Torchmark Corporation

4th QUARTER 2012 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 2011 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 $127 million or $1.33 per share – a per share increase of 10% from a year ago. Net income for the quarter was $151 million or $1.58 per share – a 32% increase on a per share basis.

With fixed maturities at amortized cost, our return on equity for 2012 was 15.5% and our book value per share was $35.24 – a 10% increase from a year ago. On a GAAP reported basis, with fixed maturities at market value, book value per share grew 21% to $45.85.

Life Insurance

In our life insurance operations, premium revenue grew 5% to $452 million and life underwriting margins increased 9% to $129 million. Net life sales increased 3% to $83 million.

On the health side, premium revenue, excluding Part D, increased 13% to $203 million and health underwriting margin grew 10% to $45 million. Health sales increased 67% to $35 million.

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

At American Income, life premiums were up 9 percent to 171 million dollars and life underwriting margin was also up 16 percent to 57 million dollars. Net life sales increased 8 percent for the quarter to 40 million dollars. The producing agent count at the end of the fourth quarter was 5,176, up 18 percent from a year ago but down 5 percent during the quarter.

We are very pleased overall with the progress made at American Income in 2012. The agent count decrease during the fourth quarter is not surprising as American Income's agent count typically decreases in the fourth quarter and we also had increased terminations resulting from the big growth spurt we had in the early part of 2012. We are excited about the Company's future prospects and we expect sales growth for 2013 to range from 10 to 14 percent.

Now, Direct Response

In our direct response operation at Globe Life, life premiums were up 5 percent to 153 million dollars and life underwriting margin increased 6 percent to 34 million dollars. Net life sales were down 4 percent to 32 million dollars. However, for the year life sales were up 3%. In addition, the business we wrote was more profitable.

Response rates were lower than anticipated in the fourth quarter. We believe this is possibly due to the state of the economy. However, it's not unusual to have fluctuations like this from time to time in Direct Response.

We are confident that our 2013 initiatives will help increase response rates in 2013, and we expect mid-single digit sales growth in 2013.

Now, Liberty National

At Liberty National, life premiums declined 2 percent to 69 million dollars while life underwriting margin was up 14 percent to 20 million dollars. Net life sales grew 3 percent to 9 million dollars while net health sales declined 12 percent to 4 million dollars. The producing agent count at LNL ended the quarter at 1,419 – up 6 percent from a year ago.

We are pleased with the progress being made in turning around our producing agent counts and sales at Liberty National. We continue to work to change the culture of this agency. We are optimistic that agent growth will continue going forward and expect sales growth to range from 8 to 12 percent for 2013.

Family Heritage

Our results include two months of Family Heritage operations as we completed the acquisition on November 1. Health premiums were 30 million dollars and health net sales were 7 million dollars. We are also excited about the growth potential of Family Heritage's health business. We intend to grow this agency through geographic expansion and implementation of our internet recruiting program. For 2013, we expect premium income to range from 195 million dollars to 205 million dollars with margins as a percentage of health premium about 18 to 19 percent. We expect health sales of approximately 50 million to 53 million dollars in 2013, a growth rate of 5 to 9 percent over 2012.

Medicare Part D

Premium revenue from Medicare Part D grew 73 percent to 84 million dollars, while the underwriting margin increased 49 percent to 10 million dollars. Part D sales for the quarter fell 53 percent to 46 million dollars due to the decrease in low-income subsidized enrollees for 2013.

Since we don't expect as many new auto-enrollees under the low-income subsidy program in 2013 as we had in 2012, we won't have the type of sales and premium growth we had in 2012. We expect a decrease of approximately 5 to 7 percent in our Part D premiums for 2013 due primarily to price competition in the employer group market

I will now turn the call back over to Gary.

Gary Coleman

Thanks Larry

To complete the insurance operations, administrative expenses were $44.5 million for the quarter, 8% more than the year ago quarter. The increase is due primarily to the addition of Family Heritage and the 2012 expiration of a third party agreement under which we received reimbursement for providing administrative services. For 2013, we expect a 6½ to 7½% increase in administrative expenses, with most of the increase due to the acquisition of Family Heritage. However, as a percent of premium, administrative expenses will be around the same level as 2012.

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 $56 million, a decline of $8 million or 13%; 6% decline on a per share basis from the fourth quarter of 2011. Sequentially, excess investment income was up $1 million from the third quarter.

Due to expected calls of hybrid securities and lower new money rates, we expect excess investment income in 2013 to decrease approximately 6½% to 7½%. However, reflecting the impact of share repurchases, we expect 2013 excess investment income per share to be down 1 - 2% compared to 2012.

Now, regarding the investment portfolio:

Invested assets are $12.5 billion, including $12 billion of fixed maturities at amortized cost. There is no exposure to European sovereign debt, and there are no commercial mortgage-backed securities or securities backed by sub prime or Alt. A mortgages.

Of the fixed maturities, $11.4 billion are investment grade with an average rating of A-, and below investment grade bonds are $585 million, compared to $685 million at the end of the 3rd quarter and $701 million a year ago.

The percentage of below investment grade bonds to fixed maturities is 4.9% compared to 6.3% at September 30 and 6.4% a year ago. The $100 million decline in the fourth quarter is due primarily to calls and sales. With a portfolio leverage of 3½ X, the percentage of below investment grade (BIG) bonds to equity, excluding net unrealized gains on fixed maturities is 17%, which is less than most of our peers.

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

In addition, we have net unrealized gains in the fixed maturity portfolio of $1.6 billion compared to $964 million a year ago.

Regarding investment yield:

In the fourth quarter, we invested $729 million in investment grade fixed maturities, primarily in the industrial and utility sectors. The large amount of fourth quarter acquisitions was due to the reinvestment of proceeds from bonds called in the third quarter as well as bonds sold for tax purposes. In order to get the excess cash invested in a timely manner, we temporarily lowered our yield requirements, resulting in an average annual effective yield of 4.05%. However, I want to note that we did not lower our credit quality standards.

If we had invested a normal amount of cash during the fourth quarter, our average annual effective yield would have been around 4.25%. As such, our guidance for 2013 assumes a new money rate of 4.25%.

The average rating for fourth quarter acquisitions was BBB+ and the average life was 27 years. For the year, we invested $1.5 billion at an average yield of 4.3% and an average rating of BBB+.

For the entire portfolio, the fourth quarter yield was 6.2% compared to 6.52% in the fourth quarter of 2011. Excluding Family Heritage, the yield on the portfolio at December 31 is 6.19%. Including the Family Heritage portfolio of lower yielding government securities, the yield on the total portfolio at December 31 is 15 basis points lower or 6.04%. By the way, the addition of Family Heritage results in a similar 15 basis point reduction in the overall yield on the net policy liabilities at December 31, reducing that yield to 5.52%.

On the last call we indicated that we still held approximately $300 million of bank hybrids that could be called. In the fourth quarter, $38 million were called leaving $262 million of those securities in the portfolio at year end. Excluding $37 million that we assume will not be called this year, we have $225 million of hybrids that we expect to be called in 2013. Of this amount, we know for certain that $66 million will be called in the first quarter, and for guidance purposes, we assumed that the remaining $159 million will be called by the end of the first quarter.

Assuming a 4.25% reinvestment rate, the lost annual income related to the $225 million of calls will be approximately $3.7 million after tax in 2013 and $4.4 million after tax on an annual basis going forward.

On past analyst calls we have discussed the current low interest rate environment and the impact of a "lower for longer" rate scenario. Our concern regarding an extended period of low interest rates continues to be the impact on earnings, not the balance sheet.

As long as we are in this low interest rate environment the portfolio yield will continue to decline and thus pressure excess investment income. However, the decline will be slowed by the fact that on average, only 2-3% of fixed maturities will run off each year over the next five years, and that assumes the call of the bank hybrids that we previously discussed.

In the fourth quarter, we updated our stress test assuming a new money rate of 4.25% for the next five years, and determined that the portfolio yield at the end of 2017 would be around 5.55%. Assuming a 4% new money rate, the portfolio yield at the end of 2017 would only be around 5 basis points lower or 5.50%. At these rates we would earn a small spread on the net policy liabilities, while earning the full 550 – 555 basis points on our equity less the interest required to service our debt.

In either scenario we will still generate substantial excess investment income.

As I mentioned, an extended low interest rate environment impacts our income statement, but not the balance sheet. Since we sell non-interest sensitive protection products accounted for under FAS 60, we don't see a reasonable scenario that would require us to write off DAC or put up additional GAAP reserves due to interest rate fluctuations. In addition we do not foresee a negative impact on our statutory balance sheet, as the results of our cash flow testing indicate that our reserves are more than adequate to compensate for lower interest rates.

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 $42 million to buy 844 thousand Torchmark shares. For the full year, we have spent $360.5 million of parent company cash to acquire 7.5 million shares.

The Parent ended the year with liquid assets of $147 million, including $94 million that has been invested to be used for the redemption of our senior notes that mature on August 1, 2013, or at an earlier time if opportunities to repurchase the Notes become available. This leaves the Parent with $53 million of liquid assets available for other corporate needs.

In addition to these liquid assets, the parent will generate additional free cash flow in 2013. 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 2012 statutory earnings have not yet been finalized, and assuming shareholder dividends remain at the current level, we expect free cash flow in 2013 to be in the range of 355-365 million dollars. Thus, including the $53 million available from assets on hand, we will have approximately $408 – 418 million of cash and liquid assets available to the parent during the year. To date in 2013, we have used 17.7 million dollars of this cash to buy 330 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 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. In the last two years, that level has been around an NAIC RBC ratio of 325%. 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 2012 statutory financial statements, we expect that the RBC at December 31, 2012 will be in the range of 330 to 340%.

Now, before I turn the call back to Larry, I would like to briefly discuss the purchase of Family Heritage Life Insurance Company.

On November 1, we closed on the purchase of all of the outstanding stock of Family Heritage, a privately-held supplemental health insurance provider. The base purchase price of $218.5 million was paid for with $150 million of internal funds from our life insurance companies and $68.5 million of additional debt, including the assumption of $20 million of Trust preferred securities issued by Family Heritage's parent. Final closing and post-closing adjustments of approximately $15.5 million were paid with proceeds from a post-closing dividend from Family Heritage.

The Company added two cents per share to Torchmark's net operating income in 2012, net of the after-tax incremental financing costs of 3.8% on the $218.5 million purchase price. We anticipate that the Company will add between sixteen and twenty cents per share to 2013 operating earnings, after financing costs. Since we anticipate being able to take dividend distributions out of the Company to fund the additional interest charges at the Parent, we do not believe the acquisition will have a material impact on Torchmark's share buyback program.

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

Larry Hutchison

Thank you Frank.

Guidance

For 2013, we expect our net operating income will be within a range of five dollars and forty-five cents per share to five dollars and seventy-five cents per share. The decrease in guidance is due primarily to the fact that we are repurchasing shares at a higher price than we originally anticipated and also due to the loss of some employer group Part D cases because of increased competition.

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

QUESTION AND ANSWER

Jimmy Bhullar- JPMorgan Chase & Co. - Analyst

Hi, thank you. Good morning. I had a question first on the Direct Response business. Sales have actually slowed for each of the past three quarters, and I think you mentioned that maybe response rates are lower just given the economy. Given what the trends have been recently, how comfortable are you that you could actually do your mid-single-digit sales growth target, because the economy is certainly not changing much? Unless that economy changes.

And then, secondly, on the Liberty National business, the margins on the life side were very strong this quarter, and you had several initiatives going on to improve the margins there. But what's your expectation? Do you expect a further improvement from here?

Larry Hutchison - Torchmark Corporation - Co-CEO

I'll address the Direct Response sales first, Jimmy. We have confidence that the Direct Response rates will come up in the second quarter of this year. We currently have initiatives regarding our adult products. We also are testing different initiatives in packaging. We think each of those will have a positive effect on our response rates as we go forward.

Gary Coleman - Torchmark Corporation - Co-CEO

Yes, Jimmy, on Liberty National, for the quarter we had an underwriting margin of 29%, versus 25% last year. That was a little high because we had a lower claim month -- a lower claim quarter. For the year, the underwriting margin was 26% versus 22% for last year. And the primary difference there is the fact that we've lowered the non-deferred acquisition expenses by the changes we made in the agency system there. On a go-forward basis, the margin -- it won't be 29%. It's going to be at the 26% or a little above the 26% range.

Jimmy Bhullar

Okay, and then one more on Family Heritage. If you could talk about how the results -- you gave some guidance -- but how the results have been versus your expectations. And any pleasant or unpleasant surprises as you've looked at the business a little bit more.

Larry Hutchison

Jimmy, as we look at the business there are no unpleasant surprises. The integration goes forward well. The agency is growing as expected. We're seeing some addition within the agency, as the recruiting programs take place. Those are our comments on Family Heritage, there are no surprises, and the sales guidance was given in our comments.

Jimmy Bhullar

Okay, thank you.

Paul Sarran - Evercore Partners - Analyst

Thanks. Good morning. I wanted to ask, at Liberty, is there any sort of structural reason why margins over time can't get up to the 32%, 33% range that you run at American Income?

Gary Coleman - Torchmark Corporation - Co-CEO

Paul, we still have higher expenses at Liberty, and have had as far as acquisition expenses. And although that -- we have made improvements there, it's going to take a while for that to work through the results because of the large in-force block we have. I don't see us getting up to the 31% level. But the 27% level -- 27%, 28% margin level -- yes, we could get to that on a fairly soon basis.

Paul Sarran

Okay. On Direct Response, kind of towards the end of last year beginning of this year, you were talking about new underwriting technology and a pretty big expansion of circulation, I think; well into the double digits. Which I would have thought should drive pretty strong sales in the back half of this year -- or, in 2012. Did something go wrong with that program, or not as expected, once you implemented it?

Larry Hutchison - Torchmark Corporation - Co-CEO

Nothing has gone wrong with the program. I think the underwriting change that you are referring to is the use of pharmaceutical data to --

Paul Sarran

Yes.

Larry Hutchison

To our underwriting program -- actually, that decreases the sales because you reject more business. You have greater profits on the business, but you'd see a decline in sales. And we've certainly seen that come through, because we're rejecting more business since we apply that data to the underwriting process.

Paul Sarran

Right. I think the idea was you'd increase circulation by enough to offset the higher declines. Did that not occur? Did you end up declining more business than you expected beforehand?

Gary Coleman

Paul, I think we did increase circulation. But, as Larry mentioned, our response rates were down, so that tended to offset the increase in circulation.

Paul Sarran

Okay. All right, thanks.

Sarah DeWitt - Barclays Capital - Analyst

Hi, good morning. In American Income, on the sales growth guidance, why did you lower that range modestly versus your prior guidance for 2013?

Larry Hutchison - Torchmark Corporation - Co-CEO

Because we had a slowing in the growth of the agency in the fourth quarter and -- it's just slightly. It's 10% to 14% versus 10% to 15% guidance we gave in the last quarter. It's just recognizing that we have not as many agents selling business in the first quarter as we had hoped.

Sarah DeWitt

Okay. And then following up on that, when you think about longer-term, the opportunities that you see to grow the agent count -- is the current pace sustainable over several years? And how much opportunity is there to grow before you view that as saturated?

Larry Hutchison

Well, it's not saturated at all. We have unlimited opportunity to grow that agency force. Eventually, I would see the agency force at 10,000 to 12,000 agents at American Income. I don't think it's sustainable to have 20% agency growth, year in and year out. I would predict that we would see the agent count at the end of the fourth quarter of 2013 at thousand-- at 5,900 to 6,000 agents. It could vary; it could be slightly higher than that, slightly less. But, certainly, a 10% agent growth per year is sustainable at American Income.

Gary Coleman - Torchmark Corporation - Co-CEO

And, Sarah, one thing that I might add to that -- we expect that 10% to 14% growth at American Income. You probably won't see that in the first quarter. It may be more mid-single-digit in the first quarter because of the fact that we had a very large first quarter last year. As Larry mentioned, we'll be building up the agent count as we go through the year. So it will -- the growth will be more toward -- starting with the second quarter on than, say, the first quarter.

Sarah DeWitt

Okay, great. And then finally, just on the underwriting margin, the growth there has been as strong as it's been in several years. Does that mostly reflect your pricing actions? And how should we be thinking about that going forward?

Gary Coleman

Well, first, it's -- really, the underwriting margins haven't changed that much in terms of the impact of the increased premium. It's more from the reduction in the acquisition costs that we could no longer defer. We've reduced our lead costs, so we've made that a responsibility of the SGAs. When you look at them on a year-to-date basis, this year versus last year, the margin is 33% versus 31%. Well, that 2-point increase in margin came from the fact that we reduced those expenses from 5% of premium to 3% of premium.

Sarah DeWitt

Okay, great, makes sense. Thanks for the answers.

Larry Hutchison

Sure

Jeff Schuman - Keefe, Bruyette & Woods - Analyst

Thanks. Good morning. I want to circle back -- a couple details on Family Heritage -- can you remind us, is there any obvious seasonal pattern to the earnings or premiums there?

Larry Hutchison - Torchmark Corporation - Co-CEO

I don't think there is a seasonal pattern. Like our other agency forces, you tend to have higher agency growth in the first eight months of the year. And usually the fourth quarter is a little bit slower, for Family Heritage as well as the other agency operations.

Jeff Schuman

Okay. And then help us put this in the context of the risk-based capital ratios you gave. I've forgotten, does this hang off the holding company or is this downstream? And if it's downstream, is it included in the consolidated RBC view that you gave earlier?

Gary Coleman - Torchmark Corporation - Co-CEO

Frank

Frank Svoboda - Torchmark Corporation – EVP and Chief Financial Officer

Yes, Jeff, it is down at the subsidiaries, and included in the RBC for the consolidated group.

Jeff Schuman

Okay. And do you have a rough estimate of what the RBC specific to Family Heritage ended up at?

Frank Svoboda

I do not at this point in time.

Jeff Schuman

Okay. Because my recollection was, at least prior to any transaction adjustments, that it was pretty high and the earnings were pretty strong. So I was wondering if there was any -- at this point, any capital to be extricated from there or not.

Frank Svoboda

At this point in time, we don't anticipate taking out any excess capital, allowing for some growth. It is--you are correct, in that the RBC was fairly high at their company individually. On a consolidated basis, it really doesn't move the needle very much on the consolidation.

Jeff Schuman

Okay, thank you.

Mark Hughes - SunTrust - Analyst

Thank you, good morning. The Liberty National sales force, you shared some specific outlook numbers for year end, and sustainable growth for American Income. Any similar numbers for Liberty National?

Larry Hutchison - Torchmark Corporation - Co-CEO

Liberty National agent count should go up by about 10% also this year. The producing agent count at the end of the year was 1,419. I'd expect that to be at 1,800 to 1,900 agents by the end of the fourth quarter.

Mark Hughes

And then is that sort of pace sustainable; or what pace is sustainable?

Larry Hutchison

That pace is certainly sustainable, Mark. Part of the reason it's sustainable – Globe traditional or, excuse me, Liberty National traditionally has been focused on the southeast. As we continue to move offices outside of the southeast, that will help that growth rate at Liberty National. The other development is as we add an extra layer of management at Liberty National, it produces more candidates to become branch managers, and open new branches across the U.S. So I think, certainly, that growth rate is sustainable for the foreseeable future.

Mark Hughes

And then the Medicare Part D, I think the group price competition you mentioned. Any more detail you can provide there? Was that -- is the market now a little more rational? Or do you expect that to continue?

Larry Hutchison

I don't think it will continue. What we saw this year was a new entrant to the market, and we feel they essentially underpriced their business. That's our experience; when a new entrant under prices their business, that ends fairly quickly. So we don't think that's a trend going forward.

Mark Hughes

Thank you.

Steven Schwartz - Raymond James & Associates - Analyst

Hey, Good morning, everybody. First, I was hoping that possibly -- I think it might have been Gary -- could repeat the Family Heritage life sales guidance. It was going fast; I didn't catch that.

Gary Coleman – Torchmark Corporation – Co-CEO

I think Larry has that.

Larry Hutchison - Torchmark Corporation - Co-CEO

Give me a second here and I'll tell you what it was. At Family Heritage, we expect health sales from approximately $50 million to $53 million in 2013. And, Steven, that would be a growth rate of 5% to 9% over 2012.

Steven Schwartz

Okay.

Larry Hutchison

For 2013, we expect premium income to range from $195 million to $205 million. Again, we're saying that the margins as a percentage of the health premium will be about 18% to 19%.

Steven Schwartz

Okay, great. And then the guidance on LNL sales, was that life only? Or did that include health as well?

Larry Hutchison

That would be life and health.

Steven Schwartz

Both, okay. And then on the subject of health, I don't think there was any reference to it in your script. Maybe you could talk a little bit about what is going on at United American and what is driving that, and I guess whether or not we should be happy about it.

Larry Hutchison

What's going on at United American is just gradually strengthening Medicare supplement sales through our general agency force. Medicare supplement is difficult to predict. As you go forward, there's so many uncertainties around that market. Because the Medicare supplement sales declined so dramatically over the last five years, we think that we'll see continued growth within Medicare supplement. But that assumes that there aren't major political changes around the Medicare supplement arena.

Steven Schwartz

Okay, all right. That's what I had. Thank you, guys.

Bob Glasspiegel - Langen McAlenney-Janney - Analyst

Good morning, everyone. After two months, you're getting really excited about the acquisition of Family Heritage, cause I think -- if my notes are right -- you bumped up your premium expectations from 180 to 195 to 200; and your margins from 14% to 17%, to 18% to 19%. So, what are you seeing that's getting you more excited about both growth and profitability? And if I work through the midpoint of the range of those two things, it looks like that's about $0.06 to $0.07. Does more admin spending eat up half of it, or is there some conservatism?

Larry Hutchison - Torchmark Corporation - Co-CEO

Bob, we're excited about the growth potential because as we get familiar with the leadership of Family Heritage, we see strong leadership within that agency. Given the uncertainty over the sale of the company that's been present for the last two years - now that that uncertainty has been removed and they are part of Torchmark, they are really focused on growing that agency. As they put in additional recruiting systems, additional compensation systems, I think we're going to see real growth at Family Heritage. There is also geographic expansion that can take place. We are looking at New York. We're looking to add some states that they don't operate in, and some additional expansion possibilities for the company.

Bob Glasspiegel - Langen McAlenney-Janney - Analyst

So, no deer antler spray; a real legitimate underlying growth in the production. That's good and the margins -- 400 bips more. You know that's a pretty big bump-up in two months of expectations.

Gary Coleman - Torchmark Corporation - Co-CEO

I'm not sure where that -- Frank?

Frank Svoboda - Torchmark Corporation - EVP, CFO

Yes. Bob, the real increase in that, a big majority of that, is the results of the final finalizing all of our p-gap computations. As we said on the last call, we were very early in the stages of taking a look at the purchased business, and where some of the margins would be on the acquired block. And now that we've finalized the p-gap computations, the margins, really, on that opening block -- really looking at a 15% on an after-admin expense basis, which was a little bit higher, or a fair amount higher, than what we had originally anticipated. So that's really driving a big portion of that increase in the guidance.

Bob Glasspiegel

It's accounting? Or is it -- things are better? I lost you on that, Frank.

Frank Svoboda

Well, part of it is accounting, just from estimates on where the final interest rate adjustments; and how reserves would be calculated; and the VOBA would be calculated and amortized off over time. But part of it is also just real -- getting a better comfort in where ultimate assumptions would be and underlying margins.

Bob Glasspiegel

Remind me whether there was any expense efficiencies to be realized.

Frank Svoboda

We're probably seeing just a little bit of reduction in some of the initial cost estimates that we had; but nothing real material, ultimately. But we're looking at admin expenses being about 5% of their premiums, so they are a very efficient operation. But we're seeing a little bit lower than what we had originally anticipated, as well.

Bob Glasspiegel

And too early to think about cross-selling, or new products into their distribution channel, right?

Frank Svoboda

Correct.

Gary Coleman

Yes.

Larry Hutchison

Yes.

Bob Glasspiegel

When does that -- what should we think about that, or not at all? Would that be too confusing?

Larry Hutchison

I think we want to be careful to expand that cross-selling, Bob. We'd really like to focus on expanding the agency. They're doing very well with the product mix they have now. And let's stay focused on just growing the basic agency with the existing product mix.

Bob Glasspiegel

Thanks for the insights. Hopefully maybe we can get some of the management on the call at some point.

Larry Hutchison

I'd be glad to do that.

Eric Berg - RBC Capital Markets - Analyst

Thanks very much; and good morning, Gary, to you and to the rest of your team. My questions relate to the health business. For reasons that I think you've discussed, the part D business had essentially no sales increase either in the quarter or in the year. And yet you are showing very, very strong premium growth. I presume that happens because you had very strong sales in the year before. Can you just help me understand that financial reporting dynamic?

Gary Coleman - Torchmark Corporation - Co-CEO

Well, Bob, the reason we had increased sales in 2012 really occurred at the end of last year, when we received auto assigns from -- I think it's 20 states, over 20-plus states; that all came about at one time. That production, for the most part, didn't we have -- we did have some production during the year. That auto assign business really -- you get notified at the beginning of the year, and so most production came in there. And that accounted for the large production at the beginning of the year. At the end of the year, this year, we didn't get the auto assigns that we've gotten in the prior years. We've been able to maintain, for the most part, what we had gotten the year before. But we did not get new auto assigns.

Eric Berg

So, the guidance that is for premium level to be down modestly in 2013 from 2012 in the Part D area?

Gary Coleman

Well, we actually expected premiums to be up in 2013 slightly, because not all the business is auto assign business. The auto assign business is about 45% of the total premium for us. We also sell this through our United American general agency and through Direct Response, so we actually -- we were thinking that premiums would go from around from $318 million in 2012 to -- I think last quarter we talked about $327 million for 2013. Well, now that looks like 2013 is only going to be $300 million.

And the reason for that is, as Larry mentioned earlier in the comments is we lost some large groups that -- it's a year-to-year contract, and they elected to go with a carrier that was offering lower rates. So, we'll actually have a slight decline in premiums in 2013, from the $318 million in 2012 to around $300 million in 2013.

Eric Berg - RBC Capital Markets - Analyst

And then, with respect to the core of your health business, I just want to build on the question and answer from earlier. Indeed, you had many years when Mark was running the Company in which the health business seemed to be in decline. Is it --and now we're getting very strong sales of health products along with, at least in the December quarter, it looks like -- if I could turn to the right page here -- yes, it looks like very strong premium growth as -- very strong premium growth as well.

Is it truly a matter of the Medicare supplement? Or are we seeing a resurgence in sales of other medical -- sales in premiums of other medical products, other than Med supplement?

Larry Hutchison - Torchmark Corporation - Co-CEO

Eric, if you go back five or six years ago, a lot of the premium growth was in a limited health benefits --

Eric Berg

Right.

Larry Hutchison

And it was a product line we had in 2009, 2010, it was subject to Obamacare. More importantly, we just didn't like the persistency. We didn't like the margins for that business. So, you've seen a real decline over the last few years as that block has decreased. I think it's down to about a $50 million block now. What you're seeing here is an increase on two fronts -- our individual Medicare supplement sales have been good over the last 18 months. And you're also seeing the addition of Family Heritage, which substantially changes our health insurance sales.

Eric Berg

I know you report what you're sales would have been in health. Do you report what your premium growth -- if Mike is there, or maybe anyone can tell -- do you report what your premium growth in health would have been, excluding the acquisition of Family Heritage? I guess we can see that on page 10 of your analyst pack. We can see that; so I'm all set at this point.

Randy Binner - FBR & Co. - Analyst

Hey, thanks, just a couple of follow-ups here. On the Medicare sup dynamic, you know I guess overtime maybe a few years ago we thought Medicare Advantage -- the other piece of the Medicare market there for supplementals -- was going to fade, and it held on better than we would've thought. Is part of the better Medicare sup sales overall because folks are starting to move away from Medicare Advantage, as payouts for that get constricted? Are we finally seeing that switch over?

Larry Hutchison - Torchmark Corporation - Co-CEO

I don't think it's a switch over. You know the original prediction was there would be 17 million dis-enrollees from Medicare Advantage. We simply haven't seen those numbers materialize. It will be interesting to see as we go forward with healthcare reform. If that ever materializes you'd see much stronger Medicare supplement sales. I think we've strengthened our Medicare supplement sales; we've just done a better job recruiting general agents. And we've better penetrated -- particularly with the high-deductible F Plan. We've been successful at offering that plan in a number of states.

Randy Binner

So, thanks for that. From where you're sitting, Medicare Advantage just hasn't -- even though the payouts from CMS or those companies have been lower, it's been a sticky product still, you're saying, with clients. Is that right?

Larry Hutchison

That's what we're saying, yes.

Randy Binner

Okay. And then back to AIA, appreciate the guidance there for 2013. I guess people have hit it a couple different ways, but it still seems like a confident guide. And you targeted, hopefully, 6,000 agents there by the year-end 2013. But I'd like to hear more, maybe more color on what's going well there. Is it sales manager progression? Is it -- you've talked in the past about better analytics around recruiting data and segment data; whose successful and who's not. But just would be interested -- that's a major debatable the point on the stock, is whether or not AIA sales can hit that level. So just would like to hear more on what's driving your confidence there.

Larry Hutchison

Sure*,* Randy, this is what drives and confidence -- is that the item we're focusing on most right now is agent retention. So we're looking at different systems -- everything from lead support to better training that will help that agent retention. We're also looking at changes that we could introduce in our compensation systems. And we stretch out that compensation, and we keep those first-year agents longer.

But, structurally, what I see is a growing SGA body. We've added five new SGAs this year. We believe those will be successful. That also will contribute to the agent growth, which we've seen over the last five years. I think there is a lowering average age of that SGA body. And so I'm comfortable that those SGAs will continue to grow and expand within each – they don't have territories but will expand their agencies.

Randy Binner

Is that SGA's -- is that a new office, or that's just a new individual?

Larry Hutchison

A new SGA is a new office, and it's a new individual, its somebody who's been promoted up through the system. They start as an agent or an SA; or they became a general agent. They became an MGA. The last step of the progression is to progress into SGA position. And you open those offices depending on opportunity, or you look at the lead support. You look at the recruiting support. You've been given a particular office, and that's how you open the new offices. It's in addition to, not subtraction.

Randy Binner

And so you did five new SGA offices in 2012. Is a similar amount expected for 2013?

Larry Hutchison

For 2013, again, you're looking at who are the MGAs that are ready to take that next step. You want to make sure that the MGA is going to be successful. So you look at their production, and you look their time in the business. And then Roger and company will make that decision to promote that MGA to an SGA position.

Randy Binner

Okay. And then, just wanted a clarification -- I think AIA already does business in most major metropolitan areas. So when you're opening a new office, are these offices being opened in new cities? Or is it adding an office in a growing suburb, or something like that?

Larry Hutchison

It's typically adding to -- we have SGAs in all states. What you're looking at this is a pretty large metropolitan area. If you have excess leads, you have excess recruits in terms of operating that Internet recruiting system, the personal and other recruiting systems that we have, there's extra capacity. That's where you add an SGA.

Randy Binner

All right; understood. Thank you.

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

Thanks for taking my question. Good morning, everybody. One on Part D and one on Direct Response -- at Part D, obviously a lot of great color, and appreciate all the guidance there on sales and top line. The margin in 4Q was probably one of the strongest I can recall seeing, at around 12%. Is there any reason to believe that we've stepped up on the margin? Or should be still be thinking about something more like the 10% going forward?

Gary Coleman - Torchmark Corporation - Co-CEO

John, we're looking at a margin between 10% and 11% for next year. One of the problems with Part D is the claims do not come in evenly throughout the year.

John Nadel

Yes.

Gary Coleman

And so from quarter to quarter, you'd see some fluctuations; but we price the product at around the 10.5% level, and that's what we expect in terms of margins.

John Nadel

Okay, thank you. Then sort of a longer-term question around Direct Response -- I get so much less mail, and I think a lot of people get so much less mail, now versus a year ago versus especially versus 10 years ago. Because they've got an electronic billing on so much and the world is going more and more paperless, or at least the US is. Is that --over time, do you think that sort of continuing trend becomes a secular impediment to the potential growth of Direct Response?

Larry Hutchison - Torchmark Corporation - Co-CEO

This is Larry. I don't, because if you look at Direct Response in 2007, a very small percentage of our business came through electronically, i.e., the Internet or other electronic media. And today it's a significant part of that business. It's the fastest-growing segment of Globe Life and Accident Insurance Company. So Globe Life's challenge is not different today than it was 20 years ago. It's continually looking at testing how do we reach that consumer. And I think you'll see a greater piece coming through other means. The mail still will remain an important part or foundation of the Company, but I think we're confident that we can grow Direct Response through other media.

Gary Coleman

Not only from the Internet, but we're now putting our 800 phone number on mailings and inserts in -- over 10% of our business that is now coming in through inbound calls. As Larry mentioned, we're just trying to find all those different ways we can reach the customer. But one thing to consider, too, there are less solicitations that you get in the mail, that means there's less competition in the mail for us. The mail is still going to be a vital part of it. But we're -- as Larry mentioned, we've really grown the percentage of our sales. I think it's up to 40% that's either Internet or inbound; whereas a few years ago, it was much less than that.

John Nadel

That's very helpful. I didn't realize it was that strong already. Thank you very much.

Vincente Lui - Morningstar - Analyst

Hi. Good morning. Thank you for taking my questions. I want to see if you can give me some comment about what's driving the uptick in lapse rates at American Income? Seems like there's like 15% to 20% business point increase quarter-to-quarter at the agency.

Larry Hutchison - Torchmark Corporation - Co-CEO

There was a small uptick in the lapse rates. We're talking about the first year. If you look at renewal rates, there is not an uptick.

Vincente Lui

Yes, the renewal rate is pretty stable. Yes.

Larry Hutchison

Right, you expect your agency force -- if you have more new agents selling business, you'll have an uptick in your lapse rates. And we had an 18% growth in our new agents last year, so I would expect to see that uptick. It's not unprecedented. If you go back two years ago, in the fourth quarter we had the same per-share lapse rates. It's within a normal range, in my opinion.

Vincente Lui

Okay. And how would you comment on the seasonality of lapse rate? Are they, should they be pretty consistent quarter over quarter? Or there's a more of an uptick in the last quarter, in the first quarter -- fourth quarter, I mean.

Larry Hutchison

If you look at the agent recruiting and the agency forces, typically 80% of your agent recruiting is in the first eight months. So you've been adding new agents during the year. So by the time you get later in the year, you have more new agents following business. I think it would be logical that you would see a small uptick in first-year lapse rates as you have more new agents selling business.

Gary Coleman - Torchmark Corporation - Co-CEO

On the Direct Response side, you see seasonality more there than maybe in our agent lines. But part of that is because a good portion of our Direct Response sales occur in the first, second quarter. And so you see more of the lapses coming in in the third and fourth quarter. So you would *see* a higher lapse rate in the third and fourth quarter versus the first and second quarter in Direct Response.

Larry Hutchison

I think the other item that could be affecting lapse rates in Direct Response is we mentioned earlier, we're using the pharmaceutical information to underwrite business. With that, we are issuing more substandard business, which has a higher premium rate. If you're going to issue more substandard business, you're going to issue business with higher premium rates; you'll have slightly higher lapse rates as a result.

Vincente Lui

Right. Okay. And how do you generally reflect that in your actuarial evaluation, or recert -- in the annual review, is it typically you-- change your lapse rate and reserve calculations annually, after seeing this general experience?

Gary Coleman

Well, I don't think we have -- getting back to Direct Response, we haven't seen any change in experience. As Larry mentioned, the substandard business is priced for the higher lapse rate. Our reserves and everything are set up accordingly. We're expecting those lapse rates, so there is really not an adjustment necessary.

Vincente Lui

Okay, okay. Thanks for your answers.

Larry Hutchison

Sure

Operator

And there are no other questions at this time. I'd like to turn the conference back to our speakers for any closing remarks.

Mike Majors - Torchmark Corporation - VP of IR

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