3rd QUARTER 2015 CONFERENCE CALL

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Thank you. Good morning, everyone. Joining the call today are Gary Coleman and Larry Hutchison, our Co-Chief Executive Officer; 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 2014 10-K and any subsequent forms 10-Q on file with the SEC.

I'll now turn the call over to Gary Coleman.

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

Thank you, Mike. And good morning, everyone. Net operating income for the third quarter was $136 million or $1.08 per share, a per share increase of 9% from a year ago. Net income for the quarter was $145 million or $1.15 per share, a 15% increase on a per share basis.

With fixed maturities at amortized cost, our return on equity as of September 30 was 14.7% and our book value per share was $29.53, a 7% increase from a year ago. On a GAAP reported basis, with fixed maturities at market value, book value per share was $34.21, a decline of 1% from a year ago.

In our life insurance operations premium revenue grew 5.5% to $519 million, while life underwriting margin was $144 million, up 3.5% from year ago. Growth in underwriting margin lagged premium growth due to direct response claims which were higher than the prior year but in line with expectations. Net life sales increased 11% to $101 million.

On the health side premium revenue grew 9% to $229 million, and health underwriting margin grew 2% to $50 million. Health sales decreased 31% to $33 million due to a large direct response group that was added in the third quarter of last year. Individual health sales were $28 million, up 11%.

Administrative expenses were $49 million for the quarter, up 8% from a year ago and in line with our expectations. The primary reasons for the increase in administrative expenses are higher information technology costs and pension costs. As a percentage of

premium administrative expenses were 5.9% compared to 5.7% a year ago. For the full year we anticipate that administrative expenses will be up around 7% to 8% and around 5.9% of premium.

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

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

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

At American Income, life premiums were up 8% to $209 million and life underwriting margin was up 9% to $66 million. Net life sales were $50 million, up 16% due primarily to increased agent counts and productivity.

The average agent count for the third quarter was 6,604, up 8% over a year ago but approximately the same as the second quarter. The producing agent count at the end of the third quarter was 6,658. We expect 14% to 15% life sales growth for the full year 2015 and 6% to 12% for 2016.

In our direct response operation at Globe Life, life premiums were up 7% to $186 million. Life underwriting margin declined 2% to $40 million. Net life sales were up 8% to $38 million. We expect 4% to 5% life sales growth for the full year 2015, and relatively flat sales for 2016.

At Liberty National, life premiums were $68 million and life underwriting margin was $18 million, both approximately the same as the year-ago quarter. Net life sales grew 1% to $9 million and net health sales increased 10% to $5 million. The average producing agent count for the third quarter was 1,586, up 2% from a year ago and up 2% from the second quarter. The producing agent count at Liberty National ended the quarter at 1,602.

Life net sales growth is expected to be within a range of 5% to 6% for the full year 2015, and 5% to 10% for 2016. Health net sales growth is expected to be within a range of 4% to 6% for the full year 2015 and 3% to 8% for 2016.

At Family Heritage health premiums increased 8% to $56 million, while health underwriting margin increased 1% to $11 million. Health net sales were up 4% to $13 million. The average producing agent count for the third quarter was 905, up 19% from a year ago but down 6% from the second quarter. The producing agent count at the end of the quarter was 854. We expect health sales growth to be in a range from 6% to 7% for the full year 2015, and 5% to 10% for 2016.

At United American General Agency health premiums increased 19% to $84 million. Net health sales increased from $10 million to $11 million. Individual sales grew 24% to $7 million and group sales increased 6% to $4 million.

For the full-year 2015 we expect growth in individual Medicare supplement sales to be around 30% to 35%. As we discussed last quarter, we expect lower group sales in 2015 due to the unusual number of large group cases we acquired in 2014.

Premium revenue from Medicare Part D declined 14% to $77 million, while the underwriting margin increased from $5 million to $9 million. The increase in underwriting margin was primarily due to an increase in excess rebates from drug manufacturers. We expect Part D premiums of $300 million to $310 million for the full year 2015 and $190 million to $230 million for 2016. We expect margin as a percentage of premium to be approximately 5% to 10% for 2016.

I will now turn the call back to Gary.

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

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

First excess investment income.

Excess investment income, which we define as net investment income less required interest on policy liabilities and debt, was $54 million compared to $55 million in the third quarter of 2014. On a per share basis, reflecting the impact of our share repurchase program, excess investment income increased 2%.

We have discussed on previous calls the effect of Part D on excess investment income. Excess investment income was negatively impacted by Part D to the extent of $2 million in the third quarter of 2015.

For the full year 2015 we expect excess investment income to decline by about 1% to 2%. However, on a per share basis we should see an increase of about 2% to 3%. At the mid-point of our 2015 guidance we're expecting a drag on excess investment income from Part D of approximately $8 million.

Now, regarding the investment portfolio

Invested assets were $13.7 billion, including $13.2 billion of fixed maturities and amortized costs. At the fixed maturities, $12.6 billion are investment grade with an average rating of A-, and below investment grade bonds are $568 million, similar to the $570 million a year ago. The percentage of below investment grade bonds in fixed maturities is 4.3% compared to 4.5% a year ago.

With a portfolio leverage of 3.6 times the percentage of below investment grade bonds to equity, excluding net unrealized gains of 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 $914 million, approximately $81 million less than at the end of the second quarter.

To complete the investment portfolio discussion I'd like to address our $1.5 billion of fixed maturities in the energy sector. We believe the risk of realizing any losses in the foreseeable future is minimal for the following reasons.

- 96% of our energy holdings are investment grade. At the end of the third quarter our energy portfolio had a net unrealized loss of only $23 million.
- Also, less than 8% 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 expect to see some downgrades, we believe that the companies we've invested in can withstand low oil prices for an extended duration.

Regarding investment yield

In the third quarter we invested $188 million of investment grade fixed maturities primarily in the industrial sector. We invested at an average yield of 5.1%, an average rating of BBB+, and an average life of 26 years. For the entire portfolio the third quarter yield was 5.81%, down 8 basis points from the 5.89% yield in the third quarter of 2014.

At September 30 the portfolio yield was approximately 5.82%. The mid-point of our current guidance for 2015 assumes a new money yield of 5% for the last quarter of the year.

We are encouraged by the potential for higher interest rates. As discussed previously on analyst calls, rising new money rates will have a positive impact on operating income by driving up excess investment income. We are not concerned about potential unrealized losses that are interest rate driven reflected on the balance sheet since we would not expect to convert them to realized losses. We have the intent and, more importantly, the ability to hold our investments to maturity.

However, if rates don't rise a continued low interest rate environment will impact our income statement but not the balance sheet. Since we primarily sell noninterest sensitive protection products accounted for under FAS 60, we don't see a reasonable scenario that would require us to write off the DAC or to put up additional GAAP reserves due to interest rate fluctuations. In addition, we do not foresee a 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 lower interest rate environment.

Now I'll turn the call over to Frank.

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

Thanks, Gary. First I'd like to make a few comments regarding our share repurchases and capital position. In the third quarter we spent $99.3 million to buy 1.7 million Torchmark shares at an average price of $59.45. So far in September we have used $20.6 million to purchase 362,000 shares. For the full year through today we have spent $296 million of Parent Company cash to acquire 5.2 million shares at an average price of $56.52.

The Parent started the year with liquid assets of $57 million. In addition to these liquid assets, the Parent will generate additional free cash flow during the remainder of 2015. Free cash flow results primarily from the dividends received by the Parent from the subsidiary less the interest paid on debt and the dividends paid to Torchmark shareholders.

We expect free cash flow in 2015 to be in the range of $355 million to $360 million. Thus, including the $57 million available from assets on hand at the beginning of the year, we currently expect to have around $417 million of cash and liquid assets available to the Parent during the year. As previously noted to date we have used $296 million of this cash to buy 5.2 million Torchmark shares, leaving around $121 million of cash and other liquid assets available for the remainder of the year.

As noted before, we will use our cash as efficiently as possible. If market conditions are favorable we expect that share repurchases will continue to be a primary use of those funds. We also expect to retain approximately $50 million of $60 million of liquid assets at the Parent Company. For 2016 we preliminarily estimate that the free cash flow available to the Parent will be in the range of $350 million to $360 million.

Regarding RBC at our insurance subsidiaries

We plan to maintain our capital at the level necessary to retain our current rating. 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 it's sufficient for our companies in light of our consistent statutory earnings, the relatively lower risk of our policy liabilities, and our ratings. As of December 31, 2014 our consolidated RBC was 327%. We do not anticipate any significant changes to our targeted RBC levels in 2015.

On our last call we discussed the status of Standard & Poor's review of our current ratings, as they had previously placed us on negative watch. Since our last call we met with S&P to review our operations and financial outlook. Earlier this month they formally revised their outlook from negative to stable and confirmed our AA- financial strength rating at our

insurance subsidiaries and Torchmark Corporation's senior debt A credit rating. In order to maintain adequate capital levels for S&P we will likely issue hybrid securities that are treated as equity for S&P capital purposes but debt for financial reporting purposes to refinance the $250 million of senior debt maturing in June 2016, and possibly to redeem a portion of affiliated investments held at the insurance company. The total financing needed will not impact our share buyback program and is expected to have an immaterial impact on Torchmark's earnings per share.

Now, a few comments to provide an update on our direct response and Medicare Part D operations. As we discussed on our last call, growth in life underwriting income is lagging behind the growth in premium in the quarter primarily due to higher policy obligations in our direct response operations. As previously indicated, the higher policy obligations are largely due to higher than originally expected claims related to policies issued in calendar years 2000 through 2007, and in 2011 through 2015.

We also indicated that policy obligations for the full year should be in the range of 50% to 51% of premium, up from around 48% in 2014. We currently anticipate that the direct response policy obligations will be at the high end of that range, resulting in an expected underwriting margin for 2015 of around 21%. Looking forward we anticipate that the policy obligations will increase to around 52% in 2016 and that the underwriting margin will be around 20%.

With respect to our Part D operations, income in the third quarter of 2015 was $9 million, or around 12% of premium. As Larry noted in his comments, this increase in the quarter was primarily attributable to an improved outlook regarding rebates from drug manufacturers that are paid to us under our PBM contract with CVS. We've previously estimated that the margin on our Part D operations would be in the range of 6% to 8%. We are increasing that estimate for the full-year 2015 to a range of 8% to 11% based on a higher expected level of rebates relating to the 2015 plan year.

During the third quarter CMS placed United American and First United American on enrollment sanction. During this time we are not permitted to enroll new individuals or groups into our Part D program. We are permitted to reenroll existing individual members into our 2016 plan, as well as enroll new members of groups that were policyholders at the time the sanction was initiated. We have submitted a remediation plan that has been accepted by CMS and we are proceeding with this plan in an effort to have the sanction lifted as soon as possible.

The impact of the sanction on our 2015 membership and premium has been immaterial. However, we do anticipate a reduction in our 2016 Part D membership in premium income as a result of not being able to enroll new members. As Larry previously indicated, we anticipate that our total premium income for 2016 will be in the range of $190 million to $230 million, and that our underwriting margin will be in the range of 5% to 10% of premium.

As for guidance, for 2015 we expect our net operating income to be in the range of $4.20 to $4.26 per share, a 5% increase over 2014 at the mid-point. For 2016 we preliminarily estimate that our net operating income per share will be in the range of $4.25 to $4.55 per share, a 4% increase at the mid-point of the guidance. This increase is lower than anticipated due to the headwinds created by our Part D operations and the higher policy obligations in our direct response operations previously discussed. Absent these headwinds our year-over-year growth in 2016 would be between 7% and 8%. The negative impacts of both of these issues are expected to be less after 2016.

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

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

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

QUESTION AND ANSWER

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

Great, thank you very much. Just a couple. One is on the recruiting efforts and specifically the kind of overall exclusive agent count, but even looking at it by segment. It's maybe flat to down just a bit on a linked-quarter basis, so, looking at it relative to the second-quarter 2015. Yet, at the same time I think I would characterize the sales guide for 2016 as good. So just wondering if there was anything lumpy or unusual in the producing agent counts in the quarter, and if we should read much into that sequential slowdown in the producing agent count in the third quarter.

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

Our sales guidance incorporates a growth in the agent count in each of the exclusive agencies for 2016. So, I don't see a slowdown in recruiting. What I see is cautionary recruiting. It does change a little bit from quarter to quarter, Randy. As an example, at Family Heritage they had very strong first and second quarter recruiting. It slowed in the third quarter and as a result we had to drop the agent count. But we expect in 2016 to see growth in the agent count at Family Heritage as well as the other agencies.

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

Is that like a one-for-one relationship percentage-wise, meaning, if you see sales up a certain amount, would we expect roughly a similar growth in producing agent counts?

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

Sales usually lag agent growth because new agents are not as productive as existing agents. But eventually you see a correlation that's fairly close between agent growth and sales growth.

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

Great. And then just one on the investments -- Gary mentioned that you got 510 basis points, roughly, on new money investment grade yields. I think that's like 40 basis points higher than what you quoted for investment grade last quarter on similar duration. So, a little color there. You said you focused on industrials, risk spreads were wider despite the move in the tenure. Is that what you saw? And any color you can provide there would be helpful.

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

Randy, we did invest heavily in the industrials but it wasn't so much a focusing on industrials. It's more in relation to the bonds that were available that met our other criteria. So, we were pleased with the yield we got. The 5.1% -- it was really 5.05%. From where we stand today we think fourth quarter will be around 5%.

You know from what people are saying about rates, we're looking for a modest increase in 2016. We're expecting to invest about 5% in the fourth quarter, we would expect in 2016 for that to be about 5.25%, slightly higher.

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

Would that presume a move higher in like the tenure or what's underlying that, the 5.25%?

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

It's more of a move in the 30-year because, again, as long as we're investing, that's the more appropriate to look at. What we see is, looking at the consensus out there, we're looking at about a 10 basis point increase per quarter in 2016. And that would get us to 5.40% by the end of the year but on average for the year it would be 5.25%.

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

Okay. So, you're baking in basically the forward curve, if you will, into the guide on that.

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

Yes.

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

Right, we'll see what happens because the year has been pretty flat. But that's helpful to understand as part of the guide.

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

That's why I mentioned earlier, if we don't have higher interest rates we'll still be able to generate substantial investment income. But, again, from what we see and people we've talked to, the consensus is that we will see a slight increase in rates.

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

All right, understood. Thank you.

Erik Bass ***- Citigroup - Analyst***

Hi, thank you. Just on direct response, can you talk about what's pushing the margin outlook to the lower end of your target? And do you expect 2016 to be the trough margin level?

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

Yes, Erik, I think 2016 will be, as we indicated, lower than overall on a margin than what we anticipate here for 2015, around 20%. We think the trough is probably in 2017 or 2018. I think we indicated on the last call that we thought it should bottom out around somewhere in that 18% to 20% margin range. We still think that's the case and we probably see that maybe in 2018.

Erik Bass ***- Citigroup - Analyst***

Got it. And then maybe squaring with your comments around guidance was that you would expect a return to a more normal growth rate in 2017. But we're still going to see some of the headwind on the direct response margins continue post 2016. So, should we think about getting back to an 8% type growth rate or will it take longer to get there if some of these issues continue?

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

We do anticipate just a slight decline in that overall margin on the direct response. We do think it will

be slowing down from what we're seeing in 2016 so it will have less of an impact in 2017 and 2018. Very preliminarily we do anticipate that we can get out there to a normal growth range after 2016.

Erik Bass ***- Citigroup - Analyst***

Thanks. That's helpful. And just final question, I think you're guiding to direct response life sales being flat for next year. I'm just curious as to the drivers there given relatively strong recent sales.

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

The driver there is that the increase in claims is shifting our focus away from those segments in the markets in order to meet our profit objectives. So, our marketing models reside to maximize our production of new business. At the same time we want to meet our profit objectives. That's why we're predicting flat sales for 2016.

Erik Bass ***- Citigroup - Analyst***

Got it. So just more targeted sales, restricting the breadth is slowing the growth rate. Is that correct?

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

That's correct.

Erik Bass ***- Citigroup - Analyst***

Got it. Thank you.

Seth Weiss ***- BofA Merrill Lynch - Analyst***

Hi, thank you. On 2015 guidance, I'm a little surprised that the mid-point wasn't raised given the better Part D performance this quarter and the raised guidance that's implied for the fourth quarter. Is there any other negative, other than the direct response, coming into the low end of what you described? Is there any other negative to the rest of the business or is this just maybe some conservatism on the lower end of guidance?

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

Yes, Seth, it's largely driven by you know just a slightly higher outlook as far as the direct response coming at the higher end of that range. And then just a real little bit, the foreign exchange on AILs continuing to be at little bit more of a drag that what we had anticipated earlier on. So, that's impacting it just a little bit. Just a lower outlook on investment income just slightly. Some of the calls that we've had occurred a little earlier in the year than what we had anticipated. So, just a few little things like that on the margins that are just tending to offset the improvement on the Part D.

Seth Weiss ***- BofA Merrill Lynch - Analyst***

Okay, great. And then on Part D just a couple quick ones. The $190 million to $230 million of expected premiums, how much visibility do you have into this? And I assume this assumes no new enrollment given the CMS sanctions.

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

That's correct. It would assume only that we would be exiting sanctions at some point in time during 2016, so then we would pick up some marginal increases there. But it's really, working with our

consultants, just a best estimate on looking at the existing members that we would be able to retain and be able to get re-enrolled.

Seth Weiss ***- BofA Merrill Lynch - Analyst***

Okay. But there's not tremendous visibility. That could really fluctuate that number. I just want to understand the dynamic as we head into next year.

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

There's really no real visibility that we have into it at this point in time.

Seth Weiss ***- BofA Merrill Lynch - Analyst***

Okay, great. And if I could just sneak one quick one on excess investment income. Can you give a sense of what your expectations are, what's built into guidance for growth of excess investment income for 2016?

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

Yes, we're looking for, at the midpoint of our guidance for 2016, we're expecting excess investment income to grow in the 1% to 2% range, and on a per share basis it would be more around the 6% range.

Seth Weiss ***- BofA Merrill Lynch - Analyst***

Okay. Great. Thanks so much.

Ryan Krueger ***- Keefe, Bruyette & Woods - Analyst***

Hey, thanks, good morning. I have a couple follow-up questions, first on Part D. I think you mentioned that your remediation was accepted. So would you expect to start growing again in 2017 as you can reenroll?

Frank Svoboda – Torchmark Corporation - CFO

Yes. I think the expectation would be that going forward we would just have to see what the membership ultimately ends up being in 2016, the outlook that we have, it's really difficult to see what would actually happen in… going forward. However, we really don't see it getting less in 2017.

Ryan Krueger ***- Keefe, Bruyette & Woods - Analyst***

Okay, thanks and then just a couple specifics on the 2016 guidance. Can you just talk about what you're expecting for administrative expense growth as well as growth in health underwriting margins?

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

Well as far as the administrative expenses, we're looking at growth there in the 4% to 5% range. As I mentioned earlier, the ratio expenses to premiums for this year for third quarter was 5.9% and for the year it'll probably end up at that 5.9% range. And for next year we're looking at it being in the 5.9% to 6% of premium, and that translates into a 4% to 5% increase in premium. And then on the health side, at the mid-point of our guidance we're looking for the health underwriting margins to be up around 1%.

Ryan Krueger ***- Keefe, Bruyette & Woods - Analyst***

Okay. Great. Thanks a lot.

John Nadel ***- Piper Jaffray - Analyst***

Hi, good morning. Most of my questions have been asked and answered. Just a quick one on Medicare Part D. Should we be thinking about, given the way the rebate has come through here, should we be thinking the nine months of 2015 as the way to annualize the earnings level for 2015 from Medicare Part D? Is that the right way to think about it, that the loss ratio in the third quarter is lower because it's making up for bringing through that rebate from the first two quarters of the year?

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

That is correct. You have a partial inclusion of some of the excess rebate in the third quarter, as well. You Know if the expectations come in, as consistent with what our current thinking is, then you'd see a little bit of a pickup of that in the fourth quarter, as well. Again, overall, we would anticipate our full-year margins to be somewhere in that 8% to 11% range.

John Nadel ***- Piper Jaffray - Analyst***

Yes. Got it. Okay. And then as we look out to 2016 and even a little bit further beyond that, just thinking about the margin pressure until you find that trough a couple years out for direct response, any reason why that downward pressure at direct response should have anything more than a nominal impact on your free cash flow generation?

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

No. I don't think so. You're having just a little bit of a higher claims, of course, that we're having there with the direct response. But you know as time moves on that will have less and less of an impact overall in the free cash flow. So, I really don't think it will have significant impact going forward.

John Nadel ***- Piper Jaffray - Analyst***

Okay. Thank you very much.

Jimmy Bhullar ***- JPMorgan - Analyst***

Hi. I had a few questions, first on the Part D margins, the benefit of rebates. Can you discuss the rebates that you're getting? What period are they related to? Are they on business that you sold earlier this year or is it some of it related to business for 2014? And it seems like you're assuming that the benefit of rebates will continue partially into 2016, as well. And given the opaque nature of the whole process, what gives you confidence that that will be the case? And I have a couple other questions, as well.

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

Okay, Jimmy, the rebates do relate to our 2015 plan year, so they really relate to claims that were paid earlier this year. And there's about a nine-month lag that we have in getting the rebates back from our PBM that they're able to pass along to us from the drug manufacturers. So, while we had an estimate of what those might be, given our new contract with CVS this year, as we got closer and we're starting to get our cash payments in, it really turned out to be higher than what we had originally anticipated.

We anticipate those higher rebates to continue on. And the overall estimate, if you will, of those rebates that we expect to receive on the 2015 claims that will all be built into the 2015. It won't impact 2016 margins, except to the extent that there's any kind of a true up between our estimates and the actual cash payments received.

Jimmy Bhullar ***- JPMorgan - Analyst***

Okay. And then on the guidance for 2016, if I think about just the free cash flow and buybacks, buybacks alone should drive about 5% growth in your EPS. It seems like the lower half of the guidance, especially the low end of guidance, even if you build in the headwinds from low interest rates and weaker direct response margin, the low end of guidance seems ultraconservative. But what are some of the assumptions that got you.. or get you to the $4.25 number in terms of margin, investment income and other things? Because that just seems like too low of a number.

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

At this point in time, given that it's very preliminary -- and I think we talked about this on this call this time last year -- the way we tend to look at it when we look at that spread is if interest rates work against us and we have high claims again within various of our lines of business in direct response and American Income, you tend to look at if we end up with very low growth on the underwriting side and investment income tends to work against us. And you get all those type of things working altogether, and that frames the boundary of that lower end.

Jimmy Bhullar ***- JPMorgan - Analyst***

Okay, thanks. And then last thing just on your expectations for sales growth in the American income business, I think you mentioned low double digits but is that mostly driven by growth in the agent count or are you assuming productivity improvements there, as well.

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

We are assuming both. We're going to have a lower agent growth in 2016, we believe, at American Income than 2015. We think for 2016 agent count should be between 7,200 to 7,500 agents. That would be an increase of 8% at the mid-point. We also think we'll see some improvements in productivity with respect to the percentage of agents submitting the average premium. It's awfully early, Jimmy. I think that's our best guidance at this point in time.

Jimmy Bhullar ***- JPMorgan - Analyst***

Okay. Thank you.

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

Thank you, operator. Good morning, everybody. Just a few, as well. Larry, I don't know if this was intentional or maybe I missed it but did you have a UA sales target for 2016?

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

Did not give a target for 2016. For individual Medicare supplement sales for 2016 we do expect 10% to 15% growth. The group sales are very hard to predict because it tends to be so lumpy.

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

Right

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

So I would think that there would not be an increase in group Medicare supplement sales in 2016.

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

Okay, thank you. And then am I right, in my notes at least I have that you should be receiving a big cash payment from the federal government for losses incurred I believe it was last year?

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

That's right. Yes, we expect to receive that payment here in November.

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

And, Frank, how big might that be?

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

The total payment will be around $150 million to $200 million, somewhere in that range.

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

$150 million to $200 million. Okay, thank you. And then my last one, again for Frank, on the share repurchase or your.. kind of your guidance for free cash flow, does that incorporate some estimate for downgrades in the energy portfolio, because that will require more capital, I think?

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

Yes, in taking a look at that obviously we built in some different scenarios with respect to what you know we think might happen in our statutory income and statutory capital needs. Whether or not we end up having some downgrade, if we end up having downgrades in 2016 it really won't impact our statutory earnings until 2016, and…which could impact free cash flow in 2017. But we don't really see that type of activity hitting in 2015 yet that would impact us there.

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

Okay, you lost me, because downgrades don't necessarily -- well, I guess they could.

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

They could.

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

If they're bad enough. I'm thinking more along the lines of RBC for each grade.

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

Got you.

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

Does that have an effect?

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

Well, it could potentially. If it's significant enough it's possible that we would have to retain a little bit of additional capital in 2016, that is correct, to cover that.

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

All right. Thank you.

Bob Glasspiegel ***- Janney Montgomery Scott - Analyst***

Good morning, Torchmark. I'm going to follow-up on Ryan and Steven's questions. On Ryan's Medicare Part D question -- this is a question I've asked several times over the last several years, and you've been right to give the answers you've given to date -- which is, why are you staying in that business given the volatility of earnings and the headaches of dealing with Washington administrators, et cetera? Is this an attractive business for you long term? I think you said the premiums won't decline in 2017.

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

Bob, this remains a minor part of our business. When we think about Part D, the Part D changes on a yearly basis. So, we monitor that business every year to determine how to best move forward. That will be the case in 2017 and we will see what changes are coming through in Medicare Part D and determine how we move forward with that business. I do know for certain if we retain that business it will be a small part of our overall business.

Bob Glasspiegel ***- Janney Montgomery Scott - Analyst***

But the returns are still worth the aggravation? Net net?

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

The current returns are but, again, I can't say what the returns are going to be in 2017, 2018. That's too far out to predict what the returns will be on Part D.

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

Bob, it's a decision we have to make each year as we go forward. As returns are still favorable lower than what they've been in the past, still favorable, but we will address it each year.

Bob Glasspiegel ***- Janney Montgomery Scott - Analyst***

Got you, fair answers, and Stephen, on the statutory earnings, your 2015 GAAP earnings are flat versus 2014 on a operating basis. The per share grows because of the share count reduction. But your free cash flow looks like it's down about $5 million to $10 million versus last year. Is there anything driving the stat results of this year in your outlook versus last year that swings it to a negative?

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

Yes, there's a couple of headwinds that you see on statutory and one of them is really primarily the high

growth that we have in 2015. Remember, on a statutory basis all the acquisition costs are required to be written off whereas we get to capitalize them for GAAP. You do have somewhat of a drain and a challenge, if you will, on your statutory earnings in those year of high growth.

I think that's largely driving a little bit of that difference between really seeing flat statutory earnings to maybe even a slight decline. We haven't completed our third-quarter statutory financials yet so it's a little bit early to see exactly where that's going to come in.

Bob Glasspiegel ***- Janney Montgomery Scott - Analyst***

Makes sense. And credits been a non-event in both years year over year?

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

Yes. A non-event.

Bob Glasspiegel ***- Janney Montgomery Scott - Analyst***

Okay. Makes sense. Thank you.

Eric Berg ***- RBC Capital Markets - Analyst***

Thank you. Good afternoon or I guess it's still good morning here in the East. At Globe, could you describe what's going on underneath the numbers? And by that I mean can you describe the claims dynamic that will result in a lower margin next year than this year, and a lower margin still in 2017? What's happening there in terms of customers for which there was an underwriting issue coming into the mix? I'm trying to understand the dynamic.

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

Yes, Eric, I think what you're really seeing is a continuation of what we experienced here in 2015 where the claims are just higher than expected. So it a... you know we had built in certain mortality assumptions with respect to our overall pricing. And where the mortality and the actual claims aren't necessarily higher than what we have historically experienced, they're just higher than we expected.

So for GAAP reporting purposes, as those claims are actually coming in and they're coming in greater than what we had thought, it hits the bottom line at that point in time. Through the use of the RX, and largely it's here on the 2011 through 2015 block, but as the claims start to really materialize on those particular blocks that's where we had thought that we were going to obtain some greater benefits than we really were from using the RX in this underwriting process.

Eric Berg ***- RBC Capital Markets - Analyst***

More specifically, is the idea that you saw certain -- I'm just trying to understand on the ground, so to speak, what's happening here, and by this I mean, is the idea that you saw individuals taking certain prescribed medications, whether it was medications for cholesterol or hypertension or what have you, and you thought that these medications would produce a reduced level of mortality, and that reduced level of mortality wasn't as great as you had anticipated?

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

That's correct.

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

That’s correct.

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

Right

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

Eric, we started this process in 2011. In 2011 we used outside consultants because it really hadn't been used in our segment of the business. Since 2011 we've attained a lot more data and we're seeing the claims mature from 2011, and we've made adjustments. Since then we will continue to make adjustments on a go forward basis. I think the impact of the RX from 2011 to 2014 will be contained and we won't see that impact going forward in new issue years.

Eric Berg ***- RBC Capital Markets - Analyst***

And just one question regarding Medicare Part D, as I understand what you said earlier in the conversation the receipt of cash from the government in particular from rebates on a lag basis nine-month basis was the major factor behind the surprise here, if I understand what you said. If I have that right, if the receipt of cash on a lag basis produces a surprise, then how can you be confident that your rebate estimates for next year will be close to the mark?

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

You mean trying to estimate the overall underwriting margins for 2016?

Eric Berg ***- RBC Capital Markets - Analyst***

Yes, precisely. That's my question.

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

Again, we have the rebates that we're seeing here in 2015, it's the first year that we had our contract with CVS, brand-new PBM contract. The mechanisms that are being used to generate those rebates were new. So, for 2016 we will just have that little bit more of experience. We will have the full year of 2015 as we're putting together those estimates for the amount of rebates in 2016.

Eric Berg ***- RBC Capital Markets - Analyst***

Got it. Great. Thank you.

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

Thank you. Good morning. You had talked about the choppiness in the large group sales, it's less predictable. Is that market still as attractive as it was? Has that gotten more competitive? Less competitive?

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

It's not more or less competitive. The issue is that you have large groups that you quote on every year and you're just uncertain as to how many of those large groups you're going to be successful in obtaining as new business. So, as we've said, we use the term lumpy, it is lumpy because in some years we have more large groups than others. You can also lose a large group and your premiums would go down for the year.

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

But you haven't noticed any change in trend and competition or your yield or your expected margins on that business?

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

No.

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

And then the Part D, the remediation effort, does that have any impact on profitability, or is there anything that you do that will have a sustained impact on your cost structure or profit expectations?

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

It really doesn't have you know it impacts the enrollment, and so obviously you have the impact on the overall profitability there. And other than just having a little higher you know costs that we're incurring in order to get our… to work through all the remediation, other than that it doesn't really have an impact on, if you will, the nature of the profitability of the individual enrollees.

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

Thank you.

Tom Gallagher ***- Credit Suisse - Analyst***

Hi. Just a question on Part D. When do you expect to get an answer or have visibility on whether the sanctions are going to be removed?

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

Brian, would you answer that?

Brian Mitchell ***- Torchmark Corporation - General Counsel***

Yes. This is Brian Mitchell. We got our corrective action plan filed and approved almost immediately -- in fact, a little bit of head of time. With regard to the time limits that CMS had set for us, we are working through the corrective action plan. And I feel like we're in good stead with where we are in that process currently.

Based on the complaints that were levied and the basis for the sanctions, I would anticipate and am hopeful that we will be out of sanctions sometime in 2016. Looking at the length of time that most companies who have been under sanction stay, it's been a wide range. It's been as small, I think, as five months and as long as 21 or 22 months.

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

Got it

Brian Mitchell ***- Torchmark Corporation - General Counsel***

And I think we are on track for 2016.

Tom Gallagher ***- Credit Suisse - Analyst***

Okay. So, let's roll forward to 2016, and if the sanction is lifted, when would you be able from a time line standpoint to start again with new enrollees? Would it be end of 2016?

Brian Mitchell ***- Torchmark Corporation - General Counsel***

Well the people who are turning age 65 would be able to enroll throughout the year. There is an open enrollment period that is at the end of the year. I think it runs from mid-October to mid to early December. So, that would be the bulk of the enrollees, of course. And we would be able to -- part of the sanctions involved cessation of marketing, and we would be able to, I would assume that would be lifted and we would be able to begin marketing again in 2016.

Tom Gallagher ***- Credit Suisse - Analyst***

And have you looked at others who have been sanctioned and whether or not you know that would prevent you or limit your revenue growth opportunities? Is there any stigma associated with that when we think about recovering revenue into 2017 and 2018? Or do you believe that you'd be able to significantly grow revenue from you know, we'll call it, $200 million-ish type level that you're predicting for 2016?

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

Tom, I would say that that would all depend upon the nature of whatever bid that we would put in in June of 2016. So, whether or not revenue would grow or any of that effect would just totally depend upon what type of a strategy we would employ with respect to how we're structuring our overall premium levels and bid structure. I think from the word that we've received as far as coming out of sanctions, the fact that you were in sanction and coming out of sanction really would have little or no impact on your ability to market to and attract new enrollees going forward.

Tom Gallagher ***- Credit Suisse - Analyst***

Okay. And my last question is just on direct response. You had indicated that you're limiting the targeted group of clients but not actually repricing it. Did I --or are you also repricing, whether that's features or the actual premium that's being charged?

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

There's a repricing that takes place in terms of as you model the business. I think the impact we're going to see is in inquiries. There's three segments of our business. We will continue to see growth in our electronic inquiries. And I think we will see inquiries from insert media decline as to continue to eliminate circulation of programs that do not meet our profit objectives. So, it would be in that set of the business I think we will see the biggest impact.

Tom Gallagher ***- Credit Suisse - Analyst***

Okay. Thanks.

Yaron Kinar *- Deutsche Bank - Analyst*

Good morning, everybody. Just want to follow-up on a few of the questions that were asked. First, the $150 million to $200 million that you expect to receive from the government in 2016, that check comes in November, right?

Frank Svoboda *- Torchmark Corporation - CFO*

Correct.

Yaron Kinar *- Deutsche Bank - Analyst*

So, there shouldn't be any real impact on excess investment income from that in 2016. It would be more of a 2017 driver?

Frank Svoboda *- Torchmark Corporation - CFO*

Well that would be received here in November of this year. So, that would you know-- that's built into our expectation of excess investment income in 2016.

Yaron Kinar *- Deutsche Bank - Analyst*

Okay. I'm a little surprised then to see that, even excluding the direct response and Part D businesses, or the headwinds you see there, that earnings would grow only by 8%-ish year over year given that you are getting this nice boost in excess investment income. Are there other headwinds that you're anticipating?

Frank Svoboda *- Torchmark Corporation - CFO*

Well keep in mind, and maybe to finish that story on the Part D, so there is the payment that we're getting here that relates to the 2014 business. You know as of the end of the year in 2015 we do anticipate that we will still have about $150 million of receivable from the government. That won't get collected until November of 2016. That's really where your point was.

So, we are going to be receiving a payment here in this next month. That's why currently we have over $300 million of receivables from the government. We anticipate that by the end of 2015 again that that level be down to around $150 million. And then in 2016 we have attempted to restructure the flow throughs.

So we do expect less of a drain on 2016 but there'll still be some negative outflows even occurring throughout 2016. So that's why, when you look at some of that growth in 2016 on the excess investment income, there does continue to be a drag you know from Part D on that, that we really don't see getting lifted in probably 2017.

Yaron Kinar *- Deutsche Bank - Analyst*

Okay. That's helpful. Then In direct response I think last quarter you'd said that you were still studying the results of the 2011 through 2015 policies that were underwritten using the prescription drug database, and at the time you couldn't really point to any distinct pockets or demographics that were driving the higher than expected claims. Have you since learned of any discernible trends or patterns?

Frank Svoboda *- Torchmark Corporation - CFO*

We have seen some different trends and patterns. It really gets into how we're using our rules engines. But it's really at a level of detail that we don't want to discuss on the call. But it is information that we are then taking, looking and using to see how do we modify how we're using that, and getting into what Larry's indicated how we think about the marketing and the different segments that we'll continue to market in.

Yaron Kinar *- Deutsche Bank - Analyst*

But you do have now a game plan set out?

Frank Svoboda *- Torchmark Corporation - CFO*

A much better idea of how to go about using that.

Yaron Kinar *- Deutsche Bank - Analyst*

Okay. And final question -- on the deficiencies leading to the CMS actions, I think in the prepared comments you said that the CMS accepted the remediation plan and it addresses its concerns. But my understanding is that the CMS sanctions have come after several years of deficiencies that they had pointed to. And I was just curious, were there corrective action plans that were submitted over those past three years that were trying to address these weaknesses?

Brian Mitchell *- Torchmark Corporation - General Counsel*

Yes. Not in a formal approval sense but we've worked with CMS over the years to address the issues that came up in the 2012 audit. They really related to grievance issues, which essentially is customer service, and coverage determination which pertains to claims. We have made significant improvement over the years in those areas and felt like the audit in itself that happened at the end of the spring was a good quality audit. It was just that, due to the fact that we had some repeat violations from that earlier audit, CMS felt like enrollment sanction, which is an intermediate sanction, was appropriate at this time.

Yaron Kinar *- Deutsche Bank - Analyst*

Okay. So, you feel like the current plan that's in place will address some of those outstanding issues?

Brian Mitchell *- Torchmark Corporation - General Counsel*

I believe it will address all of the outstanding issues that were raised in the sanction letter. Yes huilwe are required to address each one and then have approval by CMS as to how our plan would progress.

Yaron Kinar *- Deutsche Bank - Analyst*

Got it. Thank you very much.

Brian Mitchell *- Torchmark Corporation - General Counsel*

yes

Operator

We have no further questions at this time. I'd like to hand it back over to Mr. Majors for closing remarks.

Mike Majors *- Torchmark Corporation - VP of IR*

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