3rd Quarter 2018 Conference Call

Date: 10/25/18 10:00 AM CT

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PRESENTATION

Michael C. Majors - Torchmark Corporation - EVP of Administration and 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 purpose only. Accordingly, please refer to our 2017 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 a discussion of these terms and reconciliations to GAAP measures.

I will now turn the call over to Gary Coleman.

Gary L. Coleman - Torchmark Corporation - Co-Chairman & CEO

Thank you Mike, and good morning everyone. In the third quarter, net income was $179 million or $1.55 per share, compared to $153 million or $1.29 per share a year ago. Net operating income for the quarter was $183 million or $1.59 per share, a per share increase of 29% from a year ago. Excluding the impact of tax reform, we estimate that the growth would have been approximately 10%.

On a GAAP reported basis, return on equity as of September 30 was 12.4%, and book value per share was $48.35. Excluding

unrealized gains and losses on fixed maturities, return on equity was 14.7% and book value per share grew 26% to $43.10.

In our life insurance operations, premium revenue increased 5% to $606 million, and life underwriting margin was $169 million, up 10% from a year ago. The growth in underwriting margin exceeded premium growth due to higher margins at American Income and Direct Response. For the year, we expect life underwriting income to grow around 7%.

On the health side, premium revenue grew 5% to $255 million, and health underwriting margin was up 8% to $60 million. Growth in underwriting margin exceeded premium growth due to higher margins at Family Heritage and American Income. For the year, we expect health underwriting income to grow around 8%.

Administrative expenses were $56 million for the quarter, up 6% from a year ago and in line with our expectations. As a percentage of premium, administrative expenses were 6.5% compared to 6.4% a year ago. For the full year, we expect administrative expenses to be up around 5% and around 6.5% of premium compared to 6.4% in 2017.

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

Larry M. Hutchison - Torchmark Corporation - Co-Chairman & CEO

Thank you Gary. At American Income, life premiums were up 8% to $273 million, and life underwriting margin was up 11% to $93 million. Net life sales were $55 million, down 5%. The average producing agent count for the third quarter was 7,105, down 1% from a year ago, but up 1% from the second quarter. The producing agent count at the end of the third quarter was 7,066.

While we are still optimistic about American Income's growth potential, we do have some current challenges. First, we have opened 10 new offices this year. While this is great news because this supports sustainable long-term growth, it does impact production in the near term as top middle managers leave existing offices to become agency owners in new offices.

In addition, while economic conditions have historically had little impact on agent growth at American Income, unemployment is currently at a 50 year low. This has resulted in an uptick in new agent termination rates due to the abundance of other career opportunities.

There is one issue, however, that we do not consider to be a challenge. There have been reports and discussion recently regarding the potential impact of a Supreme Court ruling that prohibits public unions from assessing collective bargaining fees to nonunion members. As we said on the last call, we do not believe this will have a significant impact at American Income. We expect to see a reduction of only about 2% in American Income's overall lead production as a result of the ruling. In addition, we do not expect an impact to the persistency of our in force business. These policies are individual policies not tied to union membership. The premiums are collected directly from the individual policyholders.

As we have discussed previously, the great majority of our new business leads are not union leads. Furthermore, our union leads are more weighted towards private unions. While

American Income's Labor Advisory Board has significant representation from public unions, our penetration into public union membership has historically been low. There is no correlation between the make-up of our advisory board and our mix of business or leads.

Actually, we believe the court's ruling creates an opportunity to improve relationships with public unions as they look for ways to incorporate programs that add value to union membership.

At Liberty National, life premiums were up 2% to $70 million, while life underwriting margin was down 11% to $17 million. Net life sales increased 1% to $12 million; and net health sales were $5 million, up 4% from the year ago quarter. The average producing agent count for the third quarter was 2,180, up 2% from a year ago and approximately the same as the second quarter. The producing agent count at Liberty National ended the quarter at 2,221.

In our direct response operation at Globe Life, life premiums were up 4% to $208 million, and life underwriting margin increased 27% to $39 million. Net life sales were down 4% to $30 million. We continue to refine and adjust our marketing programs in an effort to maximize the profitability of new business.

At Family Heritage, health premiums increased 8% to $69 million, and health underwriting margin increased 14% to $17 million. Health net sales grew 13% to $16 million. The average producing agent count for the third quarter was 1,086, up 6% from a year ago and up 3% from the second quarter. The producing agent count at the end of the quarter was 1,143.

At United American General Agency, health premiums increased 7% to $96 million. Net health sales were $13 million, up 40% compared to the year-ago quarter.

To complete my discussion of the marketing operations, I will now provide some projections. We expect the producing agent count for each agency to be as follows: American Income at the end of 2018, around 7,000; for 2019, 1% to 7% growth. Liberty National at the end of 2018, around 2,250; for 2019, flat to 7% growth. Family Heritage at the end of 2018, around 1,185; for 2019, 1% to 5% growth.

Approximate life net sales are expected to be as follows. American Income for the full year 2018, flat to 1% growth; for 2019, 3% to 7% growth. Liberty National for the full year 2018, 6% to 7% growth; for 2019, 6% to 10% growth. Direct Response for the full year 2018, 6% to 9% decline; for 2019, flat to 4% growth.

Health net sales are expected to be as follows. Liberty National for the full year 2018, 5% to 6% growth; for 2019, 4% to 8% growth. Family Heritage for the full year of 2018, 7% to 9% growth; for 2019, 5% to 9% growth. United American individual Medicare Supplement for the full year 2018, 20% to 22% growth; for 2019, 6% to 10% growth.

I will now turn the call back to Gary.

Gary L. Coleman - Torchmark Corporation - Co-Chairman & CEO

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 net policy liabilities and debt, was $62 million, a 1% increase over the year-ago quarter. On a per share basis, reflecting the impact of our share repurchase program, excess investment income increased 6%. For the full year 2018, we expect excess investment income to grow about 2%, which would result in a per share increase of about 5%.

Now regarding the investment portfolio

Invested assets were $16.8 billion, including $15.5 billion of fixed maturities at amortized cost. Of the fixed maturities, $14.8 billion are investment grade with an average rating of A-, and below investment grade bonds are $682 million compared to $661 million a year ago. The percentage of below investment grade bonds to fixed maturities is 4.4%, same as the year-ago quarter. With a portfolio leverage of 3.1X, the percentage of below investment grade bonds to equity, excluding net unrealized gains on fixed maturities, is 14%. Overall, the total portfolio is rated BBB+, same as the year-ago quarter.

We have net unrealized gains in the fixed maturity portfolio of $769 million, approximately $165 million lower than the previous quarter due primarily to changes in market interest rates.

As to investment yield, in the third quarter, we invested $206 million in investment grade fixed maturities, primarily in industrial and financial sectors. We invested at an average yield of 5.14% and an average rating of BBB+ and an average life of 26 years. For the entire portfolio, the third quarter yield was 5.56%, down 8 basis points from the 5.64% yield in the third quarter of 2017. As of September 30, the portfolio yield was approximately 5.56%. At the midpoint of our guidance, we are assuming an average fixed maturity new money rate of 5.2% in the fourth quarter and a weighted average rate of 5.4% in 2019.

We are encouraged by the recent increase in interest rates. Higher new money rates will have a positive impact on operating income by driving up excess investment income. We are not concerned about potential unrealized losses that are interest rate driven since we would not expect to realize them. We have the intent, and more importantly, the ability to hold our investments to maturity.

Now I will turn the call over to Frank.

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Thanks, Gary. First, I want to spend a few minutes discussing our share repurchases and capital position. In the third quarter, we spent $75 million to buy 877,000 Torchmark shares at an average price of $85.84. So far in October, we have spent $34 million to purchase 403,000 shares at an average price of $85.28. Thus for the full year through today, we have spent $284 million of Parent Company cash to acquire more than 3.3 million shares at an average price of $85.51.

These purchases are being made from the Parent Company's excess cash flow. The Parent Company's excess 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 excess cash flow in 2018 to be around $340 million. With $284 million spent on share repurchases thus far, we can expect to have approximately $56 million available to the Parent for the remainder of the year from our excess cash flows, plus other assets available to 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 2018, absent the need to utilize any of these funds to support our insurance company operations. Looking forward to 2019, we preliminarily estimate that the excess cash flow available to the Parent will be in the range of $345 million to $365 million.

Now regarding capital levels at our insurance subsidiaries

Our goal is to maintain capital at levels necessary to support our current ratings. For the past several years, that level has been around an NAIC RBC ratio of 325% on a consolidated basis. In light of the current tax reform legislation which changed the NAIC RBC factors, and following discussions with our rating agencies, we are reducing the targeted consolidated RBC ratio to be in the range of 300% to 320%. This does not represent an intent to hold lower statutory capital within the regulated subsidiaries, but simply reflects the fact that the amount of required capital, which represents the denominator in that ratio, has increased. In fact, the overall quality of statutory capital maintained within our insurance subsidiaries post-tax reform will be greater as deferred tax assets will have been replaced with invested assets.

On September 27, 2018, Torchmark completed the issuance and sale of $550 million aggregate principal amount of 4.55% Senior Notes due in 2028. The Company intends to use the net proceeds of approximately $543 million to redeem on October 29 for approximately $304 million, the 9.25% Senior Notes that were scheduled to mature in 2019 including a make whole premium, as well as to fund approximately $150 million of additional capital in the insurance companies. The Company also intends to utilize the remaining proceeds for general corporate purposes including approximately $75 million for the repayment of a portion of the Company's outstanding commercial paper.

Following the redemption of the 9.25% Senior Notes, Torchmark's debt-to-capital ratio should be below 25%, less than the 26% ratio carried prior to tax reform and less than the 30% ratio that supports our current ratings. With the additional capital in the insurance companies, our statutory capital will not only exceed previous levels, but as previously noted, the quality of the capital maintained will be greater.

In conjunction with the new senior debt issuance, each of our rating agencies, Moody's, S&P and Fitch, affirmed their existing ratings. Moody's also indicated that they were reducing their threshold RBC level for our current rating from 325% to 300%. While A.M. Best affirmed its A- rating on our new debt issue, it is our understanding that their normal practice is to not formally review the negative outlook placed on our rating until their next regularly scheduled review in 2019.

Next, a few comments on our operations

With respect to our direct response operations, the underwriting margin, as a percent of premium, in the quarter was 19% compared to 16% in the year-ago quarter. This was primarily attributable to favorable claims in the third quarter of this year compared to higher than normal claims in the third quarter of 2017. While the 19% margin percentage for the quarter was higher than we anticipated, it was within the overall range we expected.

On our last call, we estimated that the underwriting margin percentage for the full year 2018 would be in the range of 16% to 18%. Now, for the full year 2018, we are estimating the underwriting margin percentage for direct response to be in the range of 17% to 18%. We are encouraged by the improved claims experience and the fact that the underwriting margin percentage for the last 4 quarters has averaged 17.6%. While very early, we think the margin percentage for direct response will remain in the 17% to 18% range in 2019.

With respect to our stock compensation expense, consistent with previous quarters, we saw an increase in the expense during the quarter compared to last year, primarily attributable to the decrease in the tax rate and excess tax benefits in 2018 as a result of the tax reform legislation. We still anticipate the expense for 2018 to be approximately $22 million. For 2019, we expect the expense to be in the range of $19 million to $23 million.

As Gary noted, our net operating earnings per share for the third quarter was $1.59, $0.04 higher than our internal estimate of $1.55 per share for the quarter. The excess earnings were primarily attributable to better than expected results not only in our direct response operations, but also in our American Income and Family Heritage channels. The underwriting margin percentage for each of these channels is at the high end of our expectations, and the results for American Income and Family Heritage were at 5-year highs. As such, we believe this favorable experience was a fluctuation and that underwriting margin percentages will revert to more normal levels in the fourth quarter.

With respect to our earnings guidance for 2018 and 2019

We are projecting the net operating income per share will be in the range of $6.08 to $6.14 for the year ended December 31, 2018. The $6.11 midpoint of this guidance reflects a $0.04 increase over the prior quarter midpoint of $6.07, primarily attributable to the positive results in underwriting income, especially for our direct response and American Income channels.

For 2019, we are projecting the net operating income per share will be in the range of $6.45 to $6.75, an 8% increase at the midpoint from 2018.

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

Larry M. Hutchison - Torchmark Corporation - Co-Chairman & CEO

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

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

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Hi thank you, first on Liberty National Life margins have deteriorated a bit year- to-date. This has followed a period of strong sales growth. I was just hoping you could provide some more guidance on what dynamics you are seeing and what you are assuming for margins in your 2019 guidance.

Gary L. Coleman - Torchmark Corporation - Co-Chairman & CEO

Erik, first of all, looking at the quarter over quarter, the policy obligations, at 38%, was high for this year as compared to last year, the 36%, which was a low for 2017. So part of it is an unfavorable comparison. However, the -- we were expecting a lower policy obligation ratio in the third quarter this year because that is the normal seasonal pattern, and that pattern did not occur. So we expect -- we do expect that that is just a fluctuation and it will return back to more of a normal pattern. But still, because we had the higher quarter, we are going to be at a higher ratio this year than we were in 2017. So that is about a point difference in the margin. The other main difference in the Liberty National margins is in the non-deferred commissions and amortization expenses. We are running about a percentage point higher, running around 38% versus 37% last year. And the reason for that is because the amortization on the business in the previous few years is higher than the amortization rate on the older in force block of business that is running off. So -- and that will probably -- that will continue. Looking forward, for the year, we are about 24% underwriting margin. We expect to end up around that for the year. And we are also, into 2019, we are expecting the amortization percentage to creep up a little bit, but we also expect that the policy obligations will revert back to more of the 36% range as opposed to 37%. So to sum that up for 2019, we are looking for the margins to stay around that 24% level.

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Erik, the only thing I would add to that is that we are seeing the non-deferred expenses creeping up just a little bit on that as well as we are expanding some of our sales there and our sales efforts and making some investments in both the agency as well as technology investments, just supporting those future sales. But we do look at having the future sales growth from that paying back on that here over time.

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Thank you, appreciate the color. And then following the debt rate and the capital contribution, you will have the RBC ratio in the range you talked about, at the 300% to 320%. How do you think about any need to maintain a buffer in that or where you fall in the range? Just for the potential impact of either a credit market downturn and ratings downgrades or if there are C1 changes from the NAIC that come through?

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Yes. No, we are very comfortable with our liquidity position, if you will. And so do not feel a strong need to hold a lot of buffer for some events that may or may not occur in the future. So we have been at this general level of RBC for quite some time. We know that we

have capacity within our debt-to-cap ratios and still fitting within our overall -- from a rating agencies perspective, probably about $500 million from where we kind of expect to be at the end of the year. At around -- our debt-to-cap ratio at the end of the year will probably be a little less than 25% once the 9.25% is actually redeemed, so kind of fall within that 30% ratio that our rating agencies like to see as a maximum. We still have around $500 million of capacity there. And we really have access to that just through our bank line. But even if we did not have the bank line for some reason and access to the public markets, we know that we have free cash flow coming up in that $340 million - $360 million range next year, and we would anticipate it for the year after that. And so that just creates that added amount of liquidity for us. So I think all those together, give us good comfort that, if we do have some downgrades, if we do have some impairments that we will be able to deal with that when the time comes.

Gary L. Coleman - Torchmark Corporation - Co-Chairman & CEO

Erik, I would add that, that is how we have handled this historically. We consider the buffer the liquidity we have, as Frank mentioned, the ability to add debt, but also the free cash flow. We know that free cash flow is there. We would rather wait until we know what the need is, if there is a need, before we put capital into companies. Because as you know, once that money is down in the companies, let's say we put too much in, it is difficult to get that money back out because you have to go through the process of getting an extraordinary dividend approved by the regulators. We feel very comfortable that we have more liquidity than we will have any kind of a need for, but we do not see the point of putting it down to the companies until we actually need to.

Erik James Bass - Autonomous Research LLP - Partner of US Life Insurance

Got it, thanks for the comments.

Taylor Alexander Scott - Goldman Sachs Group Inc., Research Division - Equity Analyst

Hi good morning, my first question was just on the agent force at -- in American Income. Appreciate the further comments on the union impact. I guess, could you elaborate more on just why the decline in the number of agents in that business and some of the things that are going on?

Larry M. Hutchison - Torchmark Corporation - Co-Chairman & CEO

I think the challenge is just how we are going to increase the agent growth at American Income. And as I stated in my comments, we have seen several factors this year that affected agent growth a negative way. The first is the higher unemployment. Recruiting for the year at American Income is actually up 5%. Unfortunately terminations have been a little higher than the growth in recruits. So we have had a flat agent count for the year. And as we go forward, we are changing our compensation system, to improve our agent count and productivity. The changes include: we are going to increase our new agent first year commission and new monthly bonuses for agents to encourage retention; we are increasing the bonus for managers to train new agents; and lastly, we are changing our bonuses for middle managers and agency owners for recruiting and

new agent retention. We think that will have a positive impact in 2019. Our guidance for 2019 is 1% to 7% growth in the agent count at American Income.

Taylor Alexander Scott - Goldman Sachs Group Inc., Research Division - Equity Analyst

Got it thank you, and then just in direct response, the increase in expected margins there, what is it about what you are seeing in the performance of the block that causes you to feel like the go forward expectations are increased? Is it lower incidence that's sort of driving the favorable mortality? And any additional color you can provide there would be great.

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Yes. We are really seeing favorable experience really across most issue year's as well as really no specific particular causes of death or product types or anything to that effect. So it is fairly broad. And we actually have seen some improvements overall in the claims with respect to kind of what I am going to say is our -- has been our problem issue years, that is 2010 to 2014, that we have talked a lot about over the past few years. And so we have seen some of the claims really moderate in those more recent issue years. So that gives us a little bit more comfort that at least the claim level in general that we are kind of seeing, and obviously we will see some fluctuations, but we should be able to maintain that. And looking forward, into 2019, we will expect the first couple of quarters to be lower margin, a little higher claim just due to the normal seasonality and the kind of running that same pattern that we would see that we saw this year.

Gary L. Coleman - Torchmark Corporation - Co-Chairman & CEO

And Alex, I would add that when we say we are seeing lower claims, it is really lower volume of claims. The average claim dollars stays pretty much the same.

Taylor Alexander Scott - Goldman Sachs Group Inc., Research Division - Equity Analyst

Great thank you.

Jamminder Singh Bhullar - JP Morgan Chase & Co, Research Division - Senior Analyst

Hi, I had a couple of questions. First just on direct response sales, they have been weak, but I think the pace of decline has been decelerating a little bit. So what is your expectation of when they begin to turn? And what do you think will drive that?

Larry M. Hutchison - Torchmark Corporation - Co-Chairman & CEO

Jimmy, I think those sales turn in early 2019. And we are seeing an increase in total inquiries in insert media. We are seeing a little higher mail volumes. So as we have adjusted our marketing, we will see higher sales in 2019.

Jamminder Singh Bhullar - JP Morgan Chase & Co, Research Division - Senior Analyst

And then on health sales, you have had pretty good sales, I guess, the last 4 quarters really. What is driving that? Is it mostly individual policies or group? And what is your expectation for that business in 2019?

Larry M. Hutchison - Torchmark Corporation - Co-Chairman & CEO

In the Medicare Supplement sales, 40% of the increase -- 14% comes from the group and 46% comes from the individual Medicare Supplement. I think we have seen strong growth in individual sales for the last year because market conditions are favorable from a pricing standpoint. Additionally, we have had good recruiting results over the past several quarters. The group is really harder to forecast. The group sales tend to be uneven, and they are impacted by the size of the groups. But we think we will have some growth in group sales in 2019. We just – it is so hard to predict at this point in time. In Family Heritage, really the increase has been driven by both productivity, and increase in the number of agents. And by productivity, it is the percentage of agents submitting. And the average premium written per agent has increased, and that's what's driving the sales at Family Heritage.

Jamminder Singh Bhullar - JP Morgan Chase & Co, Research Division - Senior Analyst

Okay, thank you

Robert Ray Glasspiegel - Janney Montgomery Scott LLC, Research Division - MD of Insurance

Good morning everyone. The bond refinancing, I mean, even though you have issued a lot more than you are paying back, your overall interest cost go down and you will have $250 million to invest. So I has it -- I have it as a decent bit accretive, $0.11- $0.12. Is that in your guidance?

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Yes, Bob, it is in our guidance. And there is a portion of that, that's probably going to -- that's maybe in your $250 million to invest, that we are kind of pointing toward - - for CP reduction as well. And so we are probably thinking you would probably have $150 million to $200 million that's actually probably going to get reinvested within the company.

Robert Ray Glasspiegel - Janney Montgomery Scott LLC, Research Division - MD of Insurance

And what is your CP rate these days?

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

We have been a little bit north of 2.5 here recently, and then we do expect it to pick up over the course of the remainder of this year then into 2019 along with the changes in the fed funds.

Robert Ray Glasspiegel - Janney Montgomery Scott LLC, Research Division - MD of Insurance

But you are sort of arbitraging your debt cost, because I mean, you are investing at 5.2%, did you say, new money; and your debt cost is 4.90%. So you pick up 30 bps on the excess that you are not repaying. And you are saving 500 bps on what you are repaying. So clearly a nice transaction. Are there any charges below the -- I'm sorry, go ahead.

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

No, absolutely. We are seeing that on that arbitrage as far as being able to reinvest some -- a portion of that at a decent spread over of what our borrowing costs were. And then the fourth quarter, Bob, where you were going, I think, your question -- that when we actually redeem this, there will be a make whole premium, and that make whole premium

will be expensed. But that will be expensed below the line, if you will, in the fourth quarter.

Robert Ray Glasspiegel - Janney Montgomery Scott LLC, Research Division - MD of Insurance

There's a little bit of extra interest for a month, right, with the double -- with the delay?

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Yes. In the fourth quarter, it is roughly -- we actually will have about $2 million of excess interest income -- excuse me, interest expense in the fourth quarter because we did have to double up on that debt here for a month-- now a portion of that will get reinvested and will help on our investment results.

Robert Ray Glasspiegel - Janney Montgomery Scott LLC, Research Division - MD of Insurance

Yes. I have about $4 million pickup in investment income, but I guess I got to knock down the CP. So maybe $2 million to $3 million pickup quarterly in investment income just from this, is that roughly right?

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Yes, that sounds fair.

Robert Ray Glasspiegel - Janney Montgomery Scott LLC, Research Division - MD of Insurance

Okay. And lastly– your STAT earnings must be growing a decent bit. And we have had a growth penalty, I mean, holding back free cash flow. So have we passed the crossover point on the earnings from the past sort of flowing through, offsetting the need for keeping more for growth? Or is there something else that's causing the bump up in dividends this year that you are looking for next year?

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

I think that is fair. The general growth -- so we are kind of anticipating our statutory earnings, while it is a little bit early yet here for 2018. But we expect them to be up probably $15 million to $20 million over where we were in 2017. For the most part, that is about a 4% growth, so growing pretty much in line with our overall growth in premiums. But clearly, the moderation of our obligations, where we have been having challenges in the past several years with the growing cost at direct response, some of the moderating of those claims, it is clearly been helpful. The higher interest rate, well, that is not going to help us much until 2019. And that will be, at least, a positive. And then we will at least see some incremental benefit from the lower tax rate in 2018 as well.

Robert Ray Glasspiegel - Janney Montgomery Scott LLC, Research Division - MD of Insurance

So from here, STAT earnings should be able to grow in line with GAAP earnings?

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Yes. I think we would expect that. Now if we do end up having some high-growth years, then that will tend to work against that statutory earnings. But if sales are growing in those lower single-digit numbers, and mid-single-digit numbers, then you are not going to see quite as much stress on the-- on statutory earnings.

Robert Ray Glasspiegel - Janney Montgomery Scott LLC, Research Division - MD of Insurance

From your lips to God's ears, that, that problem develops. Thank you.

John Matthew Nadel - UBS Investment Bank, Research Division - Analyst

Hey good morning, I am not sure exactly how to follow-up that last comment. The first question I have is just thinking about the midpoint of the 2019 guide. I think it was $6.60. So at that midpoint, how should we be thinking about the overall portfolio yield and impact on excess investment income? And then I assume the upper and lower end of that range gives some flexibility for new money yields or portfolio yield to shift a bit.

Gary L. Coleman - Torchmark Corporation - Co-Chairman & CEO

Yes, John, I think as far as the portfolio yield, we have been having declines in the yield, year-over-year declines in the range of 9 to 10 basis points. We have gotten to the point now where we are investing in what is coming off the portfolio that -- whereas we were 5.56% for this year, we think that at the end of next year, the portfolio yield will be 5.53%. So we are only losing 3 basis points. So we are getting to that point where we are -- the portfolio yield and the investment rate are getting very close.

John Matthew Nadel - UBS Investment Bank, Research Division - Analyst

Okay. That is helpful. That is about what we have got in terms of basis decline. The -- sorry.

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Yes. I would just say, John, just thinking about some of the sensitivities, that from the plus or minus 25 basis points on those new -- on that new money yield over the course of the years, that ends up having about a $0.02 impact overall when you think about the highs and the lows and what impact that might have.

John Matthew Nadel - UBS Investment Bank, Research Division - Analyst

Yes. I mean, so new cash flows to invest, I mean, other than the incremental investment you have got from the net debt, the new cash flows to invest is, what, about $500 million, $600 million, give or take, I am guessing?

Gary L. Coleman - Torchmark Corporation - Co-Chairman & CEO

Well, next year, we will invest a little over $1 billion, $1.2 billion or so. But if you are talking about new money, you are correct on that after ...

John Matthew Nadel - UBS Investment Bank, Research Division - Analyst

After the roll …

Gary L. Coleman - Torchmark Corporation - Co-Chairman & CEO

Part will be reinvesting. Yes, part is from the maturities, and that is about $500 million.

John Matthew Nadel - UBS Investment Bank, Research Division - Analyst

Got you, okay. And then the second question, I know it is early days yet and this stuff is going to be ferreted out over the course of a rather lengthy period of time. But Gary or Frank, any early thoughts on, conceptually or otherwise, how you think the new FASB long-duration accounting standards are going to impact your financial statements?

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Yes. It is pretty early. As you know, they did provide the final amendments here this quarter, and it will be effective in 2021. And really at this point in time, we are still reviewing the amendments and determining what changes we will ultimately need to make to our systems and processes to be able to comply. So it will be a lot of work between now and then. I think at a very high level, you have a couple of things that are changing and the changes in assumptions with respect to your future cash flows, changes to those assumptions will have to flow through net income. And at least you have the potential for some of that to get unlocked. And then the kind of the -- really, the bigger change is going to be that you will revalue reserves quarterly using a current market rate. But at least -- but those adjustments to the interest rate will flow through OCI, so won't impact overall current operations. So I think, in general, looks like that the companies that may be write policies that have some of these market risk benefits that are talked about in the guidance may tend to have a little bit more volatility because it is just a little bit harder to nail down those -- the future assumptions on those future cash flows. With the nature of our products, again, there is a lot of work, and we really have not been able to see exactly what impact it is going to have on us. But we are hopeful that it may not be as volatile as we maybe once thought through the actual earnings, given the way that the guidance has come out.

John Matthew Nadel - UBS Investment Bank, Research Division - Analyst

Okay, we will stay tuned. I am sure a lot more to go on that topic. And I have just got one more for you guys. Does your -- listen, I appreciate the lower asset leverage of your operation. I appreciate the non-callable liabilities, the, I mean, a complete lack of a run on the bank type of scenario, or risk. But you do have a very heavy exposure within your investment grade portfolio to BBB securities. Just sort of circling back on, I think it was Erik's question earlier. As we are getting very late in the cycle here, is there any expectation of some sort of -- at the margin even, portfolio reallocation to move credit quality maybe a little bit higher and protect capital ratios against a potential downturn?

Gary L. Coleman - Torchmark Corporation - Co-Chairman & CEO

Well, John, I think we -- although we have not changed our overall investment philosophy, we have made a few tweaks on what we are doing. One is we have invested more in municipal bonds than we have in the past. It gives us a little bit higher-quality bonds. Also, there are certain issuers that we may have invested in, in the past and we are not now because they have higher leverage or higher leverage than we prefer at this point into the cycle. So there -- we have made some changes like that. But overall, the strategy is still the same.

John Matthew Nadel - UBS Investment Bank, Research Division - Analyst

Okay thank you very much.

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

Hi thanks good morning, I had a follow-up to Bob's question on -- I guess, on longer-term earnings generation. You saw a little bit of uplift from tax reform, but fairly minor on a statutory basis given some of the past tax changes. So I am just wondering if you look longer term, will you see more of the tax benefits from tax reform start to emerge on a statutory basis, I guess, over a much longer period of time?

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

Yes. We think the – you are right. In the near term and kind of intermediate term, we believe there will be incremental benefits from the tax reform. We have kind of estimated initially, probably thinking in that $10 million to $15 million a year range. Once we get past year 8, because there are certain transition rules as part of that tax reform that caused us to, if you will, pay back a portion of our tax reserves over the first 8 years. After that period of time, then we will start to see much more significant benefit as a result of the tax reform. That's probably -- the transition rules are probably costing us -- will cost us somewhere in that $19 million - $20 million range a year. So that, that would free up after year 8.

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

Okay, got it. So once you get just past that year 8, you could see about a $20 million or so kind of uptick immediately?

Frank M. Svoboda - Torchmark Corporation - Executive VP & CFO

That is right. And then, of course, if statutory income grows and your overall taxable income base grows, that differential of being able to pay it at a 14% lower tax rate works in there as well. So you are going to be having that lift just on the growth of that earnings, too.

Ryan Joel Krueger - Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research

Got it thanks a lot

Operator

Thank you. I am currently showing no further questions in the queue. I would now like to turn it back over to management for closing remarks.

Michael C. Majors - Torchmark Corporation - EVP of Administration and IR

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