Torchmark Corporation

3rd QUARTER 2013 CONFERENCE CALL

Oct. 24, 2013

CORPORATE PARTICIPANTS

Mike Majors *Torchmark Corporation - VP of IR*

Gary Coleman *Torchmark Corporation - Co-CEO*

Larry Hutchison *Torchmark Corporation - Co-CEO*

Frank Svoboda *Torchmark Corporation - EVP, CFO*

Brian Mitchell *Torchmark Corporation - General Counsel*

CONFERENCE CALL PARTICIPANTS

Jimmy Bhullar *JPMorgan Chase & Co. - Analyst*

Yaron Kinar *Deutsche Bank - Analyst*

Sarah DeWitt *Barclays Capital - Analyst*

Randy Binner *FBR & Co. - Analyst*

Mark Finkelstein *Evercore Partners - Analyst*

Christopher Giovanni *Goldman Sachs - Analyst*

Vincent Lui *Morningstar - Analyst*

Bob Glasspiegel *Janney Capital Markets - Analyst*

Eric Bass *Citi Research Equities - Analyst*

Mark Hughes *SunTrust Robinson Humphrey - Analyst*

Mike Majors

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

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2012 10-K and any subsequent forms 10-Q on file with the SEC.

I will now turn the call over to Gary Coleman.

Gary Coleman

Thank you Mike, and good morning everyone.

Net operating income for the third quarter was $133 million or $1.43 per share – a per share increase of 11% from a year ago. Net income for the quarter was $132 million or $1.43 per share – a 5% increase on a per share basis.

With fixed maturities at amortized cost, our return on equity as of September 30 was 15.6% and our book value per share was $37.60 - a 9% increase from a year ago. On a GAAP reported basis, with fixed maturities at market value, book value per share was $40.97, a 9% decrease due to the impact of higher interest rates on the valuation of our fixed maturity portfolio.

Life Insurance

In our life insurance operations, premium revenue grew 4% to $471 million and life underwriting margins increased 7% to $139 million. The growth in underwriting margin exceeded the premium growth due to lower amortization on our deferred acquisition costs and the deferral of certain direct response internet acquisition costs that had not been deferred prior to the second quarter of 2013.

The lower amortization rate is a result of improvements in persistency attributable to our ongoing conservation program, and is incorporated in our guidance.

Net life sales decreased 4% to $80 million.

On the health side, premium revenue, excluding Part D, increased 23% to $209 million and health underwriting margin grew 19% to $47 million. Improvement in the health premium and underwriting margin was due primarily to the addition of Family Heritage.

Health sales increased 54% to $23 million also due to the acquisition of Family Heritage.

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

Larry Hutchison

Thank you Gary.

First, let's discuss American Income, which generates approximately 46% of our net life sales.

American Income's life premiums were up 8 percent to $181 million and life underwriting margin was also up 4 percent to $59 million. Net life sales decreased 10 percent for the quarter to $37 million. The producing agent count at the end of the third quarter was 5,449, approximately the same as a year ago, but down 2 percent during the quarter.

We are disappointed with the results of the third quarter at American Income. While the real driver of growth in this agency is going to be the development of new SGAs opening new offices, we did expect that the compensation changes made earlier this year would have had a more positive impact on sales and agent retention.

We continue to modify and tweak the compensation systems and are confident that these changes, which are scheduled for January 1st implementation, will eventually generate improvement, but our primary focus will be on opening new offices and the continual development of middle management to help ensure that we maintain a large pool of highly qualified SGA candidates.

We expect a net life sales decline for the full year 2013 within a range from 2 to 3 percent, but we expect sales growth in 2014 to be within a range of 3 to 7 percent as the SGAs added in 2013 make an impact.

Now, Direct Response, which generates approximately 42 percent of our life sales.

In our direct response operation at Globe Life, life premiums were up 4 percent to $164 million and life underwriting margin increased 13 percent to $42 million. Net life sales were up 6 percent to $33 million.

Response rates continued to improve slightly during the third quarter. We are seeing positive results on rate adjustments and higher face amount offerings on adult insurance products implemented during the second quarter.

We expect low to mid-single digit net life sales growth for the full year 2013 and mid-single digit sales growth for 2014.

Now, Liberty National

At Liberty National, life premiums declined 2 percent to $69 million while life underwriting margin increased 3 percent to $19 million. Net life sales decreased 9 percent to $8 million, while net health sales declined 6 percent to $4 million. The producing agent count at LNL ended the quarter at 1,320 – down 6 percent from a year ago but up 3 percent during the quarter.

The turnaround at Liberty National has been a bit more difficult than we anticipated and we were disappointed with the results of the quarter. While the transition to the new operating model and new mindset has been more challenging than expected in our traditional southeastern rural offices, we are pleased with the progress of our geographic expansion.

We opened four new offices in the second quarter, another in the third quarter, and we plan to open two more this year. We are confident that expansion into more heavily-populated, less-penetrated areas will generate long-term agency growth at Liberty beginning in 2014.

We expect sales to decline within a range of 6 to 8 percent for the full year 2013 but expect to see low single-digit sales growth in 2014 as we start to see the benefits of geographic expansion.

Now, Family Heritage

Health premiums were $48 million and health net sales were $11 million. While results were slightly less than expected, we are still pleased with the integration of Family Heritage. We continue to implement our internet recruiting system across the agency and believe that this will generate long-term sales growth as it becomes fully incorporated.

For 2013, we expect health premium income to range from $191 million to $192 million with margins as a percentage of health premiums of about 18 to 20 percent. We expect sales of approximately $43 million to $45 million in 2013 and mid- single-digit sales growth in 2014.

Medicare Part D

Premium revenue from Medicare Part D declined 6 percent to $77 million, while the underwriting margin increased 25 percent to $9 million. Part D sales for the quarter fell 58 percent to $9 million due to the decrease in low-income subsidized enrollees for 2013.

We expect a decrease of approximately 4 to 5 percent in our Part D premiums for 2013 due primarily to price competition in the employer group market that we've discussed on previous calls.

However, we expect an increase in Part D sales and premiums in 2014 because we have qualified to receive new auto-enrollees in 15 regions in 2014 as compared to 7 in 2013. We'll be better able to quantify that increase on our next call.

I will now turn the call back over to Gary.

<u>Gary Coleman</u>

To complete the discussion of insurance operations, administrative expenses were $45 million for the quarter, 11% more than a year ago. The increase is in line with our expectations and is due primarily to the addition of Family Heritage and an increase in pension costs. As a percentage of premiums, administrative expenses for the full year 2013 should 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 $54 million, a decline of $1 million or 2%; but a 2% increase on a per share basis, from the third quarter of 2012. The decline in $ is due to lower new money yields and the call of $467 million of hybrid securities since June 30, 2012.

For the full year 2013, we expect the decline in excess investment income to be approximately 7-8%. However, reflecting the impact of share repurchases, we expect the decline in 2013 excess investment income per share to be around 3% compared to 2012.

Now, regarding the investment portfolio:

Invested assets were $12.9 billion, including $12.3 billion of fixed maturities at amortized cost.

Of the fixed maturities, $11.7 billion are investment grade with an average rating of A-, and below investment grade bonds are $586 million, compared to $685 million a year ago.

The percentage of below investment grade bonds to fixed maturities is 4.8% compared to 6.3% a year ago. With a portfolio leverage of 3½ X, the percentage of below investment grade bonds of (BIG) 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-, compared to BBB+ a year ago.

In addition, in the portfolio we have net unrealized gains of $489 million compared to $1.6 billion a year ago. The decrease in net unrealized gains is due primarily to the recent increases in market interest rates rather than credit concerns.

Regarding investment yield:

In the third quarter, we invested $133 million in investment grade fixed maturities, primarily in the industrial and utility sectors.

We invested at an average yield of 5.2%, an average rating of A and an average life of 30 years.

For the entire portfolio, the third quarter yield was 5.91%, down 42 basis points from the 6.33% yield for the third quarter of 2012. The decline in yield is due primarily to the addition of the lower-yielding Family Heritage portfolio and the calls of bank hybrid securities since the second quarter of last year.

As of today, we still hold approximately $76 million of bank hybrids that we expect to be called at some point. However, we have not yet received a notice of intent to call on any of these securities. If all $76 million of these securities are called, the lost annual income related to these calls would be less than a million dollars after tax.

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

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

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

Frank Svoboda

Thanks, Gary.

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

First, regarding share repurchases and parent company assets:

In the third quarter, we spent $85 million to buy 1.2 million Torchmark shares at an average cost of $70.45 per share. For the full year through September 30, we have spent 265 million dollars of parent company cash to acquire 4.2 million shares at an average cost of $62.44 per share.

The available liquid assets at the Parent consist of assets on hand plus the expected free cash flow from operations. As we've said before, free cash flow 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.

The Parent ended the second quarter with liquid assets of $117 million. Assuming shareholder dividends remain at their current level, we expect free cash flow for the remainder of 2013 to be around $38 million. Along with the $117 million of liquid assets available as of September 30, the Parent will have around $155 million of available liquid assets for the remainder of the year. Of this amount we expect to retain approximately $55-60 million of liquid assets at the parent company.

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 the remainder of the funds. So far in the 4th quarter, we have spent approximately $20.4 million to repurchase 284,000 shares at an average cost of $71.97.

Now, regarding RBC at our Insurance Subsidiaries:

We plan to maintain our capital at the level necessary to retain our current ratings. For the last three 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.

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 $5.68 per share to $5.72 per share. For 2014, we expect that our net operating income will be within a range of $6.00 per share to $6.40 per share.

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

Question and Answer

Jimmy Bhullar ***- JPMorgan Chase & Co. - Analyst***

Hi! I had a question first for Larry. Maybe if you could discuss the driver of the decline in the agent count at American Income during the quarter, and what gives you comfort that the results are going to improve.

And then, secondly, on Part D expectations, obviously you are approved in more regions for auto enrollees next year than this year, but I don't think you should see a commensurate increase in the premiums in the business, because I think the regions are going up to 15 from 8, but maybe you could discuss how much of a pickup you are expecting.

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

Jimmy, in the third quarter, the agent count didn't grow as we believed it would, because the SGAs, our managers, and our agents have not responded as quickly as we had hoped to the compensation changes initiated in the first and second quarter. We do believe we're going to have growth in 2014.

In the first quarter, we're going to have a new senior life product and a change in our compensation payment system that should have a positive effect on agent activity. This compensation system change will result in agents being paid more quickly, which should also help with agent retention. We also have a change in management compensation to tie bonuses to recruiting results. And, that senior product will allow agents to utilize more of their leads. Part D, if I heard your question correctly, Jimmy, I think you are asking for guidance in what's going to happen --

Jimmy Bhullar ***- JPMorgan Chase & Co. - Analyst***

Or just expectations because I think the number of regions where you're auto enrolled is up almost twice as much next year versus this year. But I think last year you had declined a lot but your premiums actually held up relatively well. So, should we expect a huge jump in premiums because of the increased number of regions that you're auto enrolled in?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

I think the guidance we give at this time is that we would expect the premiums for 2014 for Part D to be in a range of $330 million to $340 million, as compared to approximately $300 million in 2012. We'd expect the margin on that business, Jimmy, to be between 9% and 11%.

Jimmy Bhullar ***- JPMorgan Chase & Co. - Analyst***

Got it. Thank you.

Yaron Kinar ***- Deutsche Bank - Analyst***

Hey, good morning, everybody. I want to maybe start off with another question on American Income's headcount and how it pertains to sales growth. If I understood correctly, in the past you talked about the bottleneck being middle management there. And yet, when I look at the, let's say, renewal agents, those with at least one year experience, that number has actually been growing at a nice pace every quarter this year. So I am wondering, what else is going on there that's creating pressure on sales today?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

Let's talk about middle management development first. Our middle management numbers really haven't changed since the beginning of the year, because we haven't experienced growth in new agents. We just had fewer candidates to -- for promotion to management positions. That slight decrease at the MGA level is in part because we opened eight new offices, and we promoted four other MGAs into open offices. We think we'll see that change next year as we pick up our agent recruiting and it begins to increase.

Yaron Kinar ***- Deutsche Bank - Analyst***

Okay.

Gary Coleman ***- Torchmark Corporation - Co-CEO***

Also, I would add as far as the renewal agents growing -- that is a pattern that we expect. When we talk about retention -- the fact that our retention is not as good -- is in the first-year agents, and especially the first six months that they're involved. And that's a retention figure that we're trying to improve.

Yaron Kinar ***- Deutsche Bank - Analyst***

Okay. So, is the focus then more on these first-year agents or is it still about growing the bench of potential middle management agents?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

It's both.

Gary Coleman ***- Torchmark Corporation - Co-CEO***

That's right.

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

We know we need to grow middle management to have more SGAs to enlarge our offices -- or to expand our offices.

Gary Coleman ***- Torchmark Corporation - Co-CEO***

It's also important to have the middle management to train the new agents properly. So I agree with Larry. It's both the agents and the middle management.

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

We talked about the compensation changes we initiated in the first and second quarter. Those compensation changes are directed towards first-year agents. What we are trying do is have an agent that normally would have left in the third month that would maybe leave in the fifth, sixth, or seventh month.

So we get that additional production from the agent, that cascades through those numbers, your fourth-, fifth-, sixth-month agents. We're hoping that with these compensation changes -- they receive a bonus as they stay longer -- that they'll have more production from those first-year agents.

Yaron Kinar ***- Deutsche Bank - Analyst***

Okay. So, when you talk about these being somewhat disappointing results, from your perspective, is the disappointment on the first-year agent growth? Or is the disappointment on the middle management bench?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

I am disappointed on both levels.

Yaron Kinar ***- Deutsche Bank - Analyst***

Okay.

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

We have not had the first-year agent growth we expected because of lack of retention, which is not responding to these compensation changes. Likewise, we just haven't had the activity levels that we would expect from our managers in terms of recruiting -- causing inactivity. They train those agents. That's why we changed the compensation effective January 1st. It's a different compensation change -- it ties that manager's bonuses to the activity of those first-year agents, and it also ties that bonus to recruiting new agents in the office.

Yaron Kinar ***- Deutsche Bank - Analyst***

Okay. Then Liberty National, so you are forecasting 6% to 8% sales declines for the full year. That implies, call it 10%, 12% maybe sales declines in the fourth quarter. That seems like it is still going the wrong direction, and I was curious; A- why we're still moving in the opposite direction from the desired direction; and B- how you get from there to a more positive environment in 2014.

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

We get there in two ways. First of all, agent productivity we think will come up in 2014. Agent productivity is slightly down because we just opened four offices and the last quarter we opened one. This quarter we opened several more. We have more inexperienced agents. As those agents become more experienced there's a higher level of productivity.

The other change we've had at Liberty this year has been the implementation of the laptop. That rollout will be completed by the end of November. And, following that rollout, the laptop directors will begin to follow up to ensure that all the offices are using the laptop effectively. I think we talked about it on the last call that changing that system actually is a little bit of a step backward.

I would say that the other change is that we have changed the culture. We have changed the recruiting methodology at Liberty. Some of the more experienced agents have left the system. We think that downturn is now complete and we'll start to build that agency count.

Gary Coleman ***- Torchmark Corporation - Co-CEO***

Another thing that I would add -- you are right, the fourth quarter is projected to be about an 11% decrease, but that's a bad comparison. The fourth quarter of 2012 is by far their highest quarter from an issue standpoint. Well, actually, it will be slight, but we'll see sequential increase in sales at Liberty in the fourth quarter, maybe 1% to 2%.

Yaron Kinar ***- Deutsche Bank - Analyst***

Okay. Thank you very much.

Sarah DeWitt ***- Barclays Capital - Analyst***

Hi. Good morning. American Income -- can you just elaborate on what were the compensation changes you made previously that have caused so much disruption this quarter, and how do the new changes differ from the old ones? And why does that give you so much confidence that, that will be effective and we won't have an ongoing issue there?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

Well, again, we were disappointed in the third quarter because, as I said earlier, the SGAs, the managers, the agents didn't respond as quickly as we had hoped to compensation changes.

You have to think about agency. It takes a while to institute a compensation change and have that flow through an agency. When we make a compensation change, it's based on trends that we've seen 6 or 8 months ago.

Our sales management's experienced, they were former SGAs -- as they change that management, they first discuss that with the field. We then test those management changes. And then we have to see the implementation for retention bonuses, to see what effect -- as you roll out a retention bonus in the third quarter, takes 3, 4, 5 months to begin to see the effects of that.

We are confident that there is going to be a positive impact. It's just been slower to hit that agency.

Earlier in the year, we had reduced some management bonuses. You have to change your bonuses from time to time to keep the compensation system as an incentive to direct behavior. There was a negative reaction to those reductions. And as we introduce the new management bonus system in January of 2014, Sarah, we believe that will have an impact and will bring the activity and enthusiasm of that agency back to a normal level.

Sarah DeWitt ***- Barclays Capital - Analyst***

Okay. Great. And then, just switching gears to share buybacks, how do you think about the valuation there on buying back your stock? Is there a level at which you perhaps would slow or stop share buybacks?

Gary Coleman ***- Torchmark Corporation - Co-CEO***

Sarah, I think we talked about it in the past. We calculate intrinsic value, what we think intrinsic value of the stock is, and we monitor the actual price to that intrinsic value, and that's a very important consideration as to whether we buy shares. If we felt we were fully valued, we would stop share repurchase and use that cash for other means.

But, although our intrinsic value is closer to -- or, excuse me, our share price is closer to what we think fair value is, it's still not there yet. And we still think that the stock price -- or the stock is a good buy, especially when you consider the risk-adjusted return we get on share repurchases versus other alternatives that we can invest in.

But we continually watch that, and if the price gets to the point where we think it is fairly valued, we will look at other uses of the cash. And part of it -- our preference is to return the cash to the shareholders. We would -- that would be a Board decision, but we might consider a special dividend or whatever. But we just don't feel like we have gotten to that point yet.

Sarah DeWitt ***- Barclays Capital - Analyst***

Okay. How do you measure intrinsic value?

Gary Coleman ***- Torchmark Corporation - Co-CEO***

Well, it's a method we have used for years. It's just -- without going into a lot of detail, we value the current equity and the present value of future premiums -- or future income, and I think we are fairly conservative with it.

But we also talk to other people, bankers and all, what they think the value is -- and so we're -- and again, we're not saying our value that we come up with is necessarily the best value. But what we do is we're constantly -- and we have done this for years -- compare what the shares are actually trading to, to what that intrinsic value is.

It's always been the less than that value. It hasn't gotten to the point where the share price is at that value, that intrinsic value. That's why we can still consider the stock repurchases the best use of the cash.

Sarah DeWitt ***- Barclays Capital - Analyst***

Okay. Great. Thanks for the answers.

Randy Binner ***- FBR & Co. - Analyst***

Thank you very much. I am going to hit sales again, but just from a different angle. With Torchmark, we talk a lot about very granular details on agent recruiting, compensation, et cetera, which I appreciate. But just thinking more broadly -- Aflac US, CNO Financial, two names I cover, have seen lower sales than what we thought they would be over the last few quarters.

So I guess, moving away from the specifics -- especially American Income -- more broadly, is there something going on out there that's making it harder for agents to be successful? Is it because of the economy, gas prices? Is there kind of an external environment change that you are seeing in your business that might be part of the explanation for some of these sales challenges?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

I don't think that there is an overall trend that's hurting sales. I do think it's more difficult for agents today to set appointments, with the advent -- or the onset of do-not-call lists. But as people have moved from land-line phones to cell phones, it's harder for an agent to make appointments. But we have overcome that as we introduce new software that helps them set appointments, be more efficient in their calls.

I think if you look at -- let's look broader at American Income. And, if you go back and look at historical trends, it's really unusual for American Income to have two very strong years in a row. If you go back in the last 10 years, there are 4 years we have double-digit growth -- 17%, 18%, 18%, 12% growth. There's also years we have negative growth. I can see years in that 10-year cycle, we are down 9%, we're down to 8%, we're down this year -- projecting 2% to 3% -- following a double-digit-growth year.

What we do know is the cumulative growth is very strong, and that your agency grows and your sales grow in a stair-step pattern. I think that's really what's going on at American Income.

Randy Binner ***- FBR & Co. - Analyst***

And I guess, would the same comments apply -- I was kind of talking broadly about the dynamic, too, at Liberty. Same thing, or that's a little bit different, right? It's a more narrow geographic set.

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

I would say Liberty is quite different. We restructured Liberty at the end of 2010 and took it to a variable-cost model. The current restructuring of Liberty is twofold. One is changing the culture at Liberty -- that it's a growth culture, not a production culture. The second change is what we talked about -- is geographic expansion.

We know that trying to expand offices in the Southeast is probably not going to work, based on the last 20 years' experience. But we do know, as we look at these new offices, we can expand Liberty as they adapt to new systems for recruiting, for selling, that we're seeing positive results in these new offices. So, the future of Liberty is really a different future, which is to expand outside of the Southeast to adopt these new systems.

Randy Binner ***- FBR & Co. - Analyst***

All right. Thanks for the response.

Mark Finkelstein ***- Evercore Partners - Analyst***

Good morning. Direct Response -- I guess we'll go through sales again -- I guess I was a little surprised that they were up 6%, pretty easy comp. You have a new product with a kind of higher face value that should attract a different audience.

What is going on there? And what gives you the confidence that, that should improve?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

Well, we think, in the fourth quarter at Globe, that strong growth is to come from our adult insurance product rate implementation, and our continued introduction of higher-face offers -- we have internet inquiry fulfillments, some new packaging coming out. Remember at Globe -- when we talk about a rollout, it's not a single rollout.

As we roll out that adult product, we are doing further testing on packaging, on rates. And we see some further growth, not just from the rollout, but as we tweak the packaging and the pricing for the products as we go forward. We feel very good about Globe Life and their 2014 sales results that are projected.

Mark Finkelstein ***- Evercore Partners - Analyst***

Is there anything in the response rates that kind of has changed fundamentally?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

No. As we said, we saw a slight improvement in response rates in the third quarter. We saw a noticeable increase in inquiries from electronic campaigns; our non-electronic circulation inquiries were about the same. Part of the response rates are tied to the economy.

We are pleased that we are seeing some progress in the economy on jobs. Gas prices have been stable. We think those are the improvements that help response rates.

Mark Finkelstein ***- Evercore Partners - Analyst***

Okay. Then just on Family Heritage -- I guess I was surprised by the agent decline. I was also surprised by the sales decline sequentially.

Obviously, this is a recent acquisition and you are focused on changing the recruiting dynamics and focused on geographic expansion. Is this just part of the ongoing integration, or are there any things that we need to be worried about on this?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

I think it's part of the ongoing integration. We need to remember that Family Heritage has just completed its first year under Torchmark, after spending its first 23 years as a private company.

Its taken some time for them to acclimate to our new recruiting system. You have different incentives. There are cultural changes. We think this is going to be a temporary adjustment.

Part of our optimism is based on the fact that Family Heritage has not lost a single owner of any of their agencies since being acquired by Torchmark. In fact, we've added several agency owners this year we think will have a positive impact on 2014.

The other change at Torchmark is we are going provide Family Heritage with some additional product and marketing support through the fourth quarter of 2013 and into 2014 that should further help their results. But we're optimistic about some growth at Family Heritage in 2014.

Mark Finkelstein ***- Evercore Partners - Analyst***

Okay. All right. Thank you.

Christopher Giovanni ***- Goldman Sachs - Analyst***

Thanks much. Good morning. I just wanted to follow up on Direct Response. Are there any I guess numbers you can give us, in terms of maybe its percentage of new sales that are above kind of the original $50,000 limit? So I guess, how should we be tracking the penetration of the higher-face amount policy?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

Chris, I don't have those specific numbers in front of me. I can tell you it's reflected in our guidance for the fourth quarter and for the full-year 2013 and 2014.

Christopher Giovanni ***- Goldman Sachs - Analyst***

Okay. And then, I guess at this point, how should we be thinking about Liberty? Mid-year I think you talked about sort of being the most optimistic you have been in some time around there and clearly pointing to the laptops as an opportunity.

Has it just been just a slower implementation of the laptop strategy? Or I guess what's kind of derailed the story? Clearly restructuring took place during 2012. Do you still have the confidence that 10% to 12% growth longer term, setting aside maybe 2014 still being a transition year, do you still feel like that's a metric you can achieve?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

I don't think the story at Liberty has changed. I think we're still optimistic. As I stated, it has taken longer to implement the changes in the system. Remember, the laptop is only for the individual life sales, which is about half of the sales at Liberty National. It will take until November to fully roll that out. Once it's rolled out, you have to go back and inspect that system. So it's not an instantaneous change or improvement, yet we'll see results of the laptop in individual sales through 2014.

Remember that at Liberty, about half those sales are in the workplace. And there was a new system introduced for workplace sales in terms of how you recruit to that, how you prospect to that, so it's taken most of 2013 to implement. Also, the new work site selling system and we should see the benefit of that into 2014.

I probably have been too optimistic about Liberty. I am optimistic about the long-term results. It's just it takes longer than we anticipated to change systems, change recruiting, change culture in a company.

Christopher Giovanni ***- Goldman Sachs - Analyst***

Okay then lastly, the over 6-month retention rate at American Income, where do we stand on that today?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

Are you talking about 13-month retention for agents or --?

Christopher Giovanni ***- Goldman Sachs - Analyst***

Yes.

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

I don't have the numbers in front of me. We look at retention from 1st-month through 13th-month retention, over time you can read that as you see the agency gradually grow or not grow. Off the top of my head, I can't tell you what that number is for 6-month retention.

Gary Coleman ***- Torchmark Corporation - Co-CEO***

The 13-month retention is down a little bit. I don't have exact numbers in front of me, but what we do know is it is down, because we are losing them in the third to sixth month, at a greater rate than we have in the past.

Larry Hutchison *- Torchmark Corporation - Co-CEO*

When I see -- when I talk to Scott Smith, the President of the company, and Roger Smith, the CEO, they're somewhat optimistic. What they see is some uptick in recruiting numbers, and as the uptick in the recruits come through that pipeline, those recruits turn into coded agents that are selling business. If you have more agents that are selling business, your retention rate should go up. Again, they're optimistic based on the testing that they've done with the composition changes. They think we'll see retention gradually increase starting in the first quarter of 2014.

Christopher Giovanni *- Goldman Sachs - Analyst*

Okay. So the 6-month has certainly been critical because I guess over half the sales come from agents that have been there longer than 6 months. So, that's your focus and you think this commission structure will help address that kind of lower retention rate?

Larry Hutchison *- Torchmark Corporation - Co-CEO*

I think the commission structure addresses the retention rate. Remember there is two changes to the compensation system. The first is a bonus system that rewards longer retention. The second is a change in bonus levels that increases activity. And as you increase activity of agents and you increase activity of managers, it reflects in a higher retention rate.

Christopher Giovanni *- Goldman Sachs - Analyst*

Got it. Okay. Thanks so much.

Vincent Lui *- Morningstar - Analyst*

Hi. Good morning, and thanks for taking my question. I just want to go take a look at the investment portfolio. I noticed that you have been gradually increasing the duration of the bond portfolio from about 26 years to about 29.7 years this quarter. Can you give some general comments on that? Is that a change in strategy or you are trying to position in some ways for rising rates in the future?

Gary Coleman *- Torchmark Corporation - Co-CEO*

Vincent, there really hasn't been a change in strategy. A lot of it depends on what's available in the market. We do invest long as we've talked about before, because our policy liabilities are long. If you go back and look at the last.. really the last four or five quarters, it varies. Third quarter of last year, I think it was 23 years. It's been around 25, 26. I think that 29 --

Vincent Lui *- Morningstar - Analyst*

May be the highest.

Gary Coleman *- Torchmark Corporation - Co-CEO*

We haven't changed the strategy. I just think that's what was available.

Vincent Lui *- Morningstar - Analyst*

Okay. Okay. All right. Okay. Thanks a lot.

Bob Glasspiegel ***- Janney Capital Markets - Analyst***

Good morning, Torchmark. Question, it seems like some of the tweaks that you are making to try to get sales going or offering the agents a little bit more or the customers a little bit more and there is a tradeoff between margins and sales that you are balancing all the time. I mean with margins, you know, very strong and sales a little bit disappointing, are the changes you're making margin neutral or margin negative recognizing that new sales don't move the aggregate needle that much?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

Changes are margin neutral, Bob.

Bob Glasspiegel ***- Janney Capital Markets - Analyst***

Margin neutral?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

Yes, margin neutral. The changes aren't just compensation. We recognize compensation is the biggest driver of agent activity and retention. There's also system changes. The lead mapping system we talked about makes those agents more effective so they have more presentations they can make in a week.

Another positive we see within American Income -- they've increased their lead-flow by about 10% this year. That's a positive. We know that agents have more leads, set more appointments, have higher sales -- as that increases their income, they're going to stay with the company longer, and hopefully transition into that management role. There are systems; there are lead changes besides the compensation, that we think are positive signs that point towards a higher growth rate in 2014.

Gary Coleman ***- Torchmark Corporation - Co-CEO***

Bob, we have always had bonuses, and we allow for bonuses in setting our pricing, our margins. What we are talking about is moving that margin money to incentivize different behavior, but it's all part of our normal margin.

Bob Glasspiegel ***- Janney Capital Markets - Analyst***

Okay. I didn't hear did you give your estimate for statutory earnings for 2013 and what the pre-cash flow for 2014 might be?

Frank Svoboda ***- Torchmark Corporation - CFO***

Gary, I'll go ahead and take that. We did not give an estimate as far as statutory earnings were concerned for 2013. We have not yet completed our third quarter statutory results.

We do think that our RBC as of the end of the year, you know, should be, you know, roughly in line with where we were at the end of 2012. As far as our -- what's built into the midpoint of our guidance for 2014, we are estimating pre-cash flow stock buybacks in the range of $360 million to $370 million.

Bob Glasspiegel ***- Janney Capital Markets - Analyst***

Okay. It's fair to say this should be a good statutory earnings year, given the lack of credit issues that have hit the portfolios. Is that a fair assumption?

Frank Svoboda ***- Torchmark Corporation - CFO***

Yes. Investment income -- I mean there is still a drag on investment income just in general on the statutory, just as you have seen on the GAAP side, so --

Bob Glasspiegel ***- Janney Capital Markets - Analyst***

But, I'm talking about credit losses aren't getting like your modeling -- you allow for certain credit losses a year in your modeling.

Frank Svoboda ***- Torchmark Corporation - CFO***

Yes. From a credit loss perspective, yes, it's been a very good year.

Gary Coleman ***- Torchmark Corporation - Co-CEO***

Bob, we'll give better estimates when we do the fourth quarter call. We'll have statutory information by then to give a better estimate.

Bob Glasspiegel ***- Janney Capital Markets - Analyst***

Okay. So, no guesstimate on how 9 months is running versus a year ago? Just the percentage increase?

Frank Svoboda ***- Torchmark Corporation - CFO***

Yes, I really don't have that at this point.

Bob Glasspiegel ***- Janney Capital Markets - Analyst***

Ballpark?

Frank Svoboda ***- Torchmark Corporation - CFO***

I really don't have that at this point.

Bob Glasspiegel ***- Janney Capital Markets - Analyst***

Got you. Thank you very much.

Eric Bass ***- Citi Research Equities - Analyst***

Hey, thank you. A question on productivity at American Income. It looks like if we just look at sales versus agent growth over the past year or so, the sales have lagged, suggesting that productivity has declined. Can you just talk about what's driving this? I realize some of it is probably mix of new hires, so maybe if you have any data on sort of how productivity is trending for agents with different amounts of experience?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

I have it overall. If you looked at per-agent production in 2013 versus 2012, per-agent production is decreased in 2013 but only about 3% as compared to 2012. As I stated earlier, I think part of that -- it's more difficult to set sales appointments from the telephone. To offset that difficulty, we are making system changes. Productivity is tied to agent activity. As we see more agent activity, we will see our productivity slightly rise.

Eric Bass ***- Citi Research Equities - Analyst***

Okay. Just another question on -- is how you view some of the new initiatives that competitors are rolling out to try to reach more middle income consumers, things like kiosks at Wal-Mart, and whether you view that as a competitive threat. And I'd be interested in your opinion on how much potential you think alternative distribution models have in the lower- to middle-income segment of the market?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

We don't see it as a threat. What we know is, we serve an under-served market. When we look across our distribution, what we are not seeing is any replacement activity from competitors.

Also, we are the only agents in the home. We are in a niche, particularly with our union business. So there's -- it's not a competition issue for us, as people try and seek the middle-income market.

Life insurance is something you have to sell across the kitchen table. We'll take a look at what they're doing with those kiosks, but it's not a product that sells itself. We are more comfortable, as we make sales projections, looking at agency growth as a driver of production rather than worrying about new products or the competition. We are really a sales organization. Our focus is growing that sales organization to reach more of that middle-income market.

Eric Bass ***- Citi Research Equities - Analyst***

Okay. Thanks. Appreciate the thoughts.

Mark Hughes ***- SunTrust Robinson Humphrey - Analyst***

Thank you. Good morning. Could you give us an estimate for excess investment income, either on an absolute basis or a per-share basis for next year?

Gary Coleman ***- Torchmark Corporation - Co-CEO***

Yes, Mark. You know, we've had the decline in excess investment income this year, 7% to 8%. We're going to reverse that next year. In dollar amounts, excess investment income should increase in the 7% to 8% range. A good part of that is because we're going to see growth in investment income.

The $467 million of hybrid calls had tremendous impact reduction-wise on the 2013 income. As I mentioned earlier, that's behind us. So now the growth -- and with the higher new money rates -- the growth in investment income won't be as high as the growth in assets but it is going to be much closer.

So we'll see growth in the income, and our policy obligations -- the interest on policy obligations will grow at about the same range, and actually our interest on the debt cost will be lower. When you add all that together, you get to about a 7% to 8% increase in the midpoint of our guidance.

Mark Hughes ***- SunTrust Robinson Humphrey - Analyst***

Great. Thank you.

Yaron Kinar ***- Deutsche Bank - Analyst***

Hey, thanks for taking the follow up; just one question on 2014 sales guidance. Since a lot of it depends on the initiatives and the tweaks of existing initiatives, should we expect the sales growth to be back weighted next year, or is it roughly even throughout the year?

Larry Hutchison ***- Torchmark Corporation - Co-CEO***

I think it will be a little bit back loaded. Because if you put in initiatives in the first quarter, you will see those flow through more in the second, third, and fourth quarter than the first quarter. That would be our expectation. That's not true with the direct response, because those initiatives were started in the second and third quarter of this year. So, due to additional testing, I think we will see the same kind of growth out of Globe Life and Accident that we saw this quarter and its projected for the fourth quarter, so that's in our guidance.

Yaron Kinar ***- Deutsche Bank - Analyst***

Great. Thank you very much, and good luck.

Operator

It appears we have no further questions.

Mike Majors ***- Torchmark Corporation - VP of IR***

All right, thank you for joining us this morning. Those are our comments. We'll talk to you again next quarter.