

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark one)

- ☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2019
- ☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from _____ to _____

Commission File Number 1-8052



TORCHMARK CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization) 3700 South Stonebridge Drive, McKinney, Texas (Address of principal executive offices)	63-0780404 (I.R.S. Employer Identification No.) 75070 (Zip Code)
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Registrant's telephone number, including area code (972) 569-4000

NONE
Former name, former address and former fiscal year, if changed since last report.

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$1.00 par value per share	TMK	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Non-accelerated filer ☐	Accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐
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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Indicate the number of shares outstanding for each of the issuer's classes of common stock, as of the last practicable date.

CLASS	OUTSTANDING AT April 30, 2019
Common Stock, \$1.00 Par Value	109,940,525

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PART I—FINANCIAL INFORMATION**Item 1. Condensed Consolidated Financial Statements**

TORCHMARK CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollar amounts in thousands, except per share data)

	March 31, 2019	December 31, 2018
Assets:		
Investments:		
Fixed maturities—available for sale, at fair value (amortized cost: 2019—\$15,988,228; 2018—\$15,753,471)	\$ 17,223,585	\$ 16,297,932
Policy loans	555,456	550,066
Other long-term investments (includes: 2019—\$118,556; 2018—\$108,241 under the fair value option)	231,934	207,258
Short-term investments	125,759	63,288
Total investments	18,136,734	17,118,544
Cash	67,342	121,026
Accrued investment income	255,148	243,003
Other receivables	419,610	415,157
Deferred acquisition costs	4,185,231	4,137,925
Goodwill	441,591	441,591
Other assets	559,225	549,899
Assets related to discontinued operations	68,557	68,577
Total assets	<u>\$ 24,133,438</u>	<u>\$ 23,095,722</u>
Liabilities:		
Future policy benefits	\$ 14,084,082	\$ 13,953,826
Unearned and advance premiums	66,924	61,208
Policy claims and other benefits payable	357,294	350,826
Other policyholders' funds	96,986	97,459
Total policy liabilities	14,605,286	14,463,319
Current and deferred income taxes payable	1,225,497	1,047,737
Other liabilities	557,824	453,270
Short-term debt	294,378	307,848
Long-term debt (estimated fair value: 2019—\$1,458,751; 2018—\$1,384,455)	1,355,601	1,357,185
Liabilities related to discontinued operations	51,426	51,186
Total liabilities	18,090,012	17,680,545
Commitments and Contingencies (Note 5)		
Shareholders' equity:		
Preferred stock, par value \$1 per share—5,000,000 shares authorized; outstanding: 0 in 2019 and 2018	—	—
Common stock, par value \$1 per share—320,000,000 shares authorized; outstanding: (2019—121,218,183 issued; 2018—121,218,183 issued)	121,218	121,218
Additional paid-in capital	518,529	524,414
Accumulated other comprehensive income (loss)	870,067	319,475
Retained earnings	5,364,820	5,213,468
Treasury stock, at cost: (2019—11,292,000 shares; 2018—10,525,147 shares)	(831,208)	(763,398)
Total shareholders' equity	6,043,426	5,415,177
Total liabilities and shareholders' equity	<u>\$ 24,133,438</u>	<u>\$ 23,095,722</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

TORCHMARK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(Dollar amounts in thousands, except per share data)

	Three Months Ended March 31,	
	2019	2018
Revenue:		
Life premium	\$ 624,289	\$ 598,303
Health premium	266,684	251,798
Other premium	—	5
Total premium	890,973	850,106
Net investment income	226,673	218,084
Realized gains (losses)	1,329	1,951
Other income	241	295
Total revenue	1,119,216	1,070,436
Benefits and expenses:		
Life policyholder benefits	409,692	400,581
Health policyholder benefits	170,017	160,619
Other policyholder benefits	8,048	8,689
Total policyholder benefits	587,757	569,889
Amortization of deferred acquisition costs	135,822	129,620
Commissions, premium taxes, and non-deferred acquisition costs	73,465	69,639
Other operating expense	72,793	66,824
Interest expense	21,278	21,622
Total benefits and expenses	891,115	857,594
Income before income taxes	228,101	212,842
Income tax benefit (expense)	(42,707)	(39,131)
Income from continuing operations	185,394	173,711
Income (loss) from discontinued operations, net of tax	(49)	(111)
Net income	\$ 185,345	\$ 173,600
Basic net income (loss) per common share:		
Continuing operations	\$ 1.68	\$ 1.52
Discontinued operations	—	—
Basic net income per common share	\$ 1.68	\$ 1.52
Diluted net income (loss) per common share:		
Continuing operations	\$ 1.65	\$ 1.49
Discontinued operations	—	—
Diluted net income per common share	\$ 1.65	\$ 1.49

See accompanying Notes to Condensed Consolidated Financial Statements.

TORCHMARK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(Dollar amounts in thousands)

	Three Months Ended March 31,	
	2019	2018
Net income	\$ 185,345	\$ 173,600
Other comprehensive income (loss):		
Investments:		
Unrealized gains (losses) on fixed maturities:		
Unrealized holding gains (losses) arising during period	693,482	(611,548)
Reclassification adjustments included in net income	(2,444)	(696)
Foreign exchange adjustment on fixed maturities recorded at fair value	(142)	(585)
Unrealized gains (losses) on fixed maturities	690,896	(612,829)
Unrealized gains (losses) on other investments	4,043	(2,853)
Total unrealized investment gains (losses)	694,939	(615,682)
Less applicable tax (expense) benefit	(145,936)	129,289
Unrealized investment gains (losses), net of tax	549,003	(486,393)
Deferred acquisition costs:		
Unrealized gains (losses) attributable to deferred acquisition costs	(3,199)	450
Less applicable tax (expense) benefit	671	(94)
Unrealized gains (losses) attributable to deferred acquisition costs, net of tax	(2,528)	356
Foreign exchange translation:		
Foreign exchange translation adjustments, other than fixed maturities	3,089	(1,299)
Less applicable tax (expense) benefit	(647)	276
Foreign exchange translation adjustments, other than fixed maturities, net of tax	2,442	(1,023)
Pension:		
Amortization of pension costs	2,120	3,778
Less applicable tax (expense) benefit	(445)	(793)
Pension adjustments, net of tax	1,675	2,985
Other comprehensive income (loss)	550,592	(484,075)
Comprehensive income (loss)	<u>\$ 735,937</u>	<u>\$ (310,475)</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

TORCHMARK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(Dollar amounts in thousands, except per share data)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at January 1, 2018	\$ —	\$ 124,218	\$ 508,476	\$ 1,424,274	\$ 4,806,208	\$ (631,755)	\$ 6,231,421
Adoption of ASU 2016-01	—	—	—	—	4,896	—	4,896
Comprehensive income (loss)	—	—	—	(484,075)	173,600	—	(310,475)
Common dividends declared (\$0.1600 per share)	—	—	—	—	(18,216)	—	(18,216)
Acquisition of treasury stock	—	—	—	—	—	(109,954)	(109,954)
Stock-based compensation	—	—	465	—	(1,803)	10,398	9,060
Exercise of stock options	—	—	—	—	(9,077)	22,646	13,569
Balance at March 31, 2018	<u>\$ —</u>	<u>\$ 124,218</u>	<u>\$ 508,941</u>	<u>\$ 940,199</u>	<u>\$ 4,955,608</u>	<u>\$ (708,665)</u>	<u>\$ 5,820,301</u>

	Preferred Stock	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance at January 1, 2019	\$ —	\$ 121,218	\$ 524,414	\$ 319,475	\$ 5,213,468	\$ (763,398)	\$ 5,415,177
Adoption of ASU 2016-02 ⁽¹⁾	—	—	—	—	(497)	—	(497)
Comprehensive income (loss)	—	—	—	550,592	185,345	—	735,937
Common dividends declared (\$0.1725 per share)	—	—	—	—	(18,943)	—	(18,943)
Acquisition of treasury stock	—	—	—	—	—	(110,896)	(110,896)
Stock-based compensation	—	—	(5,885)	—	(6,817)	23,261	10,559
Exercise of stock options	—	—	—	—	(7,736)	19,825	12,089
Balance at March 31, 2019	<u>\$ —</u>	<u>\$ 121,218</u>	<u>\$ 518,529</u>	<u>\$ 870,067</u>	<u>\$ 5,364,820</u>	<u>\$ (831,208)</u>	<u>\$ 6,043,426</u>

(1) See further discussion in *Note 2—New Accounting Standards*.

See accompanying Notes to Condensed Consolidated Financial Statements.

TORCHMARK CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollar amounts in thousands)

	Three Months Ended March 31,	
	2019	2018
Cash provided from operating activities	\$ 423,285	\$ 382,389
Cash provided from (used for) investing activities:		
Disposition of investments:		
Fixed maturities available for sale—sold	34,997	—
Fixed maturities available for sale—matured or other redemptions	188,253	74,019
Total investments disposed	223,250	74,019
Acquisition of investments:		
Fixed maturities—available for sale	(421,111)	(358,753)
Other long-term investments	(22,971)	(53,853)
Total investments acquired	(444,082)	(412,606)
Net (increase) decrease in policy loans	(5,390)	(2,854)
Net (increase) decrease in short-term investments	(62,471)	47,048
Additions to properties	(7,015)	(11,966)
Investment in low-income housing interests	(10,054)	(7,518)
Cash provided from (used for) investing activities	(305,762)	(313,877)
Cash provided from (used for) financing activities:		
Issuance of common stock	11,592	13,569
Cash dividends paid to shareholders	(17,696)	(17,194)
Repayment of debt	(1,250)	(625)
Net borrowing (repayment) of commercial paper	(14,095)	36,464
Acquisition of treasury stock	(110,896)	(109,954)
Net receipts (payments) from deposit-type product	(37,136)	(25,603)
Cash provided from (used for) financing activities	(169,481)	(103,343)
Effect of foreign exchange rate changes on cash	(1,726)	4,883
Net increase (decrease) in cash	(53,684)	(29,948)
Cash at beginning of year	121,026	118,563
Cash at end of period	<u>\$ 67,342</u>	<u>\$ 88,615</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

TORCHMARK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollar amounts in thousands, except per share data)

Note 1—Significant Accounting Policies

Basis of Presentation: The accompanying condensed consolidated financial statements of Torchmark Corporation (Torchmark or alternatively, the Company) have been prepared in accordance with the instructions to Form 10-Q. Therefore, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America (GAAP) for annual financial statements. However, in the opinion of management, these statements include all adjustments, consisting of normal recurring adjustments, which are necessary for a fair presentation of the condensed consolidated financial position at March 31, 2019, and the condensed consolidated results of operations, comprehensive income, and cash flows for the periods ended March 31, 2019 and 2018. The interim period condensed consolidated financial statements should be read in conjunction with the *Consolidated Financial Statements* that are included in the Form 10-K filed with the Securities Exchange Commission (SEC) on March 1, 2019.

Note 2—New Accounting Standards

Accounting Pronouncements Adopted in the Current Year

Standard	Description	Effective date	Effect on the consolidated financial statements
ASU No. 2016-02/2018-11, Leases (Topic 842), with clarification guidance issued in July 2018.	The standard requires lessees to record a right-of-use asset and corresponding lease liability on the balance sheet for all operating leases that do not qualify for the practical expedients allowed for in this standard. Additional qualitative and quantitative disclosures are required.	This standard became effective for the Company beginning January 1, 2019.	The Company adopted the optional transition method allowed for under ASU 2018-11 by not restating comparative periods and recognizing an immaterial cumulative-effect adjustment to the opening balance of retained earnings on January 1, 2019. The Company does not have any significant lessor contracts. The adoption did not have a material impact on the consolidated financial statements.
ASU No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Topic 310-20): Premium Amortization on Purchased Callable Debt Securities	This standard was issued to shorten the amortization period for certain callable debt securities held at a premium. The standard requires the premium to be amortized to the earliest call date.	This standard became effective for the Company beginning January 1, 2019.	This adoption did not have a material impact on the consolidated financial statements as of March 31, 2019.

Accounting Pronouncements Yet to be Adopted

Standard	Description	Effective date	Effect on the consolidated financial statements
ASU No. 2016-13/2019-04, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, with clarification guidance issued in April 2019.	This standard provides financial statement users with more decision-useful information about the expected credit losses on financial instruments as well as to change the loss impairment methodology for available-for-sale debt securities by use of an allowance rather than a direct write-down.	This standard will become effective on January 1, 2020. The applicable section of the standard related to debt securities requires a prospective transition.	The Company is in the process of determining the impact this guidance will have on the consolidated financial statements.

TORCHMARK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollar amounts in thousands, except per share data)

Note 2—New Accounting Standards (continued)

Standard	Description	Effective date	Effect on the consolidated financial statements
ASU No. 2018-12, Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts	The guidance was primarily issued to 1) improve the timeliness of recognizing changes in the liability for future policy benefits and modify the rate used to discount future cash flows, 2) simplify and improve the accounting for certain market-based options or guarantees associated with deposit (or account balance) contracts, 3) simplify the amortization of deferred acquisition costs, and 4) improve the effectiveness of the required disclosures.	This standard is effective beginning January 1, 2021, and should be applied on a retrospective basis. Early adoption of the amendments is permitted.	ASU 2018-12 will require changes to the Company's actuarial systems and data inputs related to the valuation of the future policy benefits. Additionally, it will significantly expand the Company's disclosures. The Company is in the process of evaluating the impact this guidance will have on the consolidated financial statements.
ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement	The amendment modifies the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures.	The revised standard is effective beginning January 1, 2020. The removed and modified disclosures will be adopted on a retrospective basis and the new disclosures will be adopted on a prospective basis. Early adoption is permitted.	The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.
ASU No. 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20), Changes to the Disclosure Requirements for Defined Benefit Plans	The standard removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant.	This standard is effective beginning January 1, 2021, and will be applied retrospectively. Early adoption is permitted.	The Company does not expect the adoption of this guidance to have a material impact on the consolidated financial statements.
ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract	The standard was issued to align the accounting for implementation costs of hosting arrangements, regardless of whether they convey a license to the hosted software. Accordingly, the standard requires the capitalization of implementation costs incurred in a hosting arrangement that is a service contract, similar to the treatment for developed or obtained internal-use software.	The standard is effective beginning January 1, 2020, and the Company plans to apply the standards on a prospective basis. Early adoption of the amendments is also permitted.	The Company is in the process of determining the impact this guidance will have on the consolidated financial statements.

TORCHMARK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollar amounts in thousands, except per share data)

Note 3—Supplemental Information about Changes to Accumulated Other Comprehensive Income

An analysis of the change in balance by component of Accumulated Other Comprehensive Income is as follows for the three month periods ended March 31, 2019 and 2018.

Components of Accumulated Other Comprehensive Income

	Three Months Ended March 31, 2018				
	Available for Sale Assets	Deferred Acquisition Costs	Foreign Exchange	Pension Adjustments	Total
Balance at January 1, 2018	\$ 1,569,289	\$ (8,547)	\$ 16,302	\$ (152,770)	\$ 1,424,274
Other comprehensive income (loss) before reclassifications, net of tax	(485,843)	356	(1,023)	—	(486,510)
Reclassifications, net of tax	(550)	—	—	2,985	2,435
Other comprehensive income (loss)	(486,393)	356	(1,023)	2,985	(484,075)
Balance at March 31, 2018	<u>\$ 1,082,896</u>	<u>\$ (8,191)</u>	<u>\$ 15,279</u>	<u>\$ (149,785)</u>	<u>\$ 940,199</u>

	Three Months Ended March 31, 2019				
	Available for Sale Assets	Deferred Acquisition Costs	Foreign Exchange	Pension Adjustments	Total
Balance at January 1, 2019	\$ 435,698	\$ (4,163)	\$ 6,495	\$ (118,555)	\$ 319,475
Other comprehensive income (loss) before reclassifications, net of tax	550,934	(2,528)	2,442	—	550,848
Reclassifications, net of tax	(1,931)	—	—	1,675	(256)
Other comprehensive income (loss)	549,003	(2,528)	2,442	1,675	550,592
Balance at March 31, 2019	<u>\$ 984,701</u>	<u>\$ (6,691)</u>	<u>\$ 8,937</u>	<u>\$ (116,880)</u>	<u>\$ 870,067</u>

TORCHMARK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollar amounts in thousands except, per share data)

Note 3—Supplemental Information about Changes to Accumulated Other Comprehensive Income (continued)

Reclassifications out of Accumulated Other Comprehensive Income are presented below for the three month periods ended March 31, 2019 and 2018.

Reclassification Adjustments

Component Line Item	Three Months Ended March 31,		Affected line items in the Statement of Operations
	2019	2018	
Unrealized investment gains (losses) on available for sale assets:			
Realized (gains) losses	\$ (3,670)	\$ (1,386)	Realized investment gains (losses)
Amortization of (discount) premium	1,226	690	Net investment income
Total before tax	(2,444)	(696)	
Tax	513	146	Income taxes
Total after-tax	(1,931)	(550)	
Pension adjustments:			
Amortization of prior service cost	158	119	Other operating expense
Amortization of actuarial gain (loss)	1,962	3,659	Other operating expense
Total before tax	2,120	3,778	
Tax	(445)	(793)	Income taxes
Total after-tax	1,675	2,985	
Total reclassifications (after-tax)	\$ (256)	\$ 2,435	

TORCHMARK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollar amounts in thousands, except per share data)

Note 4—Investments

Portfolio Composition: Summaries of fixed maturities available for sale by cost or amortized cost and estimated fair value at March 31, 2019 and December 31, 2018 are shown below.

March 31, 2019					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value ⁽¹⁾	% of Total Fixed Maturities ⁽²⁾
Fixed maturities available for sale:					
U.S. Government direct, guaranteed, and government-sponsored enterprises	\$ 390,947	\$ 16,443	\$ (1,034)	\$ 406,356	2
States, municipalities, and political subdivisions	1,426,461	113,371	(174)	1,539,658	9
Foreign governments	19,402	2,222	—	21,624	—
Corporates, by sector:					
Financial	3,864,828	387,731	(44,465)	4,208,094	24
Utilities	1,984,792	279,830	(9,690)	2,254,932	13
Energy	1,645,409	172,802	(27,409)	1,790,802	10
Other corporate sectors	6,452,950	438,527	(115,784)	6,775,693	40
Total corporates	13,947,979	1,278,890	(197,348)	15,029,521	87
Collateralized debt obligations	57,473	25,664	(5,888)	77,249	1
Other asset-backed securities	145,966	3,577	(366)	149,177	1
Total fixed maturities	\$ 15,988,228	\$ 1,440,167	\$ (204,810)	\$ 17,223,585	100

(1) Amounts reported on the balance sheet.

(2) At fair value.

December 31, 2018					
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value ⁽¹⁾	% of Total Fixed Maturities ⁽²⁾
Fixed maturities available for sale:					
U.S. Government direct, guaranteed, and government-sponsored enterprises	\$ 390,351	\$ 5,104	\$ (2,787)	\$ 392,668	2
States, municipalities, and political subdivisions	1,354,810	83,600	(1,750)	1,436,660	9
Foreign governments	19,006	1,810	—	20,816	—
Corporates, by sector:					
Financial	3,759,768	262,875	(87,515)	3,935,128	24
Utilities	1,989,506	217,846	(24,399)	2,182,953	13
Energy	1,652,700	93,880	(62,371)	1,684,209	10
Other corporate sectors	6,382,707	283,524	(242,509)	6,423,722	40
Total corporates	13,784,681	858,125	(416,794)	14,226,012	87
Collateralized debt obligations	57,769	22,014	(6,414)	73,369	1
Other asset-backed securities	146,854	2,187	(634)	148,407	1
Total fixed maturities	\$ 15,753,471	\$ 972,840	\$ (428,379)	\$ 16,297,932	100

(1) Amounts reported on the balance sheet.

(2) At fair value.

TORCHMARK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollar amounts in thousands, except per share data)

Note 4—Investments (continued)

A schedule of fixed maturities available for sale by contractual maturity date at March 31, 2019 is shown below on an amortized cost basis and on a fair value basis. Actual disposition dates could differ from contractual maturities due to call or prepayment provisions.

	March 31, 2019	
	Amortized Cost	Fair Value
Fixed maturities available for sale:		
Due in one year or less	\$ 204,444	\$ 206,980
Due after one year through five years	611,042	643,173
Due after five years through ten years	1,643,633	1,814,976
Due after ten years through twenty years	5,210,071	5,843,176
Due after twenty years	8,114,988	8,488,204
Mortgage-backed and asset-backed securities	204,050	227,076
	<u>\$ 15,988,228</u>	<u>\$ 17,223,585</u>

Analysis of Investment Operations: Net investment income for the three months ended March 31, 2019 and 2018 is summarized as follows:

	Three Months Ended March 31,	
	2019	2018
Fixed maturities available for sale	\$ 215,763	\$ 208,542
Policy loans	10,636	10,198
Other long-term investments	3,388	2,854
Short-term investments	819	391
	<u>230,606</u>	<u>221,985</u>
Less investment expense	(3,933)	(3,901)
Net investment income	<u>\$ 226,673</u>	<u>\$ 218,084</u>

Selected information about sales of fixed maturities available for sale is as follows:

	Three Months Ended March 31,	
	2019	2018
Fixed maturities available for sale:		
Proceeds from sales	\$ 34,997	\$ —
Gross realized gains	46	—
Gross realized losses	(3,027)	—

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(Dollar amounts in thousands, except per share data)

Note 4—Investments (continued)

An analysis of realized gains (losses) is as follows:

	Three Months Ended March 31,	
	2019	2018
Realized investment gains (losses):		
Fixed maturities available for sale:		
Sales and other	\$ 3,670	\$ 1,386
Fair value option—change in fair value	(2,185)	560
Other investments	(156)	5
Realized gains (losses) from investments	1,329	1,951
Applicable tax	(279)	(410)
Realized gains (losses), net of tax	<u>\$ 1,050</u>	<u>\$ 1,541</u>

Fair Value Measurements: The following tables represent the fair value of fixed maturities available for sale measured on a recurring basis at March 31, 2019 and December 31, 2018.

	Fair Value Measurements at March 31, 2019 using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed maturities available for sale:				
U.S. Government direct, guaranteed, and government-sponsored enterprises	\$ —	\$ 406,356	\$ —	\$ 406,356
States, municipalities, and political subdivisions	—	1,539,658	—	1,539,658
Foreign governments	—	21,624	—	21,624
Corporates, by sector:				
Financial	—	4,163,932	44,162	4,208,094
Utilities	5,100	2,098,883	150,949	2,254,932
Energy	—	1,750,336	40,466	1,790,802
Other corporate sectors	—	6,448,950	326,743	6,775,693
Total corporates	5,100	14,462,101	562,320	15,029,521
Collateralized debt obligations	—	—	77,249	77,249
Other asset-backed securities	—	136,023	13,154	149,177
Total fixed maturities	<u>\$ 5,100</u>	<u>\$ 16,565,762</u>	<u>\$ 652,723</u>	<u>\$ 17,223,585</u>
Percentage of total	<u>—%</u>	<u>96.2%</u>	<u>3.8%</u>	<u>100.0%</u>

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Note 4—Investments (continued)

Fair Value Measurements at December 31, 2018 using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed maturities available for sale:				
U.S. Government direct, guaranteed, and government-sponsored enterprises	\$ —	\$ 392,668	\$ —	\$ 392,668
States, municipalities, and political subdivisions	—	1,436,660	—	1,436,660
Foreign governments	—	20,816	—	20,816
Corporates, by sector:				
Financial	—	3,891,728	43,400	3,935,128
Utilities	—	2,032,127	150,826	2,182,953
Energy	—	1,645,077	39,132	1,684,209
Other corporate sectors	—	6,103,609	320,113	6,423,722
Total corporates	—	13,672,541	553,471	14,226,012
Collateralized debt obligations	—	—	73,369	73,369
Other asset-backed securities	—	135,425	12,982	148,407
Total fixed maturities	\$ —	\$ 15,658,110	\$ 639,822	\$ 16,297,932
Percentage of total	—%	96.1%	3.9%	100.0%

The following tables represent an analysis of changes in fair value measurements using significant unobservable inputs (Level 3) for the three months ended March 31, 2019 and 2018.

**Analysis of Changes in Fair Value Measurements Using
Significant Unobservable Inputs (Level 3)**

Three Months Ended March 31, 2019				
	Asset- Backed Securities	Collateralized Debt Obligations	Corporates ⁽¹⁾	Total
Balance at January 1, 2019	\$ 12,982	\$ 73,369	\$ 553,471	\$ 639,822
Total gains or losses:				
Included in realized gains/losses	—	—	—	—
Included in other comprehensive income.....	298	4,176	10,663	15,137
Acquisitions	—	—	—	—
Sales	—	—	—	—
Amortization	—	1,162	3	1,165
Other ⁽²⁾	(126)	(1,458)	(1,817)	(3,401)
Transfers in and/or out of Level 3 ⁽³⁾	—	—	—	—
Balance at March 31, 2019	\$ 13,154	\$ 77,249	\$ 562,320	\$ 652,723
Percent of total fixed maturities	0.1%	0.4%	3.3%	3.8%

(1) Includes redeemable preferred stocks.

(2) Includes capitalized interest, foreign exchange adjustments, and principal repayments.

(3) Considered to be transferred at the end of the period. Transfers into Level 3 occur when observable inputs are no longer available. Transfers out of Level 3 occur when observable inputs become available.

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Note 4—Investments (continued)

Three Months Ended March 31, 2018				
	Asset- Backed Securities	Collateralized Debt Obligations	Corporates ⁽¹⁾	Total
Balance at January 1, 2018	\$ 14,049	\$ 71,581	\$ 582,810	\$ 668,440
Total gains or losses:				
Included in realized gains/losses	—	—	—	—
Included in other comprehensive income	(749)	4,621	(12,233)	(8,361)
Acquisitions	—	—	—	—
Sales	—	—	—	—
Amortization	—	1,201	4	1,205
Other ⁽²⁾	(113)	(1,879)	(1,781)	(3,773)
Transfers in and/or out of Level 3 ⁽³⁾	—	—	—	—
Balance at March 31, 2018	<u>\$ 13,187</u>	<u>\$ 75,524</u>	<u>\$ 568,800</u>	<u>\$ 657,511</u>
Percent of total fixed maturities	<u>0.1%</u>	<u>0.5%</u>	<u>3.4%</u>	<u>4.0%</u>

(1) Includes redeemable preferred stocks.

(2) Includes capitalized interest, foreign exchange adjustments, and principal repayments.

(3) Considered to be transferred at the end of the period. Transfers into Level 3 occur when observable inputs are no longer available. Transfers out of Level 3 occur when observable inputs become available.

The following table presents transfers in and out of each of the valuation levels of fair values.

Three Months Ended March 31,						
2019			2018			
In	Out	Net	In	Out	Net	
Level 1	\$ 5,100	\$ —	\$ 5,100	\$ —	\$ —	
Level 2	—	(5,100)	—	—	—	
Level 3	—	—	—	—	—	

Other investment information: Other long-term investments consist of the following:

	March 31, 2019	December 31, 2018
Investment in limited partnerships ⁽¹⁾	\$ 118,556	\$ 108,241
Commercial mortgage loan participations ⁽²⁾	110,209	96,266
Other	3,169	2,751
Total other long-term investments	<u>\$ 231,934</u>	<u>\$ 207,258</u>

(1) See the following section for more information regarding the fair value option method used to account for these investments.

(2) Torchmark invests in a portfolio of commercial mortgage loan participations. As of March 31, 2019 and December 31, 2018, the Company evaluated the portfolio on a loan-by-loan basis to determine any allowance for loss. Factors considered include, but are not limited to, collateral value, loan-to-value ratio, debt service coverage ratio, local market conditions, credit quality of the borrower and tenants, and loan performance. There were no material changes to the property type, geographic location, or loan-to-value ratio for any of the loans during the quarter. As of March 31, 2019 and December 31, 2018, there was no allowance for loss.

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Note 4—Investments (continued)

Fair Value Option: The following table represents the fair value of certain limited partnership investments elected for the fair value option method measured on a recurring basis at March 31, 2019, and the changes in fair value for the three months ended March 31, 2019. All changes in fair value are recognized in "Realized Investment Gains (Losses)" in the *Condensed Consolidated Statements of Operations*. Distributions received on a periodic basis are recorded in Net Investment Income.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fair Value Measurements at:				
March 31, 2019	\$ —	\$ 118,556	\$ —	\$ 118,556
December 31, 2018	—	108,241	—	108,241
Changes in Fair Values for the Period for Items Measured at Fair Value Pursuant to Election of the Fair Value Option				
	Net Gains and Losses Recognized During the Period	Less Net Gains and Losses Recognized due to Sales	Total Changes in Fair Values Included in Current-Period Earnings	
Three Months Ended March 31,				
2019	\$ (2,185)	\$ —	\$ (2,185)	
2018	560	—	560	

Other-Than-Temporary Impairments: In accordance with the other-than-temporary impairment (OTTI) policy, the Company evaluated its fixed maturities available for sale in an unrealized loss position to determine if there was any impairment for the quarter. Gross unrealized losses may fluctuate quarter over quarter due to adverse factors in the market that affect our holdings, such as changes in the interest rates or credit spreads. While the Company holds securities that may be in an unrealized loss position from time to time, Torchmark has the ability and intent to hold these investments to recovery. Additionally, Torchmark does not expect to be required to sell any of its securities due to the strong cash flows generated by its insurance operations.

For the three months ended March 31, 2019 and 2018, the Company concluded that there were no other-than-temporary impairments.

Unrealized Loss Analysis: The following table discloses information about fixed maturities available for sale in an unrealized loss position.

	Less than Twelve Months	Twelve Months or Longer	Total
Number of issues (CUSIP numbers) held:			
As of March 31, 2019	83	311	394
As of December 31, 2018	495	234	729

Torchmark's entire fixed maturity portfolio consisted of 1,598 issues at March 31, 2019 and 1,548 issues at December 31, 2018. The weighted average quality rating of all unrealized loss positions as of March 31, 2019 was BBB compared with BBB+ as of December 31, 2018.

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Note 4—Investments (continued)

The following tables disclose unrealized investment losses by class and major sector of fixed maturities available for sale at March 31, 2019 and December 31, 2018, respectively. Torchmark considers these investments to be only temporarily impaired.

Analysis of Gross Unrealized Investment Losses

	At March 31, 2019					
	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities available for sale:						
Investment grade securities:						
U.S. Government direct, guaranteed, and government-sponsored enterprises ..	\$ 6	\$ —	\$ 61,709	\$ (1,034)	\$ 61,715	\$ (1,034)
States, municipalities and political subdivisions	14,974	(26)	1,056	(5)	16,030	(31)
Corporates, by sector:						
Financial	69,791	(1,004)	388,946	(15,440)	458,737	(16,444)
Utilities	2,023	(2)	177,061	(5,553)	179,084	(5,555)
Energy	48,948	(693)	145,645	(7,662)	194,593	(8,355)
Other corporate sectors	392,572	(12,612)	1,560,588	(82,520)	1,953,160	(95,132)
Total corporates	513,334	(14,311)	2,272,240	(111,175)	2,785,574	(125,486)
Other asset-backed securities	98	—	4,463	(23)	4,561	(23)
Total investment grade securities	528,412	(14,337)	2,339,468	(112,237)	2,867,880	(126,574)
Below investment grade securities:						
States, municipalities and political subdivisions	85	(143)	—	—	85	(143)
Corporates, by sector:						
Financial	—	—	104,759	(28,021)	104,759	(28,021)
Utilities	—	—	12,648	(4,135)	12,648	(4,135)
Energy	11,207	(589)	47,260	(18,465)	58,467	(19,054)
Other corporate sectors	35,189	(2,153)	94,367	(18,499)	129,556	(20,652)
Total corporates	46,396	(2,742)	259,034	(69,120)	305,430	(71,862)
Collateralized debt obligations	—	—	14,112	(5,888)	14,112	(5,888)
Other asset-backed securities	14,132	(343)	—	—	14,132	(343)
Total below investment grade securities	60,613	(3,228)	273,146	(75,008)	333,759	(78,236)
Total fixed maturities	\$ 589,025	\$ (17,565)	\$ 2,612,614	\$ (187,245)	\$ 3,201,639	\$ (204,810)

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Note 4—Investments (continued)**Analysis of Gross Unrealized Investment Losses**

		At December 31, 2018					
		Less than Twelve Months		Twelve Months or Longer		Total	
		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities available for sale:							
Investment grade securities:							
U.S. Government direct, guaranteed, and government-sponsored enterprises ..	\$ 37,182	\$ (212)	\$ 89,664	\$ (2,575)	\$ 126,846	\$ (2,787)	
States, municipalities and political subdivisions	124,907	(1,648)	7,981	(102)	132,888	(1,750)	
Corporates, by sector:							
Financial	931,161	(36,337)	241,442	(21,572)	1,172,603	(57,909)	
Utilities	329,753	(11,680)	121,308	(9,442)	451,061	(21,122)	
Energy	475,736	(29,426)	54,937	(9,382)	530,673	(38,808)	
Other corporate sectors	2,515,541	(149,168)	575,796	(62,994)	3,091,337	(212,162)	
Total corporates	4,252,191	(226,611)	993,483	(103,390)	5,245,674	(330,001)	
Other asset-backed securities	44,603	(634)	—	—	44,603	(634)	
Total investment grade securities	4,458,883	(229,105)	1,091,128	(106,067)	5,550,011	(335,172)	
Below investment grade securities:							
States, municipalities and political subdivisions	—	—	—	—	—	—	
Corporates, by sector:							
Financial	22,087	(8,674)	81,101	(20,932)	103,188	(29,606)	
Utilities	28,613	(3,277)	—	—	28,613	(3,277)	
Energy	42,874	(3,901)	36,122	(19,662)	78,996	(23,563)	
Other corporate sectors	146,373	(7,235)	69,053	(23,112)	215,426	(30,347)	
Total corporates	239,947	(23,087)	186,276	(63,706)	426,223	(86,793)	
Collateralized debt obligations	—	—	13,586	(6,414)	13,586	(6,414)	
Other asset-backed securities	—	—	—	—	—	—	
Total below investment grade securities	239,947	(23,087)	199,862	(70,120)	439,809	(93,207)	
Total fixed maturities	\$ 4,698,830	\$ (252,192)	\$ 1,290,990	\$ (176,187)	\$ 5,989,820	\$ (428,379)	

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Note 5—Commitments and Contingencies

Litigation: Torchmark and its subsidiaries, in common with the insurance industry in general, are subject to litigation, including putative class action litigation, alleged breaches of contract, torts, including bad faith and fraud claims based on alleged wrongful or fraudulent acts of agents of Torchmark's subsidiaries, employment discrimination, and miscellaneous other causes of action. Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, management does not believe that it is reasonably possible that such litigation will have a material adverse effect on Torchmark's financial condition, future operating results or liquidity; however, assessing the eventual outcome of litigation necessarily involves forward-looking speculation as to judgments to be made by judges, juries and appellate courts in the future. This bespeaks caution, particularly in states with reputations for high punitive damage verdicts. Torchmark's management recognizes that large punitive damage awards bearing little or no relation to actual damages continue to be awarded by juries in jurisdictions in which Torchmark and its subsidiaries have substantial business, creating the potential for unpredictable material adverse judgments in any given punitive damage suit.

On September 12, 2018, putative class action litigation was filed against American Income Life Insurance Company in California's Contra Costa County Superior Court (*Joh v. American Income Life Insurance Company*, Case No. C18-01863). An amended complaint was filed on October 18, 2018. American Income removed the case to the United States District Court for the Northern District of California (Case No. 3:18-cv-06364-TSH). The plaintiff, a former insurance sales agent of American Income, is suing on behalf of all current and former sales agents who sold insurance for American Income in the state of California for the four years prior to the filing of the complaint. The amended complaint alleges that such individuals are employees and asserts claims under the California Labor Code, California Business and Professions Code, and California Private Attorney General Act. The complaint seeks compensatory damages, penalties and attorney fees on claims for failure to pay wages/commissions, failure to appropriately pay agents at termination, failure to provide itemized wage statements, failure to reimburse expenses and unfair business practices. The Company continues to assess the amount and thus does not have a reasonable estimate of any potential liability.

On October 18, 2018, putative class action litigation was filed against Torchmark Corporation and American Income Life Insurance Company in California's Los Angeles County Superior Court (*Golz v. American Income Life Insurance Company*, et al Case No. 18STCV01354). American Income removed the case to the United States District Court for the Central District of California (Case No. 2:18-cv-09879 R (SSx)). An amended complaint was filed on February 5, 2019. The amended complaint alleges that the putative class members are employees and asserts claims under the California Labor Code and California Business and Professions Code. The complaint alleges that plaintiff was an American Income insurance agent trainee in California who seeks to represent a class of individuals in California whom American Income classified as independently contracted agent trainees. The class period is alleged to begin four years prior to the complaint's filing. The complaint seeks compensatory damages, penalties, and attorney fees on claims for failure to pay minimum wage and overtime, failure to provide meal and rest breaks, failure to appropriately pay wages at termination, failure to provide itemized wage statements, failure to reimburse business expenses, and unfair business practices. The Company continues to assess the amount and thus does not have a reasonable estimate of any potential liability.

On December 14, 2018, putative class action litigation was filed against American Income Life Insurance Company in United States District Court for the Northern District of California (*Hamilton v. American Income Life Insurance Company*, Case No. 4:18-cv-7535-KAW). An amended complaint was filed on January 23, 2019. The plaintiffs, former insurance sales agents of American Income, are suing on behalf of all current and former sales agents who sold insurance for American Income in the state of California for the last four years prior to the filing of the complaint. The lawsuit alleges that putative class members are employees and asserts claims under the California Labor Code, California Business and Professions Code, and California Private Attorney General Act. The complaint seeks compensatory damages, penalties and attorney fees on claims for failure to pay minimum wage and overtime, failure to provide meal and rest breaks, failure to appropriately pay agents at termination, failure to provide itemized wage statements, failure to reimburse expenses, and unfair business practices. The Company continues to assess the amount and thus does not have a reasonable estimate of any potential liability.

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Note 5—Commitments and Contingencies (continued)

On January 16, 2019, putative class action litigation was filed against American Income Life Insurance Company in Orange County, California Superior Court (*Putros v. American Income Life Insurance Company*, Case No. 30-2019-01044772-CU-OE-CXC). The plaintiff, a former insurance sales agent of American Income, is suing on behalf of all current and former sales agents who sold insurance for American Income in the state of California for the last four years prior to the filing of the complaint. The lawsuit alleges that putative class members are employees and asserts claims under the California Labor Code, California Business and Professions Code, and California Private Attorney General Act. The complaint seeks compensatory damages, penalties and attorney fees on claims for failure to pay minimum wage, failure to provide meal and rest breaks, failure to appropriately pay agents at termination, failure to provide itemized wage statements, failure to reimburse expenses, and unfair business practices. The Company continues to assess the amount and thus does not have a reasonable estimate of any potential liability.

With respect to its current litigation, at this time management believes that the possibility of a material judgment adverse to Torchmark is remote, and no estimate of range can be made for loss contingencies that are at least reasonably possible but not accrued.

Note 6—Liability for Unpaid Claims

Activity in the liability for unpaid health claims is summarized as follows:

	Three Months Ended March 31,	
	2019	2018
Balance at beginning of period	\$ 154,528	\$ 146,865
Incurred related to:		
Current year	151,230	134,542
Prior years	1,166	(5,001)
Total incurred	152,396	129,541
Paid related to:		
Current year	60,055	55,130
Prior years	88,445	78,722
Total paid	148,500	133,852
Balance at end of period	<u>\$ 158,424</u>	<u>\$ 142,554</u>

Below is the reconciliation of the liability for "Policy claims and other benefits payable" in the *Condensed Consolidated Balance Sheets*.

	March 31, 2019	December 31, 2018
Policy claims and other benefits payable:		
Life insurance	\$ 198,870	\$ 196,298
Health insurance	158,424	154,528
Total	<u>\$ 357,294</u>	<u>\$ 350,826</u>

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Note 7—Postretirement Benefits

Torchmark has qualified noncontributory defined benefit plans and contributory savings plans that cover substantially all employees. There is also a nonqualified noncontributory supplemental executive retirement plan (SERP) that covers a limited number of employees. The following tables will focus on the defined benefit plans and SERP.

Pension Assets: The following tables present the assets of Torchmark's defined benefit pension plans at March 31, 2019 and December 31, 2018.

Pension Assets by Component at March 31, 2019

	Fair Value Determined by:				Total Amount	% of Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
Corporate bonds:						
Financial	\$ —	\$ 42,967	\$ —	\$ 42,967		10
Utilities	—	40,077	—	40,077		10
Energy	—	20,765	—	20,765		5
Other corporates	—	86,217	—	86,217		21
Total corporate bonds	—	190,026	—	190,026		46
Exchange traded fund ⁽¹⁾	178,120	—	—	178,120		43
Other bonds	—	249	—	249		—
Other long-term investments	—	9,903	—	9,903		2
Guaranteed annuity contract ⁽²⁾	—	26,604	—	26,604		6
Short-term investments	8,212	—	—	8,212		2
Other	4,965	—	—	4,965		1
Total pension assets	\$ 191,297	\$ 226,782	\$ —	\$ 418,079		100

(1) A fund including marketable securities that mirror the S&P 500 index.

(2) Representing a guaranteed annuity contract issued by Torchmark's subsidiary, American Income Life Insurance Company, to fund the obligations of the American Income Pension Plan.

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Note 7—Postretirement Benefits (continued)**Pension Assets by Component at December 31, 2018**

	Fair Value Determined by:				% of Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Amount	
Corporate bonds:					
Financial	\$ —	\$ 44,236	\$ —	\$ 44,236	11
Utilities	—	39,443	—	39,443	10
Energy	—	19,744	—	19,744	5
Other corporates	—	83,202	—	83,202	22
Total corporate bonds	—	186,625	—	186,625	48
Exchange traded fund ⁽¹⁾	157,717	—	—	157,717	40
Other bonds	—	245	—	245	—
Other long-term investments	—	8,475	—	8,475	2
Guaranteed annuity contract ⁽²⁾	—	26,505	—	26,505	7
Short-term investments	9,289	—	—	9,289	2
Other	3,816	—	—	3,816	1
Total pension assets	\$ 170,822	\$ 221,850	\$ —	\$ 392,672	100

(1) A fund including marketable securities that mirror the S&P 500 index.

(2) Representing a guaranteed annuity contract issued by Torchmark's subsidiary, American Income Life Insurance Company, to fund the obligations of the American Income Pension Plan.

SERP: The following table includes information regarding the SERP at March 31, 2019 and December 31, 2018.

	March 31, 2019	December 31, 2018
Premiums paid for insurance coverage	\$ 444	\$ 2,997
Total investments:		
Company owned life insurance	\$ 45,021	\$ 44,285
Exchange traded funds	56,926	52,659
	\$ 101,947	\$ 96,944

Pension Liability: The following table presents liabilities for the defined benefit pension plans and SERP at March 31, 2019 and December 31, 2018.

	March 31, 2019	December 31, 2018
Funded defined benefit pension	\$ 509,998	\$ 481,792
SERP	74,655	74,407
Pension Benefit Obligation	\$ 584,653	\$ 556,199

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Note 7—Postretirement Benefits (continued)

Net Periodic Benefit Cost: The following table presents the net periodic benefit costs for the defined benefit plans and SERP by expense components for the three month periods ended March 31, 2019 and 2018.

Components of Net Periodic Benefit Cost

	Three Months Ended March 31,	
	2019	2018
Service cost	\$ 4,982	\$ 5,277
Interest cost	5,964	5,493
Expected return on assets	(6,966)	(6,363)
Amortization:		
Prior service cost	158	119
Actuarial (gain) loss	1,894	3,636
Net periodic benefit cost	\$ 6,032	\$ 8,162

Note 8—Earnings Per Share

A reconciliation of basic and diluted weighted-average shares outstanding is as follows:

	Three Months Ended March 31,	
	2019	2018
Basic weighted average shares outstanding	110,301,527	114,179,084
Weighted average dilutive options outstanding	2,027,348	2,570,418
Diluted weighted average shares outstanding	112,328,875	116,749,502
Antidilutive shares	1,846,151	535,143

Note 9—Business Segments

Torchmark's reportable segments are based on the insurance product lines it markets and administers: life insurance, health insurance, and annuities. These major product lines are set out as reportable segments because of the common characteristics of products within these categories, comparability of margins, and the similarity in regulatory environment and management techniques. Torchmark's chief operating decision makers evaluate the overall performance of the operations of the Company in accordance with these segments.

Management's measure of profitability for each insurance segment is insurance underwriting margin, which is underwriting income before other income and insurance administrative expenses. It represents the profit margin on insurance products before administrative expenses, and is calculated by deducting net policy obligations (claims incurred and change in reserves), commissions and other acquisition expenses from premium revenue. Torchmark further views the profitability of each insurance product segment by the marketing groups that distribute the products of that segment: direct response, independent agencies, or captive agencies.

Torchmark's management prefers to evaluate the performance of its underwriting and investment activities separately, rather than allocating investment income to the underwriting results. As such, the investment function is presented as a stand-alone segment. The investment segment includes the management of the investment portfolio, debt, and cash flow. Management's measure of profitability for this segment is excess investment income, which is the income earned on the investment portfolio less the required interest on net policy liabilities and financing costs. Financing costs include the interest on Torchmark's debt. Other income and insurance administrative expense are classified in a separate Corporate and other segment.

TORCHMARK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollar amounts in thousands, except per share data)

Note 9—Business Segments (continued)

The majority of the Company's required interest on net policy liabilities (benefit reserves less the deferred acquisition cost asset) is not credited to policyholder accounts. Instead, it is an actuarial assumption for discounting cash flows in the computation of benefit reserves and the amortization of the deferred acquisition cost asset. Investment income required to fund the required interest on net policy liabilities is removed from the investment segment and applied to the insurance segments to eliminate the effect of the required interest from the insurance segments. As a result, the investment segment measures net investment income against the required interest on net policy liabilities and financing costs, while the insurance segments simply measure premiums against net policy benefits and expenses. Management believes this presentation facilitates a more meaningful analysis of the Company's underwriting and investment performance as the underwriting results are based on premiums, claims, and expenses and are not affected by unanticipated fluctuations in investment yields.

As noted, Torchmark's core operations are insurance and investment management. The insurance segments issue policies for which premiums are collected for the eventual payment of policy benefits. In addition to policy benefits, operating expenses are incurred including acquisition costs, administrative expenses, and taxes. Because life and health contracts can be long term, premium receipts in excess of current expenses are invested. Investment activities, conducted by the investment segment, focus on seeking quality investments with a yield and term appropriate to support the insurance product obligations. These investments generally consist of fixed maturities, and, over the long term, the expected yields are taken into account when setting insurance premium rates and product profitability expectations. As a result, fixed maturities are generally held for long periods to support the liabilities, and Torchmark generally expects to hold investments until maturity. However, dispositions of investments occur from time to time, generally for reasons such as credit concerns, calls by issuers, or other factors.

Since Torchmark does not actively trade investments, realized gains and losses from the disposition and write down of investments are generally incidental to operations and are not considered a material factor in insurance pricing or product profitability. While from time to time these realized gains and losses could be significant to net income in the period in which they occur, they generally have a limited effect on the yield of the total investment portfolio. Further, the disposals have little effect on the size of the portfolio as the proceeds of the disposals are reinvested in the portfolio and the income from the reinvestments is included in net investment income. Therefore, management removes realized investment gains and losses from results of core operations when evaluating the performance of the Company. For this reason, these gains and losses are excluded from Torchmark's operating segments.

Torchmark accounts for its stock options and restricted stock under current accounting guidance requiring stock options and stock grants to be expensed based on fair value at the time of grant. Management considers stock compensation expense to be an expense of the Parent Company. Therefore, stock compensation expense is treated as a corporate expense in Torchmark's segment analysis. The following tables set forth a reconciliation of Torchmark's revenues and operations by segment to its pre-tax income and each significant line item in its *Condensed Consolidated Statements of Operations*.

TORCHMARK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollar amounts in thousands, except per share data)

Note 9—Business Segments (continued)

Reconciliation of Segment Operating Information to the Condensed Consolidated Statement of Operations

	Three Months Ended March 31, 2019						
	Life	Health	Annuity	Investment	Corporate & Other	Adjustments	Consolidated
Revenue:							
Premium	\$ 624,289	\$ 266,684	\$ —	\$ —	\$ —	\$ —	\$ 890,973
Net investment income	—	—	—	226,673	—	—	226,673
Other income	—	—	—	—	241	—	241
Total revenue	624,289	266,684	—	226,673	241	—	1,117,887
Expenses:							
Policy benefits	409,692	170,017	8,048	—	—	—	587,757
Required interest on reserves	(163,662)	(21,496)	(11,120)	196,278	—	—	—
Required interest on DAC	50,024	6,283	131	(56,438)	—	—	—
Amortization of acquisition costs	108,290	27,014	518	—	—	—	135,822
Commissions, premium taxes, and non-deferred acquisition costs	50,106	23,352	7	—	—	—	73,465
Insurance administrative expense ⁽¹⁾	—	—	—	—	59,191	400 (2)	59,591
Parent expense	—	—	—	—	2,643	—	2,643
Stock-based compensation expense	—	—	—	—	10,559	—	10,559
Interest expense	—	—	—	21,278	—	—	21,278
Total expenses	454,450	205,170	(2,416)	161,118	72,393	400	891,115
Subtotal	169,839	61,514	2,416	65,555	(72,152)	(400)	226,772
Non-operating items	—	—	—	—	—	400 (2)	400
Measure of segment profitability (pretax)	\$ 169,839	\$ 61,514	\$ 2,416	\$ 65,555	\$ (72,152)	\$ —	227,172
Realized gain (loss)—investments							1,329
Administrative settlements							(400)
Income before income taxes per Condensed Consolidated Statements of Operations							\$ 228,101

(1) Administrative expense is not allocated to insurance segments.

(2) During the first quarter of 2019, Torchmark recorded \$400 thousand in administrative settlements related to state regulatory examinations.

TORCHMARK CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(Dollar amounts in thousands, except per share data)

Note 9—Business Segments (continued)

Three Months Ended March 31, 2018							
	Life	Health	Annuity	Investment	Corporate & Other	Adjustments	Consolidated
Revenue:							
Premium	\$ 598,303	\$ 251,798	\$ 5	\$ —	\$ —	\$ —	\$ 850,106
Net investment income	—	—	—	218,084	—	—	218,084
Other income	—	—	—	—	323	(28) ⁽²⁾	295
Total revenue	598,303	251,798	5	218,084	323	(28)	1,068,485
Expenses:							
Policy benefits	400,581	160,619	8,689	—	—	—	569,889
Required interest on reserves	(156,214)	(20,404)	(12,017)	188,635	—	—	—
Required interest on DAC	47,944	6,013	153	(54,110)	—	—	—
Amortization of acquisition costs	103,777	25,257	586	—	—	—	129,620
Commissions, premium taxes, and non-deferred acquisition costs	47,394	22,265	8	—	—	(28) ⁽²⁾	69,639
Insurance administrative expense ⁽¹⁾	—	—	—	—	55,472	—	55,472
Parent expense	—	—	—	—	2,292	—	2,292
Stock-based compensation expense	—	—	—	—	9,060	—	9,060
Interest expense	—	—	—	21,622	—	—	21,622
Total expenses	443,482	193,750	(2,581)	156,147	66,824	(28)	857,594
Subtotal	154,821	58,048	2,586	61,937	(66,501)	—	210,891
Non-operating items	—	—	—	—	—	—	—
Measure of segment profitability (pretax)	\$ 154,821	\$ 58,048	\$ 2,586	\$ 61,937	\$ (66,501)	\$ —	210,891
Realized gain (loss)—investments							1,951
Income before income taxes per Condensed Consolidated Statements of Operations							\$ 212,842

(1) Administrative expense is not allocated to insurance segments.

(2) Elimination of intersegment commission.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations



How Torchmark Views Its Operations. Torchmark is the holding company for a group of insurance companies that market primarily individual life and supplemental health insurance to lower middle to middle income households throughout the United States. We view our operations by segments, which are the insurance product lines of life, health, and annuities, and the investment segment that supports the product lines. Segments are aligned based on their common characteristics, comparability of the profit margins, and management techniques used to operate each segment.



Insurance Product Line Segments. The insurance product line segments involve the marketing, underwriting, and administration of policies. Each product line is further segmented by the various distribution units that market the insurance policies. Each distribution unit operates in a niche market offering insurance products designed for that particular market. Whether analyzing profitability of a segment as a whole, or the individual distribution units within the segment, the measure of profitability used by management is the underwriting margin, which is:

Premium revenue
Less:
Policy obligations
Policy acquisition costs and commissions



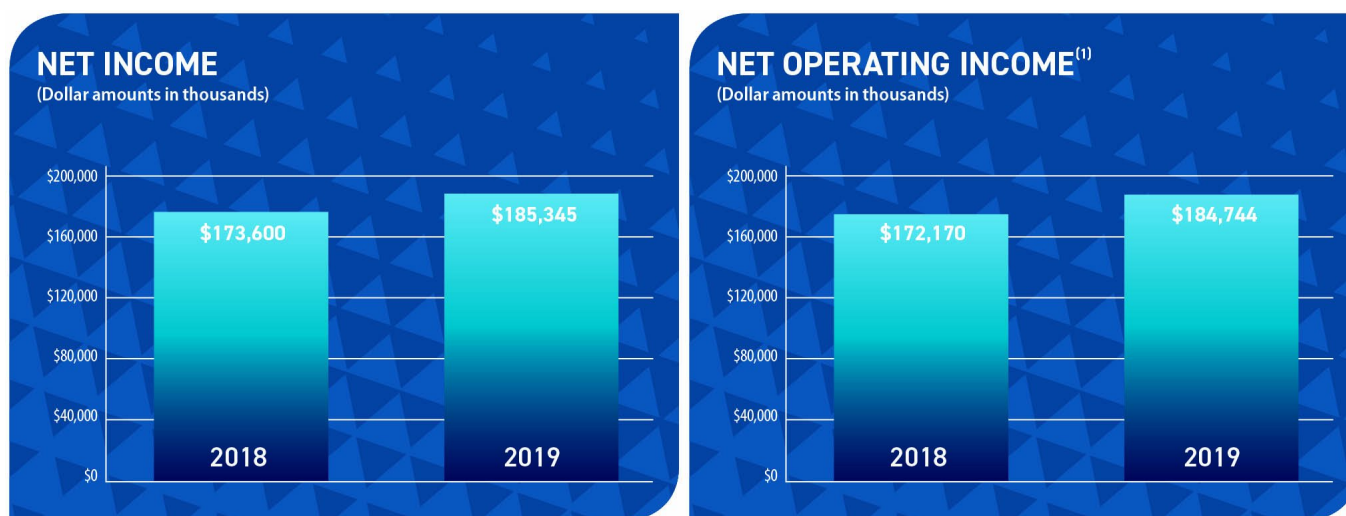
Investment Segment. The investment segment involves the management of our capital resources, including investments and the management of corporate debt and liquidity. Our measure of profitability for the investment segment is excess investment income, which is:

Net investment income
Less:
Required interest on net policy liabilities
Financing costs

Current Highlights, comparing the first three months of 2019 with the first three months of 2018.

- Net income as a return on equity (ROE) was 12.9% and net operating income as an ROE, excluding net unrealized gains on the fixed maturity portfolio was 14.7%⁽¹⁾.
- Total premium increased 5% over the prior year-ago quarter. Life premium increased 4% for the period from \$598 million in 2018 to \$624 million in 2019. Life underwriting margin increased 10% from \$155 million in 2018 to \$170 million in 2019.
- Net investment income increased 4% over the prior year-ago quarter. In addition, excess investment income increased 6% over the prior year-ago quarter.
- Total net sales increased 4% over the prior year-ago quarter from \$139 million to \$144 million.
- Book value per share increased 8% over the prior year-ago quarter from \$50.13 to \$54.13. Book value per share, excluding net unrealized gains on the fixed maturity portfolio, increased 11% over the prior year-ago quarter from \$40.94 to \$45.45⁽¹⁾.
- Through March 31, 2019, the Company repurchased 1.1 million shares at a total cost of \$89 million for an average share price of \$81.32.

The following represents net income and net operating income for the three months ended March 31, 2019 and 2018.



- (1) Net operating income is considered a non-GAAP measure and it has been used consistently by Torchmark's management for many years to evaluate the operating performance of the Company. It differs from net income primarily because it excludes certain non-operating items such as realized gains and losses and certain significant and unusual items included in net income. Net income is the most directly comparable GAAP measure.

Net operating income as an ROE, excluding net unrealized gains on the fixed maturity portfolio, is considered a non-GAAP measure. Management utilizes this measure to view the business without the effect of the unrealized gains or losses, which are primarily attributable to fluctuation in interest rates on the available for sale portfolio. The impact of the adjustment to exclude net unrealized gains on fixed maturities is \$1.0 million and \$1.1 million for 2019 and 2018, respectively.

Book value per share, excluding net unrealized gains on the fixed maturity portfolio, is also considered a non-GAAP measure. Management utilizes this measure to view the book value of the business without the effect of unrealized gains or losses, which are primarily attributable to fluctuation in interest rates on the available for sale portfolio. The impact of the adjustment to exclude net unrealized gains on fixed maturities is \$8.68 and \$9.19 for 2019 and 2018, respectively.

Summary of Operations. Net income increased 7% to \$185 million during the first three months of 2019, compared with \$174 million in the same period in 2018. This increase was primarily related to favorable underwriting income. Included in net income were after-tax realized gains of \$1 million in 2019, compared with realized after-tax gains of \$2 million for the same period in 2018. On a diluted per common share basis, net income per common share for the three months ended March 31, 2019 increased 11% from \$1.49 to \$1.65. The percentage growth in net income per share results continues to exceed the growth in dollar amounts due to our share repurchase program. Realized gains and losses are presented more fully under the caption *Realized Gains and Losses* in this report.

Net operating income is the consolidated total of segment profits after-tax and as such is considered a non-GAAP measure. Net operating income increased 7%, or \$13 million, to \$185 million for the three months ended March 31, 2019, compared with \$172 million for the same period in 2018.

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Torchmark's operations on a segment-by-segment basis are discussed in depth below. Net operating income has been used consistently by Torchmark's management for many years to evaluate the operating performance of the Company, and is a measure commonly used in the life insurance industry. It differs from net income primarily because it excludes certain non-operating items such as realized investment gains and losses and certain significant and unusual items included in net income. Management believes an analysis of net operating income is important in understanding the profitability and operating trends of the Company's business. Net income is the most directly comparable GAAP measure.

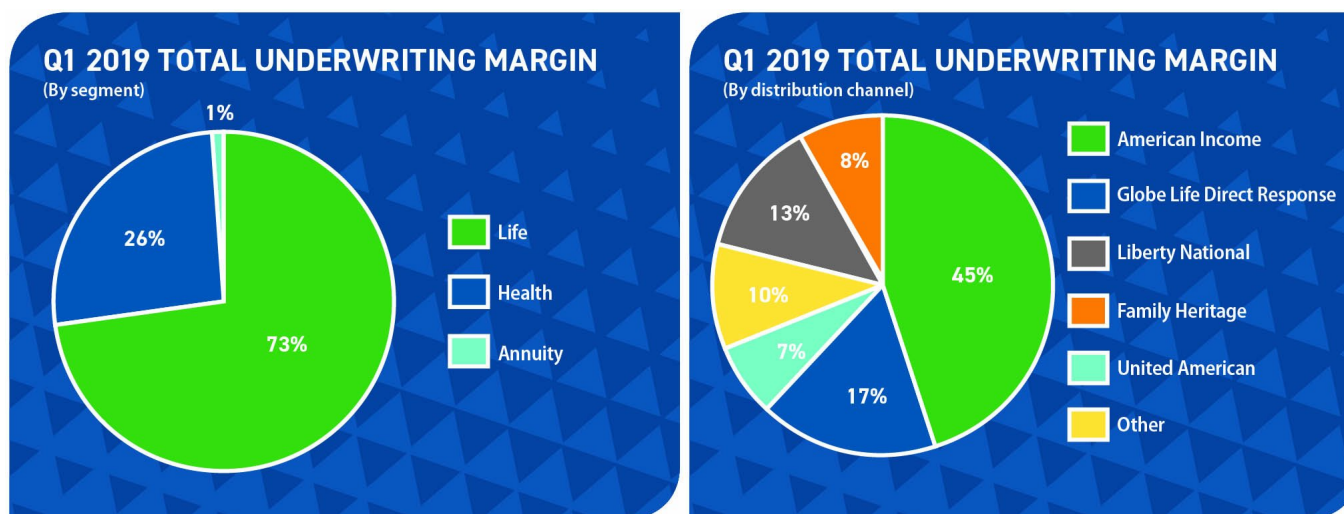
Analysis of Profitability by Segment

(Dollar amounts in thousands)

	Three Months Ended March 31,			
	2019	2018	Change	%
Life insurance underwriting margin	\$ 169,839	\$ 154,821	\$ 15,018	10
Health insurance underwriting margin	61,514	58,048	3,466	6
Annuity underwriting margin	2,416	2,586	(170)	(7)
Excess investment income	65,555	61,937	3,618	6
Other insurance:				
Other income	241	323	(82)	(25)
Administrative expense	(59,191)	(55,472)	(3,719)	7
Corporate and other	(13,202)	(11,352)	(1,850)	16
Pre-tax total	227,172	210,891	16,281	8
Applicable taxes	(42,428)	(38,721)	(3,707)	10
Net operating income	184,744	172,170	12,574	7
Reconciling items, net of tax:				
Realized gains (losses) - investments	1,050	1,541	(491)	
Part D adjustment - discontinued operations	(49)	(111)	62	
Administrative settlements	(400)	—	(400)	
Net income	<u>\$ 185,345</u>	<u>\$ 173,600</u>	<u>\$ 11,745</u>	<u>7</u>

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In the first quarter of 2019, the largest contributor of total underwriting margin was the life insurance segment and the primary distribution channel was American Income Exclusive Agency. The following tables represent the breakdown of total underwriting margin by operating segment and distribution channel for the three months ended March 31, 2019.



Total premium income rose 5% for the three months ended March 31, 2019 to \$891 million. Total net sales increased 4% to \$144 million, when compared with the same period in 2018. Total first-year collected premium was \$118 million for the 2019 period, compared with \$114 million for the 2018 period.

Life insurance premium income increased 4% to \$624 million over the prior year total of \$598 million. Life net sales rose 4% to \$105 million for the three month period of 2019. First-year collected life premium rose 2% to \$81 million. Life underwriting margins, as a percent of premium, increased to 27% in 2019 from 26% in the prior year period, due to lower policy obligations. Underwriting income increased to \$170 million for the first three months of 2019, 10% over the same period in 2018.

Health insurance premium income increased 6% to \$267 million over the prior year total of \$252 million. Health net sales rose 2% to \$39 million for the three month period of 2019. First-year collected health premium rose 8% to \$37 million. Health underwriting margins, as a percent of premium, were 23% in both 2019 and 2018. Underwriting income increased to \$62 million for the first three months of 2019, 6% over the same period in 2018.

Excess investment income, the measure of profitability of our investment segment, increased 6% during the first three months of 2019 to \$66 million from \$62 million in the same period in 2018. Growth in excess investment income continues to be impeded by investing at yields lower than the yield on dispositions and the average yield on the entire portfolio. Excess investment income per common share, reflecting the impact of our share repurchase program, increased 9% in 2019 to \$0.58 from \$0.53 in the same period last year.

Insurance administrative expenses increased 6.7% in 2019 when compared with the prior year period. These expenses were 6.6% as a percentage of premium during the first three months of 2019 compared with 6.5% a year earlier. The increase in administrative expenses was primarily due to an increase in investments in information technology.

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A discussion of each of Torchmark's segments is as follows. The following discussions are presented in the manner we view our operations, as described in *Note 9—Business Segments*.

We use three statistical measures as indicators of premium growth and sales over the near term: “annualized premium in force,” “net sales,” and “first-year collected premium.”

- Annualized premium in force is defined as the premium income that would be received over the following twelve months at any given date on all active policies if those policies remain in force throughout the twelve-month period. Annualized premium in force is an indicator of potential growth in premium revenue.
- Net sales is annualized premium issued (gross premium that would be received during the policies' first year in force and assuming that none of the policies lapsed or terminated), net of cancellations in the first thirty days after issue, except in the case of Globe Life Direct Response where net sales is annualized premium issued at the time the first full premium is paid after any introductory offer period has expired. We believe that net sales is a better indicator of the rate of premium growth as compared to annualized premium issued.
- First-year collected premium is defined as the premium collected during the reporting period for all policies in their first policy year. First-year collected premium takes lapses into account in the first year when lapses are more likely to occur, and thus is a useful indicator of how much new premium is expected to be added to premium income in the future.

Life insurance, comparing the first three months of 2019 with the first three months of 2018. As demonstrated above, life insurance is our predominant segment, representing 70% of premium income and 73% of insurance underwriting margin in the first three months of 2019. In addition, investments supporting the reserves for life business generate the majority of investment income attributable to the investment segment.

The following table presents the summary of results for life insurance.

Life Insurance Summary of Results (Dollar amounts in thousands)						
	Three Months Ended March 31,				Increase	
	2019		2018		(Decrease)	
	Amount	% of Premium	Amount	% of Premium	Amount	%
Premium and policy charges	\$ 624,289	100	\$ 598,303	100	\$ 25,986	4
Policy obligations	409,692	66	400,581	67	9,111	2
Required interest on reserves	(163,662)	(26)	(156,214)	(26)	(7,448)	5
Net policy obligations	246,030	40	244,367	41	1,663	1
Commissions, premium taxes, and non-deferred acquisition expenses	50,106	8	47,394	8	2,712	6
Amortization of acquisition costs	158,314	25	151,721	25	6,593	4
Total expense	454,450	73	443,482	74	10,968	2
Insurance underwriting margin before other income and administrative expenses	\$ 169,839	27	\$ 154,821	26	\$ 15,018	10

The following table presents Torchmark's life insurance premium by distribution channel.

Life Insurance
Premium by Distribution Channel
(Dollar amounts in thousands)

	Three Months Ended March 31,				Increase	
	2019		2018		(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
American Income Exclusive Agency	\$ 281,767	45	\$ 262,530	44	\$ 19,237	7
Globe Life Direct Response	217,559	35	211,811	35	5,748	3
Liberty National Exclusive Agency	70,717	11	69,561	12	1,156	2
Other Agencies	54,246	9	54,401	9	(155)	—
Total	<u>\$ 624,289</u>	<u>100</u>	<u>\$ 598,303</u>	<u>100</u>	<u>\$ 25,986</u>	<u>4</u>

Annualized life premium in force was \$2.5 billion at March 31, 2019, an increase of 4% over \$2.4 billion a year earlier.

An analysis of life net sales, an indicator of new business production, by distribution channel is presented below.

Life Insurance
Net Sales by Distribution Channel
(Dollar amounts in thousands)

	Three Months Ended March 31,				Increase	
	2019		2018		(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
American Income Exclusive Agency	\$ 57,551	54	\$ 55,101	54	\$ 2,450	4
Globe Life Direct Response	32,447	31	32,183	32	264	1
Liberty National Exclusive Agency	12,259	12	11,361	11	898	8
Other Agencies	3,083	3	2,658	3	425	16
Total	<u>\$ 105,340</u>	<u>100</u>	<u>\$ 101,303</u>	<u>100</u>	<u>\$ 4,037</u>	<u>4</u>

First-year collected life premium by distribution channel is presented in the table below.

Life Insurance
First-Year Collected Premium by Distribution Channel
(Dollar amounts in thousands)

	Three Months Ended March 31,				Increase	
	2019		2018		(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
American Income Exclusive Agency	\$ 47,476	58	\$ 46,907	59	\$ 569	1
Globe Life Direct Response	21,256	26	21,586	27	(330)	(2)
Liberty National Exclusive Agency	9,394	12	8,831	11	563	6
Other Agencies	2,958	4	2,250	3	708	31
Total	<u>\$ 81,084</u>	<u>100</u>	<u>\$ 79,574</u>	<u>100</u>	<u>\$ 1,510</u>	<u>2</u>

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A discussion of life operations by distribution channel follows.

While **American Income Exclusive Agency** has historically marketed primarily to members of labor unions, this agency has diversified in recent years by focusing heavily on other affinity groups, third party internet vendor leads, and referrals which has driven growth despite declines in North American union membership. This agency is Torchmark's largest contributor to life premium at 45% of Torchmark's 2019 year-to-date total. This agency produced premium income during the first three months of \$282 million, an increase of 7% over the comparable prior year period of \$263 million. First-year collected premium was \$47 million, an increase of 1%. Net sales increased 4% to \$58 million in 2019 over the 2018 total of \$55 million. Over the long-term, sales growth in our exclusive agencies is generally dependent on growth in the size of the agency force. The American Income Exclusive Agency's average agent count increased to 6,865 for the three months ended March 31, 2019, compared with 6,780 for the same period in 2018. As is the case with all Torchmark agencies, the average agent count is based on the actual count at the end of each week during the period.

The American Income Exclusive Agency continues to focus on growing and strengthening the agency force. In addition to offering financial incentives and training opportunities, the agency has made considerable investments in information technology, including launching a lead mapping and customer relationship management tool for the agency force. We anticipate this tool will help enhance agent productivity and agent retention.

The **Globe Life Direct Response** unit offers adult and juvenile life insurance through a variety of direct-to-consumer marketing approaches, which include direct mailings, insert media, and electronic media. These different approaches support and complement one another in the unit's efforts to reach the consumer. The Globe Life Direct Response channel's growth has been fueled over the years by constant innovation. In recent years, electronic media production has grown rapidly as management has aggressively increased marketing activities related to internet and mobile technology, and has focused on driving traffic to the inbound call center. We continually introduce new initiatives in this unit in an attempt to increase response and issue rates.

While the juvenile market is an important source of sales, it also is a vehicle to reach the parents and grandparents of juvenile policyholders, who are more likely to respond favorably to a Globe Life Direct Response solicitation for life coverage on themselves than is the general adult population. Also, both juvenile policyholders and their parents are low acquisition-cost targets for sales of additional coverage over time.

Globe Life Direct Response's life premium income rose 3% to \$218 million, representing 35% of Torchmark's total life premium in the first three months of 2019. Net sales for this group increased 1%, while first-year collected premium decreased 2% to \$21 million. The underwriting margin, as a percent of premium, was 17%, up from 16% in the three months ended March 31, 2018. This increase was primarily attributable to favorable claims in the first three months compared to higher-than-normal claims in the same period in 2018.

The **Liberty National Exclusive Agency** markets individual life insurance to middle-income household and worksite customers. Life premium income for this agency was \$71 million in the first three months of 2019 compared with \$70 million for the same period in 2018. Net sales for the Liberty National Exclusive Agency increased 8% to \$12 million. The continued increases in net sales reflect changes in the structure of the agency that were put in place several years ago. Recent growth in middle management within the agency will help continue this growth. First-year collected premium increased 6% to \$9 million. The underwriting margin as a percent of premium was 25%, up from 24% for the three months ended March 31, 2018. The increase is primarily attributable to higher than normal policy obligations during the first three months of 2018 compared with slightly lower policy obligations during the same period in 2019.

The Liberty National Exclusive Agency's average agent count increased 4% to 2,179 for the three months ended March 31, 2019 compared with 2,087 for the same period in 2018. We continue to execute our long term plan to grow this agency through expansion from small-town markets in the southeast to more densely populated areas with larger pools of potential agent recruits and customers. Continued expansion of this agency's presence into more heavily populated, less-penetrated areas will help create long term agency growth. Additionally, the agency's prospecting training program continues to help improve the ability of agents to develop new worksite marketing business.

The **Other Agencies** distribution channels primarily include independent agencies selling predominantly life insurance. The Other Agencies contributed \$54 million of life premium income, or 9% of Torchmark's total in the first three months of 2019, and contributed 3% of net sales for the period.

Health insurance, comparing the first three months of 2019 with the first three months of 2018. Health insurance sold by Torchmark primarily includes Medicare Supplement insurance, critical illness coverage, accident coverage, and other limited-benefit plans (e.g. dread disease and critical illness coverage).

Health premium accounted for 30% of our total premium in the 2019 period. Health underwriting margin accounted for 26% of total underwriting margin, reflective of the lower underwriting margin as a percentage of premium for health compared with life insurance. As noted under the caption *Life Insurance*, we have emphasized life insurance sales relative to health due to life's superior profitability and its greater contribution to investment income.

The following table presents underwriting margin data for health insurance.

**Health Insurance
Summary of Results**
(Dollar amounts in thousands)

	Three Months Ended March 31,				Increase (Decrease)	
	2019		2018		Amount	%
	Amount	% of Premium	Amount	% of Premium		
Premium	\$ 266,684	100	\$ 251,798	100	\$ 14,886	6
Policy obligations	170,017	64	160,619	64	9,398	6
Required interest on reserves	(21,496)	(8)	(20,404)	(8)	(1,092)	5
Net policy obligations	148,521	56	140,215	56	8,306	6
Commissions, premium taxes, and non-deferred acquisition expenses	23,352	9	22,265	9	1,087	5
Amortization of acquisition costs	33,297	12	31,270	12	2,027	6
Total expense	205,170	77	193,750	77	11,420	6
Insurance underwriting margin before other income and administrative expense	\$ 61,514	23	\$ 58,048	23	\$ 3,466	6

We market supplemental health insurance products through a number of distribution channels. The following table is an analysis of our health premium by distribution channel.

**Health Insurance
Premium by Distribution Channel**
(Dollar amounts in thousands)

	Three Months Ended March 31,				Increase (Decrease)	
	2019		2018		Amount	%
	Amount	% of Total	Amount	% of Total		
United American Independent Agency	\$ 102,905	38	\$ 94,331	37	\$ 8,574	9
Family Heritage Exclusive Agency	71,264	27	66,219	26	5,045	8
Liberty National Exclusive Agency	48,156	18	49,158	20	(1,002)	(2)
American Income Exclusive Agency	24,099	9	22,702	9	1,397	6
Direct Response	20,260	8	19,388	8	872	4
Total	\$ 266,684	100	\$ 251,798	100	\$ 14,886	6

Premium from limited-benefit plans comprise \$136 million or 51% of total health premium for 2019 compared with \$129 million in the same period in the prior year. Premium from Medicare supplement products make up the remaining 49% at \$131 million for 2019 compared with \$123 million in the same period in the prior year. Annualized health premium in force was \$1.1 billion at March 31, 2019, an increase of 6% over the prior year balance of \$1.0 billion.

Presented below is a table of health net sales by distribution channel.

Health Insurance
Net Sales by Distribution Channel
(Dollar amounts in thousands)

	Three Months Ended March 31,				Increase	
	2019		2018		(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
United American Independent Agency	\$ 14,894	39	\$ 14,183	38	\$ 711	5
Family Heritage Exclusive Agency	13,030	34	13,484	36	(454)	(3)
Liberty National Exclusive Agency	5,565	14	4,977	13	588	12
American Income Exclusive Agency	3,899	10	3,386	9	513	15
Direct Response	1,145	3	1,575	4	(430)	(27)
Total	<u>\$ 38,533</u>	<u>100</u>	<u>\$ 37,605</u>	<u>100</u>	<u>\$ 928</u>	<u>2</u>

Sales of limited-benefit plans comprise \$23 million or 59% of total net sales for 2019 compared with \$22 million in the same period in the prior year. Medicare supplement sales make up the remaining 41% at \$16 million for 2019 compared with \$16 million in the same period in the prior year.

The following table presents health insurance first-year collected premium by distribution channel.

Health Insurance
First-Year Collected Premium by Distribution Channel
(Dollar amounts in thousands)

	Three Months Ended March 31,				Increase	
	2019		2018		(Decrease)	
	Amount	% of Total	Amount	% of Total	Amount	%
United American Independent Agency	\$ 16,084	43	\$ 14,085	41	\$ 1,999	14
Family Heritage Exclusive Agency	11,936	32	11,369	33	567	5
Liberty National Exclusive Agency	4,601	12	4,278	12	323	8
American Income Exclusive Agency	3,758	10	3,535	10	223	6
Direct Response	1,023	3	1,280	4	(257)	(20)
Total	<u>\$ 37,402</u>	<u>100</u>	<u>\$ 34,547</u>	<u>100</u>	<u>\$ 2,855</u>	<u>8</u>

Premium related to limited-benefit plans comprise \$20 million or 55% of total first-year collected premium for 2019 compared with \$19 million in the same period in the prior year. First-year collected premium from Medicare supplement policies make up the remaining 45% at \$17 million for 2019 compared with \$15 million in the same period in the prior year.

A discussion of health operations by distribution channel follows.

The **United American Independent Agency** consists of independent agencies who can also sell for other companies. The United American Independent Agency was Torchmark's largest health agency in terms of health premium income. Premium income was \$103 million, representing 38% of Torchmark's total health premium. Net sales were \$15 million, or 39% of Torchmark's health net sales. This agency primarily produces Medicare Supplement insurance, with Medicare Supplement premium income of \$100 million. The United American Independent Agency represents approximately 77% of all Torchmark Medicare Supplement premium and 93% of Medicare Supplement net sales. Medicare Supplement premium in this agency rose 10%. Net sales of the Medicare Supplement product increased 5% in 2019 over the prior year period primarily as a result of an increase in individual sales. First-year collected health premium rose 14% to \$16 million.

The **Family Heritage Exclusive Agency** primarily markets individual limited-benefit supplemental health insurance in non-urban areas. Most of their policies include a cash-back feature, such as a return of premium whereby any excess of premiums over claims paid is returned to the policyholder at the end of a specified period stated within the insurance policy. The Family Heritage Exclusive Agency contributed \$13 million, representing 34% of Torchmark's total net health sales in the first three months of 2019. Health premium income was \$71 million for the three month period of 2019, representing 27% of Torchmark's health premium compared with \$66 million or 26% of Torchmark's health premium in the prior year period. Underwriting margin as a percent of premium was 25%, up from 23% for the three months ended March 31, 2018. The increase was primarily attributable to the growing portion of new business sold at margins higher than the business purchased in 2012 which is running off over time. The average agent count was 1,002 for the three months ended March 31, 2019 compared with 988 for the same period in 2018, an increase of 1%.

The **Liberty National Exclusive Agency** represented 18% of all Torchmark health premium income at \$48 million in the three months of 2019. The Liberty National Exclusive Agency markets limited-benefit health supplemental products consisting primarily of critical illness insurance. Much of Liberty National Exclusive Agency's health business is now generated through worksite marketing. In 2019, health premium income in the Liberty National Exclusive Agency declined \$1 million to \$48 million from prior year premium. Liberty's health premium decline is primarily due to the runoff of a block of discontinued Medicare Supplement policies previously sold by the agency.

Other distribution. While some of the Company's distribution channels market health products, their main emphasis is on life insurance. On a combined basis, they accounted for 17% of Torchmark's health premium in the 2019 period. The American Income Exclusive Agency primarily markets accident plans. The Direct Response unit markets primarily Medicare Supplements to employer or union-sponsored groups.

Annuities. Annuities represent an insignificant part of our business and are not expected to be an important part of our marketing strategy going forward.

Operating expenses, comparing the first three months of 2019 with the first three months of 2018. Operating expenses consist of insurance administrative expenses and Parent Company expenses. Also included is stock compensation expense, which is viewed by us as Parent Company expense. Insurance administrative expenses relate to premium income for a given period; therefore, we measure those expenses as a percentage of premium income. Total expenses are measured as a percentage of total revenues. An analysis of operating expenses is shown below.

Operating Expenses Selected Information

(Dollar amounts in thousands)

	Three Months Ended March 31,			
	2019		2018	
	Amount	% of Premium	Amount	% of Premium
Insurance administrative expenses:				
Salaries	\$ 25,184	2.8	\$ 24,645	2.9
Other employee costs	9,693	1.1	9,687	1.1
Information technology costs	10,173	1.1	6,803	0.8
Legal costs	2,175	0.3	2,019	0.2
Other administrative costs	11,966	1.3	12,318	1.5
Total insurance administrative expenses	59,191	6.6	55,472	6.5
Parent company expense	2,643		2,292	
Stock compensation expense	10,559		9,060	
Administrative settlements	400		—	
Total operating expenses, per Condensed Consolidated Statements of Operations	\$ 72,793		\$ 66,824	
Insurance administrative expenses:				
Increase (decrease) over prior year	6.7%		6.9%	
Total operating expenses:				
Increase (decrease) over prior year	8.9%		7.2%	

The 6.7% increase in administrative expenses was primarily due to an increase in information technology expenses. The increase in information technology costs reflects investments related to data analytics capabilities, administrative systems modernizations, and information security programs. The increase in stock compensation expense was primarily due to higher expense associated with equity awards, reflecting Torchmark's increasing share price over time.

Investments (excess investment income), comparing the first three months of 2019 with the first three months of 2018. We manage our capital resources including investments, debt, and cash flow through the investment segment. Excess investment income represents the profit margin attributable to investment operations and is the measure that we use to evaluate the performance of the investment segment as described in *Note 9—Business Segments*. It is defined as net investment income less the required interest on net policy liabilities and the interest cost associated with capital funding or “financing costs.”

We also view excess investment income per diluted common share as an important and useful measure to evaluate the performance of the investment segment. It is defined as excess investment income divided by the total diluted weighted average shares outstanding, representing the contribution by the investment segment to the consolidated earnings per share of the Company. Since implementing our share repurchase program in 1986, we have used \$7.6 billion of cash flow to repurchase Torchmark shares after determining that the repurchases provided a greater return than other investment alternatives. If we had not used this excess cash to repurchase shares, but had instead invested it in interest-bearing assets, we would have earned more investment income and had more shares outstanding. As excess investment income per diluted common share incorporates all capital resources, we believe that excess investment income per diluted share is a useful measure to evaluate the investment segment. In order to put all capital resource uses on a comparable basis, we believe that excess investment income per diluted share is an appropriate measure of the investment segment.

The following table summarizes Torchmark's investment income, excess investment income, and excess investment income per diluted common share.

Excess Investment Income

(Dollar amounts in thousands)

	Three Months Ended March 31,		Increase (Decrease)	
	2019	2018	Amount	%
Net investment income	\$ 226,673	\$ 218,084	\$ 8,589	4
Interest on net insurance policy liabilities:				
Interest on reserves	(196,278)	(188,635)	(7,643)	4
Interest on deferred acquisition costs	56,438	54,110	2,328	4
Net required interest	(139,840)	(134,525)	(5,315)	4
Financing costs	(21,278)	(21,622)	344	(2)
Excess investment income	\$ 65,555	\$ 61,937	\$ 3,618	6
Excess investment income per diluted share	\$ 0.58	\$ 0.53	\$ 0.05	9
Mean invested assets (at amortized cost)	\$ 16,780,373	\$ 15,965,283	\$ 815,090	5
Average net insurance policy liabilities ⁽¹⁾	9,942,946	9,613,064	329,882	3
Average debt and preferred securities (at amortized cost)	1,656,543	1,512,948	143,595	9

(1) Net of deferred acquisition costs, excluding the associated unrealized gains and losses thereon.

Excess investment income increased 6% compared with the year-ago period, while on a per diluted common share basis increased 9% from the prior year-ago period. Excess investment income per diluted common share generally increases at a faster pace than excess investment income because the number of diluted common shares outstanding generally decreases from year to year as result of our share repurchase program.

Net investment income in 2019 was \$227 million or 4% greater than the year ago period. Mean invested assets increased 5% during the first three months of 2019 over the same period last year. The effective annual yield rate earned on the fixed maturity portfolio was 5.53% in the first three months of 2019, compared with 5.58% a year earlier. Growth in net investment income has been negatively impacted in recent years by the low interest rate environment during which time we have invested new money at rates less than the average portfolio yield rate and reinvested the proceeds from dispositions at yield rates less than what we earned on these bonds prior to disposition. As a result, growth in net investment income has been slower than the growth in mean invested assets in recent years. While Torchmark may see a slightly higher turnover rate of 4% to 5% in 2019 due to potential calls of highly rated municipal securities, we expect that the average annual turnover of fixed maturity assets during the next five years will be between 1% to 3% of the portfolio and will not have a material negative impact on investment income.

Should long-term interest rates rise, Torchmark's net investment income would benefit due to higher interest rates on new investments. While such a rise in interest rates could adversely affect the fair value of the fixed maturities portfolio, we could withstand an increase in interest rates of approximately 65 to 70 basis points before the net unrealized gains on our fixed maturity portfolio as of March 31, 2019 would be eliminated. Should interest rates increase further than that, we would not be concerned with potential interest rate driven unrealized losses in our fixed maturity portfolio because we have the intent and, more importantly, the ability to hold our fixed maturities to maturity.

Required interest on net insurance policy liabilities is the amount of net investment income considered by management necessary to "fund" net insurance policy liabilities, which is the net of the benefit reserve liability and deferred acquisition cost asset. As such, it is removed from the investment segment and applied to the insurance segments to offset the effect of the interest required by the insurance segments. As discussed in *Note 9—Business Segments*, management believes this provides a more meaningful analysis of the investment and insurance segments. Required interest is calculated using the actuarial interest assumptions used to discount the benefit reserve liability and to amortize the deferred acquisition costs for our insurance policies in force.

The great majority of our life and health insurance policies are fixed interest-rate protection policies, not investment products, and are accounted for under current accounting guidance for long-duration insurance products which mandates that interest rate assumptions for a particular block of business be “locked in” for the life of that block. Each calendar year, we set the discount rate to be used to calculate the benefit reserve liability and deferred acquisition cost asset for all insurance policies issued that year. That rate is based on the new money yields that we expect to earn on cash flow received in the future from policies of that issue year, and cannot be changed. The discount rate used for policies issued in the current year has no impact on the in force policies issued in prior years as the rates of all prior issue years are also locked in. As such, the overall discount rate for the entire in force block of 5.6% is a weighted average of the discount rates being used from all issue years. Changes in the overall weighted-average discount rate over time are caused by changes in the mix of the reserves and the deferred acquisition cost asset by issue year on the entire block of in force business. Business issued in the current year has very little impact on the overall weighted-average discount rate due to the size of our in force business.

Required interest on net insurance policy liabilities increased \$5 million or 4% to \$140 million, in line with the growth in average net interest-bearing insurance policy liabilities.

Financing costs for the segment primarily consist of interest on our various debt instruments. Interest on our debt decreased in the first three months of 2019 to \$21 million compared with \$22 million for the same period last year. The decrease on funded debt was primarily attributed to refinancing the 9.25% Senior Notes in October 2018 offset by an increase in short-term interest rates. More information concerning debt can be found in the *Capital Resources* section of this report.

Analysis of Financing Costs

(Dollar amounts in thousands)

	Three Months Ended March 31,		Increase (Decrease)	
	2019	2018	Amount	%
Interest on funded debt	\$ 17,406	\$ 18,209	\$ (803)	(4)
Interest on term loan	861	698	163	23
Interest on short-term debt	3,010	2,714	296	11
Other	1	1	—	—
Financing costs	\$ 21,278	\$ 21,622	\$ (344)	(2)

Realized Gains and Losses, comparing the first three months of 2019 with the first three months of 2018. Our core business of providing insurance coverage requires us to maintain a large and diverse investment portfolio to support our insurance liabilities. From time to time, investments are disposed of or written down prior to maturity, resulting in realized gains or losses. Since these dispositions and write-downs are outside the course of our normal operations, management removes the effects of such gains and losses when evaluating its overall core operating results.

In the first quarter of 2018, the Company elected to measure its investment in certain limited partnerships at fair value in accordance with the fair value option for financial instruments with changes recognized in "Realized Investment Gains (Losses)" in the *Condensed Consolidated Statements of Operations*. The following table summarizes our tax-effected realized gains (losses) by component.

Analysis of Realized Gains (Losses), Net of Tax

(Dollar amounts in thousands, except per share data)

	Three Months Ended March 31,			
	2019		2018	
	Amount	Per Share	Amount	Per Share
Fixed maturities:				
Sales	\$ (2,355)	\$ (0.02)	\$ —	\$ —
Matured or other redemptions	5,254	0.05	1,095	0.01
Fair value option—change in fair value	(1,726)	(0.02)	442	—
Other	(123)	—	4	—
Total realized gains (losses)	\$ 1,050	\$ 0.01	\$ 1,541	\$ 0.01

Investments (acquisitions), comparing the first three months of 2019 with the first three months of 2018.

Torchmark's investment policy calls for investing primarily in investment grade fixed maturities that meet our quality and yield objectives. We generally prefer to invest in securities with longer maturities because they more closely match the long-term nature of our policy liabilities. We believe this strategy is appropriate because our cash flows from operations and invested assets are positive, stable and predictable. If longer-term securities that meet our quality and yield objectives are not available, we do not relax our quality objectives; instead, we consider investing in shorter or lower yielding securities taking into consideration the slope of the yield curve and other factors.

The following table summarizes selected information for fixed maturity purchases. The effective annual yield shown is the yield calculated to the "worst call date." For non-callable bonds, the worst-call date is always the maturity date. For callable bonds, the worst-call date is the call date that produces the lowest yield (or the maturity date, if the yield calculated to the maturity date is lower than the yield calculated to each call date).

Fixed Maturity Acquisitions Selected Information

(Dollar amounts in thousands)

	Three Months Ended March 31,	
	2019	2018
Cost of acquisitions:		
Investment-grade corporate securities	\$ 263,741	\$ 222,519
Investment-grade municipal securities	184,965	127,526
Other investment-grade securities	1,958	8,708
Total fixed maturity acquisitions⁽¹⁾	\$ 450,664	\$ 358,753
Effective annual yield (one year compounded) ⁽²⁾	4.88%	4.46%
Average life (in years, to next call)	19.5	14.8
Average life (in years, to maturity)	28.2	23.4
Average rating	A+	A

(1) Fixed maturity acquisitions include unsettled trades of \$29,553 and \$0 as of March 31, 2019 and 2018, respectively.

(2) Tax-equivalent basis, where the yield on tax-exempt securities is adjusted to produce a yield equivalent to the pretax yield on taxable securities.

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Acquisitions in both periods consisted primarily of corporate bonds with securities spanning a diversified range of issuers, industry sectors, and geographical regions. During 2019, we anticipate calls of higher rated municipal bonds and we plan to reinvest the proceeds from these calls in bonds with similar ratings. The higher average rating in the current period versus the year ago period is due in part to such reinvestment activity.

We are not a party to any credit default swaps or other derivative contracts. We do not participate in securities lending, we have no off-balance sheet investments, and we do not have any exposure to European sovereign debt at March 31, 2019. In 2017, it was announced by the head of the United Kingdom's Financial Conduct Authority that they plan to phase out the floating rate, London Interbank Offered Rate (LIBOR), by the end of 2021. Uncertainty remains as to what will be the replacement floating rate. As of March 31, 2019, Torchmark had limited assets and liabilities that utilize LIBOR as a benchmark rate. We will continue to monitor the progress towards the establishment of a new floating rate.

Selected information concerning the fixed-maturity portfolio is as follows:

Fixed Maturity Portfolio Selected Information

	At		
	March 31, 2019	December 31, 2018	March 31, 2018
Average annual effective yield ⁽¹⁾	5.51%	5.55%	5.57%
Average life, in years, to:			
Next call ⁽²⁾	16.9	16.9	17.3
Maturity ⁽²⁾	18.8	18.7	19.1
Effective duration to:			
Next call ^(2,3)	10.3	10.0	10.5
Maturity ^(2,3)	11.2	10.8	11.3

(1) Tax-equivalent basis. The yield on tax-exempt securities is adjusted to produce a yield equivalent to the pretax yield on taxable securities.

(2) Torchmark calculates the average life and duration of the fixed maturity portfolio two ways: (a) based on the next call date which is the next call date for callable bonds and the maturity date for noncallable bonds, and (b) based on the maturity date of all bonds, whether callable or not.

(3) Effective duration is a measure of the price sensitivity of a fixed-income security to a particular change in interest rates.

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Fixed Maturities. The following tables summarize certain information about the major corporate sectors and security types held in our fixed maturity portfolio at March 31, 2019 and December 31, 2018.

Fixed Maturities by Sector

At March 31, 2019

(Dollar amounts in thousands)

	Below Investment Grade				Total Fixed Maturities				% of Total Fixed Maturities	
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	At Amortized Cost	At Fair Value
Corporates:										
Financial										
Insurance - life, health, P&C.....	\$ 66,264	\$ 3,991	\$ (8,718)	\$ 61,537	\$ 2,005,259	\$ 247,775	\$ (15,393)	\$ 2,237,641	12	12
Banks	27,068	—	(2,138)	24,930	902,037	87,811	(4,477)	985,371	6	6
Other financial	74,958	—	(17,165)	57,793	957,532	52,145	(24,595)	985,082	6	6
Total financial	168,290	3,991	(28,021)	144,260	3,864,828	387,731	(44,465)	4,208,094	24	24
Utilities										
Electric	36,345	315	(4,135)	32,525	1,465,230	237,205	(7,665)	1,694,770	10	10
Gas and water	—	—	—	—	519,562	42,625	(2,025)	560,162	3	3
Total utilities	36,345	315	(4,135)	32,525	1,984,792	279,830	(9,690)	2,254,932	13	13
Industrial - Energy										
Pipelines	40,544	26	(1,973)	38,597	913,684	89,428	(7,309)	995,803	6	6
Exploration and production	28,110	1,464	(488)	29,086	547,933	62,622	(3,507)	607,048	3	3
Oil field services	—	—	—	—	49,833	6,868	—	56,701	—	—
Refiner	—	—	—	—	89,157	13,884	—	103,041	1	1
Driller	44,802	—	(16,593)	28,209	44,802	—	(16,593)	28,209	—	—
Total energy	113,456	1,490	(19,054)	95,892	1,645,409	172,802	(27,409)	1,790,802	10	10
Industrial - Basic materials										
Chemicals	—	—	—	—	555,681	18,217	(11,246)	562,652	3	3
Metals and mining	60,604	4,787	—	65,391	386,829	56,523	(243)	443,109	2	3
Forestry products and paper	—	—	—	—	111,466	9,494	(513)	120,447	1	1
Total basic materials ...	60,604	4,787	—	65,391	1,053,976	84,234	(12,002)	1,126,208	6	7
Industrial - Consumer, non-cyclical	33,756	349	(5,627)	28,478	2,094,864	118,733	(45,324)	2,168,273	13	13
Other industrials	46,778	710	(1,879)	45,609	1,363,833	94,274	(15,029)	1,443,078	9	8
Industrial - Transportation	26,097	—	(2,137)	23,960	570,997	64,663	(4,303)	631,357	4	4
Other corporate sectors	113,222	1,105	(11,009)	103,318	1,369,280	76,623	(39,126)	1,406,777	9	8
Total corporates	598,548	12,747	(71,862)	539,433	13,947,979	1,278,890	(197,348)	15,029,521	88	87
Other fixed maturities:										
Government (U.S., municipal, and foreign)	440	120	(143)	417	1,836,200	131,996	(1,208)	1,966,988	11	11
Collateralized debt obligations	57,473	25,664	(5,888)	77,249	57,473	25,664	(5,888)	77,249	—	1
Other asset-backed securities	14,475	—	(343)	14,132	145,701	3,546	(365)	148,882	1	1
Mortgage-backed securities ⁽¹⁾	—	—	—	—	875	71	(1)	945	—	—
Total fixed maturities ...	\$ 670,936	\$ 38,531	\$ (78,236)	\$ 631,231	\$15,988,228	\$1,440,167	\$ (204,810)	\$17,223,585	100	100

(1) Includes Government National Mortgage Association (GNMA).

Fixed Maturities by Sector
At December 31, 2018
(Dollar amounts in thousands)

	Below Investment Grade				Total Fixed Maturities				% of Total Fixed Maturities	
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	At Amortized Cost	At Fair Value
Corporates:										
Financial										
Insurance - life, health, P&C	\$ 66,310	\$ 3,836	\$ (8,674)	\$ 61,472	\$ 1,941,967	\$ 181,552	\$ (28,158)	\$ 2,095,361	12	13
Banks	27,075	—	(1,348)	25,727	871,485	50,205	(16,730)	904,960	6	5
Other financial	74,958	—	(19,584)	55,374	946,316	31,118	(42,627)	934,807	6	6
Total financial	168,343	3,836	(29,606)	142,573	3,759,768	262,875	(87,515)	3,935,128	24	24
Utilities										
Electric	36,889	176	(3,277)	33,788	1,458,193	188,136	(14,943)	1,631,386	10	10
Gas and water	—	—	—	—	531,313	29,710	(9,456)	551,567	3	3
Total utilities	36,889	176	(3,277)	33,788	1,989,506	217,846	(24,399)	2,182,953	13	13
Industrial - Energy										
Pipelines	40,553	—	(4,762)	35,791	925,689	50,835	(25,395)	951,129	6	6
Exploration and production	17,187	—	(1,554)	15,633	548,099	30,969	(17,518)	561,550	3	3
Oil field services	—	—	(1)	(1)	49,837	3,893	(715)	53,015	—	—
Refiner	—	—	—	—	84,255	8,183	(1,496)	90,942	1	1
Driller	44,820	—	(17,247)	27,573	44,820	—	(17,247)	27,573	—	—
Total energy	102,560	—	(23,564)	78,996	1,652,700	93,880	(62,371)	1,684,209	10	10
Industrial - Basic materials										
Chemicals	—	—	—	—	554,481	8,818	(25,302)	537,997	4	3
Metals and mining	57,409	92	(1,492)	56,009	386,782	33,868	(2,500)	418,150	2	3
Forestry products and paper	—	—	—	—	111,612	7,329	(2,711)	116,230	—	1
Total basic materials ...	57,409	92	(1,492)	56,009	1,052,875	50,015	(30,513)	1,072,377	6	7
Industrial - Consumer, non-cyclical	33,847	587	(6,710)	27,724	2,024,230	76,669	(89,536)	2,011,363	13	12
Other industrials	46,852	—	(3,311)	43,541	1,364,192	62,338	(42,222)	1,384,308	9	8
Industrial - Transportation	26,213	—	(2,592)	23,621	569,786	47,496	(10,325)	606,957	4	4
Other corporate sectors ...	135,873	982	(16,241)	120,614	1,371,624	47,006	(69,913)	1,348,717	9	9
Total corporates	607,986	5,673	(86,793)	526,866	13,784,681	858,125	(416,794)	14,226,012	88	87
Other fixed maturities:										
Government (U.S., municipal, and foreign)	306	93	—	399	1,763,496	90,475	(4,537)	1,849,434	11	11
Collateralized debt obligations	57,769	22,014	(6,414)	73,369	57,769	22,014	(6,414)	73,369	—	1
Other asset-backed securities	—	—	—	—	146,546	2,159	(633)	148,072	1	1
Mortgage-backed securities ⁽¹⁾	—	—	—	—	979	67	(1)	1,045	—	—
Total fixed maturities ...	\$ 666,061	\$ 27,780	\$ (93,207)	\$ 600,634	\$15,753,471	\$ 972,840	\$ (428,379)	\$16,297,932	100	100

(1) Includes GNMA's.

At March 31, 2019, fixed maturities had a fair value of \$17.2 billion, compared with \$16.3 billion at December 31, 2018. The net unrealized gain position in the fixed-maturity portfolio increased from \$544 million at December 31, 2018 to \$1.2 billion at March 31, 2019 due to decreases in interest rates during the period.

Corporate securities, which consist of bonds and redeemable preferred stocks, were the largest component of the fixed maturity portfolio, representing 88% of amortized cost and 87% of fair value. The remainder of the portfolio is invested primarily in securities issued by the U.S. government and U.S. municipalities. The Company holds insignificant amounts in foreign government bonds, collateralized debt obligations, asset-backed securities, and agency mortgage-backed securities. Corporate securities are diversified over a variety of industry sectors and issuers. The total fixed maturity portfolio consisted of 624 issuers.

An analysis of the fixed maturity portfolio at March 31, 2019 and December 31, 2018 by a composite quality rating is shown in the tables below. The composite quality rating for each security is the average of the security's ratings as assigned by Moody's Investor Service, Standard & Poor's, Fitch Ratings, and Dominion Bond Rating Service, LTD. The ratings assigned by these four nationally recognized statistical rating organizations are evenly weighted when calculating the average. The composite quality rating is created using a methodology developed by Torchmark Corporation using ratings from the various rating agencies noted above. (It should be noted that the composite quality rating is not a Standard & Poor's credit rating. Standard and Poor's does not sponsor, endorse or promote the composite quality rating and shall not be liable for any use of the composite quality rating.) Included in the chart below are private placement fixed maturity holdings of \$598 million at amortized cost (\$605 million at fair value). The ratings for these holdings were assigned by the third party managers of those securities.

Fixed Maturities by Rating
At March 31, 2019
(Dollar amounts in thousands)

	Amortized Cost	%	Fair Value	%	Average Composite Quality Rating on Amortized Cost
Investment grade:					
AAA	\$ 797,069	5	\$ 835,202	5	
AA	1,259,802	8	1,362,352	8	
A	4,187,083	26	4,780,810	28	
BBB+	3,651,360	23	3,936,943	23	
BBB	3,698,091	23	3,885,893	22	
BBB-	1,723,887	11	1,791,154	10	
Investment grade	15,317,292	96	16,592,354	96	A-
Below investment grade:					
BB	422,727	2	403,541	2	
B	127,748	1	104,195	1	
Below B	120,461	1	123,495	1	
Below investment grade	670,936	4	631,231	4	B+
	<u><u>\$ 15,988,228</u></u>	<u><u>100</u></u>	<u><u>\$ 17,223,585</u></u>	<u><u>100</u></u>	
Weighted average composite quality rating					BBB+

Fixed Maturities by Rating
At December 31, 2018
(Dollar amounts in thousands)

	Amortized Cost	%	Fair Value	%	Average Composite Quality Rating on Amortized Cost
Investment grade:					
AAA	\$ 750,101	5	\$ 766,341	5	
AA	1,222,158	8	1,282,834	8	
A	3,983,869	25	4,378,152	26	
BBB+	3,606,143	23	3,707,078	23	
BBB	3,695,585	23	3,746,661	23	
BBB-	1,829,554	12	1,816,232	11	
Investment grade	15,087,410	96	15,697,298	96	A-
Below investment grade:					
BB	403,649	3	362,090	2	
B	164,052	1	123,904	1	
Below B	98,360	—	114,640	1	
Below investment grade	666,061	4	600,634	4	
	\$ 15,753,471	100	\$ 16,297,932	100	B+
Weighted average composite quality rating					BBB+

An analysis of the changes in our portfolio of below-investment-grade bonds at amortized cost during the first three months of 2019 is as follows:

Below-Investment-Grade Bonds
(Dollar amounts in thousands)

Balance as of December 31, 2018	\$ 666,061
Downgrades by rating agencies	47,422
Upgrades by rating agencies	(7,392)
Disposals	(36,169)
Amortization and other	1,014
Balance as of March 31, 2019	\$ 670,936

Our investment policy calls for investing primarily in fixed maturities that are investment grade and meet our quality and yield objectives. Thus, any increases in below-investment-grade issues are typically a result of ratings downgrades of existing holdings. Below-investment-grade bonds at amortized cost were 13% of our shareholders' equity, excluding the effect of unrealized gains and losses on fixed maturities as of March 31, 2019.

Share Purchases. Torchmark has an on-going share repurchase program which began in 1986 that is reviewed quarterly by management and is reaffirmed by the Board of Directors on an annual basis. The program was reaffirmed on August 7, 2018. With no specified authorization amount, we determine the amount of repurchases based on the amount of our excess cash flow, general market conditions, and other alternative uses. These purchases are made at the Parent Company with excess cash flow. Excess cash flow is primarily made up of cash received from the insurance subsidiaries less dividends paid to shareholders and interest paid on our debt. See further discussion in the *Capital Resources* section below. Share purchases are also made with the proceeds from option exercises by current and former employees in order to reduce dilution. The following chart summarizes share purchases for the three month periods ended March 31, 2019 and 2018.

Analysis of Share Purchases

(Amounts in thousands, except per share data)

	Three Months Ended March 31,					
	2019			2018		
	Shares	Amount	Average Price	Shares	Amount	Average Price
Purchases with:						
Excess cash flow at the Parent Company	1,089	\$ 88,608	\$ 81.32	1,002	\$ 86,515	\$ 86.32
Option exercise proceeds	271	22,288	82.29	266	23,439	88.15
Total	1,360	\$ 110,896	\$ 81.52	1,268	\$ 109,954	\$ 86.70

Throughout the remainder of this discussion, share purchases will only refer to those made from excess cash flow at the Parent Company.

Financial Condition

Liquidity. Liquidity provides Torchmark with the ability to meet on demand the cash commitments required to support our business operations and meet our financial obligations. Our liquidity is evidenced by consistent positive cash flow, a portfolio of marketable investments, and our credit facility.

Insurance subsidiary liquidity. The operations of our insurance subsidiaries have historically generated substantial cash inflows in excess of immediate cash needs. Sources of cash flows for the insurance subsidiaries include primarily premium and investment income. Cash outflows from operations include policy benefit payments, commissions, administrative expenses and taxes. The funds to provide for policy benefits, the majority of which are paid in future periods, are invested primarily in long-term fixed maturities as they better match the long-term nature of these obligations. In addition to investment income, maturities and scheduled repayments in the investment portfolio are sources of cash. Excess cash available from the insurance subsidiaries' operations is generally distributed as a dividend to the Parent Company, subject to regulatory restriction. The dividends are generally paid in amounts equal to the subsidiaries' prior year statutory net income excluding realized capital gains. While the leading source of the excess cash is investment income, a significant portion of the excess cash also comes from underwriting income due to our high underwriting margins and effective expense control.

Parent Company liquidity. An important source of Parent Company liquidity is the dividends from its insurance subsidiaries. These dividends are received throughout the year and are used by the Parent Company to pay dividends on common and preferred stock, interest and principal repayment requirements on Parent Company debt, and operating expenses of the Parent Company.

	Three Months Ended March 31,		Twelve Months Ended December 31,	
	2019	2018	Projected 2019	2018
Liquidity Sources:				
Dividends from Subsidiaries	\$ 141,549	\$ 85,137	\$ 480,000	\$ 448,142
Excess Cash Flows	111,733	66,176	370,000	349,243

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Additional sources of liquidity for the Parent Company are cash, intercompany receivables, intercompany borrowings, public debt markets, and a credit facility. At March 31, 2019, the Parent Company had \$118 million of invested cash and net intercompany receivables. The credit facility is discussed below.

Short-term borrowings. We have a credit facility with a group of lenders allowing for unsecured revolving borrowings and stand-by letters of credit up to \$750 million, which could be extended up to \$1 billion. We may request the extension, however, it is not guaranteed. Up to \$250 million in letters of credit can be issued against the facility. The facility serves as a back-up credit line for a commercial paper program under which we may issue commercial paper at any time, with total commercial paper outstanding not to exceed the facility maximum, less any letters of credit issued. Interest on the commercial paper program is charged at variable rates. This facility was amended in May 2016 to extend the maturity date of the facility to May 2021. The amendment also allowed for an additional \$100 million term loan to be issued under the facility rate structure. The term loan was issued during 2016 and will be repaid in quarterly escalating installments with a balloon payment of \$75 million due in May 2021. Interest on the term loan is computed and paid monthly at 125 basis points plus 1 month LIBOR. In accordance with the agreement, we are subject to certain covenants regarding capitalization. As of March 31, 2019, we were in full compliance with those covenants.

Commercial paper outstanding and any amortization payments of the term loan due within one year are included in short-term debt. The remaining balance of the term loan is included in long-term debt.

The following table presents certain information about our commercial paper borrowings.

Credit Facility - Commercial Paper (Dollar amounts in thousands)

	At		
	March 31, 2019	December 31, 2018	March 31, 2018
Balance of commercial paper at end of period (par value)	\$ 288,000	\$ 302,100	\$ 361,290
Annualized interest rate	2.88%	2.93%	2.17%
Letters of credit outstanding	\$ 155,000	\$ 155,000	\$ 155,000
Remaining amount available under credit line	307,000	292,900	233,710
	Three Months Ended March 31,		
	2019	2018	
Average balance of commercial paper outstanding during period (par value)	\$ 292,962	\$ 376,553	
Daily-weighted average interest rate (annualized)	2.94%	1.92%	
Maximum daily amount outstanding during period (par value)	\$ 338,000	\$ 525,990	

The decrease in commercial paper during the three months ended March 31, 2019 reflects timing of cash needs at the Parent Company. We had no difficulties in accessing the commercial paper market under this facility during the three month periods ended March 31, 2019 and 2018.

Torchmark expects to have readily available funds for 2019 and the foreseeable future to conduct its operations and to maintain target capital ratios in the insurance subsidiaries through internally-generated cash flow and the credit facility. In the unlikely event that more liquidity is needed, the Parent Company could generate additional funds through multiple sources including, but not limited to, the issuance of debt, an additional short-term credit facility, and intercompany borrowing.

Consolidated liquidity. Consolidated net cash inflows from operations were \$423 million in the first three months of 2019, compared with \$382 million in the same period of 2018. The increase is primarily attributable to fluctuations in the settlement of certain amounts included in other liabilities. In addition to cash inflows from operations, our insurance companies received proceeds from dispositions of fixed maturities available for sale in the amount of \$188 million during the 2019 period. As previously noted under the caption *Short-term borrowings*, we have in place a line of credit facility. The insurance companies have no additional outstanding credit facilities.

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Cash and short-term investments were \$193 million at March 31, 2019, compared with \$184 million at December 31, 2018. In addition to these liquid assets, the entire \$17.2 billion (fair value at March 31, 2019) portfolio of fixed income securities is available for sale in the event of an unexpected need. Approximately 97% of our fixed income securities are publicly traded, freely tradable under SEC Rule 144, or qualified for resale under SEC Rule 144A. We generally expect to hold fixed income securities to maturity, and even though these securities are classified as available for sale, we have the ability and intent to hold any securities which are temporarily impaired until they mature. Our strong cash flows from operations, on-going investment maturities, and credit line availability make any need to sell securities for liquidity highly unlikely.

Capital Resources. Our goal is to maintain statutory capital within our insurance subsidiaries at levels necessary to support our current ratings. Torchmark is targeting a consolidated Company Action Level Risk Based Capital (RBC) ratio in the range of 300% to 320% for 2019. The Company believes this capital level is more than adequate and is sufficient to support its current ratings given the nature of its business and its risk profile. At the end of 2018, the RBC ratio was 326%. At 326%, the Company has \$129 million more capital than would be required for an RBC ratio of 300%, the lowest of our target range.

The outstanding long-term debt at book value was \$1.4 billion at March 31, 2019 and \$1.4 billion at December 31, 2018. An analysis of debt issues outstanding is as follows at March 31, 2019.

Selected Information about Debt Issues

As of March 31, 2019

(Dollar amounts in thousands)

Instrument	Year Due	Interest Rate	Par Value	Book Value	Fair Value
Notes	2023	7.875%	\$ 165,612	\$ 164,544	\$ 194,336
Senior Notes ⁽¹⁾	2022	3.800%	150,000	148,854	152,889
Senior Notes	2028	4.550%	550,000	543,310	580,877
Junior Subordinated Debentures	2056	6.125%	300,000	290,535	318,120
Junior Subordinated Debentures	2057	5.275%	125,000	123,358	127,529
Term loan	2021	3.743% ⁽²⁾	92,500	92,500	92,500
			1,383,112	1,363,101	1,466,251
Less current maturity of term loan ⁽³⁾			7,500	7,500	7,500
Total long-term debt			1,375,612	1,355,601	1,458,751
Current maturity of term loan ⁽³⁾			7,500	7,500	7,500
Commercial paper			288,000	286,878	286,878
Total short-term debt			295,500	294,378	294,378
Total debt			<u>\$ 1,671,112</u>	<u>\$ 1,649,979</u>	<u>\$ 1,753,129</u>

(1) An additional \$150 million par value and book value is held by insurance subsidiaries that eliminates in consolidation.

(2) Interest paid at 1 month LIBOR plus 125 basis points, resets each month.

(3) The current amount of the term loan due of \$7.5 million is classified as short-term debt.

Issuance of long-term debt. The Company has not issued any additional long-term debt since the issuance of the \$550 million 4.550% Senior Notes in September 2018.

As previously noted under the caption *Results of Operations* in this report, we acquired 1.1 million of our outstanding common shares under our share repurchase program during the first three months of 2019. These shares were acquired at a cost of \$89 million (average of \$81.32 per share), compared with purchases of 1.0 million shares at a cost of \$87 million (average of \$86.32 per share) in the first three months of 2018.

On March 22, 2019, the Company announced that it had declared a quarterly dividend of \$0.1725 per share. This dividend was paid on May 1, 2019.

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Shareholders' equity was \$6.0 billion at March 31, 2019. This compares with \$5.4 billion at December 31, 2018 and \$5.8 billion at March 31, 2018. During the three months since December 31, 2018, shareholders' equity increased primarily due to \$543 million of after-tax unrealized gains in the fixed-maturity portfolio as interest rates have decreased over the period. In addition, shareholders' equity was increased by net income of \$185 million. Share purchases of \$89 million noted above during the period reduced shareholders' equity.

We are required under GAAP to revalue our available for sale fixed maturity portfolio to fair market value at the end of each accounting period. These changes, net of their associated impact on deferred acquisition costs and income tax, are reflected directly in shareholders' equity.

While GAAP requires our fixed maturity assets to be revalued, it does not permit interest-bearing insurance policy liabilities supported by those assets to be valued at fair value in a consistent manner, with changes in value applied directly to shareholders' equity. However, due to the size of both the investment portfolio and our policy liabilities, this inconsistency in measurement can have a material impact on shareholders' equity. Because of the long-term nature of our fixed maturities and liabilities and the strong cash flows generated by our insurance subsidiaries, we have the intent and ability to hold our securities to maturity. As such, we do not expect to incur realized gains or losses due to fluctuations in the market value of fixed maturities caused by interest rate changes or losses caused by temporarily illiquid markets. Accordingly, management removes the effect of this rule when analyzing Torchmark's balance sheet, capital structure, and financial ratios in order to provide a more consistent and meaningful portrayal of the Company's financial position from period to period.

The following table presents selected data related to capital resources. Additionally, the table presents the effect of the GAAP requirement to revalue, to fair market value, our fixed maturity assets on relevant items so that investors and other financial statement users may determine its impact on our capital structure.

Selected Financial Data

(Dollar amounts in thousands, except per share data)

	At					
	March 31, 2019		December 31, 2018		March 31, 2018	
	GAAP	Effect of Accounting Rule Requiring Revaluation ⁽¹⁾	GAAP	Effect of Accounting Rule Requiring Revaluation ⁽¹⁾	GAAP	Effect of Accounting Rule Requiring Revaluation ⁽¹⁾
Fixed maturities	\$ 17,223,585	\$ 1,235,357	\$ 16,297,932	\$ 544,461	\$ 16,635,885	\$ 1,361,395
Deferred acquisition costs ⁽²⁾	4,185,231	(8,469)	4,137,925	(5,270)	4,002,181	(10,369)
Total assets	24,133,438	1,226,888	23,095,722	539,191	23,182,343	1,351,026
Short-term debt	294,378	—	307,848	—	365,156	—
Long-term debt	1,355,601	—	1,357,185	—	1,131,215	—
Shareholders' equity	6,043,426	969,242	5,415,177	425,961	5,820,301	1,067,311
Book value per diluted share	54.13	8.68	48.11	3.79	50.13	9.19
Debt to capitalization ⁽³⁾	21.4%	(3.1)%	23.5%	(1.5)%	20.5%	(3.4)%
Diluted shares outstanding	111,643		112,561		116,098	
Actual shares outstanding	109,926		110,693		113,822	

(1) Amount added to (deducted from) comprehensive income to produce the stated GAAP item, per accounting rule ASC 320-10-35-1.

(2) Includes the value of insurance purchased.

(3) Torchmark's debt covenants require that the effect of this accounting rule be removed to determine this ratio. This ratio is computed by dividing total debt by the sum of total debt and shareholders' equity.

Interest coverage was 11.7 times in the first three months of 2019, compared with 10.8 times in the 2018 period. Interest coverage is computed by dividing interest expense into the sum of pretax income and interest expense.

Cautionary Statements

We caution readers regarding certain forward-looking statements contained in the previous discussion and elsewhere in this document, and in any other statements made by, or on behalf of Torchmark whether or not in future filings with the Securities and Exchange Commission. Any statement that is not a historical fact or that might otherwise be considered an opinion or projection concerning Torchmark or its business, whether express or implied, is meant as and should be considered a forward-looking statement. Such statements represent management's opinions concerning future operations, strategies, financial results or other developments. We specifically disclaim any obligation to update or revise any forward-looking statement because of new information, future developments, or otherwise.

Forward-looking statements are based upon estimates and assumptions that are subject to significant business, economic and competitive uncertainties, many of which are beyond our control. If these estimates or assumptions prove to be incorrect, the actual results of Torchmark may differ materially from the forward-looking statements made on the basis of such estimates or assumptions. Whether or not actual results differ materially from forward-looking statements may depend on numerous foreseeable and unforeseeable events or developments, which may be national in scope, related to the insurance industry generally, or applicable to Torchmark specifically. Such events or developments could include, but are not necessarily limited to:

- 1) Economic and other conditions leading to unexpected changes in lapse rates and/or sales of our policies, as well as levels of mortality, morbidity, and utilization of health care services that differ from Torchmark's assumptions;
- 2) Regulatory developments, including changes in governmental regulations (particularly those impacting taxes and changes to the Federal Medicare program that would affect Medicare Supplement);
- 3) Market trends in the senior-aged health care industry that provide alternatives to traditional Medicare (such as Health Maintenance Organizations and other managed care or private plans) and that could affect the sales of traditional Medicare Supplement insurance;
- 4) Interest rate changes that affect product sales and/or investment portfolio yield;
- 5) General economic, industry sector or individual debt issuers' financial conditions that may affect the current market value of securities we own, or that may impair an issuer's ability to make principal and/or interest payments due on those securities;
- 6) Changes in pricing competition;
- 7) Litigation results;
- 8) Levels of administrative and operational efficiencies that differ from our assumptions;
- 9) The ability to obtain timely and appropriate premium rate increases for health insurance policies from our regulators;
- 10) The customer response to new products and marketing initiatives;
- 11) Reported amounts in the financial statements which are based on management's estimates and judgments which may differ from the actual amounts ultimately realized; and
- 12) Compromise by a malicious actor or other event that causes a loss of secure data from, or inaccessibility to, our computer and other information technology systems.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There have been no quantitative or qualitative changes with respect to market risk exposure during the three months ended March 31, 2019.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Torchmark, under the direction of the Co-Chairmen and Chief Executive Officers and the Executive Vice President and Chief Financial Officer, has established disclosure controls and procedures that are designed to ensure that information required to be disclosed by Torchmark in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The disclosure controls and procedures are also intended to ensure that such information is accumulated and communicated to Torchmark's management, including the Co-Chairmen and Chief Executive Officers and the Executive Vice President and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

As of the end of the fiscal quarter completed March 31, 2019, an evaluation was performed under the supervision and with the participation of Torchmark management, including the Co-Chairmen and Chief Executive Officers and the Executive Vice President and Chief Financial Officer, of Torchmark's disclosure controls and procedures (as those terms are defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon their evaluation, the Co-Chairmen and Chief Executive Officers and the Executive Vice President and Chief Financial Officer have concluded that Torchmark's disclosure controls and procedures are effective as of the date of this Form 10-Q. In compliance with Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. §1350), each of these officers executed a Certification included as an exhibit to this Form 10-Q.

Changes in Internal Control over Financial Reporting. As of the quarter ended March 31, 2019, there have not been any changes in Torchmark's internal control over financial reporting or in other factors that could significantly affect this control over financial reporting subsequent to the date of their annual evaluation which have materially affected, or are reasonably likely to materially affect, Torchmark's internal control over financial reporting.

Part II – Other Information**Item 1. Legal Proceedings**

Torchmark and its subsidiaries, in common with the insurance industry in general, are subject to litigation, including putative class action litigation, claims involving tax matters, alleged breaches of contract, torts, including bad faith and fraud claims based on alleged wrongful or fraudulent acts of agents of Torchmark's subsidiaries, employment discrimination, and miscellaneous other causes of action. Based upon information presently available, and in light of legal and other factual defenses available to Torchmark and its subsidiaries, management does not believe that such litigation will have a material adverse effect on Torchmark's financial condition, future operating results or liquidity; however, assessing the eventual outcome of litigation necessarily involves forward-looking speculation as to judgments to be made by judges, juries and appellate courts in the future. This bespeaks caution, particularly in states with reputations for high punitive damage verdicts. Torchmark's management recognizes that large punitive damage awards bearing little or no relation to actual damages continue to be awarded by juries in jurisdictions in which Torchmark and its subsidiaries have substantial business, creating the potential for unpredictable material adverse judgments in any given punitive damage suit.

See further discussion of litigation and other legal proceedings in *Note 5—Commitments and Contingencies*.

Item 1A. Risk Factors

Torchmark had no material changes to its risk factors.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities**Purchases of Certain Equity Securities by the Issuer and Others for the First Quarter of 2019**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares (or Approximate Dollar Amount) that May Yet Be Purchased Under the Plans or Programs
January 1-31, 2019	386,569	\$ 79.57	386,569	
February 1-28, 2019	433,977	82.47	433,977	
March 1-31, 2019	539,878	82.14	539,878	

On August 7, 2018, the Torchmark Board of Directors reaffirmed its continued authorization of the Company's stock repurchase program in amounts and with timing that management, in consultation with the Board, determined to be in the best interest of the Company. The program has no defined expiration date or maximum shares to be repurchased.

Item 6. Exhibits

(a) Exhibits

- (10.49) Torchmark Corporation 2019 Management Incentive Plan effective as of January 1, 2019*
- (10.50) Form of Seven Year Stock Option Grant Agreement (Special) under Torchmark Corporation 2018* Incentive Plan with Non-Compete, Non-Solicit and Confidentiality Provisions
- (10.51) Payments to Directors
- (31.1) Rule 13a-14(a)/15d-14(a) Certification by Larry M. Hutchison
- (31.2) Rule 13a-14(a)/15d-14(a) Certification by Gary L. Coleman
- (31.3) Rule 13a-14(a)/15d-14(a) Certification by Frank M. Svoboda
- (32.1) Section 1350 Certification by Larry M. Hutchison, Gary L. Coleman, and Frank M. Svoboda
- (101) Interactive Data Files for the Torchmark Corporation Form 10-Q for the period ended March 31, 2019

*Compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TORCHMARK CORPORATION

Date: May 7, 2019

/s/ Gary L. Coleman

Gary L. Coleman

Co-Chairman and Chief Executive Officer

Date: May 7, 2019

/s/ Larry M. Hutchison

Larry M. Hutchison

Co-Chairman and Chief Executive Officer

Date: May 7, 2019

/s/ Frank M. Svoboda

Frank M. Svoboda

Executive Vice President and Chief Financial Officer

TORCHMARK CORPORATION
2019 MANAGEMENT INCENTIVE PLAN
(Effective as of January 1, 2019)

1. Purpose.

The purpose of the Plan is to enable the Company and its Subsidiaries to attract, retain, motivate and reward qualified officers and key employees by providing them with the opportunity to earn competitive compensation directly linked to the Company's performance.

2. Definitions.

Unless the context requires otherwise, the following words as used in the Plan shall have the meanings ascribed to each below, it being understood that masculine, feminine and neuter pronouns are used interchangeably and that each comprehends the others.

(a) "Affiliate" means (i) the Company or any Subsidiary, or (ii) an entity that directly or through one or more intermediaries controls, is controlled by or is under common control with, the Company, as determined by the Committee.

(b) "Board" shall mean the Board of Directors of the Company.

(c) "Bonus Pool" shall mean the bonus pool established each year by the Committee from which Participants in the Plan may be paid bonuses. The Bonus Pool for a given performance period is determined by taking a percentage of the Company's pre-tax operating income for the performance period. Such percentage will be determined each year by the Committee and will not exceed 2.0% of the Company's pre-tax operating income.

(d) "Cause" as a reason for a Participant's termination of employment shall have the meaning assigned such term in the employment, severance or similar agreement, if any, between such Participant and the Company or an Affiliate, provided, however that if there is no such employment, severance or similar agreement in which such term is defined, "Cause" shall mean any of the following acts by the Participant, as determined by the Committee or the Board:

(i) gross neglect of duty;

(ii) prolonged absence from duty without the consent of the Company;

(iii) intentionally engaging in any activity that is in conflict with or adverse to the business or other interests of the Company; or

(iv) willful misconduct, misfeasance or malfeasance of duty which is reasonably determined to be detrimental to the Company.

(e) "Change in Control" means and includes the occurrence of any one of the following events:

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the 1934 Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the 1934 Act) of 25% or more of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (i), the following acquisitions shall not constitute a Change in Control: (A) any acquisition by a Person who is on the Effective Date (as defined below) the beneficial owner of 25% or more of the Outstanding Company Voting Securities, (B) any acquisition directly from the Company, (C) any acquisition by the Company, (D) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company, or (E) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (iii) of this definition;

(ii) Individuals who, as of January 1, 2019 (the “Effective Date”), constitute the Board (the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(iii) Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a “Business Combination”), in each case, unless following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company’s assets either directly or through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Voting Securities, and (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 25% or more of the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

(f) “Code” shall mean the Internal Revenue Code of 1986, as amended. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder and any written interpretations issued by the Internal Revenue Service thereunder.

(g) “Committee” shall mean the Compensation Committee of the Board (or such other committee of the Board that the Board shall designate from time to time) or any subcommittee thereof comprised of two or more directors each of whom is a “Non-Employee Director” within the meaning of Rule 16b-3 of the Exchange Act.

(h) “Company” shall mean Torchmark Corporation, a Delaware corporation.

(i) “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, and any rules or regulations promulgated thereunder.

(j) “Good Reason” (or a similar term denoting constructive termination) has the meaning, if any, assigned such term in the employment, severance or similar agreement, if any, between a Participant and the Company or an Affiliate, provided, however that if there is no such employment, severance or similar agreement in which such term is defined, “Good Reason” shall mean the occurrence of any of the following, without the express written consent of the Participant, after the occurrence of a Change in Control:

(i) the assignment to the Participant of any duties inconsistent in any material adverse respect with the Participant’s position, authority or responsibilities immediately prior to the date of the Change in Control, or any other material adverse change in such position, including authority or responsibilities;

(ii) any failure by the surviving entity in the Change in Control to comply with any of the provisions of this Plan, other than an insubstantial or inadvertent failure remedied by the Company promptly after receipt of notice thereof given by the Participant;

(iii) the Company’s requiring the Participant to be based, or to perform a substantial portion of his or her duties with the Company, at any office or location more than 20 miles from that location at which he performed his or her services immediately prior to the date of the Change in Control, except for travel reasonably required in the performance of the Participant’s responsibilities; or

(iv) any failure by the Company to obtain the assumption and agreement to perform this Plan by a successor as contemplated by Section 6(a).

(k) "Named Executive Officers" shall have the meaning set forth in Item 402(a)(3) of Regulation S-K promulgated under the Exchange Act.

(l) "Officer" shall mean any "officer" (as such term is defined in Rule 16a-1(f) promulgated by the Securities and Exchange Commission under the Exchange Act).

(m) "Participant" shall mean each Officer or other key employee of the Company or a Subsidiary who is selected by the Committee to participate in the Plan.

(n) "Plan" shall mean the Torchmark Corporation 2019 Management Incentive Plan, as set forth herein and as may be amended from time to time.

(o) "Section 409A" shall mean Section 409A of the Code.

(p) "Subsidiary(ies)" shall mean any entity of which the Company possesses directly or indirectly 50% or more of the total combined voting power of all classes of stock of such entity.

(q) "2½ Month Period" shall mean as soon as practical after award amounts are no longer subject to a substantial risk of forfeiture, but in no event later than the period ending on the later of the 15th day of the third month following the end of the Participant's first taxable year in which the amount is no longer subject to a substantial risk of forfeiture (as defined in Section 409A) or the 15th day of the third month following the end of the Company's first taxable year in which the amount is no longer subject to a substantial risk of forfeiture; unless otherwise required by Section 409A, an amount shall be considered no longer subject to a substantial risk of forfeiture on the last day of the applicable calendar year for which a bonus is earned.

3. Administration.

The Committee shall administer and interpret the Plan. The Committee shall establish the performance objectives for any calendar year in accordance with Section 4 and certify whether and to what extent such performance objectives have been attained. Any determination made by the Committee under the Plan shall be final and conclusive. The Committee may employ such legal counsel, consultant and agent (including counsel or agents who are employees of the Company or a Subsidiary) as it may deem desirable for the administration of the Plan and may rely upon any opinion received from any such counsel, consultant or agent and any computation received from such counsel, consultant or agent. All expenses incurred in the administration of the Plan, including, without limitation, for the engagement of any counsel, consultant or agent, shall be paid by the Company. No member or former member of the Board or the Committee shall be liable for any act, omission, interpretation, construction or determination made in connection with the Plan other than as a result of such individual's willful misconduct.

4. Bonuses.

(a) Establishment of Performance Criteria and Objectives. No later than 90 days after the commencement of each calendar year the Committee shall establish in writing the performance objective or objectives that must be satisfied in order for a Participant to receive a bonus for such year, provided that the outcome is substantially uncertain at the time the objectives are established and no more than 25% of the measuring period of service has elapsed. Any such performance objectives shall be based upon the relative or comparative achievement of one or more of the following criteria alone or in combination, including but not limited to: growth in net operating income per share, pre-tax operating income, net operating income, book value excluding the effect of market interest rate adjustments on fixed maturities and liabilities ("book value"), book value per share, return on equity, cash flow, premium or sales growth, stock performance, total shareholder return, expense efficiency ratio, revenue, economic value added, shareholder value added, expense ratio, loss ratio, profit margin, investment income, return on capital, return on invested capital, or growth in insurance operating income underwriting income and/or insurance premium. The performance criteria may be expressed in terms of Company-wide objectives or in terms of objectives that relate to the performance of a division, business unit, region, department or function within the Company or an affiliate, as determined by the Committee.

(b) Establishment of Threshold, Target and Maximum Bonus Amounts. At the time that the Committee selects the performance criteria and establishes the performance objective under the Plan for a particular year, it shall also establish in writing the threshold, target and maximum bonus amounts for each Participant with respect to such year. The Committee also shall describe in writing the method for computing whether all, some portion but less than all, or none of the bonus amount for a Participant has been earned for such year based on the degree to which the performance objectives are satisfied. The threshold, target and maximum bonus amounts will be communicated to each Participant during the first quarter of the performance period.

(c) Maximum Bonus Amount Payable. Notwithstanding anything else contained in Section 4 to the contrary, (i) a chief executive officer of the Company may be paid a bonus for any calendar year not to exceed 30% of the amount of the Bonus Pool for that year and (ii) each of the other Participants in the Plan may be paid a bonus for any calendar year not to exceed 10% of the amount of the Bonus Pool for that year; *provided that* in the event that the maximum total amount of bonuses payable to all Participants in any calendar year under clauses (i) and (ii) of this Section 4(c) would exceed 100% of the amount of the Bonus Pool in that year based on the number of Participants participating in the Plan in that year, then the maximum bonus amount payable to each Participant for that year shall be reduced pro rata among all of such Participants such that the maximum total amount of bonuses payable to the Participants under the Plan in that year shall equal 100% of the amount of the Bonus Pool for that year. Furthermore, notwithstanding anything else contained in Section 4 to the contrary, the maximum bonus amount payable to any Participant hereunder for any single calendar year shall be \$6,000,000.

(d) Determination of Bonus Amounts. Following the end of each year, the Committee will determine the extent to which the performance objective or objectives for such Participant have been met and certify such determination in writing. Based on such determination, the Committee shall determine the amount of the bonus payable to each Participant for such year with the exception of the chief executive officers. The Committee shall recommend to the Non-Employee Directors of the Board the bonus payable to the chief executive officers for final approval. Except as otherwise provided in Section 5(c), no bonus amount will be payable under the Plan to any Participant relative to a performance objective if thresholds established by the Committee for such performance objective are not reached.

(e) Termination of Employment. Unless the Committee shall otherwise determine and except as otherwise set forth in Section 5(c), if a Participant voluntarily resigns employment or is terminated involuntarily prior to the last day of the calendar year for which a bonus is payable or prior to the date on which the bonus amounts are determined by the Committee for such calendar year, any bonus payable for such calendar year shall be forfeited. Unless the Committee shall otherwise determine and except as otherwise set forth in Section 5(c), if a Participant's employment terminates for any other reason (including, without limitation, his or her death, disability or retirement under the terms of any retirement plan maintained by the Company or a Subsidiary) prior to the last day of the calendar year for which the bonus is payable, such Participant shall receive an annual bonus equal to the amount the Participant would have received as an annual bonus award if such Participant had remained an employee through the end of the year multiplied by a fraction, the numerator of which is the number of days that elapsed during the calendar year in which the termination occurs prior to and including the date of the Participant's termination of employment and the denominator of which is 365.

(f) Discretion. If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company or the manner in which the Company or an Affiliate conducts its business, or other events or circumstances render performance goals to be unsuitable, the Committee may modify such performance goals in whole or part, as the Committee deems appropriate. If a Participant is promoted, demoted or transferred to a different business unit or function during a performance period, the Committee may determine that the performance goals are no longer appropriate and may adjust, change or eliminate the performance goals as it deems appropriate.

5. Payment.

(a) Payment. Subject to Section 5(b) below and except as otherwise provided hereunder, payment of any bonus amount determined under Section 4 shall be made to each Participant as soon as practicable after the Committee certifies that one or more of the applicable performance objectives have been attained (or, in the case of any bonus payable under the provisions of Section 4(f), after the Committee determines the amount of any such bonus) but in no event later than the 2½ Month Period.

(b) Deferral of Bonuses. Each Participant who is a management or highly compensated employee and who is entitled to participate in the Torchmark Corporation Restated Deferred Compensation Plan as amended (the 'Deferral Plan') may elect to defer payment of any amounts payable hereunder in accordance with the Deferral Plan.

To the extent that a Participant who is entitled to participate in the Deferral Plan elects to defer the payment of any amounts payable hereunder, the terms of the Deferral Plan shall apply to the payment of any such deferred amounts.

(c) Acceleration of Payout of Bonus Upon Termination of Employment Following a Change in Control. If

(i) the Company or the surviving entity following the date of a Change in Control terminates a Participant's employment other than for Cause or (ii) the Participant terminates his or her employment for Good Reason with the Company or the surviving entity following the date of a Change in Control, then the target payout opportunities attainable under such Participant's bonus award under this Plan that are outstanding as of the date of the Change in Control shall be deemed to have been fully earned as of the date of termination based upon an assumed achievement of all relevant performance goals at the "target" level, and there shall be a pro rata payout to the Participant within thirty (30) days following the date of termination (or, if later, the first date that such payment may be made without causing a violation of Section 409A) based upon the length of time within the performance period that has elapsed prior to the date of termination.

(d) Clawback. All bonuses under the Plan shall be subject to any applicable clawback or recoupment policy of the Company that is required by applicable law or any applicable securities exchange listing standards and/or that is otherwise adopted from time to time by the Board or the Committee. Notwithstanding anything else contained in the Plan to the contrary, if the Company's financial results are materially restated, the Committee may review the circumstances surrounding the restatement and require any Participant to forfeit the right to receive any future payments under the Plan and/or repay to the Company any prior payments determined by the Committee to have been inappropriately received by the Participant. If the Company's financial results are restated due to fraud or material non-compliance by the Company, as a result of misconduct, with any financial reporting requirements of the federal securities laws, the chief executive officer, the chief financial officer, and any other Participant who the Committee determines participated in or is responsible for the fraud or noncompliance causing the need for the restatement forfeits the right to receive any future payments under the Plan and must repay any amounts paid in excess of the amount that would have been paid based on the restated financial results. Any repayments required under this Section 5(d) must be made by the Participant within ten (10) days following written demand from the Company. By accepting bonuses under the Plan, Participants agree and acknowledge that they are obligated to cooperate with, and provide any and all assistance necessary to, the Company to recover or recoup any such bonus or amounts paid under the Plan subject to clawback pursuant to such law, securities exchange listing standards or Company policy. Such cooperation and assistance shall include, but is not limited to, executing, completing and submitting any documentation necessary to recover or recoup any such award or amount(s) paid from a Participant's accounts, or pending or future compensation or bonuses under the Plan.

6. General Provisions.

(a) Successors. The Company shall require any successor to all or substantially all of the business and/or assets of the Company, whether direct or indirect by purchase, merger, consolidation, acquisition of stock or otherwise, by an agreement in form and substance satisfactory to the Participant, expressly to assume the Plan and agree to perform under the Plan in the same manner and to the same extent as the Company would be required to perform if no such succession had taken place.

(b) Effectiveness of the Plan. The Plan shall be effective with respect to calendar years beginning on or after January 1, 2019, and ending on or before December 31, 2023, unless the term hereof is extended by action of the Board. It is intended that this Plan supersede the Torchmark Corporation 2013 Management Incentive Plan for calendar years beginning January 1, 2019 and thereafter.

(c) Amendment and Termination. Notwithstanding Section 6(b), the Board or the Committee may at any time amend, suspend, discontinue or terminate the Plan; provided, however that, (i) except as set forth in (ii) below, no such amendment, suspension, discontinuance or termination shall adversely affect the rights of any Participant in respect of any calendar year that has already commenced, and (ii) at any time the Committee determines that the Plan or any award hereunder may be subject to Section 409A, the Committee shall have the right, in its sole discretion to amend the Plan as it may determine is necessary or desirable either for the Plan or awards to be exempt from the application of Section 409A or to satisfy the requirements of Section 409A, including by adding conditions with respect to the vesting and/or the payment of the awards.

(d) Designation of Beneficiary. Each Participant may designate a beneficiary or beneficiaries (which beneficiary may be an entity other than a natural person) to receive any payments which may be made following the Participant's death. Such designation may be changed or canceled at any time by the Participant without the consent

of any beneficiary. Any such designation, change or cancellation must be made in a form approved by the Committee and shall not be effective until received by the Committee. If no beneficiary has been named, or the designated beneficiary or beneficiaries shall have predeceased the Participant, the beneficiary shall be the Participant's spouse or, if no spouse survives the Participant, the Participant's estate. If a Participant designates more than one beneficiary, the rights of such beneficiaries shall be payable in equal shares, unless the Participant has designated otherwise.

(e) No Right of Continued Employment. Nothing in this Plan shall be construed as conferring upon any Participant any right to continue in the employment of the Company or any of its Subsidiaries.

(f) Interpretation. It is intended that this Plan, as written and in operation, will be exempt from Section 409A; however, if payments are otherwise deemed "deferred compensation under Section 409A, then payment will be made within the guidelines of Section 409A to the extent possible, and the specified payment date applicable to an award shall be within ninety (90) days of the date upon which the award is determined by the Committee to have been earned; provided however, that if the payments are deemed "deferred compensation" and a Participant is deemed to be a "specified employee" (within the meaning of Section 409A), then amounts payable under this Plan shall not be paid until the date that is six months after the date of the Participant's separation from service (within the meaning of Section 409A), or the date on which such Participant dies, if earlier.

(g) No Limitation to Corporation Action. Nothing in this Plan shall preclude the Committee or the Board as each or either shall deem necessary or appropriate, from authorizing the payment to eligible employees of compensation outside the parameters of the Plan, including, without limitation, base salaries, awards under any other plan of the Company and/or its Subsidiaries (whether or not approved by stockholders), any other bonuses (whether or not based on the attainment of performance objectives) and retention or other special payments.

(h) Nonalienation of Benefits. Except as expressly provided herein, no Participant or beneficiary shall have the power or right to transfer, anticipate, or otherwise encumber the Participant's interest under the Plan. The Company's obligations under this Plan are not assignable or transferable except to (i) a corporation which acquires all or substantially all of the Company's assets, (ii) any corporation into which the Company may be merged or consolidated, or (iii) the extent required by Section 6(a) hereof. The provisions of the Plan shall inure to the benefit of each Participant and the Participant's beneficiaries, heirs, executors, administrators or successors in interest.

(i) Withholding. Any amount payable to a Participant or a beneficiary under this Plan shall be subject to any applicable Federal, state and local income and employment taxes and any other amounts that the Company or a Subsidiary is required by law to deduct and withhold from such payment.

(j) Severability. If any provision of this Plan is held unenforceable, the remainder of the Plan shall continue in full force and effect without regard to such unenforceable provision and shall be applied as though the unenforceable provision were not contained in the Plan.

(k) Governing Law. The Plan shall be construed in accordance with and governed by the laws of the State of Delaware, without reference to the principles of conflict of laws.

(l) Headings. Headings are inserted in this Plan for convenience of reference only and are to be ignored in a construction of the provisions of the Plan.

(m) Rule of Construction. Unless the context otherwise requires, any references to an "Article," "Section" or "clause" refers to an Article, Section or clause, as the case may be, of this Plan.

STATE OF TEXAS
COLLIN COUNTY

TORCHMARK CORPORATION NON-QUALIFIED STOCK OPTION
GRANT AGREEMENT

TORCHMARK CORPORATION, a corporation organized and existing under the laws of the state of Delaware (the "Company"), does hereby grant and give unto _____ (the "Optionee"), the following non-qualified stock option (the "Option") upon the terms and conditions hereinafter set forth.

AUTHORITY FOR GRANT

1. Stock Incentive Plan/Consideration. The Option is granted under the provisions of the Torchmark Corporation 2018 Incentive Plan (the "Plan"), as a non-qualified option and is subject to the terms and provisions of the Plan and in return for Optionee's promises contained herein including the terms and provisions of Section 12. Capitalized terms used but not defined herein shall have the meanings given them in the Plan which is incorporated by reference herein.

TERMS OF OPTION

2. Number of Shares. The Optionee is hereby granted an option to purchase from the Company _____ shares (the "Shares") of the company's common capital stock.

3. Option Price Per Share. The option price for each Share subject to the Option shall be \$_____, the closing price of the Stock on the New York Stock Exchange Composite Tape on _____, which is the "Grant Date".

4. Option Period. The Option shall be and become first exercisable to the extent of 50% of the Shares on and after _____. The remaining Shares shall become exercisable on and after _____. Notwithstanding any other provision of this Agreement, if the Option is not exercised with respect to all Shares prior to seven (7) years from the Grant Date, the Option shall terminate and the parties hereto shall have no further rights or obligations hereunder. For the purposes of this agreement, "Option Period" shall mean the seven (7) year period commencing on the Grant Date.

5. Method of Exercise. The Option may be exercised in whole or in part at any time during the Option Period, by giving written notice of exercise to the Company specifying the number of Shares to be purchased, accompanied by payment in full of the purchase price, in cash, by check or such other instrument as may be acceptable to the Compensation Committee of the Torchmark Board of Directors (the "Committee"). Payment in full or in part may also

be made in the form of unrestricted stock already owned by the Optionee (based on the fair market value of the stock on the date the Option is exercised). The Optionee shall have the rights to dividends or other rights of a stockholder with respect to the Shares subject to the option when the Optionee has given written notice of exercise and has paid in full for such Shares.

6. Transferability of Option. The Option may be transferred by the Optionee to members of his or her Immediate Family (the children, grandchildren or spouse of the Optionee), to one or more trusts for the benefit of such Immediate Family members or to one or more partnerships where such Immediate Family members are the only partners if (i) the Optionee has received express written approval of such transfer from the Committee and (ii) the Optionee does not receive any consideration in any form whatsoever for said transfer. Except as provided in the foregoing sentence, the Option shall not be transferable by the Optionee other than by will or by the laws of descent and distribution.

TERMINATION OF OPTION

7. Termination by Death. If the Optionee's employment with the Company, any Subsidiary and/or any Affiliate terminates by reason of death (or if Optionee dies following termination of employment by reason of disability or retirement at or after age 65), the Option shall become immediately exercisable and may thereafter be exercised by the legal representative of the estate or by the legatee of the Optionee under the will of the Optionee, during the period ending on the expiration of the stated term of the Option or the first anniversary of the Optionee's death, whichever is later.

8. Termination by Reason of Disability. If the Optionee's employment with the Company, any Subsidiary, and/or any Affiliate terminates by reason of Disability, the Option shall be immediately exercisable and may thereafter be exercised during the period ending on the expiration of the stated term of the Option.

9. Termination by Reason of Retirement. If the Optionee's employment with the Company, any Subsidiary, and/or any Affiliate terminates by reason of Retirement at or after age 65, the Option shall become immediately exercisable (the "Retirement Acceleration") and may thereafter be exercised during the period ending on the expiration of the stated term of the Option.

If the Optionee's employment with the Company, any Subsidiary, and/or any Affiliate terminates by reason of Retirement at or after age 60, the Option shall terminate five (5) years from the date of such Retirement or upon the expiration of the stated term of the Option, whichever is shorter. If the Optionee's employment with the Company, any Subsidiary and/or any Affiliate terminates by reason of Retirement at or after age 55, the Option shall terminate three (3) years from the date of such Retirement or upon the expiration of the stated term of the Option, whichever is shorter. In the event of Retirement at or after ages 55 or 60, there shall be no acceleration of vesting of the Option, but the

Option shall continue to vest in accordance with its regular schedule and may be exercised to the extent it is or becomes exercisable prior to the termination of the Option (the "Continued Vesting Shares").

10. Termination for Cause. If the Optionee's employment with the Company, any Subsidiary and/or any Affiliate is terminated for Cause, or the Committee determines that the Optionee has engaged in conduct that would be grounds for termination with Cause, the Option shall be immediately forfeited to the Company upon the giving of notice of termination of employment.

11. Other Termination. If the Optionee's employment with the Company, any Subsidiary and/or any Affiliate is involuntarily terminated by the Optionee's employer without Cause, the Option shall terminate three (3) months from the date of termination of employment or upon the expiration of the stated term of the Option, whichever is shorter. If the Optionee's employment with the Company, any Subsidiary and/or any Affiliate is voluntarily terminated for any reason, the Option shall terminate one (1) month from the date of termination of employment or upon the expiration of the stated term of the Option, whichever is shorter. In the event of involuntary termination without Cause or voluntary termination, there shall be no acceleration of vesting, but the Option shall continue to vest in accordance with its regular schedule and may only be exercised to the extent it is or becomes exercisable prior to such termination.

12. Noncompetition/Confidentiality/Nonsolicitation. Upon Participant's separation from employment from the Company for any reason for a period of two (2) years from the date of such separation or in the event of termination under circumstances that entitle him to Retirement Acceleration or Continued Vesting Shares, during the remaining vesting period prior to the Vesting Date, whichever is longer (the "Restriction Period"), Participant agrees not to engage or participate, directly or indirectly, in any capacity, including but not limited to as an employee, consultant, advisor, contractor, partner, owner or otherwise, in a competing business, which is one that provides the same or substantially similar products or services as the Business. "Business" is defined as product development, marketing, sales and servicing of life insurance, health insurance and annuity products through captive agents, independent agents and direct response marketing channels. Life insurance includes individual life or group life, with or without return-of-premium benefit. Health insurance includes accidental death or supplemental health insurance products, with or without return-of premium benefits, including cancer, critical illness, hospital indemnity, Medicare supplement or Medicare Part D prescription drug coverage. Annuity includes deferred annuities or single premium immediate annuities. (All of the foregoing are referred to collectively as the "Business"). Participant further agrees that he will not serve as a Board member for any company that provides the same or similar products or services as the Business. Participant also agrees and understands that this noncompetition agreement extends to competition in any state in which Participant worked or directed work for the Company or in which the Company has plans or intentions for future business operations for which the Participant was involved (referred to as the "Restricted Area").

Participant acknowledges that the Restricted Area, scope of prohibited activities, and the Restriction Period are reasonable and are no broader than are necessary to protect Company's legitimate business interests. Participant also acknowledges that the Company would not be providing the benefits set forth in this Agreement but for Participant's covenants and promises contained in this Section. Participant further agrees that during the non-competition term, Participant shall immediately notify the Company in writing of any employment, work, or business he undertakes with or on behalf of any person (including himself) or entity other than the Company and acknowledges and agrees that the Company may place Participant's future employer on notice of the Participant's post-employment obligations.

Participant further expressly agrees and understands that the Company has disclosed confidential, proprietary and/or trade secret information to Participant. Participant agrees that he will not utilize nor disclose to any third party any of the Company's confidential, proprietary or trade secret information at any time in the future. In consideration of the Company disclosing such information to Participant and/or for the consideration provided to Participant by the Company in this Agreement, which Participant acknowledges is sufficient and reasonable consideration, Participant has agreed to the non-competition provisions set forth herein.

Notwithstanding any other provision of this Agreement, nothing herein shall prohibit Participant from reporting possible violations of federal law or regulation to any governmental agency or entity or making other disclosures that are protected pursuant to federal law or regulation. Prior authorization from the Company is not required in order to make any such reports or disclosures and Participant is not required to notify the Company that such reports or disclosures have been made.

IMMUNITY NOTICE. Pursuant to the Defend Trade Secrets Act of 2016, Participant may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and solely for the purpose of reporting or investigating a suspected violation of the law; or is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. Should any provision in this Agreement conflict with this provision, this provision shall control.

Participant also agrees that during the Restriction Period he will not solicit the clients or customers of the Company in order to request or advise such clients or customers to end, change or curtail their business relationship with the Company. In addition, Participant agrees that during the Restriction Period he will not solicit any employee of the Company in order to request or advise any such employee to end, change or curtail their employment relationship with the Company.

If for any reason any court of competent jurisdiction finds any provision of this Section to be unreasonable in duration or scope or otherwise, Company and Participant agree that the restrictions and prohibitions contained in this

Section shall be effective to the fullest extent allowed under applicable law. Each covenant set forth in this Section shall survive the termination of this Agreement and Participant's employment for any reason and shall be construed as an agreement independent of any other provision of this Agreement.

Participant acknowledges and agrees that the covenants, obligations and agreements of Participant contained in this Section concern special, unique and extraordinary matters and that a violation of any of the terms of these covenants, obligations or agreements will cause Company irreparable injury for which adequate remedies at law are not available. Therefore, Participant agrees that Company will be entitled to an injunction, restraining order, or any other equitable relief (without the requirement to post bond) as a court of competent jurisdiction may deem necessary or appropriate to restrain Participant from committing any violation of the covenants, obligations or agreements referred to in this Agreement. These injunctive remedies are cumulative and in addition to any other rights and remedies Company may have against Participant.

In addition, Participant agrees that if he violates the terms of this Section or if the terms of this Section are determined to be unenforceable by any court of competent jurisdiction, Participant shall forfeit and not be entitled to receive Retirement Acceleration or the Continued Vesting Shares herein. The Company shall be relieved from any obligation to provide Participant with Retirement Acceleration or the Continued Vesting Shares. If Participant has already received the Retirement Acceleration or the Continued Vesting Shares, Participant agrees that he shall repay the Company the value of the Retirement Acceleration or the Continued Vesting Shares on the date it was received by Participant upon five (5) days written notice.

GENERAL TERMS AND PROVISIONS

13. Shares Listed on the Exchange. The Shares for which the Option is hereby granted shall have been listed on the New York Stock Exchange at the time the Option is exercised.

14. Shares May be Newly Issued or Purchased. The Shares to be delivered upon exercise of the Option shall be made available, at the discretion of the Company, either from authorized but previously unissued Shares or from Shares held in the treasury of the Company.

15. Adjustment of Shares for Recapitalization. In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, or other change in corporate structure affecting the Stock, a substitution or adjustment shall be made in the number and price of Shares.

16. Payment of Taxes. The Optionee shall, no later than the date as of which the value of any portion of the Option first becomes includable in his/her gross income for Federal income tax purposes, pay to the Company, or make other arrangements satisfactory to the Committee, in its sole discretion, regarding payment of, the minimum

Federal, state, local or FICA taxes of any kind required by the law to be withheld with respect to the Option. The obligations of the Company under this Agreement shall be conditional on such payment or arrangements.

The Optionee may elect, subject to the approval of the Committee, to satisfy his/her minimum Federal, and where applicable, FICA, state and local tax withholding obligations arising from all awards by the reduction in an amount necessary to pay any such minimum withholding tax obligations, of the number of Shares of stock or amount of cash otherwise issuable or payable to said Optionee upon the issuance of Shares or payment of cash in respect of an Option. The Company and, where applicable, its Subsidiaries and Affiliates shall, to the extent permitted by law, have the right to deduct any such minimum withholding taxes owed by an Optionee who is not subject to Section 16 of the 1934 Act from any payment of any kind otherwise due to said Optionee.

17. Headings. The headings contained herein are for convenience of reference only, do not constitute a part of this Grant Agreement and shall not be deemed to limit or affect any of the provisions hereof.

18. Notices. Any notices required by or permitted to be given to the Company under this Agreement shall be made in writing and addressed to the Secretary of the Company in care of the Company's Legal Department, 3700 South Stonebridge Drive, McKinney, Texas 75070. Any such notice shall be deemed to have been given when received by the Company.

19. Governing Law/Venue. All questions pertaining to the construction, regulation, validity and effect of the provisions of this Agreement shall be determined in accordance with the laws of the State of Texas. In addition, Participant and Company agree that any disputes or claims concerning or relating to the terms and provisions of this Agreement shall be filed in Collin County, State of Texas or the United States District Court for the Eastern District of Texas.

20. Effective Date of Stock Option. This Option has been executed this ____ day of _____, _____, effective as of _____.

TORCHMARK CORPORATION

By:
Its: Authorized Officer

Optionee

PAYMENTS TO DIRECTORS

Effective January 1, 2020, non-employee directors of the Company are compensated on the following basis:

- (1) Cash Compensation-(a) Directors are paid \$100,000 of their annual retainer in cash in quarterly installments unless a timely election is made under the Torchmark Corporation 2018 Non-Employee Director Compensation Plan to receive an equivalent amount of market value stock options, restricted stock or RSUs or to defer the cash to an interest-bearing account under the terms of that sub-plan of the Torchmark Corporation 2018 Incentive Plan; (b) The Lead Director receives an additional \$40,000 annual retainer in cash, payable in quarterly installments; (c) Annual Board committee chair retainers, payable in quarterly installments in cash, are \$35,000 for the Audit Committee Chair, \$20,000 for the Chair of the Compensation Committee, and \$15,000 for the Chair of the Governance and Nominating Committee; and (d) All members of the Audit Committee (excluding the Audit Committee Chair) receive an additional annual Audit Committee Member Retainer of \$12,500, payable in quarterly installments; and
- (2) Equity Compensation-Directors are paid \$160,000 of their annual retainer in equity, either in the form of market value stock options, restricted stock or RSUs, based on the director's timely election, with the equity issued on the first NYSE trading day of January of each calendar year valued at the NYSE market closing price of Company common stock on that date. If no timely election is made, the non-employee director receives his or her annual equity compensation in the form of \$160,000 of market value stock options awarded on the first NYSE trading day of each year.

Directors do not receive meeting fees or fees for the execution of written consents in lieu of Board meetings or in lieu of Board committee meetings. They receive reimbursement for their travel and lodging expenses if they do not live in the area where a meeting is held.

Pursuant to the Torchmark Corporation 2018 Non-Employee Director Compensation Plan, newly elected non-employee directors receive upon the date of their initial election to the Board \$100,000 of restricted stock, valued at the market closing price of Company common stock on that date.

Non-employee directors may currently elect to defer all or a designated portion of their cash-based annual director compensation into an interest-bearing account pursuant to a timely election made under the Torchmark Corporation 2018 Non-Employee Director Compensation Plan. These accounts bear interest at non-preferential rates set from time to time by the Compensation Committee. The amounts in such accounts are paid to the director in a lump sum or equal monthly installments for up to 120 months as elected by the director with payments commencing on the earliest of (a) December 31 of the fifth year after the year for which the deferral was made, (b) the first business day of the fourth month after the director's death or (c) the director's termination as a non-employee director of the Company or any of its subsidiaries for a reason other than death.

Directors who are employees of the Company or its subsidiaries receive no compensation for Board service.

CERTIFICATION OF PERIODIC REPORT

We, Larry M. Hutchison, Co-Chairman and Chief Executive Officer of Torchmark Corporation, Gary L. Coleman, Co-Chairman and Chief Executive Officer of Torchmark Corporation and Frank M. Svoboda, Executive Vice President and Chief Financial Officer of Torchmark Corporation, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of our knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the quarterly period ended March 31, 2019 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: May 7, 2019

/s/ Larry M. Hutchison

Larry M. Hutchison
Co-Chairman and Chief Executive Officer

/s/ Gary L. Coleman

Gary L. Coleman
Co-Chairman and Chief Executive Officer

/s/ Frank M. Svoboda

Frank M. Svoboda
Executive Vice President and Chief Financial
Officer

CERTIFICATIONS

I, Larry M. Hutchison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Torchmark Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

/s/ Larry M. Hutchison

Larry M. Hutchison
Co-Chairman and Chief Executive
Officer

CERTIFICATIONS

I, Frank M. Svoboda, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Torchmark Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

/s/ Frank M. Svoboda

Frank M. Svoboda
Executive Vice President and Chief Financial Officer

CERTIFICATIONS

I, Gary L. Coleman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Torchmark Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 7, 2019

/s/ Gary L. Coleman

Gary L. Coleman
Co-Chairman and Chief Executive
Officer