I think our 5.50% is based on a little bit -- we don't look so much at the 10-year, but the 30-year.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Right.

Gary Coleman - Torchmark Corp - Co-CEO

And we're -- the 5.50% was based on a little bit higher 30-year rate than we have right now, but it's not materially different.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Okay. It's not a wing and a prayer. It's a slight uptick from where we are right now, in yields.

Gary Coleman - Torchmark Corp - Co-CEO

I think we feel confident at a 5.5 for the year.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Okay. And, as we think about your conservation program on the life side, what sort of persistency improvement can you see from it?

Gary Coleman - Torchmark Corp - Co-CEO

Well, I think we see improvement both in our first year and renewal year rates. I think we have a schedule out on the web site that shows that improvement. And this year we're going to -- or in 2013, we conserved $38 million of premium -- or $38 million of lapsed premium.

That's about 15% of our lapses for the year. And we think we can continue to increase that percentage. We think within a couple years it will be around 17% of the lapsed premium.

The good thing about is that, once that premium is conserved, we're seeing about the same persistency as -- or as a matter of fact, a little bit better persistency -- than we do on our other business. So -- but at some point, the improvements in persistency will level out a little bit, as we go forward with the conservation program. As we conserve more, we're going to have some lapses of premiums that we conserved in prior years.

But it -- the rate that you see on that schedule, those persistency rates, we think, will continue to hold or improve slightly.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Just so I understand it -- if you hadn't done the conservation program, you'd have $38 million less in premium for the year?

Gary Coleman - Torchmark Corp - Co-CEO

Yes, $38 million less of premium inforce. That's right.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Got it. Thank you.

Eric Berg - RBC Capital Markets - Analyst

Thank you and good morning. I was hoping we could return to the first question by Jimmy. Can you just -- one more time -- sort of contrast, with respect to American Income, the initiatives at the start of last year with the change in compensation now?

How are those two moves different and, again, why are you confident that -- you know, I know you mentioned you've tested -- but why are you confident that -- presumably, you tested before -- that this time you're going to get the desired outcome. What's the difference, and why are you confident?

Larry Hutchison - Torchmark Corp - Co-CEO

Eric, this is Larry. I'll try to answer that.

Eric Berg - RBC Capital Markets - Analyst

Thank you.

Larry Hutchison - Torchmark Corp - Co-CEO

In 2013, we slightly changed our compensation system by introducing agent tenure bonus. We did that in the first quarter and the third quarter of the year.

In 2014 we've initiated a revised bonus system. It's really aimed at increasing agent compensation early in an agent's career and increasing greater agent activity. In addition, manager bonuses depend on their recruiting activity and the success of their agents. If you think about 2013, we tweaked an existing system.

In 2014, what we're introducing is a complete revision to our bonus system. When we tweaked the system, we didn't test the same because it's a slight change. And those changes are based on the experience of our leadership and our sales.

Before we change a bonus system throughout the Company, we do test the same. So, in six of our offices -- from smaller to larger offices -- we tested the change in bonus at the agent and the manager level. And based on those test results, we're confident that we'll see an increase in recruiting and activity among the managers and the agents.

Eric Berg - RBC Capital Markets - Analyst

And just to be clear -- when you say you test, is this essentially asking the individuals involved how they would respond, or do you --

Larry Hutchison - Torchmark Corp - Co-CEO

No. When we test, we take the actual new bonus system, and we install that bonus system in the different SGA offices where we're testing the same. So it's a live test with the new bonus system. And then we measure those recruiting, those retention, those activity results with that new bonus system.

But we certainly receive feedback from the field. Before we introduce this to the field, we talked about this with all the SGA's, and we talked with the leadership council within the SGA group. So we've tested their response.

As we show them the results of the test, we receive feedback. And we may make minor changes based on the feedback. But basically, the installation followed the testing of this new bonus system.

Eric Berg - RBC Capital Markets - Analyst

Got it. Thank you.

Joanne Smith - Scotia Capital - Analyst

Yes, good morning. I was just wondering if we could just revisit -- just one last time, here -- on American Income. Do you think that there might be an issue of competition. Because, I didn't think that, that's been the case in the past, but I'm just wondering if maybe there's been some ramping up of some of your competitors -- maybe in some of your regions, and that could be the cause for the weaker recruiting and retention. So if you could address that, and then I have a follow up.

Larry Hutchison - Torchmark Corp - Co-CEO

In our opinion, the issue is not competition. American Income really doesn't have competition within their field force -- within their sales. As we study the sales, we don't see that we are involved in replacing policies, nor are our policies replaced.

When we looked at the lack of growth in 2013 -- that's really a result of not increasing our agent counts. The agent count was the result of two things. We had a decline in agent count because we had a lower retention of agents and we did not achieve our recruiting objectives. The two go hand-in-hand.

So, we think, with our new bonus systems, as we inspect our existing recruiting systems, we need to increase our recruiting objectives -- our actual recruiting -- and we want to work on a decline in our actual agent terminations.

Gary Coleman - Torchmark Corp - Co-CEO

Yes, Joanne, I would add that we -- we feel like, as far as the retention of the new agents, we needed to tweak the bonuses to get more money in their hands earlier in order to help them survive that first year. Because we know, once they survive that first year, they persist better going forward. And to do that, we also had to incentivize the managers to recruit and train more, and that's the tweaks that Larry was talking about -- or tweak -- to do those two things.

Larry Hutchison - Torchmark Corp - Co-CEO

And Joanne, I want to follow up and say that, if you look at the history of American Income, it's not unusual to see a very strong sales year followed by a slower sales year. And so, given the double-digit increase in sales and agent counts in 2012, it's not surprising that we struggled somewhat in 2013.

We think about agent growth -- growth of American Income as a bit of a stair-step process. And so we're hoping that we've come to the end of that stair and we're going to step upward this year, as we see greater agent recruiting and better retention within the agency.

Joanne Smith - Scotia Capital - Analyst

Yes, but -- yes -- I recall your stair-step function comments previously.

One -- I guess, one last follow-up on that. Do you think that maybe the recruiting targets haven't been met, maybe because the unemployment rate in the U.S. has improved?

Larry Hutchison - Torchmark Corp - Co-CEO

I don't think so because, when Gary and I look across the agency, what we're seeing there are plenty of resumes that are within those individual agencies. There's no shortage of candidates.

It's really an activity model which is -- having enough recruits within an office and then turning those recruits into actual agents. And retaining those agents through that first year. So, I don't think unemployment rates really have much of an impact on American Income.

Joanne Smith - Scotia Capital - Analyst

Okay, alright.

And then -- just a completely separate subject. You know, now that the Family Heritage is up and running -- you're still rolling out new offices and stuff -- but do you see anything on the M&A landscape that could interest you?

Gary Coleman - Torchmark Corp - Co-CEO

Not at this moment, but we continue to look. As we've talked about before, we're fairly narrow in our scope. We're looking for companies that are in the middle income market, similar to other companies, and that have either captive agencies or direct response -- controlled distribution. There's -- we haven't seen that many candidates recently, but we'll continue to look.

Joanne Smith - Scotia Capital - Analyst

Okay. Thank you.

Christopher Giovanni - Goldman Sachs - Analyst

Thanks. Can you talk a little bit about the 8% growth within direct response? And maybe the mix of that in terms of what's coming from the new higher-face amount policies? And then, along the lines there, any changes in kind of the behavior experience you've seen early on with those higher-face amount consumers?

Larry Hutchison - Torchmark Corp - Co-CEO

We are seeing positive results from the higher face amount -- the adult products. While all the issued policies of $50,000 are actually still a small percentage of our total net premium, it does drive the increase in our total adult net premium.

What I mean by that, Christopher, is that, every time we make $100,000 offer, it may not result in a final sale. But people may elect a smaller face policy. So, it's an overall lift to the sales as we make those $100,000 offers.

As we look at our test, we expect in 2014 that we'll be seeing those same favorable results. So in 2014, we're going to roll out more of those campaigns with the higher-faced mailings and we have rate adjustments based on those additional test results.

Christopher Giovanni - Goldman Sachs - Analyst

And any plans to expand the face amount value further to get into additional markets?

Larry Hutchison - Torchmark Corp - Co-CEO

Not really. I think, what we're looking at now is -- we're comfortable with that face amount. You know, the other initiatives will be testing different rates, different packaging, you know, the different creative to reach that customer.

Other expansion will be in Internet or electronic media. We continue to see our greatest growth there. So we have different campaigns aimed at reaching more consumers in that middle income market electronically.

Gary Coleman - Torchmark Corp - Co-CEO

And Chris, although the prescription drug -- access to those records -- have allowed us to do a little more underwriting than we've done in the past, which has helped us get up to the -- from the $50,000 to the $100,000 face amounts, in direct response, you really can't do enough underwriting to justify selling face amounts above that.

Christopher Giovanni - Goldman Sachs - Analyst

Okay. And then -- and you targeted, over time, 10% growth in agent count in American Income. Wondering if that's still a range that you think is achievable? And what's the environment that we need to be in to achieve those -- maybe at both a macro as well as a micro level?

Larry Hutchison - Torchmark Corp - Co-CEO

Chris that's a good rule of thumb. Our projected agent count growth for 2014 is not that high. We're currently at 5,302 agents. The projected agent count for year-end 2014 is between 5,500 and 5,600 agents.

Gary Coleman - Torchmark Corp - Co-CEO

That's a 5% to 6% growth.

Christopher Giovanni - Goldman Sachs - Analyst

But I guess, in the past, you've talked about, over time, a 10% growth. Is that still a level of agent count growth that you think is achievable? And then, again, what type of environment do we need to be in to kind of get those agent growth levels?

Larry Hutchison - Torchmark Corp - Co-CEO

Certainly, it's achievable. We think we'll achieve that in the future.

What we need to see, it's early in the year, what we need to see is what the effect these new initiatives will have on agent recruiting with the managers, on agent retention. So as we see the effect of those two initiatives, we could get closer to the 10%. But right now, based on tests,

based on our best judgment, we think it will be a little lighter for 2014.

Christopher Giovanni - Goldman Sachs - Analyst

Great. Thanks so much.

John Nadel - Sterne, Agee & Leach, Inc. - Analyst

Alright, hi! My question's on direct response as well. And it's really more around -- I think you had mentioned -- a lower level of DAC amortization, but I don't recall if that was specifically the direct response. But then there was also a comment about the ability to defer some of the Internet-related acquisition costs.

Could you just help us understand the net impact of those things? How do we think about that as -- in terms of the margin -- direct response is doing something around 25%, 25.5% margin currently. It looks like that's about 2 points higher than it was, historically. Is that about the right way to think about that?

Larry Hutchison - Torchmark Corp - Co-CEO

Gary

Gary Coleman – Torchmark Corp – co-CEO

John, first of all, on the amortization; we've seen slightly lower amortization this year. And that's -- we think that's due to the improved persistency from the conservation program.

But the biggest change is the deferral of those Internet acquisition expenses. We had -- I think we talked about this in the second quarter when we made the change. Under the new accounting rules -- or the accounting rules for deferred acquisition costs -- that were adopted a couple years ago, we had to -- we had a certain amount of record keeping evidence to show that the -- that these costs are leading to direct sales of the policies.

We finally were able to demonstrate that early this year. And as a result, beginning in the second quarter, we started deferring those costs.

Now, what the impact of that was -- in 2012, our non-deferred acquisition expenses were 3.3% of premium. This year, that's 1.6% of premium. And that --

John Nadel - Sterne, Agee & Leach, Inc. - Analyst

Got it.

Gary Coleman - Torchmark Corp - Co-CEO

It was due to that -- the deferral of those costs. And so, we were at 23% profit margin in 2012. We ended this year at right at 25%, and we expect it to be at that level, going forward.

John Nadel - Sterne, Agee & Leach, Inc. - Analyst

Perfect. Thanks for reminding me of that. Good luck on American Income.

Gary Coleman - Torchmark Corp - Co-CEO

Thanks.

Larry Hutchison - Torchmark Corp - Co-CEO

Thanks.

Yaron Kinar - Deutsche Bank - Analyst

Good morning everybody, question on margins. Seems like, really, the underwriting margins have been the main driver for earnings growth in the last -- in the foreseeable or in the recent past. Is that story pretty much over, or are there other levers to pull to further improve margins?

Gary Coleman - Torchmark Corp - Co-CEO

Well, I think there is -- there's -- improved persistency helps our amortization, as we talked about. I think there's -- we can continue to improve persistency somewhat.

Controlling our non-deferred acquisition costs -- we were just talking about -- gives us some opportunity, but I don't look for big changes in the margins. Pretty high as they are, I don't know that we can increase them a great deal.

Yaron Kinar - Deutsche Bank - Analyst

Okay.

Frank Svboda - Torchmark Corp - Co-CEO

The one thing I would just add, Gary, to that is -- you're right. In 2012, we had a significant initiative as we really changed over to that variable cost model -- where we had a big reduction in those non-deferred costs. And then, as we talked about, the Internet costs here in 2013.

Again, we really don't see significant movements in those non-deferred costs as we have here those last couple of years.

Yaron Kinar - Deutsche Bank - Analyst

Okay. And then, switching gears to American Income and head count there, again. I guess I was a little surprised by guidance of 5% to 6% growth in head count there, given that you're coming out with a new initiative that pretty much is going to impact three full quarters of this year, and not very strong prior-year results. So why wouldn't growth there be closer to 10% long-term range?

Larry Hutchison - Torchmark Corp - Co-CEO

Long-term range -- I hope it is closer to 10%. We just came off a year in which agent growth was flat. We didn't have that kind of growth.

Again, we tested these new initiatives at six offices, but we have 75 American Income offices that we've rolled this out into. And it's just too early to see the results of those initiatives. I think we'll have better guidance -- in terms of agency growth -- at the end of the first quarter and the end of the second quarter.

Again, we think the growth of American Income will be stronger in the third or fourth quarter. So probably in the third-quarter call we'll see the real effects of these initiatives. And obviously the sales growth will track the agent growth.

Yaron Kinar - Deutsche Bank - Analyst

Great. Thank you very much.

Mark Hughes - SunTrust Robinson Humphrey - Analyst

Yes, thank you, good morning. I'm not sure whether you touched on this earlier, but could you talk about the Medicare supplement market? Kind of, how you see that playing out, given health care reform and Medicare advantage funding, that sort of thing. What do you think is coming over the next 12 months?

Larry Hutchison - Torchmark Corp - Co-CEO

Brian, do you want to talk about the Medicare advantage?

Brian Mitchell - Torchmark Corp - General Counsel

Yes, this is Brian Mitchell. We are constantly looking at various proposals that are coming out, with regard to Medicare reform. It seems like every quarter, every couple of times a year, there are various proposals.

The most recent have been put forth by Senate Finance, and those include to consider merging the Part A, Part B deductibles, various reforms to the coverage and -- but nothing right now is firmed up. That is something that I continue to monitor almost daily.

Mark Hughes - SunTrust Robinson Humphrey - Analyst

And I don’t know whether you described the sales outlook in that category for 2014, but are there any expectations you can share?

Larry Hutchison - Torchmark Corp - Co-CEO

We're seeing strong Medicare supplement growth in the individual market. This year, we had about 20% growth in individual sales.

It's harder to project the group sales; those tend to be a little lumpier in the sense that they either get a large case or you don't. Those tend to come in more in the fourth quarter than they do the first quarter.

Gary Coleman - Torchmark Corp - Co-CEO

But Mark, overall, I think we're looking for growth somewhere between 10% and 20% -- as far as the Medicare supplement sales. As Larry mentioned, the reason for the big range is we're just not sure what the group sales are going to be.

Mark Hughes - SunTrust Robinson Humphrey - Analyst

Right. Okay. Thank you.

Brian Mitchell - Torchmark Corp - General Counsel

And you'd asked about the Medicare Advantage and the Affordable Care Act. There are subsidies that are proposed to be eliminated. I don't know that we've actually seen that play out, and what the effect of that is yet -- to Medicare Advantage.

Mark Hughes - SunTrust Robinson Humphrey - Analyst

Right. But presumably more positive when Medicare Advantage -- if it is more restrained, perhaps? That'll be --

Brian Mitchell - Torchmark Corp - General Counsel

Yes.

Mark Hughes - SunTrust Robinson Humphrey - Analyst

Okay. Thank you.

Operator

And at this time there are no other questions in queue. I'll turn it back to our presenters for any closing remarks.

Mike Majors - Torchmark Corp - VP of Investor Relations

Alright, thank you for joining us this morning. Those are our comments, and we'll talk to you again next quarter.