4th QUARTER 2014 CONFERENCE CALL

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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

Erik Bass *Citigroup - Analyst*
Randy Binner *FBR Capital Markets - Analyst*
Jimmy Bhullar *JPMorgan - Analyst*
Yaron Kinar *Deutsche Bank - Analyst*
John Nadel *Sterne, Agee & Leach, Inc. - Analyst*
Seth Weiss *Bank of America Merrill Lynch - Analyst*
Kenneth Lee *RBC Capital Markets - Analyst*
Mark Hughes *SunTrust Robinson Humphrey - Analyst*
Bob Glasspiegel *Janney Montgomery Scott - Analyst*
Steven Schwartz *Raymond James & Associates, Inc. - Analyst*

Mike Majors

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 2013 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 - Co-CEO Torchmark Corp.

Thank you Mike, and good morning everyone.

Net operating income for the fourth quarter was $131 million or $1.00 per share – a per share increase of 3% from a year ago. Net income for the quarter was $147 million or $1.13 per share – a 9% increase on a per share basis.

With fixed maturities at amortized cost, our return on equity as of December 31 was 14.9% and our book value per share was $27.91 - an 8% increase from a year ago. On a GAAP reported basis, with fixed maturities at market value, book value per share increased 31% to $36.19.

Life Insurance

In our life insurance operations, premium revenue grew 5% to $494 million while life underwriting margins were $136 million, down 1% from a year ago.

On the health side, premium revenue grew 5% to $225 million and health underwriting margin grew 3% to $51 million.

Health sales increased from $40 million to $72 million. $25 million of the increase was due to group business and the remaining $7 million was related to individual business.

Administrative expenses were $45 million for the quarter, down 2% more than a year ago. For the full year, administrative expenses were $180 million, or 5.7% of premiums. In 2015, we expect administrative expenses to grow

approximately 6% to 7% and be approximately 5.8% of premiums. The primary reasons for the increase in administrative expenses are higher pension costs resulting from the required implementation of a new mortality table, and further investments in IT systems.

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

Larry Hutchison- Co-CEO Torchmark Corp.

Thank you Gary.

We are very pleased that we had strong sales growth in each of the distribution channels for both the quarter and the full year. Now I'd like to discuss results for each of those channels.

At American Income, life premiums were up 8% to $196 million and life underwriting margin was up 6% to $62 million. Net life sales were $46 million, up 23% due primarily to increased agent counts. The producing agent count at the end of the fourth quarter was 6,434, up 21% from a year ago. The average agent count for the fourth quarter was 6,323, up 4% from the third quarter.

We expect life sales growth in 2015 to be within a range of 6% to 10%.

Direct Response

In our direct response operation at Globe Life, life premiums were up 7% to $174 million but life underwriting margin declined 9% to $37 million. Net life sales were up 10% to $38 million.

We expect 4% to 8% life sales growth for 2015.

At Liberty National, life premiums were $67 million approximately the same as the year ago quarter, while life underwriting margin declined 16% to $16 million. Net life sales grew 15% to $9 million, while net health sales increased 19% to $5 million.

The producing agent count at Liberty National ended the quarter at 1,498 – up 5% from a year ago. The average agent count for the fourth quarter was 1,572, up 1% from the third quarter.

Life net sales growth is expected to be within a range of 6% to 10% for 2015. Health net sales growth is expected to be within a range of 4% to 8% for 2015.

At Family Heritage

Health premiums increased 7% to $53 million while health underwriting margin increased 12% to $11 million. Health net sales were up 8% to $12 million.

The producing agent count at the end of the quarter was 785, up 13% over a year ago. The average agent count for the fourth quarter was 782, up 2% from the third quarter.

We expect health sales growth to be in a range from 4% to 10% for 2015.

At United American General Agency

Health premiums increased 8% to $81 million. Net health sales grew from $22 million to $51 million.

Of the $51 million in 2014 sales, individual sales were $12 million, up 50% , while Group sales were $39 million compared to $14 million a year ago.

In 2015, we expect growth in Individual sales to be around 14% to 16%.

While group health sales are hard to predict, we expect them to decline in 2015 due to the unusual number of large group cases we acquired in 2014.

Medicare Part D

Premium revenue from Medicare Part D grew 22% to $90 million, while the underwriting margin declined from $10 million to $5 million. The decline in underwriting margin was due to the higher than anticipated Part D drug costs discussed in our previous calls. We expect Part D premiums of $315 to $335 million in 2015 and expect margins as a percentage of premium to be approximately 6% - 8%. Frank will discuss this further in his comments.

I will now turn the call back to Gary.

<u>Gary Coleman</u>

I want to spend a few minutes discussing our investment operations.

First, excess investment income:

Excess investment income (which we define as net investment income less required interest on policy liabilities and debt) was $56 million, an increase of 2% over the fourth quarter of 2013. On a per share basis, reflecting the impact of our share repurchase program, excess investment income increased 8%.

As we discussed previously, excess investment income was negatively impacted by Part D to the extent of $2 million in the fourth quarter and approximately $5 million for the full year. Excluding the negative impact of Part D, excess investment income would have increased almost 5% for the year, or about 10% on a per share basis.

For 2015, we expect excess investment income to decrease by about 1% to 3%; however, on a per share basis, we should see an increase of about 3% to 4%. At the midpoint of our 2015 guidance, we are expecting a further drag on excess investment income from Part D of approximately $6 million.

Now, regarding the investment portfolio:

Invested assets were $13.3 billion, including $12.8 billion of fixed maturities at amortized cost.

Of the fixed maturities, $12.3 billion are investment grade with an average rating of A- and below investment grade bonds are $561 million, compared to $566 million a year ago.

The percentage of below investment grade bonds to fixed maturities is 4.4%, compared to 4.5% a year-ago. With a portfolio leverage of 3½ X, the percentage of Below Investment Grade bonds to equity, excluding net unrealized gains on fixed maturities is 15%.

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 $1.7 billion – approximately $250 million higher than at the end of the third quarter.

To complete the investment portfolio discussion, I'd like to address our investments in the energy sector. We believe the risk of realizing

losses in the foreseeable future is minimal for the following reasons:

- Over 99% of our energy holdings are investment grade. At the end of 2014, our energy portfolio had net unrealized gains of $152 million.
- Also, less than 10% of our energy holdings are in the oil field service and drilling sector.
- And we have reviewed our energy holdings and concluded that while we may see some downgrades, we believe that the companies we've invested in can withstand low oil prices for an extended duration.

Next, investment yield:

In the fourth quarter, we invested $205 million in investment grade fixed maturities, primarily in the industrial and financial sectors.

We invested at an average yield of 4.8%, an average rating of BBB+, and an average life of 29 years.

For the entire portfolio, the fourth quarter yield was 5.89%, down 1 basis point from the 5.90% yield in the fourth quarter of 2013. At December 31, 2014, the portfolio yield was approximately 5.89%.

We are concerned about the decline in new money rates this year, and as a result we lowered the new money rates from our previous guidance. The midpoint of our current guidance for 2015 assumes new money yields of 4.5% for the first half of the year and 4.75% for the second half.

On past analyst calls, we have discussed in detail the impact of a "lower for longer" interest rate environment. As a reminder, an extended low interest rate environment impacts our 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 negative impact on our statutory balance sheet.

While we would benefit from higher interest rates, Torchmark would continue to earn substantial excess investment income in an extended low interest rate environment.

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

Frank Svoboda-CFO- Torchmark Corp.

Thanks, Gary.

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

First, regarding share repurchases and parent company assets:

In the fourth quarter, we spent $87 million to buy 1.7 million Torchmark shares at an average price of $52.76. For the full year, we spent $375 million of parent company cash to acquire 7.2 million shares at an average price of $52.42.

The parent ended the year with liquid assets of $57 million.

In addition to these liquid assets, the parent will generate additional free cash flow in 2015. Free cash flow results primarily from the

dividends received by the parent from the subsidiaries less the interest paid on debt and the dividends paid to Torchmark shareholders. While our 2014 statutory earnings have not yet been finalized, we expect free cash flow in 2015 to be in the range of $355 - $365 million. Thus, including the $57 million available from assets on hand, we currently expect to have around $417 million of cash and liquid assets available to the parent during the year. To date in 2015, we have used $34.3 million of this cash to buy 656,000 Torchmark shares.

As noted before, we will use our cash as efficiently as possible. Absent better alternatives and if market conditions are favorable, we expect that share repurchases will continue to be a primary use of those funds. We also expect to retain approximately $50-$60 million of liquid assets at the parent company.

Now Regarding RBC at our Insurance Subsidiaries:

We plan to maintain our capital at the level necessary to retain our current ratings. For the last two years, that level has been around an NAIC RBC ratio of 325% on a consolidated basis. This ratio is lower than some peer companies, but is sufficient for our companies in light of our consistent statutory earnings, and the relatively lower risk of our policy liabilities and our ratings.

Although we haven't finalized our 2014 statutory financial statements, we expect that the RBC percentage at December 31, 2014 will be slightly above the 325% consolidated target. We do not anticipate any changes to our targeted RBC levels in 2015.

Now I'd like to take a few minutes to discuss our Part D Operations:

Our final underwriting results were largely in line with our expectations, ending the year with $27 million underwriting margin, or 7.8% of premiums. As discussed on our last call, this margin is less than originally anticipated primarily because of higher than expected Hepatitis C claims during the year.

Included on our website is a schedule entitled "Medicare Part D margins", which provides information regarding Part D premiums and margins for 2013, 2014, and estimated for 2015. As the schedule shows, we anticipate higher premiums than indicated on our last call. This is due primarily to higher than anticipated enrollments in both our individual and group plan offerings during the enrollment period. Premiums from auto-enrollees will be approximately $25 - $28 million, the same as indicated in our last call.

Although we expect higher premiums, we expect that our underwriting margins will be relatively flat to slightly lower than 2014 and that our margin as a percentage of premium will be lower than last indicated. The revised outlook in the margin percentage is as a result of preliminary analysis of the risk scores and claims history of our actual 2015 enrollees.

The mix of enrollees for 2015 indicates preliminarily higher utilization of higher cost drugs which have lower margins.

As noted on our last call, the higher than expected Part D costs in 2014 didn't just impact underwriting income, but also resulted in lower net investment income. These higher costs resulted in higher amounts paid upfront "on behalf of the government", and won't get reimbursed to us until November of 2015. For 2014, net investment income was negatively impacted by approximately $4.5 million. In 2015 the midpoint of our guidance anticipates about $6 million of reduced interest income as result of the delayed 2014 cash

flow, plus additional cash outflow expected to occur in 2015.

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

Larry Hutchison

Thank you Frank.

For 2015, we expect our net operating income to be within a range of $4.20 per share to $4.40 per share, a 7% increase over 2014 at the midpoint. The five cent reduction of the midpoint from our previous guidance is due primarily to the increase in pension expense, reduction in expected Part D margin, and a reduction in expected earnings from our Canadian operations due to the recent change in the Canadian exchange rate.

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

Question and Answer

Erik Bass - Citigroup - Analyst

Hi. Thank you.

Just wanted to spend a little bit more time on Part D and was hoping you could talk about what changed in Part D and why enrollments you think ended up being so much higher than your initial expectations. Then also, as you touched on your margin guidance, it's obviously lower than previously, and it seems to imply that you're expecting some adverse selection. Also, maybe if you could comment a little bit more. What is it about the enrollment base that suggests that would be the case?

Frank Svoboda - Torchmark Corp - CFO

Yes, Eric. With respect to the enrollments, at the time of the last call, we were using our best estimates, taking a look at normal trends in the premium, taking into account the premium rate increases that we had put into effect in working with our consultant to look at a particular mix and trying to get an estimate of the total number of enrollees that we might have. Keep in mind that was before, obviously, the open enrollment period that occurred in the fourth quarter.

So we did end up having a substantially higher amount of enrollments within our individual probably about two-thirds of the added enrollments in our individual plans and we did have higher group sales in the fourth quarter as well. And as I noted before, the auto enrollees ended up being about the same as where -- or were the same as where we ended up -- what we had indicated on our last call, with total premiums around $25 million, which is that 85% or so decrease from 2014 levels.

With respect to the margins, the decrease is really just higher -- it is higher expected claims and fewer drug rebates than we had originally anticipated. It's across all of our businesses, both the individual and group. The last guidance was, again, given prior to the actual enrollment results, and now with those final enrollments results and being able to see who exactly is in the plan, we are just better able to estimate the anticipated drug utilization and cost. It just does appear that the group that we have is a group that has higher utilization and actually is having a little higher utilization of higher-cost drugs, which then, while

they are included in our pricing, really just have a lower margin and tend to have fewer rebates from the pharmaceutical companies.

Erik Bass - Citigroup - Analyst

Got it; that's helpful. So it ended up essentially then that your pricing was a little bit more competitive than you had initially expected?

Frank Svoboda - Torchmark Corp - CFO

Yes, I think there are a lot of different factors that enter into why a particular individual chooses our plan versus another. The websites, I think, facilitate that comparison, and really we are taking a look into what maybe some of those factors are. But at this time we don't have all of those answers.

Erik Bass - Citigroup - Analyst

Got it; maybe just a follow-up bigger picture question on Part D is, do you think that this is a good business and something that you want to be in over time, or does the challenge with accurately projecting enrollments and margins change your thinking at all on that?

Frank Svoboda - Torchmark Corp - CFO

Well, as we have talked about in previous calls, this has always been an opportunistic business for us, and we have, in looking back at the program over -- since 2006 when we first got into it, it's been a good program for us. You know the margins clearly in 2014, and what we are looking for in 2015, aren't what we would prefer and we will continue to evaluate the program, as we do every year, and see what tweaks and changes we want to make with it.

Erik Bass - Citigroup - Analyst

Okay. Thank you for the comments.

Randy Binner - FBR Capital Markets - Analyst

Hey, good morning. Thanks. I was interested, actually, in picking up on some of the yield comments and Gary, if you covered this, I apologize if I missed it. First of all, where is the portfolio yield coming off now and where is new money coming on? Just currently, not talking about the 2015 guidance, because I have a question on that. But, where are you now on those two metrics?

Gary Coleman - Torchmark Corp - Co-CEO

Okay Randy, for the portfolio yield, at the end of the year it is 5.89%. During the year, we invested money at 4.77%, higher at the first part of the year and then -- I think we had, we ended up at 4.8% for the quarter.

Randy Binner - FBR Capital Markets - Analyst

Okay, so 4.8% for the quarter and then -- but your spot, you're saying it's 4.5%, because -- if I've got that right, in your 2015 guidance you are assuming 4.5% growing to 4.75% basis points?

Gary Coleman - Torchmark Corp - Co-CEO

That’s right, we are assuming 4.5% for first half, and 4.75% for the second half of the year.

Randy Binner - FBR Capital Markets - Analyst

So that 4.5% is coming in where? Is that still A-minus, or do you have to go into the high BBBs to get that?

Gary Coleman - Torchmark Corp - Co-CEO

It would be in the high BBBs, which is -- we fluctuate between A- and BBB+. To get to those rates, it would be BBBs and BBB+.

Randy Binner - FBR Capital Markets - Analyst

Okay. And then on the energy disclosure, I appreciate, that but the one piece I didn't get, and again I may have missed it, the energy exposure that you have currently in the below investment grade area is what number or percentage?

Gary Coleman - Torchmark Corp - Co-CEO

Out of the $1.5 billion of energy bonds, only $16 million are below investment grade bonds -- below investment grade.

Randy Binner - FBR Capital Markets - Analyst

So it's de minimis?

Gary Coleman - Torchmark Corp - Co-CEO

It's de minimis, you know and over -- almost 90% of those bonds are pipelines and exploration production. There's very little in the oil-field service or drillers.

Randy Binner - FBR Capital Markets - Analyst

Very little service; okay. I'm just going to ask one more, just in case no one hits on it. I've asked this question, I think, almost every conference call. But I have been interested to see how well you all have done in improving your sales while some other direct -- kind of – yes kind of direct distributors of life and health products, I think have struggled because of a better employment environment, meaning the folks who take direct sales job find something else to do in this kind of economy.

I would be interested in your perspective on that, of how you have gotten the agent counts up really across the board, whether you talk about American Income or Liberty, despite the fact that

these target individuals, assuming they would have other job opportunities. Just kind of interested in your color on that dynamic.

Larry Hutchison - Torchmark Corp - Co-CEO

This is Larry. In all three agencies, particular recruiting systems have enabled us to continue to grow the agent count. We are continually trying to improve those recruiting systems and training systems. Additionally, in all three agencies we've implemented systems really focused on improving agent retention. In answer to your question, we're less concerned with the general economy and really focusing on performance in terms of recruiting and retaining agents.

Gary Coleman - Torchmark Corp - Co-CEO

And also Randy, I would add in recruiting, we are not just recruiting agents to come in and sell insurance, we're recruiting them with the opportunity that they can -- as they grow, they can then someday head up an office, which is -- their own business to a certain extent. I think that helps us through this phase.

Randy Binner - FBR Capital Markets - Analyst

I guess the quick follow-up is, beyond becoming a -- I think you all call it middle managers, is there a better -- using better technology or processes on the recruiting side or what is it specifically that has improved there?

Larry Hutchison - Torchmark Corp - Co-CEO

It is better technology but it's also using different sources of recruiting. Internet recruiting has been a strong source for the last ten years. We recruit -- personal recruiting and some other specialized recruiting. I would say the other factor that is driving agent growth in the Company is our focus on middle management, Randy. It is not just recruiting new agents. As we promote middle management and you see that middle-management number increase, we have more people that can recruit and train in the field.

Randy Binner - FBR Capital Markets - Analyst

Okay. That's very helpful. Thank you.

Jimmy Bhullar - JPMorgan - Analyst

Hi! First I had a question on margins in Liberty National and in the Direct Response businesses. Both businesses, underwriting margins declined sequentially and I think they were the lowest that they have been in the last several years, so maybe if you could discuss what happened there? And then secondly on the producing agent count at Liberty National, obviously it's growing over time, but it did drop on a sequential basis. What caused the drop, and what your expectations are for that channel?

Gary Coleman - Torchmark Corp - Co-CEO

Okay Jimmy, let's talk about the margins first and let's talk about Liberty National. There's some -- at Liberty, there are unfavorable

comparisons not only on the quarter but on a year basis. For example, in the quarter, the fourth quarter, we had a high quarter in terms of claims this year. Last year it was low quarter. When we look at it for the year, the policy obligation ratio, which is the main impact on the margin here, it was 39% in 2014 versus 38% in 2013. The 38% is a little bit of an outlier. The prior two years we were at the 39% level.

So we think the 39% level is appropriate and that's all we've included in our guidance. That has had the impact on the margins this year, 26% versus 27% last year but if you go back and look at the prior two years, we were at the 26% level. So what I am saying is, is I think that were we were in 2014 is more realistic. That's also where we think we will be going forward, both on the policy obligation ratio and the margins.

On Direct Response, we really had two issues to hit us there. The margins were low in Direct Response for the same reason Liberty National, higher policy obligation percentage. That policy obligation percentage is high. One, because there is a little bit of a quarterly fluctuation that is there that we didn't have in the fourth quarter of last year. But also from our trends, we've seen that the policy obligation percentage is higher in Direct Response versus in the prior years.

If you look at year to date, the policy obligation percentage is 48%. That is higher than the 46%, 47% we have had in prior years. But we, from where our trends are showing, we think that 48% is the level not only for this year but it will be the level we will have next year as well, and that's what we included in the midpoint of our guidance. Not a big change, but we think it is -- that instead of the 46%, 47%, we will be at 48%.

Jimmy Bhullar - JPMorgan - Analyst

Okay.

Larry Hutchison - Torchmark Corp - Co-CEO

Jimmy, in the fourth quarter, Liberty National agencies were focused on their work-site policy renewals and new sales. The agencies have refocused on recruiting new agents during the first quarter. We don't expect much growth in agent count by the first quarter, but we do expect to see an increase in agent count quarter over quarter for the remainder of 2015, and we believe that producing agent count at the end of 2015 for Liberty National should be between 1,650 and 1,700 agents.

Jimmy Bhullar - JPMorgan - Analyst

Okay, thank you.

Yaron Kinar - Deutsche Bank - Analyst

Good morning, gentlemen. I want to go back to the Part D business and better understand what the underlying trends there were. So first, you talked about high utilization rates of high-cost drugs. Is this still mostly the Hep C drugs?

Frank Svoboda - Torchmark Corp - CFO

No. It did not appear to be with respect to the Hep C drugs at all. In fact, for 2015 and the

new drug Harvoni, we feel very comfortable in the pricing we that have in our PBM and our preferred -- also our preferred pharmacy has been able to negotiate some lower rebates and some discounts on those particular drugs in 2015. So we see those as actually being very well taken into account. It seems to be across the board, just other -- again, there's a myriad of other -- just the brand name drugs versus using generic drugs.

Yaron Kinar - Deutsche Bank - Analyst

Okay. And is this something that just kind of creeped up unexpectedly? Because ultimately there are generic and brand drugs out there any given year and it seems like this year in particular, it seems to be hitting a little more severely.

Frank Svoboda - Torchmark Corp - CFO

We did see a little bit of that trend moving that direction toward the end of 2014 with respect to some of our -- the new enrollees that we had in 2014. That did seem to be a new trend that we did see in 2014 versus in any of our prior years.

Yaron Kinar - Deutsche Bank - Analyst

Okay. And one final question on specifically to the Hep C. Are you assuming the same utilization rate for 2015 as one you saw in 2014?

Frank Svoboda - Torchmark Corp - CFO

We are assuming, actually, a pretty high utilization rate and a little bit of an increased rate or continuing an increased rate into 2015.

Yaron Kinar - Deutsche Bank - Analyst

Okay, thank you very much.

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

Good morning. Most of my questions have been asked and answered. I guess not to beat a dead horse on Part D, but I am just curious. If you are earning a 6% to 8% margin, and I think the more typical historical margin would've been around 10% give or take, how does that -- what does that do to the ROE on that business?

Frank Svoboda - Torchmark Corp - CFO

It drives it down, obviously. It's interesting, ROE on that particular business is a hard one to take a look at because there is actually, it's very little capital that is required to maintain and operate that business. So we don't tend to look at that on a strictly on a ROE basis as much as we are overall looking at our overall margins and overall investment returns.

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

Okay, okay. And then I understand -- can you -- I think last quarter you told us that in November of 2015, you expected to get back from the government I think somewhere slightly north of $100 million in cash. I assume that number is higher now.

Frank Svoboda - Torchmark Corp - CFO

That is correct. It is about $195 million that we are actually set to receive from the government in November of 2015.

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

Okay, and --

Gary Coleman - Torchmark Corp - Co-CEO

John, we talked about that in the third quarter. I think we're talking about, it was going to be $165 million. It's gone from $165 million to $195 million.

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

Okay. So if I think about a lot of your assumptions that are baked in the 2015 guide, and if we just assume they held constant, and I'm thinking really more about the new money rate and excess investment income, you know the receipt of that cash toward the end of 2015, all else equal, should that lead us to believe that excess investment income in dollars, not per share, but in dollars, is likely actually going to be up in 2016 versus 2015, even if it is only modestly?

Gary Coleman - Torchmark Corp - Co-CEO

Yes, I would think so. Part of it depends on our experience on Part D for 2015 in terms of how much receivable we -- that grows from the 2015 business. What we are expecting is, it will be less, and so therefore I think your assumption is right. We should be able to see a pickup in 2016.

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

Okay. And just one quick follow-up, a following up on the Direct Response margin. I understood your comments on the benefit ratio if I -- policy obligations divided by premiums. Maybe 48% is the new normal there. Does that mean that the underwriting margin, the new normal is more like a 24%, give or take, margin there too?

Gary Coleman - Torchmark Corp - Co-CEO

Yes, John. That's what we're -- we're finishing this year right at 24%. In the midpoint of our guidance, we are right at 24%.

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

Okay. And then just overall, I know it's only a one-point increase in the benefit ratio there, or claims ratio, but I am curious as you dissect that, whether you have seen any -- whether you can find exactly what is driving that. And I am really more curious whether it is a result of -- I know some time ago, you increased policy limits on what you were willing to write, face amount I think $100,000 give or take. And I wonder if you are seeing some anti-you know some poor results there or not?

Gary Coleman - Torchmark Corp - Co-CEO

No John, it is not in the more recent issues. Where we are seeing this is policies that were issued back in the early 2000s, where the actual claims coming in are a little higher than we had anticipated at the time.

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

Okay. So it is aging.

Gary Coleman - Torchmark Corp - Co-CEO

Right.

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

Okay. Very helpful. Thank you very much.

Seth Weiss - Bank of America Merrill Lynch - Analyst

Hi. Thank you. Thanks for taking the question. I had just a few follow-ups. Most my questions have been asked at this point. American Income, the producing agent count would seem quite strong. Is there some upside, perhaps, to the sales growth forecast for 2015, which I believe you kept in that same range of 6% to 10%?

Larry Hutchison - Torchmark Corp - Co-CEO

Producing agent count at the end of 2015 for American Income should between 6,800 and 7,000 agents. That's what we used in giving that sales forecast.

Seth Weiss - Bank of America Merrill Lynch - Analyst

Okay, so we don't want to think about the producing agent count as a leading indicator, then of sales growth? It's more of a --

Larry Hutchison - Torchmark Corp - Co-CEO

It's one of the leading indicators, but there is always a lag in sales activity versus agent

recruiting. That's really because sales growth follows agent growth because new agents are generally less productive than veteran agents.

Seth Weiss - Bank of America Merrill Lynch - Analyst

Okay understood. Coming back to the Part D, I just wanted to clarify one thing because I guess I'm a little surprised at the focus on it from the call, considering that the change in your margins and the dollar amount to, I believe it is less than $0.02 a share. Are you -- if we look back, a 6% to 8% margin on, call it, $300 million of premium versus a 10% margin on $180 million of premium. If it's the same dollar amount, are you basically ambivalent to it? I think you addressed that question earlier on, but the higher premium in force, that doesn't create a greater capital need. Is that correct?

Frank Svoboda - Torchmark Corp - CFO

No, that is correct. What we are pretty focused on is what that -- the net underwriting margin in dollars is, that is adding to our bottom line. As you indicated, I think at the midpoint of our guidance, we've gone from -- on the last call we had pointed to about a $25 million midpoint as far as underwriting margin is concerned and now we're looking in that $21 million to $23 million range. So you are right, that is really the net impact and that is really what we're focused on.

Seth Weiss - Bank of America Merrill Lynch - Analyst

Okay. Appreciate the clarity. Thanks a lot.

Kenneth Lee - RBC Capital Markets - Analyst

Hi. How's it going? Just had a quick follow-up question on life margins. A while back there was expectation that life margins for Liberty National could get somewhere in the ballpark of 27%, 28% longer-term after restructuring toward the variable cost model in American income. Just wanted to know whether that is still the case, because it sounds as if it could be close to 26% right now. Thanks.

Gary Coleman - Torchmark Corp - Co-CEO

Yes, Kenneth, I think we are -- as I mentioned earlier, we are expecting that 26% and that is basically what we had in the midpoint of our guidance. I think the 27% that we had in 2013, as I mentioned that now that is an outlier there. We think that the difference there was really the policy obligations, 38% in 2013 versus 39% in 2014. We expect to be in that 26% range and it should remain there, plus or minus a little.

Kenneth Lee - RBC Capital Markets - Analyst

Got it. For the long-term - great.

Gary Coleman – Torchmark Corp. – Co-CEO

Right

Kenneth Lee - RBC Capital Markets - Analyst

Thanks.

Mark Hughes - SunTrust Robinson Humphrey - Analyst

Thank you very much. Good morning. The impact on 2016 from the pension cost and the IT investments, can you give us some sense of that? Is there a one-time hit or will that be flat and therefore less of a margin impact in 2016? How should we think about that?

Frank Svoboda - Torchmark Corp - CFO

You know, with respect to the pension, there is a little bit of a larger hit here in 2015 versus what we would expect to see in 2016. There'll still be some carryover effect and some just general higher expenses related to the new mortality tables.

A lot of 2016 will depend on what happens with interest rates. Again, the discount rate that is applicable to our 2015 expense is at 4.23%. If we get some relief on the rates, where that drifts back up toward 5%, then that is going to help relieve some of the pressure from the 2016 expense, as well. But you shouldn't see the same magnitude of increase from 2015 to 2016 as we saw in 2014 to 2015. As far as the IT –

Gary Coleman - Torchmark Corp - Co-CEO

Frank

Frank Svoboda - Torchmark Corp - CFO

Go ahead.

Gary Coleman - Torchmark Corp - Co-CEO

Frank as far as the -- just the impact of the mortality table, not interest rates, isn't over 60% of that like a one-time as we convert everybody over to the mortality table as opposed to going forward?

Frank Svoboda – Torchmark Corp – CFO

That is correct.

Mark Hughes - SunTrust Robinson Humphrey - Analyst

And then on the IT investments?

Frank Svoboda - Torchmark Corp - CFO

Yes, on the IT investments, you will continue to see some strong increases on that from year to year. I would say the increase has been fairly consistent with what you're seeing from 2014 to 2015, largely as we have been making some investments over the past couple of years and the depreciation of those investments is starting to really hit the books here in 2015 and then we'll -- some of the added depreciation that we are seeing on our investments there 2015 will start to hit in 2016, so you will continue to see some increases there.

Mark Hughes - SunTrust Robinson Humphrey - Analyst

Then I had just one follow-up. Any broad thoughts on productivity with the economy perhaps getting a little bit better, a little faster job growth,

household formation et cetera? Do think you are seeing a little more appetite for consumers to buy insurance? Should that be meaningful going forward?

Larry Hutchison - Torchmark Corp - Co-CEO

I think the increased productivity you're seeing was less related to the economy. It's more focused on some changes we are making to the American income and the other distribution. We are implementing some new technology to make agents better at lead mapping. We have new payment systems in place - things specific to each agency to improve productivity, so we are less focused on the general economy. Really focusing on each distribution unit and how do we pick up the distribution within each unit.

Mark Hughes - SunTrust Robinson Humphrey - Analyst

Thank you.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Just wanted to follow up on the IT question. Having followed you for 34 years, I don't think I 've ever seen an admin expense budget of up 7% going into a year. What are you trying to get from the IT expenses that you're building? Is this catching up to the rest of the world on maintenance, or is this taking you to another level as far as on sales perspective?

Larry Hutchison - Torchmark Corp - Co-CEO

I don't think its catch-up, Bob, I think its really making changes that are invested in each agency. And so as you look at -- really, new technology has just become available in the last 24 or 36 months. So the IT changes in the agency system are staying ahead of the curve, not to catch up.

Gary Coleman - Torchmark Corp - Co-CEO

And Bob, I would add we were -- our administrative expenses were virtually flat for 2014, but we benefited by lower pension expense in 2014 that -- remember, last year at this time, rates were higher. That drove the pension expense down. Excluding the impact of the benefit we got there, you would've seen growth in our administrative expenses last year.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Got you. Just so I can understand better, though, the IT spending, this is going to allow your agents to sell better? Or how does it work? Is this laptop --

Larry Hutchison - Torchmark Corp - Co-CEO

It's not laptop, Bob, it's our – one thing about lead mapping. I'm talking about recent technology, so it makes agents more efficient. As we put leads into that system, they call on their prospects in order so they spend the least amount

of time on the road, more time making presentations. That's one example.

Another is a upgrade in our compensation systems. As we need to tweak our compensation we can make those changes more quickly and we can respond to the data we're seeing come out of the agencies. Where we need to focus our compensation whether it's on recruiting, retention, what the different metrics we are going to focus that compensation on.

So the technology is really changing quickly in the agency world. We are just trying to be responsive to that and make our agents spend more time in presentations, less time trying set up appointments and the time it takes to drive to those different appointments.

Gary Coleman – Torchmark Corp.- Co-CEO

But even--

Bob Glasspiegel - Janney Montgomery Scott - Analyst

So if we're

Gary Coleman – Torchmark Corp.- Co-CEO

Go ahead

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Is this more of a top-line sales or a margins benefit that you will get from these investments?

Larry Hutchison - Torchmark Corp - Co-CEO

I think it's an investment, but over time we are able to grow our sales force.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Is that what you were going to say, Gary?

Gary Coleman - Torchmark Corp - Co-CEO

No, what I was going to say, getting back to the impact on administrative expenses, even with these additional expenses, IT and also the pension expense, our ratio to premiums is going to be 5.8%. This year it's 5.7% -- or for 2014 is 5.7%. But we've been in the 5.8%, 5.9% range, so these are just reasons expenses are going to be a little bit higher this year, but our overall expense ratio is going to stay where it has been.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

And then,--Okay, so part of it is your premiums are growing faster so you can absorb higher admin expenses?

Gary Coleman - Torchmark Corp - Co-CEO

Yes. Part of it.

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Got you. Thank you.

Frank Svoboda- Torchmark Corp – CFO

One thing

Bob Glasspiegel - Janney Montgomery Scott - Analyst

Oops

Frank Svoboda- Torchmark Corp – CFO

Go ahead

Bob Glasspiegel - Janney Montgomery Scott - Analyst

No that was it, thank you.

Steven Schwartz - Raymond James & Associates, Inc. - Analyst

Hey, good morning, everybody. Larry, could you restate what the AIL target count is for the agents for the year? You broke up a little bit on the lower end.

Larry Hutchison - Torchmark Corp - Co-CEO

Sure, I'll go through each distribution and give that. The producing agent count at the end of 2015 for American Income should be between 6,800 and 7,000 agents. At Liberty National, the producing agent count at the end of 2015 should be between 1,650 and 1,700 agents and at Family Heritage, at the end of 2015 we expect to have between 840 and 880 agents.

Steven Schwartz - Raymond James & Associates, Inc. - Analyst

Okay, thank you. And then just a quick one. Most of my questions have been asked. Given the 4.5% targeted new money rate for the first half of the year, and then 4.75% for the second half, how should we see the effective portfolio yield come down? How much on a quarterly basis?

Gary Coleman - Torchmark Corp - Co-CEO

Well for the year, if we invest at those ranges, we are thinking instead of 5.89%, the portfolio will decline -- the portfolio yield will decline ten basis points to 5.79%, 5.80%, somewhere in that space I don't know that it's even for the quarter but for the year it would ten basis points.

Steven Schwartz - Raymond James & Associates, Inc. - Analyst

Okay. Thanks.

Yaron Kinar - Deutsche Bank - Analyst

I had a quick couple of follow-ups. You touched upon the energy space at least with regards to investments. I was curious if you

expected any impact to sales next year, given the turmoil in the energy sector.

Larry Hutchison - Torchmark Corp - Co-CEO

No we're not expecting any impact on our sales at all from the turmoil in the energy sector.

Yaron Kinar - Deutsche Bank - Analyst

Okay. And then just a quick follow-up on the pension and the new mortality tables. I was just curious why those weren't factored in already at the time of the last -- or when the initial guidance was given on the last call.

Frank Svoboda - Torchmark Corp - CFO

Yes the timing, Yaron, from the information that had been provided out by the Society of Actuaries, there had been some proposals that had been floated around earlier in the year. The final mortality tables and the comments that had been floating around during the year really weren't available until late in October.

The final mortality tables were actually released in October of 2014. So for us to get a reasonable estimate, we just did not have a reasonable estimate of what the overall impact of those mortality tables would be on our particular population within our pension plan at the time of the last call.

Yaron Kinar - Deutsche Bank - Analyst

Got it, thank you.

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

Hey, just a quick follow-up on the higher pension costs. There was some discussion earlier in the Q&A about some portion of it likely more one-time in nature, some portion of it potentially more of an ongoing issue. I know we have to be concerned about what happens with the discount rate, but similar to my last question, if we assume no real change on the longer-term discount rate on the pension block, looking out to 2016, how do we think about those overall costs?

Frank Svoboda - Torchmark Corp - CFO

Yes John, at this time we don't have a projection of our 2016 cost that has been provided to us that takes into account the full impact of those mortality tables. So I don't really have a good number to give you.

John Nadel – Sterne, Agee & Leach, Inc – Analyst

Okay

Frank Svoboda - Torchmark Corp - CFO

I don't anticipate there being a – you know that there would not be a similar type increase from what we saw here for 2015, but we do think the majority of the increase from 2014 to

2015 really came from that change in the mortality table. We wouldn't expect -- I sure don't expect a similar increase.

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

Got it. So it should be more of a, in dollar terms, the expense in 2016 versus 2015 should be you know reasonably similar?

Frank Svoboda - Torchmark Corp - CFO

Reasonably similar, I would think.

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

Okay. But no big step back down unless discount rate moves?

Frank Svoboda - Torchmark Corp - CFO

Correct.

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

Thank you, that is helpful.

Operator

And we have no further questions in queue at this time. I would now like to turn the conference back over to Management for any additional or closing remarks.

Mike Majors - Torchmark Corp – VP Investor Relations

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