2nd Quarter 2018 Conference Call

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PRESENTATION

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

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

Some of our comments or answers to your questions may contain forward-looking statements that are provided for general guidance purposes only. Accordingly, please refer to our 2017 10-K and any subsequent forms 10-Q, on file with the SEC. Some of our comments may also contain non-GAAP measures. Please see our earnings release and website for a discussion of these terms and reconciliations to GAAP measures.

I will now turn the call over to Gary Coleman.

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

Thank you Mike, and good morning everyone. In the second quarter, net income was $184 million or $1.59 per share, compared to $140 million or $1.18 per share a year ago. Net operating income for the quarter was $175 million or $1.51 per share, a per share increase of 27% from a year ago. Excluding the impact of tax reform, we estimate that this growth would have been approximately 8%.

On a GAAP reported basis, return on equity was 12.2%, and book value per share was $48.44. Excluding unrealized gains and

losses on fixed maturities, return on equity was 14.6%, and book value per share grew 26% from a year ago to $42.08.

In our life insurance operations, premium revenue increased 5% to $603 million, and life underwriting margin was $161 million, up 9% from a year ago. Growth in underwriting margin exceeded premium growth due to higher margins in American Income and direct response. For the year, we expect life underwriting income to grow around 5% to 7%.

On the health side, premium revenue grew 4% to $251 million, and health underwriting margin was up 8% to $60 million. Growth in underwriting margin exceeded premium growth due to higher margins at Family Heritage. For the year, we expect health underwriting income to grow around 6% to 8%.

Administrative expenses were $55 million for the quarter, up 8% from a year ago and in line with our expectations. As a percentage of premium, administrative expenses were 6.5%, compared to 6.3% a year ago. For the full year, we expect administrative expenses to be up 5% to 6% and around 6.5% of premium compared to 6.4% in 2017.

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

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

Thank you Gary.

At American Income, life premiums were up 9% to $270 million, and life underwriting margin was up 11% to $89 million. Net life sales were $60 million, up 5%.

The average producing agent count for the second quarter was 7,064, up 1% from a year ago and up 4% from the first quarter. The producing agent count at the end of the second quarter was 7,143.

At Liberty National, life premiums were up 2% to $69 million, while life underwriting margin was down 7% to $17 million. Net life sales increased 9% to $13 million, and net health sales were $5 million, up 9% from a year-ago quarter. The sales increase was driven primarily by growth in agent count.

The average producing agent count for the second quarter was 2,185, up 9% from a year ago and up 5% compared to the first quarter. The producing agent count at Liberty National ended the quarter at 2,198.

In our direct response operation at Globe Life, life premiums were up 3% to $209 million, and life underwriting margin increased 21% to $36 million. Net life sales were down 5% to $35 million. As we've discussed on previous calls, the sales decline is by design. We continue to refine and adjust our marketing programs in an effort to maximize the profitability of new sales.

At Family Heritage, health premiums increased 8% to $68 million, and health underwriting margin increased 14% to $16 million. Health net sales grew 10% to $16 million.

The average producing agent count for the second quarter was 1,052, up 2% from a year ago and up 6% from the first quarter. The producing agent count at the end of the quarter was 1,090.

At United American General Agency, health premiums increased 3% to $94 million.

Net health sales were $13 million, up 3% compared to the year-ago quarter.

To complete my discussion of the marketing operations, I will now provide some projections. We expect the producing agent count for each agency at the end of 2018 to be in the following ranges: American Income, 7,000 to 7,300; Liberty National, 2,200 to 2,400; Family Heritage, 1,160 to 1,210. Approximate life net sales trends for the full year 2018 are expected to be as follows: American Income, 4% to 8% growth; Liberty National, 8% to 12% growth; direct response, 7% to 10% decline. Health net sales trends for the full year of 2018 are expected to be as follows: Liberty National, 4% to 8% growth; Family Heritage, 5% to 9% growth; United American Individual Medicare Supplement, 10% to 20% growth.

I will now turn the call back to Gary.

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

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

First, excess investment income

Excess investment income, which we define as net investment income less required interest on net policy liabilities and debt, was $60 million, a 3% decrease over the year-ago quarter. On a per share basis, reflecting the impact of our share repurchase program, excess investment income was flat. Year-to-date, excess investment income is up 1% in dollars and 4% per share.

For the full year 2018, we expect excess investment income to grow by around 2%, which would result in a per share increase of 4% to 5%.

Now regarding the portfolio

Invested assets are $16.1 billion, including $15.4 billion of fixed maturities at amortized costs. Of the fixed maturities, $14.7 billion are investment grade with an average rating of A-, and below investment grade bonds are $688 million, compared to $672 million a year ago. The percentage of below investment grade bonds to fixed maturities is 4.5% compared to 4.6% a year ago. With a low portfolio leverage of 3.2X, the percentage of below investment grade bonds to equity, excluding net unrealized gains on fixed maturities, is 14%.

Overall, the total portfolio is rated BBB+, same as the year-ago quarter. In addition, we have net unrealized gains in the fixed maturity portfolio of $935 million, approximately $732 million lower than a year ago due primarily to changes in market interest rates.

In the second quarter, we invested $182 million in investment grade fixed maturities, primarily in industrial and financial sectors. We invested at an average yield of 5.16%, an average rating of BBB+ and an average life of 18 years. For the entire portfolio, the second quarter yield was 5.57%, down 11 basis points from the 5.68% yield in the second quarter of 2017. As of June 30, the portfolio yield was approximately 5.56%.

At the midpoint of our guidance, we are assuming an average new money rate of around 5% for the remainder of the year.

We would like to see higher interest rates going forward. Higher new money rates

have a positive impact on operating income by driving up excess investment income. We are not concerned about potential unrealized losses that are interest rate driven since we would not expect to realize them. We have the intent and more importantly, the ability to hold our investments to maturity. However, if rates don't rise, a continued low interest rate environment will impact our income statement, but not the GAAP or statutory balance sheets, since we primarily sell non-interest sensitive protection products accounted for under FAS 60.

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'll turn the call over to Frank.

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

Thanks Gary. First I want to spend a few minutes discussing our share repurchases and capital position. The Parent Company's excess cash flow, as we define it, results primarily from the dividends received by the Parent from its subsidiaries, less the interest paid on debt and the dividends paid to Torchmark shareholders. We expect excess cash flow in 2018 to be around $325 million. Thus, including the assets on hand at the beginning of the year of $48 million, we currently expect to have around $375 million of cash and liquid assets available to the Parent during the year.

In the second quarter, we spent $88 million to buy 1 million Torchmark shares at an average price of $84.54. So far in July, we have spent $20 million to purchase 243,000 shares at an average price of $83.00. Thus, for the full year through today, we have spent $195 million of Parent Company cash to acquire approximately 2.3 million shares at an average price of $85.16. These purchases are being made from the Parent Company's excess cash flow.

As noted on previous calls, we will use our cash as efficiently as possible. If market conditions are favorable, we expect that share repurchases will continue to be a primary use of those funds. We also expect to retain approximately $50 million of Parent assets at the end of 2018, absent the need to utilize any of these funds to support our insurance company operations.

Now regarding capital levels at our insurance subsidiaries

Our goal is to maintain capital at levels necessary to support our current ratings. For the past several years, that level has been around an NAIC RBC ratio of 325% on a consolidated basis. In light of the current tax reform legislation and proposed adjustments to the NAIC RBC factors, we are having discussions with the rating agencies to determine the appropriate target consolidated RBC ratio for our insurance subsidiaries going forward. We will continue our dialogue with them over the next several months before making any final decisions.

In June, the NAIC issued adjustments to certain RBC factors to reflect the reduction in the corporate income tax rate from 35% to 21%. These new factors will be effective for 2018. Taking into account these new factors, we have roughly estimated that our Company Action Level RBC ratio for year-end 2018 could be in the range of 275% to 285%. As previously noted, we have not yet finalized our target RBC

ratio. However, if we were to set a target ratio of 300% to 325%, it would require approximately $100 million to $225 million of additional capital.

We understand that we may not be required to meet the appropriate target RBC ratio immediately and that we would be allowed -- could be allowed to reach the target over a period of time. Given the fact that tax reform increased our GAAP equity substantially, and thus lowered our debt to capital ratio, we have additional borrowing capacity. Thus, we are confident that we can fund any amounts to be contributed without a significant impact on our excess cash flow. Furthermore, any additional borrowings should not adversely impact earnings as the additional capital will be invested by the insurance companies in long-duration assets.

Next, a few comments on our operations

With respect to our direct response operations, the underwriting margin, as a percent of premium, in the quarter was 17% compared to 15% in the year-ago quarter. This was primarily attributable to favorable claims in the second quarter of this year compared to higher than normal winter claims in the second quarter of 2017. On our last call, we estimated that the underwriting margin percentage for the full year 2018 would be in the range of 15% to 17%. Now, for the full year 2018, we are estimating the underwriting margin percentage for direct response to be in the range of 16% to 18%. We are encouraged by the improved claims experience and the fact that the underwriting margin percentage for the last 4 quarters has averaged 17%. We are obviously pleased to see the underwriting income from direct response increase again.

With respect to our stock compensation expense, we saw an increase during the quarter, primarily attributable to the decrease in the tax rate and excess tax benefits in 2018 as a result of the tax reform legislation. We are anticipating the expense for the full-year 2018 to be in the range of $21 million to $23 million.

Finally, with respect to our earnings guidance for 2018

We are projecting the net operating income per share will be in the range of $6.02 to $6.12 for the year ended December 31, 2018. The $6.07 midpoint of this guidance reflects a $0.07 increase over the prior quarter midpoint of $6.00 primarily attributable to the continued positive outlook for underwriting income, especially for our direct response channel.

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

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

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

QUESTIONS AND ANSWERS

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

Hi, thanks good morning. First, on direct response, on the updated margin expectation, as we look beyond 2018, at this point, are -- would you expect the margins to continue to gradually move back upward? Or should we

think about it as something that would be more stable at this point?

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

Yes, good morning Ryan. At this point of time, with the information that we do have today, we do anticipate the margin really continuing in the -- that 16% to 18% range. You know as always, we only really give guidance one year out. But looking forward, we know the new business that we're putting on the books has a little bit of a -- has an underwriting margin higher than that, but it will take some time for that to really, I think, bleed into the results.

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

Okay, thanks. And then last quarter, you indicated interest in Gerber Life. As the sale process has continued to move forward, is that still a property that you're interested in acquiring and looking at?

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

Brian, why don't you take that question?

Brian Mitchell - Torchmark Corporation - Executive VP, General Counsel & Chief Risk Officer

Certainly, in accordance, Ryan, with our corporate policy, we are not addressing or taking any questions regarding any possible transactions prior to a formal announcement, if and when such an announcement is made.

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

Okay understood, thank you.

Brian Mitchell - Torchmark Corporation - Executive VP, General Counsel & Chief Risk Officer

Thank you

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

Hi good morning. So just on a potential acquisition, how do you think about your capacity to do a deal? And how large of a deal you could do without really tapping in -- or without really issuing equity, so just using debt and actually, maybe using some of the capital capacity within your subsidiaries?

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

Good morning Jimmy. Yes, just in general terms, with respect to any large transaction, potential acquisition or whatever, of course, any analysis that we would do would have to stand on its own as far as any merits were concerned. Yes, we do look, and we say we have around -- as of the end of the year, we anticipate that we will have around $700 million of debt capacity just to stay within some of the guidelines that our rating agencies have

established to keep our current ratings. I think as we noted on the last call, that there's -- if it is in connection with an acquisition, at least in the past, and as we have had -- well, as we have said in the past, that you -- we would be able to probably go over that -- some of the guidelines that they have established, as long as we would have a plan to be able to get back underneath those using some of the cash flows from any acquired entity to get ourselves back within an appropriate debt to capital ratio. So that's probably the extent of what we could do without having to issue some type of equity or without, at least, having to partner with somebody on some type of a transaction.

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

Okay. And then on -- your margins, overall, in the life business are pretty good this quarter. But Liberty, the margins in the last couple of quarters have been weaker than they used to be, I think, in the 24% to 25% range recently versus 27%-plus in the past. Is there anything specific going on in terms of claims trends? Or is it just normal volatility in the benefit ratio?

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

Jimmy, we were -- the underwriting margin in the second quarter was 24.5%. We were lower than that in the first quarter because we had a high claims quarter, but we expect the claims to even out. But even with that, I think that our margin will be in the 24% to 25% range for the year. And last year it was at 26%, and the reason for the lower margin is the amortization is a little bit higher, and that is because of the volume of new business we have put on the books in recent years has a little bit higher amortization rate than the older blocks that are running off. It's not a huge difference. It's a gradual trend. We were -- amortization was at 31% last year. It will be just a little over 32% for this year. That, along with the fact that our -- the nondeferred acquisition expenses are a little higher, a little over 6% now versus 5% last year, and that's due to additional technology cost of -- in improving our agency operations, but that should -- that should not go any higher. So -- getting back to it, we're not in the 26% range where we were last year. I think we're more in the 24% to 25% range going forward.

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

Okay. And then just lastly, on expectation for direct response sales, I think you mentioned that for this year, you expect to meet the 10% - 12% drop. You were down 11% year-to-date, but were down only 5% in 2nd quarter. So are you expecting results to get worse from -- than second quarter in the second half? Or are you -- is your guidance just somewhat conservative?

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

The guidance is we will be down 7% to 10% for the entire year 2018. We don't expect the sales to get weaker. But we have lower volumes in the second half of the year in terms of direct response. Jimmy, I think, it'll be early

in 2019 when we start to see positive sales growth in the direct response channel.

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

Okay thank you.

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

Hi thank you. You moved up the growth guidance for health underwriting margin pretty materially for the year. I was just hoping you could talk about the drivers of the better outlook for that business.

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

Erik, it is the -- the improved guidance there is, really, we are experiencing a little better claims experience than we expected. And it's been two quarters now, and we expect that to continue for the year. And that's really not just in one particular distribution. It's really across the board in terms of the Family Heritage, the other health, American Income and Liberty National. It is -- and so due to that, we have increased our underwriting income estimate.

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

Thanks, and your sales guidance for health was also pretty promising, I guess. Should we expect the premium growth to start to pick up there as well?

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

Yes, Erik. With the -- in time here with some of that, that will definitely flow through the additional premium growth here, probably not so much impacting this particular year, may just see a little bit of it here in the remainder of the year, but more in 2019.

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

Yes, Erik, last year, health premiums grew 3%. And I think, if I am right, at the midpoint of our guidance, we're expecting more of a 4% or a little higher increase in 2018.

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

Thank you and then just lastly, you mentioned in your discussion or your script that you have or are having ongoing discussions with the rating agencies. I know A.M. Best recently put Torchmark on a negative outlook. And I realize your business is less rating sensitive than many others. But how important is it for you to maintain the A+ rating? And what actions would you contemplate to do this, if needed?

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

Well, it is -- we would like to retain the rating, but it really – even the A.M. Best rating is not used that much in our marketing operations. So it is – if we had a downgrade there to say A. I don't know that, that would be a big effort. We would like to retain that rating, but I think, as Frank has mentioned, you know, we are going to work with A.M. Best, the other rating agencies. And I think we feel like our -- we have appropriate capital levels, and I think we need to work with them to -- and make our case there and see where we go. Frank, do you have any comments?

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

No. That – I do not really have anything more to add to what you said. And we will continue -- we would like to as Gary said maintain where we are at, but we will continue to work with them. And we do think that there are reasonable arguments for why target levels could be a little bit less than 325%, and we will make our case over the coming months.

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

Great, thank you for the comments.

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

Hi good morning. So I had a question about the -- there's a recent supreme court ruling related to -- I guess, it was public labor unions and just around collective bargaining fees. And I guess, there's been some speculation that it could lead to reductions in just like the members of public sector labor unions. So the question I have for you guys was just -- when I think about Torchmark's earnings stream and sales, how much of it currently comes from unions? And is there any way for you to like help us dimension what portion comes from the public sector versus the private sector unions?

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

I am not sure I can address what percentage comes from the public sector versus the other unions. But currently, about 30% of the new business that we issue at American Income comes from union relationships or union leads. And over the last 10 years, that percentage has really dropped. We are dependent upon the referrals. And certainly our union relationships are important as a number of those referrals, the non-union members, come from our union relationships, so -- and we are hopeful that this won't have a major impact on the public unions. But we have relationships with all the internationals and all the local unions in the U.S., and so I do not see it will have any material impact on Torchmark.

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

Got it, and when I think about the in force, if there were greater than expected reduction in unions, would it -- do you think -- would it affect persistency? And I guess,

specifically, what I'm asking is, are the premiums paid by the union, in some cases? Or are they paid by the individual, in which case, maybe it would stay with them, even if they dropped out of the union?

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

The premiums are paid by the individuals, not the union. And so if there's a reduction in union members, it does not have anything to do with the payment process.

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

Got it, okay thank you for taking question.

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

Hey good morning everybody. I've got just a couple of quick ones. One, Gary, I think you mentioned on excess investment income an expectation that in dollar terms, it would grow around 2% in 2018. I think in the first half of the year, it's running at just about 1%. What's the driver of the sort of acceleration? I know it's only modest. Is that just about new money yields being a bit better? Is it -- is it about cash flows being maybe stronger?

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

John, the new money would have a -- have a little bit of an impact, but be small. I think the biggest impact is that we had a little bit of a timing difference on some non-fixed maturity income, limited partnership income we have was a little bit lower in the second quarter, and that should pickup -- we should regain that in the second half of the year. I think that is the -- and also, the interest expense on the short-term debt is going to stabilize, we believe. So I think it's a combination of those two things. It would get us -- that will get us to the 2% growth.

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

Got you, okay, that is helpful. And then, I know in American Income and Liberty, there has been a pretty sizable correlation, of course, between agent count growth -- or producing-agent count growth and sales growth. Family Heritage though, we saw a pretty sizable pickup in sales growth, and your agent count is growing but not nearly as quickly. What is sort of happening there? It seems like productivity is certainly improving. Is there something on that product offering side that has changed? Or is there something on the demand side that you think has changed?

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

It is not in the operating side. The products are basically the same. What we have seen is an increase in the percentage of agents submitting business. We have also seen an increase in the average premiums submitted per agent. The emphasis at Family Heritage has been to have consistency in production. And so that emphasis has resulted in an increase in

percentage of agents producing. You know long term, there's a close correlation between agent growth and production, John. In the short run, really, productivity is a bigger driver quarter to quarter.

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

Got you. Okay, that's helpful. And then the last one, I don't know, maybe for Gary or Frank. What dialogue have you had to date with the rating agencies? I was interested in your comment, Frank, that it sounds like you think there might be an opportunity to sort of raise your risk based capital level or recover, if you will, the risk based capital ratio over a longer period of time than necessarily having to get there by year-end 2018. Is that something that you're just speculating? Or is that something that you've had some initial discussions with the rating agencies around?

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

Yes. So far, John, we have had -- we have had discussions with Moody's, and we have had discussions with A.M. Best, obviously. And at least, through some of those discussions with Moody's, they at least indicated the potential, a little bit on a company by company basis, and did not indicate that we would be outside of that realm. But at least that there was a willingness to -- if companies were coming in below their target RBC for their ratings, that there would be at least be some, some limited period of time that they would be allowed to replenish that capital, generally giving some credence to the fact that with the new tax law, generally, it's considered to be a capital favorable or at least -- and a credit favorable event, to rebuild that. But again, the companies would need to be making a commitment and having some type of a plan in order to do so in order for them to give them that period of time. So at least there have been those indications, so.

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

And then at your current rating levels, assuming no downgrade, how much incremental borrowing capacity would you estimate Torchmark has?

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

Again, by the time we get to the end of the year, we would estimate that we have about $700 million.

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

Right. Okay. So this $100 million to $225 million estimate really does not push you anywhere close to your sort of upper limits, if you will?

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

Yes. That is the way we are looking at it.

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

And from a cash flow coverage, you feel very comfortable with that, too, I would assume.

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

Absolutely. We have been on a – we are -- we currently have a cash flow coverage of about 5X, and that is above what the rating agencies look for us to have. And so we feel really comfortable with that. We have also got some optimism knowing that our 9 1/4% debt that is coming due here in 2019, we are looking at that and evaluating that. But as we refinance that, we will obviously be able to refinance that at a lower rate. And that would give us some additional cushion, if you will, on those coverage ratios.

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

Understood really helpful, thank you.

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

Good morning Torchmark. The outlook for direct response has improved a little bit. Could you give us a little bit more color on whether it's pricing working its way through the system? Or it's just experience bottoming out? And how soon do you think you can put your foot on the gas pedal on this one?

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

With respect to what's really kind of driving some of that guidance, it really is the claims settling in again in the second quarter, really did give us some additional confidence with respect to where those claims should emerge here for the remainder of 2018. In part, it's due to some of the changes that we did make, overall, to our marketing and underwriting processes, but that's -- at this point in time, most of those changes didn't go in until 2017, so we are not seeing a lot of experience from that yet. So a lot of it is really just a settling down of some of the claims in that 2011 to 2015 era of policies. So again, that gives us some added comfort. With respect to…

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

In respect to the sales Bob, what we are seeing for 2018 is that our media inquiries are only down about 1% or 2%; our mail volume will only be down another 2% or 3%. At the same time, electronic inquiries are up 6% to 10%, and circulation is up about 6% to 8%. And when we look at our most recent analysis of the profitability impact for those rate increases of 2016 to 2017 in all states, in order to maximize total profits, we are going to return to the previous rates in certain of those states. Those reduced rates will be implemented at the end of the third quarter, and that will -- that should result in a pickup in sales in the first and second quarter of next year. Any additional adjustments to rates will depend on future results. You know we are really focused on

maximizing total profits, not trying to just maximize the margin.

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

Bob, to summarize, the -- right now, the improvement is really that there's – Frank mentioned it's in the lower claims. -- As he mentioned, we have not seen the full impact of the underwriting changes that we -- and prices we changed. But what we have seen from those so far is positive. We do not give guidance past a year as far as sales. But we think, sales, as Larry mentioned, will increase. And so we are really positive about direct response. And one, we think -- the margin, that we have reached the bottom level. And if anything, it will increase. That's a positive. We think with improved sales growth, we will get higher premium growth. And the combination of all that is very positive because we think we will see greater growth of our underwriting income. After having 2 years where underwriting is declining, we are going to see growth this year, and we think that growth will continue.

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

Got you, and just a follow-up on Frank's color on potential borrowing, what I think you were saying was you can out invest your cost of debt or roughly match it with whatever you borrow, and so the income impact for borrowing would not be material?

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

Yes, I do think that is correct, Bob.

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

Thanks got it, appreciate it.

Operator

I'm showing no more questions in the queue at this time.

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

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