Torchmark Corporation

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PRESENTATION

Mike Majors - *Torchmark Corporation - VP of IR*

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

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2015 10-K and any subsequent Forms 10-Q on file with the SEC.

Some of our comments may also contain non-GAAP measures. Please see our earnings release and website for discussion of these terms and reconciliations to GAAP measures. I will now turn the call over to Gary Coleman.

Gary Coleman - *Torchmark Corporation - Co-CEO*

Thank you Mike and good morning everyone. In the third quarter net income was $152 million, or $1.25 per share, a 9% increase on a per share basis. Net operating income from continuing operations for the quarter was $140 million or $1.15 per share; $0.03 higher than anticipated in our previous guidance due primarily to lower than expected after-tax stock compensation expense.

On a GAAP reported basis, our return on equity as of September 30 was 12.0% and book value per share was $41.94. Excluding unrealized gains on fixed maturities, our return on equity was 14.7% and our book value per share was $31.86, an 8% increase from a year ago.

In our life insurance operations, premium revenue grew 5% to $546 million while life underwriting margin was $143 million, down 1% from a year ago.

The decline in underwriting margin was due primarily to the decline in the Direct Response margin. For the full year, we expect life underwriting margin to be around 1% higher than 2015. Net life sales were $100 million, down 1% from the year-ago quarter.

On the health side, premium revenue grew 3% to $237 million and health underwriting margin was up 6% to $53 million. For the full year we expect health underwriting margin to grow approximately 2%. Health sales were $33 million, same as in the year-ago quarter.

However, individual health sales were $30 million, up 9%. Administrative expenses were $49 million for the quarter, up 4% from a year ago and in-line with our expectations. As a percentage of premium from continuing operations, administrative expenses were 6.3%, same as a year ago.

For the full year, we expect administrative expenses will be around 6.2% of premium. I will now turn the call over to Larry Hutchison for his comments on the marketing operations.

Larry Hutchison - *Torchmark Corporation - Co-CEO*

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

At American Income, life premiums were up 10% to $231 million. Life underwriting margin was up 11% to $74 million. Net life sales were $52 million, up 4% due primarily to increased agent count. The average agent count for the third quarter was 7,004, up 6% from a year ago and up 6% from the second quarter.

The producing agent count at the end of the third quarter was 7,025. We expect the producing agent count to be in a range of 6,750 to 6,950 at the end of 2016. We expect 7% to 8% life sales growth for the full year 2016 and 6% to 10% in 2017.

In our Direct Response operation at Globe Life, life premiums were up 4% to $192 million. Life underwriting margin declined 26% to $29 million. Net life sales were down 9% to $35 million, due primarily to decreases in circulation.

We expect life sales to be down 7% to 9% for the full year 2016 and flat to down 5% in 2017. The further sales decline in 2017 reflects changes in marketing designed to increase the profitability of new sales.

At Liberty National, life premiums were $67 million, down 1% from the year-ago quarter, while life underwriting margin was $20 million, up 9%. Net life sales increased 11% to $10 million, while net health sales increased 3% to $5 million. The sales increases were driven primarily by improvements in agent count.

The average producing agent count for the third quarter was 1,799, up 13% from a year ago and up 3% compared to the second quarter.

The producing agent count at Liberty National ended the quarter at 1,785. We expect the producing agent count to be in a range of 1,700 to 1,800 at the end of 2016.

Life net sales growth is expected to be within a range of 10% to 11% for the full year 2016 and 7% to 11% in 2017. Health net sales growth is expected to be within a range of 7% to 9% for the full year 2016 and 4% to 8% in 2017. We are very pleased with the progress of the turnaround at Liberty National.

At Family Heritage, health premiums increased 7% to $60 million while health underwriting margin increased 19% to $13 million. Health net sales grew 8% to $14 million. The average producing agent count for the third quarter was 986, up 9% from a year ago and 6% from the second quarter.

The producing agent count at the end of the quarter was 1,004. We expect the producing agent count to be in a range of 975 to 1,025 at the end of 2016. Health sales growth should be in a range of 2% to 4% for the full year 2016 and 3% to 7% for 2017.

At United American General Agency health premiums increased 5% to $88 million. Net health sales were $10 million, down 14% compared to the year-ago quarter. Individual Medicare Supplement sales grew 14% to $8 million while group sales declined 57% to $2 million.

For the full year 2016, we expect growth in individual Medicare Supplement sales to be around 7% to 9%. We expect sales growth in 2017 of 6% to 10%. I will now turn the call back to Gary.

Gary Coleman - *Torchmark Corporation - Co-CEO*

I am going to spend the next few minutes discussing our investment operations.

First the excess investment income

Excess investment income, which we define as net investment income less required interest on net policy liabilities and debt, was $57 million, a 5% increase over the year-ago quarter.

On a per share basis, reflecting the impact of our share repurchase program, excess investment income was up 9%. For the full year 2016, we expect excess investment income to grow by approximately 2%. However, on a per share basis, we should see an increase of approximately 6%.

Now regarding the investment portfolio

Invested assets were $14.6 billion, including $13.9 billion of fixed maturities at amortized cost. Of the fixed maturities, $13.2 billion are investment grade with an average rating of A-, and below investment grade bonds are $753 million, compared to $568 million a year ago.

The percentage of below investment grade bonds to fixed maturities is 5.4%, compared to 4.3% a year ago. The increase in below investment grade bonds is due primarily to downgrades of securities in the energy and metals and mining sectors in previous quarters. However, due to increases in underlying commodity prices, the current market values of these securities are significantly higher than at the time of the downgrades.

With a portfolio leverage of 3.6X, the percentage of below investment grade bonds to equity, excluding net unrealized gains of fixed maturities, is 19%. Overall, the total portfolio is rated A-, same as a year ago. In addition, we have net unrealized gains in the fixed maturity portfolio of $1.9 billion, approximately a billion dollars higher than a year ago.

To complete the discussion of the investment portfolio, I would like to give an update on our $1.6 billion of fixed maturities in the energy sector. At September 30, we had a net unrealized gain of $90 million compared to an unrealized loss of $165 million at the end of 2015, an improvement of $255 million. The average rating of the energy fixed maturities is BBB, with 90% of the holdings being investment grade.

Now investment yield

In the third quarter, we invested $275 million in investment grade fixed maturities, primarily in industrial sectors. We invested at an average yield of 4.40%, an average rating of BBB, and an average life of 25 years.

For the entire portfolio, the third quarter yield was 5.77%, down 4 basis points from the 5.81% yield in the third quarter of 2015. At September 30, the portfolio yield was approximately 5.76%. At the midpoint of our guidance, we assumed a new money rate of 4.45% in the fourth quarter and a weighted average rate of 4.65% in 2017.

The low and declining interest rate environment continues to be an issue. However, our concern regarding an extended period of lower interest rates is the impact on the income statement, not the balance sheet. As long as we are in this interest rate environment, the portfolio yield will continue to decline and place downward pressure on the growth of investment income.

However, this decline will be lessened by the fact that on average, only about 2% of our fixed maturity portfolio will run off each year over the next five years. Torchmark would continue to earn substantial excess investment income in an extended low interest rate environment.

As I mentioned earlier, lower interest rates negatively impact the income statement but not the balance sheet. Since we primarily sell non-interest sensitive protection products accounted for under FAS 60, we don't see a reasonable scenario that would require us to write off DAC or 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 our cash flow test results indicate that our reserves are more than adequate to compensate for lower interest rates.

As we have said before, Torchmark can thrive in either a low or high interest rate environment. Now I will turn the call over to Frank.

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Thanks, Gary.

First, I want to spend a few minutes discussing our share repurchases and capital position. In the third quarter, we spent $77 million to buy 1.2 million Torchmark shares at an average price of $62.65. So far in October, we have used $16.4 million to purchase 255 thousand shares.

For the full year through today, we have spent $256 million of parent company cash to acquire more than 4.4 million shares at an average price of $57.96. These are being made from the parent's free cash flows. The parent company's free cash flow as we define it results primarily from the dividends received by the parent from its subsidiaries, less the interest paid on debt and the dividends paid to Torchmark shareholders.

We expect free cash flow in 2016 to be around $320 million. With $256 million spent on share repurchases thus far, we can expect to have around $64 million available for the remainder of the year from our free cash flow, plus other assets available at the parent. As noted on previous calls, we will use our cash as efficiently as possible.

If market conditions are favorable, we expect that share repurchases will continue to be a primary use of those funds. We also expect to retain approximately $50 million to $60 million of parent assets at the end of 2016. For 2017, we preliminarily estimate that the free cash flow available to the parent will be in the range of $325 million to $335 million.

Now regarding RBC at our insurance subsidiaries

We currently plan to maintain our capital at the level necessary to retain our current ratings. For the past several 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 it is sufficient for our company in light of our consistent statutory earnings and the relatively lower risk of our policy liability and our ratings. As we discussed on the last call, we do not calculate RBC on a quarterly basis. However, we estimated that because of lower than expected capital level as of year-end 2015, plus downgrades in our investment portfolio during this year, we would need around $60 million of additional capital to return to a 325% RBC level.

As we also discussed, we believe this shortfall may be somewhat temporary and thus we may choose to maintain an RBC ratio slightly below 325% for 2016. With the combination of proceeds from our second quarter debt issuances, capital generated from the sale of our Medicare Part D business, and potential upgrades in our investment portfolio, we are comfortable with our ability to meet responsible RBC levels for 2016 and to meet our targeted 325% RBC ratio no later than the end of 2017, without having to utilize any of our free cash flow for capital contributions.

Next, a few comments to provide an update on our Direct Response operations

In the quarter, growth in total life income lagged behind the growth in premium primarily due to higher than expected policy obligations in our Direct Response operations. In previous quarters, we discussed the higher trend in policy obligations primarily due to higher than originally expected claims related to policies issued in calendar years 2000 through 2007 and 2011 through 2015.

While claims this year are emerging on the 2000 through 2007 polices largely as anticipated, we are seeing higher policy obligations than anticipated for certain segments of our business issued in 2011 through 2015. The higher obligations from these policy years are the primary cause for the increase in the policy obligation percentage from the 55% we had anticipated for the third quarter, to 57%. Last quarter we indicated that policy obligations for the full year 2016 would be in the range of 54% to 55% of premium for 54.5% at the midpoint.

With further analysis and additional claims experience through September 30, we now anticipate that the Direct Response policy obligations for the full year 2016 will be around 56% of premium at the midpoint of this range, a 1.5 percentage point increase.

As a result of the expected higher policy obligations, we now estimate that the underwriting margin for the Direct Response operations will be in the range of 16% to 17% for the year. We also anticipate that the underwriting margin in 2017 will decline slightly and be in the range of 14% to 16% of premium for the full year.

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

Larry Hutchison – *Torchmark Corporation – Co - CEO*

Thank you Frank.

For 2016, we expect our net operating income from continuing operations to be within a range of $4.43 per share to $4.49 per share, an 8% increase over 2015 at the midpoint. For

2017, we estimate that our net operating income per share will be in a range of $4.55 per share to $4.85 per share, a 5% increase at the midpoint of the guidance.

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

QUESTIONS AND ANSWERS

Jimmy Bhullar - *JPMorgan – Analyst*

Hi, good morning. My first question is on the Direct Response business. Obviously margins have gotten worse over time, and it seems like generally have been worse than what you have been expecting. So what is the likelihood that results could deteriorate further in 2017 beyond what you are assuming?

Larry Hutchison - *Torchmark Corporation - Co-CEO*

Well, 2017 lower sales are expected as we continue our work to identify the appropriate balance of sales and profitability. We are confident that any marketing adjustments, which result in lower sales, will have been made to improve profitability. We do have better information to make our marketing decisions in 2017.

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Yes Jimmy, with respect to the margins, I think as we said we would anticipate the margins in 2017 to be in that 14% to 16% range. With the additional claims experience and -- that we have -- and just some better information regarding the root causes of what's really giving rise to some of these higher claims, especially in the 2011 to 2015 block. We feel a lot better clearly with respect to looking at these long-term trends and how this is going to trend out for us.

You know I think that -- and clearly as some of these blocks get a little bit smaller and run off a little bit, any misses that we might have will have less and less of an impact as well going forward. But I think while some quarterly fluctuations could always impact that, I think we feel pretty good with that estimate for next year.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay. And then on –

Larry Hutchison - *Torchmark Corporation - Co-CEO*

Go ahead.

Jimmy Bhullar - *JPMorgan - Analyst*

Go ahead.

Larry Hutchison - *Torchmark Corporation - Co-CEO*

I will just say, in 2017, the level of sales is a reflection of testing that we complete in

2016 and 2017. So those sales will put a greater emphasis on restoring essential levels of profitability in certain segments. The sales could be higher or lower depending on the results of those tests. Go ahead, Jimmy.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay. And then what are you assuming for stock option expense in next year, and that's embedded in next year's guidance? Because that number has obviously moved around a lot as the stock price has moved.

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Yes. Overall Jimmy, the stock option expense at the midpoint of our guidance, we estimate that it will be around $1 million to $1.5 million per quarter.

Jimmy Bhullar - *JPMorgan - Analyst*

Okay. And then just lastly, besides the stock option expense and Direct Response margins what are some of the items that you feel would get you to the high-end versus the low-end of your EPS guidance range for 2017?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Jimmy, on -- for 2017, some of the real sensitivities are obviously some new money rates, especially early in the year, and here for the remainder of 2016 could have some impact on that. And then AIL margin, it's a big enough block of business that if there were some fluctuations in the claims that we have in 2017, if you move about a half a percentage point then their margin ends up being probably $0.03 worth of earnings, and then just generally on the buybacks.

Obviously our expectations of free cash flow for next year, looking at our projections, we really only have statutory earnings completed through June 30 at this point in time. For the extent that moves, if that were to change significantly, something were to happen between now and the end of the year, our stock price were to fluctuate enough, that would also have some impact.

But if you look at the edges of the range and I think as we've talked about in prior years, the bottom end of that range really assumes that you have kind of at the lower end of the margins for each of the distributions and you have some lower interest rates and so you have a lot of things going against you and the upper end has basically the upper end of those ranges.

Gary Coleman - *Torchmark Corporation - Co-CEO*

Jimmy, I would add, on the underwriting income, especially on the life underwriting income, we definitely have had the issue with Direct Response. If you remove the Direct Response, the rest of our life underwriting income for the last two years is-- the premiums have grown 5% to 6%, and the margins have grown 6% to 7%, and we expect those margins to continue to be predictable. So I still think the biggest variable is Direct Response and also interest rates as well.

Jimmy Bhullar - *JPMorgan - Analyst*

Got it. Thank you.

John Nadel - *Credit Suisse - Analyst*

Hi, good morning. I was just -- I joined a little bit late and so I apologize if you have already covered this but can you give us a sense for what your sales outlook is as you lookout to 2017 across a few of the distribution platforms? And then separately, if I think about your 2017 guidance, how much new money do you anticipate putting to work, and maybe at the midpoint of your range what new money investment yield are you assuming?

Larry Hutchison - *Torchmark Corporation - Co-CEO*

John, I will address the sales projections, first for 2017. At American Income we are projecting net sales growth for 2017 in a range of 6% to 10%. At Liberty National, the net life sales should increase 7% to 11%. The Net Health sales should increase 4% to 8%. At Family Heritage we're predicting a 3% to 7% increase in health sales, and Direct Response we think sales will be flat to negative 5%. In the United American General Agency individual Medicare Supplement sales we're projecting sales growth of 6% to 10%.

Gary Coleman - *Torchmark Corporation - Co-CEO*

John, as far as our investments for next year we're expecting to invest just under $1 billion dollars for the year, and we expect rates to increase slightly as we go through the year. The weighted average rate that we're assuming for 2017 is 4.65%.

John Nadel - *Credit Suisse - Analyst*

Okay. All right, that's helpful. And then I think, Frank, you had mentioned that free cash flow expected to be generated for 2016 was about $320 million. I don't think there's any change to that relative to what you have talked about the last couple of quarters. Did you mention 2017 your expectations and do we see some benefit, I think from proceeds from the Medicare sale?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Yes, for 2017, what I indicated was around $325 million to $335 million. And there will be, embedded in that, probably around $10 million to $15 million of after-tax proceeds from the sale of the Part D that is helping with that to some degree.

John Nadel - *Credit Suisse - Analyst*

Okay. And the expectation was, Frank, that the RBC ratio would recover to or toward at least the 325% target by the end of 2017?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Yes, we're comfortable that we will be at or above the 325% by the end of 2017.

John Nadel - *Credit Suisse - Analyst*

And is that largely just driven by the expectation that you will just retain a bit more of your statutory earnings during the year?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

No, it's actually the combination of use of some of the debt proceeds that we have had to probably make some capital contributions between the remainder of this year and into 2017.

John Nadel - *Credit Suisse - Analyst*

Okay

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

We do have, as we have talked about on prior calls, there is some capital that will be freed up from the Part D sale, probably $15 million to $20 million this year and another $50 million or so next year. So really between the combination of those is what's really going to be driving it.

John Nadel - *Credit Suisse - Analyst*

Okay. All right, thank you very much.

Michael Kovac - *Goldman Sachs - Analyst*

Hey thanks for taking my question. I wanted to circle back on Direct Response. I know in the beginning of the year, you mentioned that some of the elevated expenses, elevated-loss ratio, is driven by the 2011 through 2014. Now it sounds like some of 2015 is in there as well. I just wanted to see if that is in fact the case and what you are seeing in terms of how 2016 is developing for that business.

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Yes. What we're really seeing the higher claims in this particular year is some increased mortality, just certain geographic and demographic segments of our business, and most of that does relate to 2011. We are seeing a little bit of that already in the 2015 accident year.

We have really seen a spike in claims this year that we thought was -- we had seen the spike in claims earlier, the first half of this year, and that was giving rise to some of our elevated guidance in the claims last quarter. We really did not anticipate those claims to continue on here for the remainder, for the second half of the year, but we have continued to see higher claims in these particular segments of our business here in the third quarter. And so at this point in time we do anticipate that they will continue on through the remainder of the year.

Michael Kovac - *Goldman Sachs - Analyst*

And then in the 2017 guidance does that incorporate just 2016 continuing to develop and how do you think about pricing and getting that in line in 2017?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Yes for the most part, looking at our expectations of the policy obligations for 2017, we are anticipating that the claim level that we're seeing here in 2016, for the most part, continues on into 2017, and then as we're taking all this emerging experience and we're working that into our pricing expectations as well as our GAAP expectations, really from this point going forward. So, for the remainder of 2016 -- and then also we will be taking it into account for our 2017 business.

Michael Kovac - *Goldman Sachs - Analyst*

Okay, great. As we think about mortality, more broadly this quarter in some of the other segments, in AIL et cetera, how did it compare versus either -- sort of typical seasonality in the third quarter?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

We did see some favorable claims experience really at American Income, primarily in American Income, Liberty National, and our military businesses. All of those just had very good claims experience for the quarter.

Gary Coleman –*Torchmark Corporation – Co-CEO*

Yes I would say that American Income was a slight improvement, but it’s really been very consistent. I think where we’ve seen the most improvement is in Liberty National, and it's been a favorable trend all through the year. Our policy obligation for Liberty for the year is 36.5%; it's been that way for the last four quarters. Prior to that it was a little over 38%; so we've been pleased to see that improvement and it seems to be continuing.

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

I would say looking forward to 2017, for 2016 at Liberty, following up on Gary's comment, we kind of expect the policy obligations to end up somewhere in that 36% to 37% range. Maybe not quite that good in 2017; maybe closer to a little over 37% something in that range, 37% to 38%.

Michael Kovac - *Goldman Sachs - Analyst*

Great, thanks for the answers.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Good morning Torchmark, a couple questions on the free cash flow numbers that you gave. I got a little confused on whether the Part D proceeds were inclusive, additive, and specifically for next year, is the $50 million on top of the $325 in the $325 to $335 or is it part of the hole that you are going to get back to your 325% RBC, or can some of that be used for buyback potentially?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Yes the $50 million Bob, is really more of a function of dropping RBC levels and so multiplying -- you know using that times--, so it's really being able to, for the most part being able to get back to that 325% level. The free cash flow in 2017 being in the $325 to $335 range, that really is based upon the distribution of our statutory earnings from 2016 and embedded in a portion of that statutory earnings from 2016 are the after-tax proceeds of the sales of the Part D.

Bob Glasspiegel-*Janney Montgomery Scott-Analyst*

So the $325 to $335 has the $50 million -- has the proceeds?

Frank Svoboda – *Torchmark Corporation – EVP and CFO*

Has the proceeds –

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

But not the RBC freed up?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

But not -- that's correct, not the RBC freed up

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Okay, now I got you. The RBC that's freed up that's worth $50 million next year, is that going to be used for the hole to -- there's two 325s we're talking about, the RBC hole of 325%, or can some of that be used for buyback on top of the free cash flow?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Right now, Bob, with the way our projections are looking, it looks like it will be more used to fill the RBC hole more so than being available to being able to distribute out in excess of our normal statutory earnings.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

So some of it is for buyback, but not the majority is that what you are saying?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

I would say that we're not really anticipating being able to distribute out any of the $50 million of capital that we're freeing up from the sale.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Got you. Okay. Administrative expense this year has been a little bit heavy for IT expenses. Does it continue with the same rate next year incrementally, or could it grow a little bit slower than revenues?

Gary Coleman - *Torchmark Corporation - Co-CEO*

It is going to be about the same. As a matter of fact, the growth will be about the same as we have with revenues. This year, for the quarter, it was -- administrative expense were 6.3% of premium but they should end the year at 6.2% and we're projecting for next year it is going to be 6.2% to 6.3% of premiums. So there is going to be growth in the administrative expenses but it is going to match the growth in the premium.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Got you. The tax rate was a little low this quarter as it was last quarter. Was that the option element floating through, or is there something else going on in the tax rate?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Yes the tax rate was down, really started last quarter, some of the nondeductible expenses that we've had (ACA is an example of that) were really lower than we've had in some of the prior quarters so that reduced the tax rate. It really doesn't have anything to do with the excess tax benefit on the stock options as that's being on our operating summary netted against the stock option expense.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Is this a new good run rate or was it unusually low?

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

No, I think for the most part we're really looking at that 32% from an operating tax perspective. 32.6% to 32.8%, somewhere in there, 32.7%, somewhere in there, continuing on into 2017.

Bob Glasspiegel - *Janney Montgomery Scott - Analyst*

Now I can do all my modeling. Thank you.

Seth Weiss - *BofA Merrill Lynch - Analyst*

Hi, good morning. Thanks a lot. My question is on the cash flow numbers and your projection of cash flow, and if we look a couple of years ago, you had generally guided to cash flow numbers in the $360 million to $370 million range, and that number has obviously come down over the last couple of years, more like $320 million if we take out the proceeds from Part D sales this year.

I know that there's several things going on with Direct Response and timing of the CMS reimbursements. I was just hoping you could walk us through why we've had this step down in free cash flow and if it's something that we should think of as more temporary or if this is a new run rate that we may grow slightly off of in the future.

Frank Svoboda - *Torchmark Corporation - EVP and CFO*

Yes I think the decline from 2015 to 2016 statutory earnings, which are really the cause of our -- the decline of the free cash flows from that $360 million that you were mentioning, to where we are at, $320 million for this year. It's really being driven by a couple of factors. One of it was the higher Direct Response claims, as well as some of the lowering of the Part D margins that we've had over the course of time. So clearly some of the higher Direct Response claims have had an impact on our statutory earnings.

You Know probably about a third of that decline has just been from the really good sales that we've had in the past couple of years. And so as we grow sales, if we're growing sales at 8%, 9%, 10%, that generates a significant amount of first-year statutory strain. Now if you have that over several years, then the profits that are being generated from those sales start to catch up to it and help to then grow the statutory earnings going forward.

And then there are some other factors just a higher -- higher IT expenses, and generally administrative expenses. We've had some ups and downs on the tax rate perhaps, but for the most part, you know, and what we kind of see here for going forward as well, I think that for 2017, the Direct Response is continuing to have a little bit more of an impact. I think what you will see as far as not having the growth from 2015 to 2016 -- 2016 to 2017 excuse me, but I think in the near term, and for 2017 statutory earnings, I would not expect them to be significantly different than what you are seeing really at today's levels.

Seth Weiss – *Bofa-A Merrill Lynch-Analyst*

Okay. Thank you.

Operator

It appears there are no further questions at this time. Mr. Majors, I would like to turn the conference back over to you for any additional or closing remarks.

Mike Majors-Torchmark Corporation – *VP of IR*

All right, thank you for joining us this morning. Those are our comments, and we will talk to you again next quarter.